

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE SPECIAL - BUDGET	AGENDA ITEM: 7
DATE OF MEETING:	15th JANUARY 2015	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE & CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/budget round 201516/base budget policy reports/4 consolidated/FM Consolidated Report Jan 15
SUBJECT:	BUDGET REPORT 2015/16 Incorporating the Consolidated Budget Proposals and Medium Term Financial Plan to 2020	REF:
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the estimates of revenue income and expenditure for 2015/16 for the General Fund are considered and a level of income and expenditure is approved.
- 1.2 That consideration is given to the level of an increase in grants to voluntary bodies and payments to Parish Councils under concurrent functions.
- 1.3 That the Council Tax Base for 2015/16 of 30,608 (equivalent Band D) properties as detailed in **Appendix 5** is approved.
- 1.4 That a Surplus of £500,000 be declared on the Collection Fund for 2014/15 and the Council's proportion of £57,000 is transferred to the General Fund in 2015/16.
- 1.5 That consideration is given to the principle of a Council Tax freeze for 2015/16 in accordance with the offer of specific grant from the Government.
- 1.6 That the updated 5-year financial projection on the General Fund to 2020 as detailed in **Appendix 1**, including associated assumptions and risks as set out in the report, be approved.
- 1.7 That the decisions made in recommendations 1.1 to 1.6 are used as the basis for consultation with local residents, businesses, voluntary and community groups, etc. and are subject to review by the Overview and Scrutiny Committee.

2.0 Purpose of the Report

2.1 To detail the Council's overall financial position following a detailed review of current income and expenditure on the General Fund. Effectively, it builds on the financial plan and strategy approved in October 2014 and is the detailed budget report for 2015/16. The report covers the following:

- Confirmation of the Council's financial settlement from central government for 2015/16.
- The Council's current spending and proposed base budget position for 2015/16 including proposed spending by policy committees.
- The proposed Council Tax Base for 2015/16 and Collection Fund position, 2014/15.
- Options for Council Tax levels in 2015/16.
- The overall impact on the General Fund's 5-year financial projection.

2.2 The report is divided into several sections as follows:

- Section 3 – Summary and Overall Commentary
- Section 4 – The Council's Financial Settlement for 2015/16
- Section 5 – Proposed Base Budget and Consolidated Spending 2015/16
- Section 6 – Revised General Fund Financial Projection to 2020
- Section 7 – Council Tax, Tax Base and Collection Fund Position
- Section 8 – Overall Risk Analysis

- Appendix 1 – General Fund Summary Budget and 5-year projection
- Appendix 2 – Environmental and Development Services Base Budget
- Appendix 3 – Housing and Community Services Base Budget
- Appendix 4 – Finance and Management Base Budget
- Appendix 5 – Calculation of Council Tax Base 2015/16
- Appendix 6 – Estimated Collection Fund position 2014/15
- Appendix 7 – List of Earmarked Reserves

3.0 Summary and Overall Commentary

The Position entering the 2015/16 Budget Round

- 3.1 The updated medium term financial projection was considered and approved by the Committee on 16th October 2014. This set out the projected level of net revenue expenditure on the General Fund, together with the level of the General Reserve to 2020.
- 3.2 The overall projected position at that time, is summarised in the following table.

General Fund: Medium-Term Projection as at September 2014

Year	Budget Deficit / Surplus (-)	Sums Earmarked against Reserves	Balance of General Reserve
Base Budget 2014/15	-£220,580	£402,000	-£5,728,670
Projection 2015/16	£213,134	£295,000	-£5,220,536
Projection 2016/17	£290,933	£340,000	-£4,589,603
Projection 2017/18	£826,386	£20,000	-£3,743,218
Projection 2018/19	£1,048,099	£20,000	-£2,675,118
Projection 2019/20	£846,056	£20,000	-£1,809,062

- 3.3 The overall medium term position projected an adequate level of general reserves, but with a projected and increasing budget deficit after 2015/16. This was mainly due to an estimated reduction in Revenue Support Grant in future years with a moderate increase in the cost base due to growth pressures.

The Updated General Fund Position

- 3.4 As part of the annual budget round, the Council's base budget has been reviewed in detail. This has confirmed some additional cost pressures, although there have also been further budget savings and additional income identified.
- 3.5 Following the Government's Autumn Statement and subsequent financial settlement for local councils in December 2013, together with proposals contained in the Base Budget for 2015/16, the updated medium term position has continued to improve compared to September 2014.
- 3.6 Although there is still an on-going budget deficit position in future years, the level of the General Reserve is well above the minimum level directed by the Financial Strategy. The updated projection is shown in the following table.

General Fund: Medium-Term Projection as at December 2014
(updated following base budget review and financial settlement)

Year	Budget Deficit / Surplus (-)	Sums Earmarked against Reserve	Balance of General Reserve
Base Budget 2014/15	-£149,586	£202,000	-£5,857,676
Proposed Budget 2015/16	-£91,189	£220,000	-£5,728,865
Projection 2016/17	-£84,724	£420,000	-£5,393,589
Projection 2017/18	£526,904	£90,000	-£4,776,685
Projection 2018/19	£814,773	£20,000	-£3,941,912
Projection 2019/20	£1,101,315	£20,000	-£2,820,597

3.7 Effectively, the General Fund has a budget surplus for 2015/16 and 2016/17 based on current projections. A deficit is then forecast from 2017/18 as expected reductions in core government funding take effect.

3.8 In the meantime, the balance on the General Reserve remains healthy and after allowing for the deficit in the 3 years after 2016/17, the projected level is £2.8m, well above the minimum contingency level of £1m.

