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<b>REPORT TO:</b>	<b>FINANCE and MANAGEMENT COMMITTEE: SPECIAL – BUDGET</b>	<b>AGENDA ITEM: 5</b>
<b>DATE OF MEETING:</b>	<b>12<sup>th</sup> JANUARY 2017</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE &amp; CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS’ CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811) <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a></b>	<b>DOC:</b> u/ks/budget round1718/service base budgets/FM budget committee 1718
<b>SUBJECT:</b>	<b>SERVICE BASE BUDGETS 2017 / 2018</b>	<b>REF:</b>
<b>WARD (S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM 08</b>

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## **1.0 Recommendations**

- 1.1 That the proposed revenue income and expenditure for 2017/18 as detailed in **Appendix 1** for the Committee’s Services are considered and included in the consolidated proposals for the General Fund.
- 1.2 That the proposed fees and charges as detailed in **Appendix 3** for 2017/18 are considered and approved.
- 1.3 That consideration is given to the level of any increase in contributions to Parish Councils in 2017/18 for Concurrent Functions.

## **2.0 Purpose of Report**

- 2.1 As part of the annual financial planning cycle, the report details the Committee’s proposed base budget for 2017/18, with a comparison to the current year, 2016/17. This includes an overview of the Committee’s main spending areas.
- 2.2 It is proposed that the estimated income and expenditure is included in the consolidated budget of the Council for 2017/18 subject to the Council’s overall medium-term financial position. This is subject to a separate report on this Agenda.
- 2.3 The report also sets out proposals for the level of fees and charges under the responsibility of this Committee for the next financial year, 2017/18.

## **3.0 Summary and Overview**

- 3.1 The Committee is responsible for large spending areas, in particular the main support service functions, together with the corporate, management and democratic costs of the Council.
- 3.2 It is also responsible for the strategic management of the Council's property portfolio, revenue collection, benefit payments and treasury management, etc. As such, the associated income and expenditure is a significant part of the Council's financial position.
- 3.3 In addition, several of these spending areas provide statutory, governance, legal and advisory support for the Council.
- 3.4 Several of the main spending areas are currently delivered by Northgate Public Services as part of the wider Strategic Partnership for Corporate Services. They act as direct service provider for a range of services including revenue collection, benefits administration and customer services, together with ICT, HR and Organisational Development.
- 3.5 However, as previously reported to the Committee, these services are currently being transferred back to the Council following the end of the Contract. The service transfer date is 1<sup>st</sup> February 2017.
- 3.6 In accordance with local government accounting regulations, a substantial amount of the Committee's costs are recharged and allocated across other services and accounts within this Committee and across other Policy Committees.

### **The Council's Overall Financial Position**

- 3.7 The Council's MTFP was reviewed and updated in October 2016. In principle, the overall position on the General Fund has not changed fundamentally over the last year. The current level of the General Fund Reserve remains healthy and is projected to remain so over the next 3 to 4 years based on current forecasts.
- 3.8 However, the continuing issue is the projected budget deficit over the medium-term from 2017/18 and in particular from 2018/19 when the impact of the next reduction in core funding is expected to take effect. Although the current level of reserves can be used to meet the projected deficit, this is not a sustainable solution in the longer-term. The MTFP continues to assume that base budget expenditure will increase year-on-year but overall core funding will reduce.
- 3.9 Therefore, ahead of considering the wider Council position, it is important that the Committee scrutinises its own spending base closely to identify potential budget savings and carefully examines any areas where there are cost pressures, together with any proposals to increase spending.

### **Summary of Expenditure**

3.10 The following table provides an overall summary at main service level, of the Committee's net revenue expenditure.

Summary of Net Revenue Expenditure	Approved Budget 2016/17 £	Proposed Budget 2017/18 £	Change £
Central and Departmental Accounts	3,430,431	3,500,889	70,459
Concessionary Travel	0	0	0
Corporate and Democratic Costs	634,774	609,093	-25,681
Electoral Registration / Elections	154,560	177,032	22,472
Payments to Parish Councils	342,446	348,058	5,612
Backdated Pensions and Interest	215,661	273,156	57,496
Property and Estates	-147,811	-207,054	-59,243
Revenues and Benefits	397,813	472,350	74,537
<b>Total - Net Expenditure</b>	<b>5,027,875</b>	<b>5,173,525</b>	<b>145,651</b>

3.11 The above table shows that the Committee's net expenditure is estimated to increase overall between 2016/17 and 2017/18 by approximately £145,000. An analysis of the changes within each service area is detailed in **Appendix 2**.

