REPORT TO:	**FINANCE & MANAGEMENT COMMITTEE**	**AGENDA ITEM: 11**
DATE OF MEETING:	**18th OCTOBER 2012**	**CATEGORY: RECOMMENDED**
REPORT FROM:	**CHIEF EXECUTIVE OFFICER**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (01283 595811) CHIEF FINANCE OFFICER** **kevin.stackhouse@south-derbys.gov.uk**	**DOC:** u/ks/MTFP/midyear review/October 12
SUBJECT:	**A REVIEW of the COUNCIL'S MEDIUM TERM FINANCIAL PLAN 2012 to 2018**	**REF:**
WARD (S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: FM 08**

1.0 Recommendations

1.1 That the updated financial projection on the General Fund to 2018 as detailed in **Appendix 1** is approved.

1.2 That the financial projection provides the main basis for planning purposes.

1.3 That the risks and assumptions in the financial projection are considered and noted.

2.0 Purpose of Report

2.1 In accordance with the Council's Financial Strategy (http://www.south-derbys.gov.uk/council_and_democracy/council_budgets_spending/budget_and_financial_strategy/default.asp) the report reviews and updates the Council's Medium Term Financial Plan (MTFP).

2.2 This includes a review of associated budget projections, risks and assumptions based on various scenarios for the Council's General Fund Account.

2.3 The report updates the Council's medium term financial position following the reported out-turn for 2011/12, together with changes since the 2012/13 budget-round. It is intended to set an indicative position ahead of the forthcoming 2013/14 budget-round and aims to gauge in overall terms, the Council's updated financial position on its General Fund.

Aims of the Council's Financial Planning Framework

2.4 A key factor within the Council's overall Financial Strategy is medium term financial planning. This is to achieve a sound and sustainable financial position in accordance with the Corporate Plan objective of achieving "value for money."

2.5 The main target within the Financial Strategy is to achieve a minimum level of general reserves by the end of every financial planning period. This is based on a Medium Term Financial Plan (MTFP) which sets out a financial projection and commentary on the key spending areas across the Council.

2.6 The main focus of the projection is to estimate the Council's future financial position. It should not be used as an indication of impending financial difficulties, but is an early warning sign of the financial challenges that lie ahead in future years.

2.7 This then provides an opportunity to take proper and planned remedial action. In addition, it is used as the basis for building detailed budget plans each year.

2.8 It also helps the Council to focus on the resources that it will have available during and at the end of each period. In addition, it helps to identify where resources and spending are changing in the medium term to enable action to be taken at an early stage to prevent any loss of financial stability.

2.9 The projections are based on a series of assumptions (some of which are interlinked) based on an analysis of interest rates, inflation, together with the national economic situation and central government policy, etc. These do change which can affect the MTFP and consequently the Council's spending plans.

2.10 The report is split into the following sections:

- **Section 3**: Executive Summary.
- **Section 4**: An updated financial projection on the General Fund with analysis and assumptions.
- **Section 5**: The possible effects of further reductions in Government Grant.

3.0 EXECUTIVE SUMMARY

3.1 The updated financial position on the General Fund ahead of the 2013/14 financial settlement is healthy, compared to the main performance target contained in the Financial Strategy. The updated position (before the 2013/14 Local Government Financial Settlement) is summarised in the following table.

Updated General Fund Projection
(As at October 2012)

Year	Budget Deficit	Balance of Reserves
Base Budget 2012/13	£117,139	£2,537,798
Revised 2012/13	£24,974	£3,557,222
Projection 2013/14	£47,205	£3,190,018
Projection 2014/15	-£62,090	£3,162,108
Projection 2015/16	£69,018	£2,948,090
Projection 2016/17	£140,292	£2,537,798
Projection 2017/18	£186,400	£2,331,398

3.2 The strengthening of the overall financial position is due to the better budget position from 2011/12 (including the on-going effects) together with budget and efficiency savings realised over the last year. The Reserve Balance is now projected to be sustained well above the minimum level of £1m, although there is still an underlying budget deficit in the medium term.

3.3 This deficit is mainly due to the current council tax freeze grant falling out after 2015/16 and additional allowances being made for pay increases over the final two years of the current planning period. The forward projection continues to allow contingent sums in respect of inflation and growth, but no new major investment in services.