3.9 The table below shows how the overall position has changed since September.

	£'000
Projected 5-year Balance (September 2014)	1,809
Add: Overall Reduction in Base Budget Spending	1,120
Add: Increase in Council Tax base	467
Add: Increase in New Homes Bonus	315
Add: Increase in Collection Fund Surplus	37
Less: Estimated Reduction in Benefits Admin. Subsidy	-409
Less: Effect of Council Tax Freeze in 2015/16	-444
Less: Effect of 2014 Pay Award	-74
Revised Projected Balance as at 2020	<u>2,821</u>

3.10 The amounts in the above table represent the cumulative effect over the 5 year financial planning period. The decrease in Council Tax income is based on a Council Tax freeze for 2015/16 (**subject to Council approval**).

3.11 Planned reductions in spending from 2014/15 have been confirmed, together with other reductions in spending as part of the annual base budget review.

3.12 However, the largest changes are due to additional income from growth and in particular the Council Tax base, which consequently has a beneficial impact on the New Homes Bonus allocation. The surplus on the Collection Fund during 2013/14 and to-date in 2014/15 has been confirmed and built into the on-going Base Budget.

Risks

- 3.13 The greatest risks to the financial plan are still considered to be the degree of future reductions in core government funding, together with underlying cost pressures still yet to surface. The Government's Autumn Statement did not change the level of core funding for 2015/16, which was provisionally set last year.
- 3.14 However, it broadly confirmed that there would be some further reductions from 2016/17 and it is expected that local authorities will face some large reductions for a further 2 to 3 years. This will depend on the next spending review of the public finances expected in the early stages of the next Parliament in 2015/16.

Future Core Funding

- 3.15 The current projections beyond 2015/16 have not been changed at this stage. The MTFP had already built in on-going reductions in Revenue Support Grant (RSG) in future years. Moderate increases in New Homes Bonus (NHB) and Retained Business Rates (RBR) continue to be made in line with growth predictions which help to partly offset falling RSG.
- 3.16 It is not certain at this stage whether a more fundamental review will be undertaken of the funding system. There have been some media reports that the NHB could be reviewed during the next Parliament.

Future Expenditure

- 3.17 Some additional cost pressures have been added to base budgets in 2015/16. These largely cover maintenance of assets and public facilities. Growth is steadily increasing across much of the District and this is realising additional income. It is important that further cost pressures associated with this growth are kept under review.
- 3.18 The overall financial position has been steadily improving over the last 2 years due to budget savings, together with positive out-turn positions compared to base budgets. Reserves should be further supplemented by the estimated underspend in 2014/15 (as reported in December 2014) although this has not been included in the MTFP at this stage as it is still to be confirmed.
- 3.19 The Budget continues to make on-going provision for some growth in expenditure and annual inflation. In addition, separate reserves are maintained to meet specific one-off costs. Even allowing for a margin of error in assumptions, the overall position is well placed.
- 3.20 However, the Council should remain cautious in the short-term, until the future funding position for local authorities is more certain and to remain flexible to meet any additional spending pressures. Future budget deficits are still projected based on increasing expenditure for current service provision, together with a reduction in core funding.

Net Spending

3.21 Following the base budget review, net expenditure on services is now projected to decrease by approximately £200,000 in 2015/16 compared to 2014/15. This is summarised the following table.

	£'000
Additional Income	-210
Budget Savings from approved Restructures	-162
Overall Cost Increases	148
Total Net Reduction in Base Budget 2015/16	-224

3.22 Cumulatively, this adds resources into the MTFP of approximately £1.1m over 5-years, and follows the review of base budgets by Policy Committees. The main change relates to additional income in Planning, Environmental Services and Leisure. The increases reflect up to date levels that are anticipated to continue.

3.23 This follows more cautious estimates in recent years to reflect the economic situation. However, the increased budgets are still below actual income currently being generated.

3.24 The budget savings reflect those generated from approved restructures in 2014/15. These are the on-going budget savings from 2015/16. Last year's budget set a target of £175,000 to be made overall, as a contribution to meet the future budget deficit; the overall sum has not previously been built into the MTFP until achieved.

3.25 This saving has been largely negated by cost increases elsewhere. These have been identified mainly in Waste and Cleansing, together with the maintenance of parks and open spaces. This follows a pattern of recent years.

Council Tax

3.26 The MTFP continues to assume a year on year increase in Council Tax of 2% from 2015/16. However, the Government have once again offered incentives for councils to freeze their Council Tax for 2015/16 and the effects of this have been shown in the updated MTFP projections.

3.27 As in previous years, the scheme will reimburse councils "lost" revenue to the equivalent of a 1% increase in Council Tax. This has only been confirmed for 2015/16 at this stage, although previous support has been built into on-going RSG. As the Council's MTFP assumed a 2% increase, this reduces projected net Council Tax income by approximately £400,000 over the planning period.

3.28 Under provisions contained in the Localism Act 2011, the Government has again set a 2% limit on Council Tax increases. Councils have discretion to set increases above this limit, but this would need to be subject to a local referendum.

DETAIL, BACKGROUND and BASE BUDGET ANALYSIS

4.0 The Council's Financial Settlement 2015/16

Background

- 4.1 Following the Comprehensive Spending Review (CSR 13) which reported in June 2013, reductions in Revenue Support Grant for local authorities were confirmed. The effect on the Council was analysed and built into the current MTFP last year.
- 4.2 The Council's core funding from central government comprises 3 funding streams, which are unringfenced general grants, as follows:
- Revenue Support Grant (RSG)
 - Retained Business Rates (RBR)
 - New Homes Bonus (NHB)
- 4.3 The following amounts were included in the approved MTFP as at September 2014.