3.12 A summary of the changes is shown in the following table.

Change in Base Budget 2016/17 to 2017/18	£'000
Changes in Income	38
Known Changes included in MTFP	36
Inflation	43
Changes in Pay	25
Recharges to the HRA	(12)
Changes in other Service Costs	(7)
<b>Change in Service Expenditure</b>	<b>123</b>
Add: Increase in Depreciation	22
<b>Overall Base Budget Increase</b>	<b>145</b>

3.13 Although there appears to be a relatively large increase in the Committee's proposed base budget for 2017/18, many factors have been provided for in the MTFP. In particular, "known changes" together with inflation and changes to pay, are all factors provided for in the MTFP.

3.14 Together, these total approximately £104,000 and after adding in Depreciation of £22,000, which is not a cost to the Council, this accounts for £126,000 of the overall increase. This leaves the main variance as a reduction in income of £38,000 as the main unplanned change compared to the MTFP.

3.15 The main changes are detailed in the following sections.

### **Reductions in Income (£38,000)**

- 3.16 This mainly relates to an anticipated reduction in interest on cash deposits. Although the amount on deposit is expected to remain healthy into 2017/18 due to the Council's level of reserves and positive cash flow position, the interest earned is expected to reduce.
- 3.17 The Council is currently benefitting from interest earned on several fixed-term deposits with other local authorities, which were made prior to the recent fall in the Bank Base Rate. The average rate of interest being currently earned is 0.34%, but this is expected to fall to below 0.2% in 2017/18.
- 3.18 Based on this assumption, it has been estimated that total interest will fall from £47,000 in 2016/17 to £20,000 in 2017/18.

### **Known Changes Included in the MTFP (£36,000)**

- 3.19 This comprises two elements. Firstly, an expected reduction in the Housing Benefit Administration Grant from the Department for Works and Pensions (DWP). This is part of an on-going reduction being applied to all councils.
- 3.20 Based on previous notifications, the budget has been reduced from £315,000 to £250,000 in 2017/18. The final figure is due to be confirmed shortly.
- 3.21 This reduction in income has been partly offset by a reduction in the cost of supporting the Pay and Grading Review. This was a one-off cost in 2016/17 of £29,000.

### **Inflation (£43,000)**

- 3.22 This amount mainly relates to the annual indexation on the Corporate Services Contract. This will be financed from the central inflation contingency in the MTFP.
- 3.23 The cost of Corporate Services in 2017/18 will be reviewed following the transfer of the Services back to the Council on 1<sup>st</sup> February 2017. For budgeting purposes, the current cost of the Service Fee (including this indexation) has been maintained at this stage.

### **Changes in Pay (£25,000)**

- 3.24 This relates to the 1% National Pay Award for local government workers due on 1<sup>st</sup> April 2017. It also includes the effects of the Job Evaluation exercise completed in 2016/17 and the approved establishment changes in Legal and Democratic Services. All of these factors have been provided for in the MTFP.

### **Overall Reduction in Other Service Costs (£7,000)**

- 3.25 The most significant variances are an increase in pension deficit costs of £30,000 and a reduction in the cost of Members' expenses of £20,000. The final pension figures following the recent triennial valuation of the Pension

Fund are due shortly. The budget for Members' expenses has been reduced to reflect recent expenditure.

- 3.26 As with all Committees, current service budgets have been compared to recent expenditure trends and budgets adjusted accordingly. There are also some budget savings associated with utility charges following a procurement exercise which has reduced costs.

### **Depreciation**

- 3.27 Depreciation charges are reversed out of the Accounts on consolidating the Council's budget. They reflect charges for using capital assets in service delivery in accordance with accounting regulations. The increase for the Committee of £22,000, relates to revised valuations for the Civic Offices. There is no impact on actual spending levels.

## **4.0 Detail**

- 4.1 The Committee's budgets by service area are detailed in **Appendix 1**. **Appendix 2** details changes between 2016/17 and 2017/18 for each cost centre.

### **Basis of the Budget**

- 4.2 Budgets are generally calculated on a "no increase basis," i.e. they are maintained at the same level as the previous year adjusted only for known changes, price increases and variations due to contractual conditions, etc.
- 4.3 In addition, budgets are also subject to a base line review which is used to justify proposed spending. This process places responsibility on budget holders to justify their spending budgets by specifying their needs in a more constructed manner. This is supported by the Financial Services Unit, who analyse recent trends across services compared to current budgets.