3.4 In addition, the risk associated with lower interest on short-term investments has been mitigated further in this review. However, the projection continues to assume a “target” amount of income on a yearly basis from planning fees (including building regulations and land charges) and this does create a risk in the current economic climate.

3.5 The financial projection also assumes a 2.5% increase in council tax per year from 2013/14.

Government Grant

3.6 Potentially now, the most significant issue that could challenge the financial position is the Local Government Financial Settlement for 2013/14, including its on-going effects. It is now considered inevitable that there will be further reductions based on updated spending totals published for Government

Departments, together with the Government's key aim of maintaining its current fiscal policy to address the national budget deficit.

3.7 Allied with a fundamental change to financing local authorities through the new Business Rates Retention System, there is uncertainty as detailed figures are awaited; these are expected in early December.

3.8 In principle, the Council should benefit because the system for financing local government is being based to a greater extent on growth. In addition, the cost of providing services in rural areas is also being recognised following a review of the funding formula.

3.9 However, if national resources are being reduced, the Council may not see the benefit realised directly in cash terms. This could be exacerbated by mechanisms in the system designed to protect certain authorities and prevent disproportionate gains in others.

3.10 The scale of potential reductions will significantly change the financial plan, with reductions in overall funding of 13% and 8% now expected in 2013/14 and 2014/15 respectively.

3.11 The Council's updated financial position and its current level of reserves will act as a buffer, although eventually corrective action would need to be taken, perhaps as early as 2013/14 to maintain a sustainable financial position. Therefore, opportunities to achieve further budget savings need to be pursued as planned.

Minimum Level of Balances

3.12 The Council has a history of spending within budget which is prudent but it should not be assumed that this will continue. The Council continues to face many financial risks and variables. Therefore, it needs to be prudent in ensuring that it maintains an adequate level of general reserves on its General Fund to act as a contingency.

3.13 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.

3.14 Based on this, the Council's minimum level as set out in the Financial Strategy is **£1m** on the General Fund. This level is calculated based on an assessment of the major financial risks facing the Council including major income streams, inflation and interest rates, all of which are detailed in previous sections of the report.

3.15 Good practice suggests that the minimum level should be between **5%** and **10%** of net revenue expenditure. Based on the forecasted net revenue expenditure on the General Fund, a level of £1m equates to 8.7% on average over the planning period.

4.0 GENERAL FUND FINANCIAL PROJECTION

Background

4.1 Apart from Council Housing, day-to-day income and expenditure on services is accounted for through the General Fund. The net expenditure is financed from Government Grant and Council Tax, with any shortfall being financed from the Council's Reserves.

4.2 In accordance with the Financial Strategy, a 5-year planning period, on a rolling basis, has been adopted for the General Fund.

The Position Entering this Review

4.3 In accordance with the financial planning timetable, the General Fund position was last reviewed in February 2012 as part of setting the detailed budget and council tax level for 2012/13. At that point, there remained a projected budget deficit in the medium term, but this was being addressed through the Council's planned transformation and efficiency programme.

4.4 The biggest risks in the Council's financial plan were considered to be the effects of the changes to the local government finance distribution system, together with further reductions in central government funding.

4.5 Based on spending plans and after allowing for certain cost pressures in the future, the medium-term financial projection as at February 2012 is shown in **Table 1**, below.

Table 1 – General Fund Projection
(As at February 2012)

Year	Budget Deficit	Balance of Reserves
2011/12	-£3,557	£3,094,937
2012/13	£129,767	£2,545,170
2013/14	£230,200	£2,164,970
2014/15	£141,768	£1,933,202
2015/16	£274,045	£1,534,156
2016/17	£338,615	£925,541

4.6 The projection in February showed that based on spending plans, the level of reserves would fall just below the approved minimum level of £1m by 2016/17, with an increasing budget deficit. The budget deficit in 2015/16 and 2016/17, allowed for the Council Tax Freeze Grant falling out, together with assumed pay inflation of 2.5%.

4.7 The Base Budget also allowed for contingent sums to cover expected inflation and growth. In order for a sustainable financial position to be maintained in the medium term, the Council approved a savings target of £230,000 for 2012/13.

This was to reflect a level of budget savings required on an on-going basis from 2013/14.

Updated Projection

4.8 The projection has now been updated and rolled forward to include 2017/18 in accordance with the 5-year planning period. It reflects budget savings reported to Committee since February, the effect of the 2011/12 budget out-turn and other changes which are detailed in subsequent sections.