MTFP Sept 2014 Projections	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Revenue Support Grant	1,749	1,378	823	811	800
Retained Business Rates	2,310	2,374	2,439	2,506	2,750
New Homes Bonus	2,150	2,525	2,568	2,412	2,500
Total - Core Funding	6,209	6,277	5,830	5,729	6,050

- 4.4 The profile of funding is based on an increase in RBR and NHB due to residential and business growth with a reduction in RSG, but with overall resources falling until 2018/19 in accordance with OBR forecasts.
- 4.5 Some of the NHB allocations and parts of the RBR system are funded by top slicing RSG nationally, in order for the DCLG to remain within its Departmental Spending limit and to redistribute resources in specific grants.
- 4.6 RSG and RBR are combined for grant purposes into a Settlement Funding Assessment (SFA). Within the SFA, RSG is fixed, whilst the RBR element fluctuates between that set in the grant settlement and the actual business rates collected during that year.
- 4.7 The RBR element of SFA sets a baseline level based on current collection rates and projections for growth.

The Council's Settlement Funding Assessment (SFA)

4.8 The financial settlement for 2015/16 was announced in December 2014. The figures for 2015/16 effectively confirmed the provisional settlement of December 2013. The figures are currently subject to consultation and parliamentary scrutiny; they are expected to be approved at the end of January.

4.9 The Council's settlement for 2015/16 is shown in the following table:

SFA 2015/16	MTFP £'000	Actual £'000	Diff £'000
Revenue Support Grant	1,799	1,811	12
Retained Business Rates	2,310	2,291	-19
Total - SFA	4,109	4,102	-7

4.10 The table shows a slight reduction in funding due to some minor technical adjustments in the Formula.

Retained Business Rates

4.11 Following the financial settlement, the Government approved the application of the Derbyshire Business Rates Pool. This confirmed that the Pool would not be subject to any levy on growth receipts.

4.12 Therefore, the Council's final retained business rates will be subject to the performance of the Pool from 2015/16, subject to annual review.

New Homes Bonus (NHB)

4.13 Every new home built attracts an annual bonus for six years equal to the amount of Council Tax (the national average) payable on that home (depending on its Tax Band) with an additional bonus (£350) for every new affordable home delivered. This figure is adjusted up or down depending on the change in empty properties between years.

4.14 Allocations are calculated in October each year on the Council Tax base compared to the previous year. This creates a time lag as the bonus for say 2015/16, reflects activity between October 2013 and October 2014.

4.15 20% of the subsequent grant is paid to the upper tier authority in each area, i.e. the County Council in South Derbyshire's case. 80% is then retained by the District. Once calculated each year, it is guaranteed and paid for 6 years.

4.16 In principle, authorities that are subject to growth in housing development and/or keep down the number of empty properties should benefit from a yearly increase in NHB, subject to what the Government allocates nationally.

NHB Allocation for 2015/16

- 4.17 The Council has received a provisional allocation of £2,332,405 for 2015/16, an increase of approximately £170,000 compared to the MTFP. Final allocations will be confirmed in February 2015.
- 4.18 The allocation includes on-going installments for 2011/12 to 2014/15 of £1,779,758 with a further £542,657 for 2015/16. This was based on new homes, which totalled 517, including 18 affordable units; the number of empty properties increased by 38, making a net increase of 479 homes. This compares with 350 in the MTFP.

Future Funding of the NHB

- 4.19 NHB is partly funded by top slicing RSG at a national level. The Government has given no indication of an end point for the scheme and so it has been assumed that current and previous years' allocations will each last 6 years.
- 4.20 However, on this basis from 2019/20, current allocations will start to drop out unless the scheme is continued. There have been some media reports that the NHB could be reviewed during the next Parliament.

Overall Core Funding - Medium Term Projections

- 4.21 Apart from reflecting changes to future NHB amounts following the allocation for 2015/16, future projections for RSG and RBR remain unaltered from those reported in September 2014. These are detailed in **Appendix 1**. Projections for all 3 funding streams combined is summarised in the following table.

Year	Total	Change	
2014/15	£6,640,406		
2015/16	£6,424,526	-£215,880	-3.25%
2016/17	£6,468,900	£44,374	0.69%
2017/18	£5,990,626	-£478,274	-7.39%
2018/19	£5,857,029	-£133,597	-2.23%
2019/20	£5,712,835	-£144,194	-2.46%

- 4.22 Clearly, the reduction in 2015/16 has now been confirmed through the Financial Settlement. Further reductions are still projected in future years, but these may not appear as severe as some of the national headline figures being reported.
- 4.23 This is due to assumptions that the NHB and RBR amounts will continue to rise over the financial planning period, due to growth. This partly compensates for the projected reductions in RSG.
- 4.24 However, as highlighted throughout this report, the whole landscape of future funding is uncertain, although some reductions appear inevitable according to many commentators. Therefore, it is important that the Council maintains a cautious approach.

5.0 Proposed Base Budget and Consolidated Spending 2015/16

- 5.1 All policy committees (including an earlier report on this Agenda) have considered their detailed budget proposals for 2015/16. All services were asked to carefully consider their base income and expenditure.

Basis of the Budget

- 5.2 Budgets are usually calculated on an incremental basis, i.e. they are maintained at the same level as the previous year adjusted only for known changes and variations that have been identified through a restructure or efficiency programme.
- 5.3 However, many budgets are also subject to a base line review which is used to justify proposed spending. This process places greater responsibility on budget holders to justify their spending budgets by specifying their needs in a more constructed manner.
- 5.4 As well as identifying possible budget savings, it can also identify potential cost pressures.