### **On-going Service Provision**

- 4.4 The budgets are based substantively on a continuation of existing service provision (in respect of staffing levels, frequency, quality of service, etc.).
- 4.5 The full year effects of previous year's restructures and budget savings have been included, with any non-recurring items removed.

### **Inflation**

- 4.6 The base budget for 2017/18 has been uplifted by inflation/indexation where this applies, for example pay awards and contract obligations.

- 4.7 Clearly, some base costs will be subject to inflation during future years and in some cases it will be “unavoidable,” for example employee costs, when national pay increases are approved.
- 4.8 Allowances for inflation based on various assumptions regarding price increases, etc. are calculated across the main spending heads and in total, held as a central contingency.
- 4.9 In line with current policy, this contingency is reviewed and monitored separately by the Committee and allocated into service budgets, as the actual effects of inflation/indexation become known over the year.

### **Increase in Payments for Concurrent Functions to Parish Councils**

4.10 As part of the annual Budget Round, the Committee gives consideration to increasing the base contribution in payments to recognise inflationary pressures. Increases in recent years have been as follows:

- 2016/17 – 2.0%
- 2015/16 – 2.3%
- 2014/15 – 2.0%
- 2013/14 – 2.6%
- 2012/13 – No increase
- 2011/12 – No increase

4.11 Latest inflation rates show CPI running at 1.2% year on year and RPI at 2.2%. The Government’s Autumn Statement forecasts CPI inflation rising to 2.5% in 2017/18 and RPI to 3.2% in 2017/18. The Council’s MTFP currently provides for a 2% increase.

4.12 Every 1% increase in the base level equates to approximately £4,000 per year in total.

### **Risks**

4.13 All Committee budgets have been reviewed and known changes to income and expenditure have been reflected in the proposed base budget for 2017/18 as detailed in the report.

4.14 The main financial risk is considered to be the payment and recovery of Housing Benefit. The total amount administered and paid in respect of Rent Allowances and Rent Rebates is approximately £18m per year.

4.15 Of this, 97.8% is recharged to the DWP. Given the amounts involved, this is sensitive to small variations; if reimbursement is not maximised, every ½ % reduction equates to almost £100,000.

4.16 The DWP Regulations set a threshold for errors which, if exceeded, would mean further subsidy being withdrawn.

### **Proposed Fees and Charges 2017/18**

4.17 **Appendix 3** provides a schedule of the proposed charges that will operate from 1st April 2017, together with a comparison to the existing charge. All charges are exclusive of VAT and where applicable, VAT is added at the appropriate rate in accordance with HMRC regulations.

4.18 The charges are mainly standard ones for the recovery of court costs, change notifications and payment fees. There are no proposals to change any of the charges that currently apply.

## **5.0 Financial Implications**

5.1 As detailed in the report.

## **6.0 Corporate Implications**

6.1 There are no other legal, personnel or other corporate implications apart from any considered in the report.

## **7.0 Community Implications**

7.1 The proposed budgets and spending under the responsibility of the Committee, provides the financial resources to enable many of the on-going services and Council priorities to be delivered to the local community.