4.9 The full projection is detailed in **Appendix 1** with a summary in Table 2 below.

Table 2 – Updated General Fund Projection
(As at October 2012)

Year	Budget Deficit	Balance of Reserves
Base Budget 2012/13	£117,139	£2,537,798
Revised 2012/13	£24,974	£3,557,222
Projection 2013/14	£47,205	£3,190,018
Projection 2014/15	-£62,090	£3,162,108
Projection 2015/16	£69,018	£2,948,090
Projection 2016/17	£140,292	£2,537,798
Projection 2017/18	£186,400	£2,331,398

4.10 The updated projection shows a much improved position overall compared to February. This is mainly due to the favourable out-turn position from 2011/12, together with the impact of on-going savings arising from efficiency and budget reviews.

4.11 This has reduced the projected budget deficit and maintained balances well above the minimum level of £1m by 2017/18. It is considered that this provides a sound financial base.

4.12 However, this is the position before the effects of further reductions in government grant. The projection also assumes an increase in council tax of 2.5% per year from 2013/14 to 2017/18. Future grant settlements and changes to the distribution system are detailed in **Section 5**.

4.13 Firstly, an analysis of the changing position, together with an overview of the assumptions and risks associated with the projection, are detailed below.

An Improved Projection

4.14 The main reasons for the change in the projected level of reserves is detailed in **Appendix 2** and summarised in Table 3 below.

Table 3: Summary of Changes to Projection (figures are cumulative over 5-years)

Increase in Opening Reserve Balance	-£757,259
Approved Restructures	-£523,351
Other Budget and Efficiency Savings	-£516,558
Projected Deficit 2017/18	£186,400
Lower Interest Receivable	£136,755
Other Costs	£68,155
Total Change in Projected Reserve Balance	-£1,405,858

4.15 As the previous Table 2 shows, projected reserves are now forecasted to be approximately £2.3m by 2018, well above the minimum level of £1m. This in an improvement of around £1.4m compared to the previous projection after factoring in the medium term impact of restructures and further efficiency savings made over the last year.

4.16 Table 3 above, also shows a continuing budget deficit in the medium term of £186,400 by 2017/18, although this allows for contingent sums for inflation and growth. Interest receivable has been reviewed and is forecast to be lower as interest rates are not expected to rise now until 2015.

Risks and Assumptions

4.17 Having reset the base position following known adjustments and changes as detailed above, the following sections set out the key risks and assumptions underpinning the financial projection.

4.18 It is recommended that the Committee consider and note the issues that are likely to have an impact, adverse or favourable, on the base position. Excluding government grant which is detailed in Section 5, the main issues are:

- Pay inflation
- Inflation on other costs and income
- Fees and Charges
- Growth and other Contingent Sums
- Pensions
- Interest Receivable
- Significant Income Streams from Local Services
- Other Cost Pressures
- Provisions earmarked against General Reserves
- Council Tax Levels
- The potential for further Efficiency Savings
- Proposals for The Local Council Tax Support Scheme (subject to separate and on-going reports)

Pay Inflation

4.19 The MTFP provides for inflationary increases of 0.5% in 2012/13 with 1% in 2013/14 and 2014/15. This is in accordance with the Government's proposals for public sector pay increases. Thereafter, the projection is based on an increase of 2.5% per year.

4.20 The Council's pay bill is currently around £7.2m per year in the General Fund. A 1% variation to the assumptions above, equates to approximately £72,000 per year.

Inflation on Other Costs and Income

4.21 In accordance with the Financial Strategy, inflation is not automatically applied to all cost heads and a provision (in the form of a contingent sum) is made where it is considered unavoidable in accordance with Government forecasts for longer term inflation.

4.22 This mainly applies to items such as fuel, energy/utility costs, repairs/maintenance and contracted supplies/services. Allowances are also set for concurrent expenses paid to parish councils together with grants to voluntary bodies.

4.23 Most budget heads are in fact cash limited and in particular those relating to office and other overhead expenses. Allowance is made for increases in fees and charges where the Council has discretion to do so.

4.24 Total inflation is held and controlled as a separate contingency in the MTFP along with the provision for pay awards. It is only allocated to budgets once an inflationary increase or allowance is either approved or known to have impacted upon a base budget.