On-going Service Provision

- 5.5 The budgets are based substantively on a continuation of existing service provision (in respect of staffing levels, frequency, quality of service, etc.
- 5.6 However, the full year effects of previous year's restructures and efficiencies are included, with any non-recurring items.

Inflation

- 5.7 The base budget for 2015/16 has been uplifted by inflation in 2014/15 where this applies, for example, the 2014 national pay award. However, individual budgets for 2015/16 do not at this stage allow for future inflation.
- 5.8 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.
- 5.9 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.
- 5.10 In line with current policy, this contingency will be reviewed and monitored by this Committee and allocated into service budgets, as the actual effects of inflation become known over the year.

Base Budgets 2015/16

5.11 A full analysis of each Committee's proposed budget has been detailed in separate reports to the respective Policy Committee. The main spending areas are analysed in **Appendices 2 to 4**, with a summary of each Committee's proposed spending shown in the following table.

Summary of Net Revenue Expenditure	Approved Budget 2014/15 £'000	Proposed Budget 2015/16 £'000	Change £'000
Environmental and Development Services	3,620,067	3,679,024	58,957
Housing and Community Services	2,201,063	2,251,121	50,058
Finance and Management	4,879,913	5,014,086	134,173
	10,701,042	10,944,231	243,189

5.12 The above table shows that overall base Committee expenditure is estimated to increase between 2014/15 and 2015/16 by approximately £243,000. A summary of this increase is shown in the following table.

Change in Base Budget 2014/15 to 15/16	£'000
Increases in Income	(165)
Budget Savings	(162)
Other increases in Pay	136
Overall increase in Service Costs	33
Transfers from Earmarked Reserves	(64)
Changes not previously in the MTFP	(222)
Add: Known changes built into Base	
Pay Award 2014	142
Provision for Cost of Local Election	130
Change in Service Expenditure	50
Add: Increase in Depreciation	125
Add: Grant income transferred to RSG	68
Overall Base Budget Increase	243

5.13 Although overall expenditure at a Committee level has increased, this is due to items that had been built into the base budgets, but for which separate provision had been made in the MTFP, i.e. the cost of the 2014 Pay Award and provision for the cost of the District Election in May 2015. Consequently, there is no overall increase in the Council's budget.

5.14 In addition, there was an increase for Depreciation which is reversed out when consolidating the MTFP, together with grant income being transferred to RSG. Furthermore, some expenditure is financed from earmarked reserves.

5.15 After allowing for these adjustments, there is a reduction in overall expenditure of approximately £222,000 compared to the Base Budget and MTFP, as shown in the preceding table. Details of all the changes are provided in the following sections.

Depreciation (increase of £125,000)

- 5.16 Depreciation charges are internal accounting entries that reflect the use of capital assets in service delivery. They are reversed out of the final budget estimates under accounting regulation as shown in **Appendix 1** as they are not a true cost that the Council has to meet.
- 5.17 They reflect charges for using capital assets in service delivery in accordance with accounting regulations. Charges mainly relate to vehicles and buildings that are being written down and out of the Council's accounts over their useful life.

Grant Income Transfered to RSG (£68,000)

- 5.18 This relates to a transfer of specific grant for the Homelessness Service that is now included within the main Revenue Support Grant of the Council.

Pay Award (Increase of £142,000)

- 5.19 A national pay award for local government staff was agreed in November 2014. This increased most pay scales by 2.2% from 1st January 2015, with larger increases for the 6 lowest pay points and smaller increases for Chief Officers.
- 5.20 In addition, a one-off, non-consolidated payment was awarded to most pay points equating to a further 1% of current pay, again rising for the lower pay points. The award will run to March 2016 when pay will again be reviewed. The cost of the award in 2014/15 and 2015/16 will be financed from the inflation contingency.

District Council Election (provision of £130,000)

- 5.21 The Council is required to finance the administration and associated costs of the District Council Election in May 2015. This is a one-off cost in 2015/16 and separate provision was made in the MTFP.

Increases in Income (£165,000)

- 5.22 The main areas are shown in the following table.

	£'000
Planning and Building Regulations	63
Environmental Services (Trade Waste and Recycling)	65
Rosliston Forestry Centre	45
Other Income (mainly Leisure and Recreation)	19
Reduction in Housing Benefit Admin. Grant	-27
Total	165

- 5.23 The increases reflect up to date levels that are anticipated to continue. This follows more cautious estimates in recent years to reflect the economic situation. However, the increased budgets are still below actual income currently being generated.

5.24 The additional income at Rosliston Forestry Centre is anticipated to cover additional costs of running the facility. The reduction in Housing Benefit Administration Grant follows the pattern of recent years. Future decreases are planned by the DWP and these have now been built into the MTFP

Budget Savings (£162,000)

5.25 These reflect the savings achieved from approved restructures in 2014/15. These are the on-going budget savings from 2015/16 and are detailed in the following table.

	£'000
Land Charges	30
Environmental Health and Strategic Housing	81
Legal, Licensing and Democratic Services	51
Total	162

Other Increases in Pay (£136,000)

5.26 A breakdown is shown in the following table.

	£'000
Incremental Rises	20
Waste and Cleansing - Agency and Overtime	60
Graduate Planner	28
Grounds Maintenance – Highways Work	28
Total	136

5.27 Incremental rises have been added for employees on career graded posts and those subject to incremental steps within a specific grade which recognises experience and development; provision is made separately within the MTFP for these increases each year.

5.28 On-going increases have been built into the proposed budget for overtime and agency costs in Waste and Street Cleansing services. It is expected that these costs will reduce over the year as vacancies and replacement posts are filled.

5.29 The post of Graduate Planner (as approved in October 2014) has been added to the establishment. This will cost £28,000 per year for three years and will be financed by additional income in 2014/15.