## **8.0 Background Papers**

8.1 None

## BUDGET - 2017/18

## Finance &amp; Management

		BUDGET			
£'s		2017/18	2016/17	VARIANCE	
		£	£		
PSX40	Senior Management	461,020	455,105	(5,915)	Adverse salaries (£10k), NI (£1k), super (£1k); Favourable other pay (£2k), enhanced pension (£1k), insurance (£1k), internal recharge (£3k)
PSX50	Reprographic/Print Room	79,188	78,355	(833)	Adverse contract fee (£1k)
PSX55	Financial Services	318,815	309,186	(9,630)	Adverse salaries (£13k), NI (£2k), super (£1.5k), training (£2k), Favourable comp maintenance (£1k), internal recharge (£6k)
PSX56	Internal Audit	103,115	103,115	0	
PSX57	Merchant Banking Services	61,137	47,149	(13,988)	Bank charges
PSX60	ICT Support	661,571	656,868	(4,703)	Contract fee
PSX65	Legal Services	183,425	143,060	(40,365)	Salaries - restructure from PSX85, and SLO to PLO
PSX75	Personnel/HR	217,544	245,336	27,792	Favourable prof fees (£29k); Adverse contract fee (£3k)
PSX76	Policy & Communications	236,995	233,928	(3,067)	Contract fee
PSX77	Customer Services	599,566	592,635	(6,931)	Adverse contract fee (£8k), favourable internal recharges (£1k)
PSX78	Health & Safety	36,239	34,552	(1,687)	
PSX81	Admin Offices & Depot	337,386	325,310	(12,076)	Adverse R&M (£1k), depreciation (£22k); Favourable business rates & utilities (£3k), internal recharges (£11k)
PSX95	Procurement Unit	105,477	104,126	(1,351)	
PSX99	Corporate Services Partnership	0	0	0	
KJE40	Caretaking	99,412	101,705	2,293	Favourable salaries (£9k), NI (£1k), refuse (£1k); Adverse enhanced pension (£2k), essential user (£1k), T&E purchase (£1k), way leaves rent (£5k)
<b>Central and Departmental Accounts</b>		<b>3,500,889</b>	<b>3,430,431</b>	<b>(70,459)</b>	
HTT00	Concessionary Fares	0	0	0	

<b>Concessionary Travel</b>		<b>0</b>	<b>0</b>	<b>0</b>	
AAD00	Democratic Representation & Management	77,983	82,157	4,174	Adverse salaries (£2k); Favourable car allows (£4.5k), subsistence (£3.5k),
AAM00	Corporate Management	55,786	55,412	(373)	
AAM01	Corporate Finance Management	47,218	51,817	4,599	Favourable bank charges (£10k)
ABS00	Impairment and Fixed Assets Written-off	0	0	0	
ABU00	Adjustments to Bad Debts and other Provisions	0	0	0	
ACD00	Elected Members	299,589	318,365	18,776	Favourable training (£2k), public transport (£3k), car allows (£9k), refreshments (£4k), conference fees (£4k); Adverse salaries (£2k), internal recharges (£1k)
KJW00	Debt Management Costs	128,517	127,023	(1,494)	Contract fee
<b>Corporate and Democratic Costs</b>		<b>609,093</b>	<b>634,774</b>	<b>25,681</b>	
ACE00	Registration of Electors	37,537	22,324	(15,213)	Adverse printing (£24k), wages (£10k), subs (£2k); Favourable postage (£10k), fee income (£10k)
ACE10	Conducting Elections	139,495	132,236	(7,259)	Adverse salaries (£4k), wages (£32k), enhanced pension (£2k), room hire (£12k), printing (£38k), prof fees (£1.5k); Favourable training (£2k), stationery (£4.5k), postage (£3k), election fees (£25k), other fees (£50k)
<b>Electoral Registration</b>		<b>177,032</b>	<b>154,560</b>	<b>(22,472)</b>	
ACT01	Parish Councils	348,058	342,446	(5,612)	Adverse TPP Grants
<b>Payments to Parish Councils</b>		<b>348,058</b>	<b>342,446</b>	<b>(5,612)</b>	
ABP00	Funded Pension Schemes	246,204	215,793	(30,411)	Adverse Enhanced Pension
W2A00	Taxation & non-specific grant income (GF)				
W3A00	Contingent Sums (GF)				

W4A00	Interest & Investment Income (GF)	(18,174)	(45,259)	(27,085)	Adverse interest
W6A00	Pensions Adjustment	0	0	0	
W7A00	External Interest Payable (GF)	1,500	1,500	0	
W8A00	Other Operating Income & Expenditure (GF)	43,627	43,627	0	
<b>Pensions, Grants Interest Payments and Receipts</b>		<b>273,156</b>	<b>215,661</b>	<b>(57,496)</b>	
PSX85	Estate Management	(207,054)	(147,811)	59,243	Favourable salary due to restructure (£33k), business rates (£9k), comp maintenance (£2k); Adverse prof fees (£4k), recharge (£12k),
<b>Property and Estates</b>		<b>(207,054)</b>	<b>(147,811)</b>	<b>59,243</b>	
ACA00	Council Tax Collection	(45,960)	(76,390)	(30,431)	Adverse discretionary benefits (£14k), Court Fee income (£15k)
ACA10	Council Tax Benefits Administration	0	0	0	
ACA30	Council Tax Benefits	0	0	0	
ACA40	Non Domestic Rates Collection	31,053	30,622	(431)	Contract fee
KGL00	Rent Allowances Paid	176,637	197,687	21,050	Government grant entitlement
KGL10	Net cost of Non-HRA Rent Rebates	0	0	0	
KGN00	Net cost of Rent Rebates Paid	67,122	68,545	1,424	Government grant entitlement
KGP00	Housing Benefits Administration	243,498	177,349	(66,148)	Adverse Government Grants
<b>Revenues and Benefits</b>		<b>472,350</b>	<b>397,813</b>	<b>(74,537)</b>	
		<b>5,173,525</b>	<b>5,027,875</b>	<b>(145,651)</b>	