4.25 Since this policy was introduced, there has been little call on the contingent sum and this has been returned to the general reserve at the year end. There are also on-going savings if the base budget is not increased from one year to the next in accordance with the inflation factors.

Fees and Charges

4.26 The level of increase for fees and charges may present a risk. Year on year, it may not be possible to generate the increase on each and every charge made. In accordance with the Council's Charging Policy, the level of fees and charges is reviewed on an annual basis during the budget round, with an average increase across each service area being used as a target.

Growth

4.27 In addition to inflation, a provision continues to be made for the anticipated costs in future years due to the general growth of the District.

4.28 An analysis of the updated inflation/growth provision (including pay) is summarised in Table 4 below.

Table 4 – Analysis of Overall Inflation and Growth Contingency

	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £
Pay	34,877	70,103	70,804	178,779	183,249	187,830
Other Costs	65,123	132,764	135,083	188,967	193,175	197,479
Fees and Charges	0	-92,224	-94,068	-119,937	-122,935	-126,009
Total - Inflation	100,000	110,643	111,819	247,809	253,489	259,300
Add - Growth Provision	-	49,000	49,000	49,000	49,000	49,000
Total Contingency	**100,000**	**159,643**	**160,819**	**296,809**	**302,489**	**308,300**

Notes

(i) Inflation applicable to fees and charges has been included direct in the base budget for 2012/13 following a review of fees and charges during the previous budget round.

(ii) In addition, the total contingency for 2012/13 has been reduced from to £100,000 (from £244,000) as reported to the Committee in September.

4.29 If there continues to be little call on these sums, it is still considered prudent that the amounts are maintained on an on-going basis from year to year, to guard against any unforeseen circumstances. In addition, they will help to balance any shortfall in income received from such areas as planning fees. This is considered later in the report.

Waste Collection and Recycling

4.30 In addition to the growth provision included in Table 4, a separate provision continues to be made in the MTFP for Waste Collection. This was approved following a service review in 2009/10 which generated budget savings.

4.31 At some point, it is anticipated that due to the amount of residential development having already, and due to take place in the District, that this will incur additional costs for waste collection and recycling. Effectively, this is setting aside a proportion of the additional council tax currently being collected.

4.32 In 2012/13, a proportion of the contingent sum is likely to be used for publicity relating to the new kerbside recycling service following the award of a new contract.

Pay and Grading

4.33 In addition to the base budgeted spending level, a sum of £130,000 per year continues to be earmarked towards the local pay and grading scheme pending implementation. This was taken from savings on the pay bill in 2010/11.

Pensions

4.34 The next actuarial valuation of the Pension Fund is due in the autumn of 2013; any change to employer's contributions will apply from April 2014.

4.35 Recommended changes to the Local Government Pension Scheme, arising from the review conducted by Lord Hutton, are currently subject to parliamentary debate as part of the Public Services Pension Bill. Proposals accepted by the Government following the review are aimed at reducing the cost of local government pensions to the general taxpayer.

4.36 Given the continuing economic situation and in particular the low investment returns, it is expected that the gap between liabilities and assets will continue to grow adversely. Policy changes recently introduced should help to mitigate this gap.

4.37 More fundamental changes proposed by Hutton are designed to ensure pensions are affordable to the taxpayer in the future. It is considered that this may negate the need for further increases in employer's contributions.

4.38 Therefore, the Financial Projection currently assumes a neutral effect from 2014/15. The Council's current employer's contribution in the General Fund is approximately £1.1m per year.

Interest Receivable

4.39 The following interest rates on which income receivable is based, from money held on short-term deposit, is shown in the table below.

Table 5: Projected Bank Base Rates

Year	Previous Projection	Updated projection
2012/13	0.75%	0.50%
2013/14	1.25%	0.50%
2014/15	2.00%	1.00%
2015/16	2.50%	1.50%
2016/17	3.50%	2.50%
2017/18	3.50%	2.75%

4.40 It is expected that the current base rate will now remain at ½% until 2015. Given the situation of the financial markets, the Council's lending options are currently constrained to other local authorities and the PWLB. Consequently, interest rates are as low as 0.3%.

4.41 The updated projection now includes lower interest rates as set out in Table 5 (above). This has taken out resources of approximately £136,000 compared to the previous projection.

4.42 It is considered that the interest generated is now a lower risk in the overall context of the MTFP. Given the amount of money held on deposit and based on the revised interest rates, the level of income is fairly low as set out in table 6, below.