5.30 On-going increases have also been built into the proposed budget for Grounds Maintenance to cover increased highways work. However, this has largely been offset by reductions in external expenditure and is financed by a contribution from the Highways Authority.

Overall Increase in Service Costs (£33,000)

5.31 A breakdown of the main changes is shown in the following table.

	£'000
Vehicle Repairs and Maintenance	41
Rosliston Forestry Centre	45
Parks and Open Spaces	24
Planning Services	-29
Grounds Maintenance	-30
Other changes (net)	-18
Total	33

5.32 The main increase in cost continues to be for vehicle repairs and maintenance. The increases at Rosliston relate to maintenance and utility costs (£29,000) and contractor payments of £16,000. Income budgets have been increased to cover these additional costs in order that the Council's overall subsidy of the facility is not increased.

5.33 As regards Parks and Open Spaces, it is proposed to increase maintenance budgets for buildings repairs, including pavilions and play areas, together with addressing an increase in dilapidation of paths and car parks at recreational facilities. This is to prevent insurance claims and to upgrade the general infrastructure.

5.34 Within this, additional budget is also being proposed for repairs to street and parks furniture, together with maintenance of tree and shrub planting within the main park areas.

5.35 The reduction in Planning Services relates to professional costs for developing the Local Plan through to examination, which will now reduce.

Individual Committee Risks

5.36 As part of the base budget review, each Committee identified several risk areas. In some cases, budgets have been increased to address cost pressures and these have been highlighted previously.

5.37 Other financial risks identified are detailed in the following table.

Risk	Issue	Action
Income	Budgeted income from Planning, Licensing, etc. totals £1.5m and is not sustainable.	Base Budgets are below current actuals and that projected so they are considered prudent at this stage. The amount is dependent on local growth although this is considered positive.
Staffing levels in Planning	Current level has around 3 more posts than the budgeted establishment due to temporary staff being employed. Additional cost is £60,000 per year and this is currently being contained within overall service costs in 2014/15. As no prior approval exists for these posts	A formal appraisal needs to be undertaken if these posts are to continue.

	on an on-going basis, they are not included in the Base Budget for 2015/16.	
Costs of the Local Plan	One-off costs associated with consultation, examination, publication and potential Public Inquiry. Total cost estimated at £160,000. If there is a Public Inquiry, this estimate could rise.	Earmarked Reserve set-aside for £200,000. Could be a requirement to use additional income in 2014/15 to increase the Reserve.
Agency Income	The County Council reimburse highway maintenance and gulley cleaning costs of £275,000 per year. It has been indicated that this is under review with a reduction of up to 15% (£40,000) possible.	Keep under review and assess implications if any reduction is proposed.
Recycling	Overall cost of Kerbside Recycling Scheme increases. New and expanded scheme implemented in October 2013.	The new scheme has now bedded in; current recycling credits are greater than estimated with costs generally fixed. It is considered that the risk is reducing but will be kept under review as part of usual monitoring arrangements.
Growth	The Council's MTFP identifies underlying cost pressures yet to surface as a risk, due to pressure on services such as refuse collection and parks maintenance.	An on-going amount of £100,000 has been set-aside in the MTFP; this will be kept under review.
External Funding	Several Leisure and Community Service areas are reliant on a degree of external contributions.	Earmarked reserves maintained to spread expenditure over a number of years. These are currently estimated to remain at approximately £1.1m by 2016. It is considered that this will maintain existing services over the MTFP period to 2020.
Rosliston Forestry Centre	Increase in income anticipated in 2015/16 to cover additional costs	An additional £45,000 required. This will be kept under review.
Artificial Grass Pitch – Etwall Leisure Centre	No income and expenditure has been included in the base budgets for 2014/15 and 2015/16.	The Council's financial liability for this facility is still to be fully assessed under the Contract; this is still being calculated. Although no significant liability is currently anticipated, this is not certain.

Payment and recovery of Housing Benefit.	The total amount administered and paid in respect of Rent Allowances and Rent Rebates is approximately £18.5m per year. Of this, 98.5% 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	Maintain accuracy rate for processing above 95% and Local Authority Error below 0.5%. These targets are monitored on a monthly basis.
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Grants to Voluntary Bodies and Payments under Concurrent Functions

- 5.38 Each year, consideration is given to increasing the base contribution in grants to recognise inflation. For 2014/15, the Council approved an increase of 2% (2.6% in 2013/14). In the two years prior to that, the base contribution was frozen.
- 5.39 Inflation, as measured by the RPI, stood at 2.3% in September 2014 and has since fallen to 2% by November 2014. The forecast for 2015/16, included in the Government's Autumn Statement, shows 2.2%. The Council's MTFP provides for a 2% increase.
- 5.40 Every 1% increase in the base level across all grants and concurrent functions equates to approximately £5,000 per year.
- 5.41 Housing and Community Services Committee considered an increase for grants to voluntary bodies and this Committee considered this matter for Concurrent Functions in the detailed budget report earlier on the Agenda.

6.0 General Fund 5-Year Financial Projection to 2020

- 6.1 The projection has been updated following the grant settlement (as detailed in Section 4) and the proposed base budgets (as detailed in Section 5).
- 6.2 The projection is calculated within a financial model the summary of which is shown in **Appendix 1**. This also shows how certain items, such as future income levels and known changes to the base budget, are expected to change over the planning period. The key figures are detailed in the following sections.

Projected Budget Surplus/Deficit and Reserve Balances

- 6.3 This is summarised in the following table.