## APPENDIX 2

## ANALYSIS OF CHANGES BETWEEN 2016/17 APPROVED &amp; 2017/18 PROPOSED BASE BUDGETS

Figures all in £'000

Cost Code	Service Area	Income	Known Changes	Committee Transfer	Inflation	Pay	Pension	Deprn.	Service Costs	HRA Recharge	TOTAL
PSX40	Senior Management					9	1		(1)	(3)	6
PSX50	Reprographic/Print Room				1						1
PSX55	Financial Services				1	17	1		(3)	(6)	10
PSX57	Merchant Banking Services								17	(3)	14
PSX60	ICT Support and Development				6					(1)	5
PSX65	Legal Services					50	4		2	(16)	40
PSX75	Personnel/HR		(29)		2					(1)	(28)
PSX76	Policy & Communications				3						3
PSX77	Customer Services				8					(1)	7
PSX78	Health & Safety				1				2	(1)	2
PSX81	Civic Offices & Depot	3				1		22	(14)		12
PSX95	Procurement Unit				2					(1)	1
KJE40	Office Cleaning and Caretaking					(11)	2		7		(2)
AAD00	Democratic Representation and Management					3			(8)	1	(4)

ACD00	Elected Members				7	(12)			(20)	6	(19)
AAM00	Corporate Management										-
AAM01	Corporate Finance								(6)	2	(4)
KJW00	Debt Recovery Costs				1						1
ACE00	Registration of Electors								15		15
ACE10	Conducting Elections					7	2		(2)		7
ACT01	Parish Councils (Concurrent Functions)				6						6
ABP00	Funded Pension Schemes								30		30
W4A00	Interest Received (General Fund)	27									27
W7A00	Interest Paid (General Fund)										-
PSX85	Asset and Estate Management (Property Services)	(6)				(51)	(3)		(11)	12	(59)
ACA00	Council Tax Collection	15		14	1						30
ACA40	Non Domestic Rates Collection	(1)			1						-
KGL00	Net cost of Rent Allowances Paid			(14)					(7)		(21)
KGN00	Net cost of Rent Rebates Paid								(1)		(1)
KGPO0	Housing Benefits Administration		65		3	4	1		(7)		66
<b>TOTAL</b>		<b>38</b>	<b>36</b>	<b>-</b>	<b>43</b>	<b>17</b>	<b>8</b>	<b>22</b>	<b>(7)</b>	<b>(12)</b>	<b>145</b>

**APPENDIX 3**

**PROPOSED FEES AND CHARGES 2017/18**

VAT WILL BE CHARGED WHERE APPLICABLE AT THE APPROPRIATE RATE

<b>FINANCIAL SERVICES</b>	<b>Fee 2016/17 £:p</b>	<b>Proposed Fee 2017/18 £:p</b>	<b>Note</b>
<b>Court Costs</b>			
Court Costs Recovered	70.00	70.00	Generally applied across Derbyshire authorities
<b>National Bus Pass Scheme</b>			
Replacement Card Scheme	5.00	5.00	
<b>Benefit Fraud</b>			
Fraud Investigation Administration Charge	50% of overpayment	50% of overpayment	
Fraud Investigation Court Costs recovered	500.00	500.00	
<b>Sale of Radar Keys</b>			
Sale of Radar Keys - disabled	2.55	2.55	
<b>Debit Card/Credit Card Submission</b>			
Credit Card	Variable	Variable	Dependent on bank charge incurred by the Council
Debit Card	No Charge	No Charge	
<b>Penalty Charge</b>			
Penalty charge for Council Tax accounts who fail to notify us of a change in circumstances relating to a discount or exemption.	70.00	70.00	
Penalty charge for Council Tax payers who fail to notify us of a change in circumstances relating to a discount or exemption. Second or subsequent failure to notify	250.00	250.00	