General Fund: Medium-Term Projection as at December 2014
(updated following base budget review and financial settlement)

Year	Budget Deficit / Surplus (-)	Sums Earmarked against Reserve	Balance of General Reserve
Base Budget 2014/15	-£149,586	£202,000	-£5,857,676
Proposed Budget 2015/16	-£91,189	£220,000	-£5,728,865
Projection 2016/17	-£84,724	£420,000	-£5,393,589
Projection 2017/18	£526,904	£90,000	-£4,776,685
Projection 2018/19	£814,773	£20,000	-£3,941,912
Projection 2019/20	£1,101,315	£20,000	-£2,820,597

- 6.4 Effectively, the General Fund has a budget surplus for 2015/16 and 2016/17 based on current projections. A deficit is then forecast from 2017/18 as expected reductions in core government funding take effect.
- 6.5 In the meantime, the balance on the General Reserve remains healthy and after allowing for the deficit in the 3 years after 2016/17, the projected level is £2.8m, well above the minimum contingency level of £1m.
- 6.6 The table below shows how the overall position has changed.

	£'000
Projected 5-year Balance (September 2014)	1,809
Add: Overall Reduction in Base Budget Spending	1,120
Add: Increase in Council Tax base	467
Add: Increase in New Homes Bonus	315
Add: Increase in Collection Fund Surplus	37
Less: Estimated Reduction in Benefits Admin. Subsidy	-409
Less: Effect of Council Tax Freeze in 2015/16	-444
Less: Effect of 2014 Pay Award	-74
Revised Projected Balance as at 2020	2,821

- 6.7 The amounts in the above table represent the cumulative effect over the 5 year financial planning period.
- 6.8 The overall reduction in base budget spending is the cumulative effect of savings already approved and proposed changes to the Base Budget as detailed in *Section 5*. The changes to the Council Tax base and the Collection Fund surplus are detailed in *Section 7*.
- 6.9 The decrease in Council Tax income is based on a Council Tax freeze for 2015/16 (**subject to Council approval**). This is also detailed in *Section 7*.

Reduction in Benefits Administration Grant

- 6.10 The base allocation for 2015/16 has been reduced by approximately £27,000 compared to 2014/15. Future reductions of up to 10% per year in this specific grant are anticipated. This would reduce resources in the MTFP by approximately £400,000 over the 5-year planning period.

2014 Pay Award

- 6.11 As highlighted, the impact of the national pay award has been built into service base budgets for 2015/16. This has been mainly financed from the inflation contingency in the MTFP.
- 6.12 The pay award effectively covered the two years 2014/15 and 2015/16. The inflation contingency had made provision for a 2% increase over this period.
- 6.13 As the award was 2.2% with some additional increases for lower graded posts, this has increased the overall cost compared to the MTFP. Cumulatively, over the 5-year plan, this equates to approximately £74,000.

Inflation and Growth

- 6.14 The Budget continues to make provision for growth and inflation. In accordance with current policy, this “contingency” will be maintained centrally and only allocated once any additional costs are known.
- 6.15 The growth provision allows some resources for investment in services, for example, refuse collection due to the growth of residential development.
- 6.16 Allowances for inflation based on various assumptions regarding price increases, etc. have been calculated across the main income and expenditure heads, the total of which is aggregated to form the central contingency.
- 6.17 In accordance with UK economic inflation predictions, the general rate of inflation that has been applied (where applicable) is 2% per year (2.5% for pay from 2016/17).
- 6.18 The total amount now set-aside separately in the MTFP for inflation and growth is summarised in the following table.

Inflation/Growth Provision

2014/15	£248,795
2015/16	£189,704
2016/17	£364,780
2017/18	£421,079
2018/19	£427,371
2019/20	£433,809

6.19 As previously reported, in recent years the contingency has not been fully utilised. Where this is the case, amounts are returned to the General Reserve.

Other Provisions and Contingencies

6.20 Besides the main inflation contingency, the MTFP continues to make provision against General Reserves for other items, as shown in the following table.

	Amount £'000	Comment
Pay and Grading Review	420	One-off transitional protection costs
Pay and Grading Review	130	On-going costs following implementation
Vehicle Replacements	250	One-off in 2016/17 pending capital receipts

Summary Position

6.21 Some additional cost pressures have been added to base budgets in 2015/16. These largely cover maintenance of assets and public facilities. Growth is steadily increasing across much of the District and this is realising additional income. It is important that further cost pressures associated with this growth are kept under review.

6.22 The overall financial position has been steadily improving over the last 2 years due to budget savings, together with positive out-turn positions compared to base budgets. Reserves should be further supplemented by the estimated underspend in 2014/15 (as reported in December 2014) although this has not been included in the MTFP at this stage as it is still to be confirmed.

6.23 It is considered that budgets and projections are prudent but realistic and do allow for inflationary, growth and other cost pressures. Even allowing for a margin of error in assumptions, the overall position is well placed.

6.24 However, the Council should remain cautious in the short-term, until the future funding position for local authorities is more certain and to remain flexible to meet any additional spending pressures.

6.25 Future budget deficits are still projected based on increasing expenditure for current service provision and a reduction in core funding.

- 6.26 The Council does have a history of under spending on its General Fund, mainly due to additional income and vacant posts. This is reviewed each year and budgets adjusted accordingly. However, future under spends are not guaranteed and cannot be relied upon.
- 6.27 Resources have been set-aside in earmarked reserves to replace and upgrade IT, together with vehicles and plant. Smaller reserves are held and earmarked for specific purposes such as one-off costs associated with the Local Plan, Welfare Reform and Pensions.
- 6.28 Several reserves (from matched and external funding) are held to finance costs on a yearly basis, especially in Leisure and Community Services. A full list of earmarked reserves is detailed in **Appendix 7**.
- 6.29 A detailed analysis of the main financial/strategic risks is detailed in *Section 8*.

7.0 Council Tax, Tax Base and Collection Fund

The Council Tax Base

- 7.1 This relates to the number of chargeable properties for Council Tax after taking account of exemptions and discounts, including the Local Council Tax Support Scheme.
- 7.2 The calculation of the estimated Tax Base for 2015/16 is detailed in **Appendix 5** and is based on the number of properties on the Council Tax register as at 30th November 2014.
- 7.3 This produces a “Band D equivalent” which will be used to calculate the amount to be collected from Council Tax in 2015/16, i.e. 30,608. This is an increase of 885 (3%) compared to 2014/15.
- 7.4 The MTFP contained an estimated increase of 300 before any change to the actual Council Tax rate itself; this increase in equivalent Band D properties will generate an additional £467,000 over the 5-year planning period.

The Future Tax Base

- 7.5 The MTFP continues to assume that the overall Tax Base will increase by around 1%, or 300 properties per year. As always this will be subject to the actual rate of growth.
- 7.6 The increase over the last 12 months is one of the largest in recent years, but this has also been affected by the reducing cost of the Local Council Tax Support Scheme from the base position set in 2013/14.

7.7 The growth in the Tax Base in recent years has been a beneficial factor for the Council's financial position and it will continue to be a key indicator; not only does it increase the Council's ability to raise additional resources (even where the Council Tax rate itself is not increased) but it also has a significant influence on the New Homes Bonus as detailed in *Section 4*.

Collection Fund Surplus/Deficit

7.8 In setting the level of Council Tax for 2015/16, the Council is also required to calculate the estimated balance on its Collection Fund for the current financial year, 2014/15.

7.9 The Collection Fund is a separate ring-fenced account. It records all income collected from Council Tax and Business Rates and the money paid out to other authorities who precept on the Fund, together with payments to the Government under the redistribution mechanism for Business Rates.

7.10 The account in principle should balance each year. However, not all Council Tax is collected as circumstances, such as the number of houses subject to tax and households receiving exemptions and discounts, changes during the year. In addition, final collection rates from previous years may be higher than estimated.

7.11 These factors inevitably provide a balance at the end of each year. The Council has traditionally carried a surplus on its Collection Fund. Any surplus or deficit is transferred to the General Fund of the major preceptors, the biggest preceptor being Derbyshire County Council. The Government will also receive a share of any surplus on Business Rates. For 2014/15

Estimated Position 2014/15

7.12 The estimated position on the Collection Fund for 2014/15 is summarised in **Appendix 6**. The overall balance is distributed to the major precepting authorities on the Fund, i.e. the District Council, Derbyshire County Council, together with the Police and Fire Authorities, in proportion to their precepts on the Fund.

7.13 It should be noted that Parish Councils do not gain a share of any balance on the Fund as they are categorised as local (and not major) preceptors under the Local Government Finance Act 1992.

7.14 The Fund is split between Council Tax and Business Rates. Appendix 6 shows an estimated surplus on the Fund as at 31st March 2015 of £840k for Council Tax and £813k for Business Rates. This is the position reported in December 2014.

Council Tax

- 7.15 The amount of Council Tax collectable has already exceeded the estimated amount for the year; the estimate allowed for a 3% increase on that collectable in 2013/14. This was on the basis of 40,500 properties (estimated in December 2013) compared to the actual number of 40,900 properties as at October 2014.
- 7.16 The Tax Base continues to grow steadily and it is likely that this will continue. In addition, the cost of the Local Council Tax Support Scheme continues to reduce. In 2013/14, it reduced from £4.95m to £4.65m and is currently estimated to be £4.4m by March 2015.
- 7.17 At this stage, it is considered prudent that the originally estimated surplus of £1/2m (as detailed in Appendix 6) is declared for 2014/15. This will allow the current situation to be confirmed at the year end. If the actual surplus is higher this can be returned to preceptors during the 2016/17 budget round.
- 7.18 Consequently, it is recommended that the surplus (in proportion to precepts) is declared and shared as shown in the following table.

Share of Estimated Council Tax Balance 2014/15	£'000
Derbyshire County Council	364
Police and Crime Commissioner for Derbyshire	56
Derbyshire Fire and Rescue Service	23
South Derbyshire District Council	57
Total	500

- 7.19 The amount for this Council is £57,000 compared to an estimate included in the MTFP of £20,000.

Business Rates

- 7.20 As previously reported, there has also been an increase in the Business Rates Tax Base, mainly due to the extension of two larger businesses in the District. In addition, a much lower provision for bad debts is expected to be made in 2014/15 compared to that estimated.
- 7.21 A substantial provision for arrears was set up in 2013/14 following the introduction of the Business Rates Retention System. This led to a deficit on the Collection Fund in 2013/14. It is not expected that any material change will be required to this provision, with the Fund returning to a surplus position in 2014/15.
- 7.22 However, the Tax Base for Business Rates can be more volatile from reassessments of rateable value and the granting of reliefs, etc. which can change the collectable rates for distribution. In addition, the position regarding current appeals in the system is still to be confirmed, although a provision was created in 2013/14 to cover costs.

7.23 Although it is currently estimated that there will be a surplus on Business Rates in 2014/15, it is considered prudent that this is not yet declared, pending the actual figures for the year being confirmed.

Council Tax Levels

7.24 The MTFP assumes for planning purposes that the Council Tax rate increases by 2% each year. As part of the Financial Settlement, the Government has provided an incentive for local authorities to again freeze their Council Tax for 2015/16.

Council Tax Freeze (Specific) Grant

7.25 Where an authority freezes the Council Tax rate for 2015/16, i.e. sets a nil increase, a specific grant will be paid to effectively reimburse the resources lost, to the equivalent of a 1% increase, This has only been confirmed for 2015/16 at this stage, although previous support has been built into on-going RSG.

7.26 Therefore, this will not reflect the loss of cumulative income in future years compared to the MTFP as the base income level is reduced by freezing the tax rate.

7.27 Overall, this reduces resources in the MTFP by approximately £400,000 to 2019/20 (net of the specific grant). This has been reflected in the updated MTFP as detailed in Section 6. Clearly this is subject to Full Council approval.

7.28 If Council Tax is frozen for 2015/16, this will maintain a Band D rate of Council Tax of £150.25p.

Council Tax Limit

7.29 Under provisions contained in the Localism Act 2011, the Government has again set a 2% limit on Council Tax increases. Councils have discretion to set increases above this limit, but this would need to be subject to a local referendum.

8.0 Overall Risk Analysis

8.1 The summary in Section 6 highlights that the Council's current financial position is well placed but a cautious approach should be maintained pending the next spending review which is expected in 2015/16.

8.2 Each Policy Committee has identified some financial risks and these have been detailed in *Section 5* with mitigating action being put in place.

8.3 The following table summarises what are considered to be the main corporate risks and issues detailed in the report; this also assesses the potential impact upon the Council's financial position as projected in the updated MTFP.

Factor	Issue	Mitigation	Likely effect on Financial position
Core Funding	<ul style="list-style-type: none"> Further reductions in RSG and possible changes to redistribution systems. 	<ul style="list-style-type: none"> Current national trends anticipated in the MTFP. 	<p>High</p> <p>Cumulatively, a 1% variance in core funding equates to around £300,000 over the MTFP.</p>
Council Tax and the Collection Fund Balance	<ul style="list-style-type: none"> Collection rates reduce due to the economic climate. Demand for Council Tax Support increases when resources are fixed. Empty properties increase reducing New Homes Bonus. 	<ul style="list-style-type: none"> "In built" surplus in the Collection Fund. Local growth is continuing and even at a moderate pace is beneficial. Council will become a member of a Derbyshire Pool from 2015/16 for retention of growth receipts. 	<p>Medium</p> <p>Only 11% of the Balance is transferred to the Council's General Fund. In addition, effect is not immediate and costs can be spread.</p>
Growth	<ul style="list-style-type: none"> A key factor influencing future levels of grant funding under the business rates redistribution system and NHB. The number of local businesses declines which reduces base income. 	<ul style="list-style-type: none"> The MTFP projects growth at 2% per year for Business Rates and 1% for the Council Tax Base; these rates are considered realistic and prudent based on recent years. 	<p>High</p> <p>This could affect the MTFP either way. Growth is a determining factor for the Council's income and expenditure – and is subject to external factors. This will directly impact on the General Fund.</p>

	<ul style="list-style-type: none"> • Affects Council Tax income and other income streams such as Development Control (Planning). 	<ul style="list-style-type: none"> • Future budgets for planning, land charges income, etc. are currently within actual levels for 2014/15. 	
Budget Overspend	<ul style="list-style-type: none"> • Underlying cost pressures due to growth yet to surface. • Unexpected costs. There are on-going cost pressures as identified in the Base Budget review for 2015/16. 	<ul style="list-style-type: none"> • Current level of general and specific reserves is healthy and MTFP allows contingencies for inflation and growth, etc. • The base budget has been scrutinised and monitoring arrangements in place allow early identification of issues. 	Medium
General Economic Conditions	<ul style="list-style-type: none"> • Higher price increases on key costs such as fuel and utilities. • Interest rates affect investment returns and debt payments. 	<ul style="list-style-type: none"> • Central inflation contingency for price increases. • The General Fund is currently “debt free” and not subject to movement in interest rates. • Sufficient balances allow “internal borrowing” if required. • Budgeted income from short-term investments is low and insignificant now in the Base Budget. 	Low

Financial Risks and the Minimum Level of General Reserves

8.4 The above table highlights that the Council potentially faces some financial risks and variables. Although it also has some financial strengths to mitigate risks, the Council still needs to be prudent in ensuring that it maintains an adequate level of General Reserves on its General Fund to act as a contingency.

- 8.5 The Local Government Act 2003, places the emphasis on each local authority to determine its minimum level of reserves, based on advice from the authority's Section 151 (Chief Finance) Officer. This will depend on local circumstances and the minimum level should be reviewed on a regular basis.
- 8.6 Based on this, the Council's minimum level as set out in the Financial Strategy is **£1m** on the General Fund at the end of every 5-year planning period. This level is calculated based on an assessment of the major financial risks and reflects the relatively healthy level that currently exists.
- 8.7 Based on the estimated net revenue expenditure on the General Fund for 2015/16 of £11m, £1m is **9%**. By 2019/20, £1m will be **8%**. As a general guide, a balance of between 5% and 10% should be maintained.

9.0 Financial Implications

- 9.1 As detailed in the report.

10.0 Corporate Implications

- 10.1 There are no other direct legal, personnel or other corporate implications apart from any highlighted in the report.

11.0 Community Implications

- 11.1 The proposed budgets and spending, provide the financial resources to enable services and Council priorities to be delivered to the local community.
- 11.2 The MTFP and associated projections provide an indication of the Council's longer term financial position and the potential effects upon the Council's services.

12.0 Background Papers

- 12.1 The Government's Financial Settlement for 2015/16 and background papers are available at:

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2015-to-2016>

- 12.2 The review of the Medium-Term Financial Plan as reported to the Committee in October 2014.

<http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1724/Committee/367/Default.aspx>