Table 6: Projected Income from Deposits

2012/13	£18,750
2013/14	£16,250
2014/15	£37,500
2015/16	£56,250
2016/17	£90,000
2017/18	£100,000

Income from Planning Fees

4.43 The projection includes future estimates of income from planning, building regulations and land charges - significant income streams for the Council.

4.44 Current estimates, together with historic levels are detailed in Table 7 below.

Table 7: Significant Income Streams included in the Current Projection

Year	Planning Fees £	Building Regs. £	Land Charges £	Total £
Actual 2004/05	501,700	348,130	238,665	1,088,495
Actual 2005/06	612,198	370,232	229,826	1,212,256
Actual 2006/07	677,366	338,055	227,812	1,243,233
Actual 2007/08	573,747	297,089	192,798	1,063,634
Actual 2008/09	517,485	236,242	106,375	860,102
Actual 2009/10	677,070	232,875	134,023	1,043,968
Actual 2010/11	256,993	224,472	114,822	596,287
Actual 2011/12	596,292	223,538	99,459	919,289
Budget 2012/13	538,000	225,000	105,000	868,000
Forecast 2013/14	598,000	240,000	125,000	963,000
Forecast 2014/15	598,000	240,000	125,000	963,000
Forecast 2015/16	598,000	240,000	125,000	963,000
Forecast 2016/17	598,000	240,000	125,000	963,000
Forecast 2017/18	598,000	240,000	125,000	963,000

4.45 These income streams can be volatile as shown in the above table, but as a growth area, they can generate additional income for the Council. The forecasted income assumes a step up in 2013/14 of approximately £100,000 across the income streams.

4.46 With the new local planning framework still in its initial stages, together with little or no growth in the economy, this is a risk, which is greater in the short term. This will need to be kept under review and is perhaps the counter balance to the contingent sums set-aside for inflation and growth detailed earlier.

Other Cost Pressures

4.47 The MTFP continues to allow for an increase in anticipated waste disposal costs of £50,000 per year from 2013/14.

Other Provisions Earmarked against General Reserves

4.48 In accordance with previous approvals, several amounts continue to be set-aside to meet costs associated with a range of issues. These are itemised in **Appendix 1** and include:

- Pay and Grading Review – one-off costs
- Support to the Voluntary and Community Sector
- District Elections (May 2015)
- Land Charges Refunds (Property Searches)

Provision for Capital

4.49 An amount of £250,000 also continues to be set-aside against Reserves in 2016/17 to meet vehicle replacements. This is a contingency should other capital receipts from non-housing land sales not be generated before then.

Council Tax Levels

4.50 A 2.5% increase in the rate of council tax per year continues to be included in the MTFP. The forecast also includes growth in new properties liable for council tax of 1% per year. The average growth over the last 5 years has been nearer to 1.5%.

4.51 A 1% variation from the 2.5% in the rate of tax set, equates to approximately £50,000 per year, or £250,000 over the 5-year planning period.

Opportunities for Further Efficiencies

4.52 In partnership with Northgate, the Council continues to review spending as part of its procurement and transformation programme. The remodelling of the Kerbside Recycling Service, which is currently subject to a procurement process, is expected to deliver cashable services alongside an improved service.

4.53 Together with several procurement projects currently identified, additional savings of up to £150,000 per year could be achieved. This are not yet guaranteed and so are not included in the current financial projection.

5.0 GOVERNMENT GRANT and COUNCIL TAX LEVELS

5.1 Currently, the Council receives 3 separate amounts that make up its general government grant, as follows:

- Redistributed Business Rates
- Revenue Support Grant
- New Homes Bonus (NHB)

5.2 Business Rates and Revenue Support Grant are aggregated into a Formula Grant. This is distributed in accordance with a series of statistical data which is designed to measure the social infrastructure of each local authority area relative to each other.

5.3 The NHB is distributed depending on the growth of residential development, i.e. the number of new properties subject to council tax, together with the number of empty properties brought back into use. This is topped up by the number of affordable homes provided. A fixed sum is payable per property per year and is currently paid for 6 years.

5.4 These grants are cash limited at a national level and the overall pot is distributed in proportion to the needs and growth of each local authority area.

5.5 As reported in detail at the time, following the Government's Spending Review in 2010, grants were scaled back at a national level quite significantly. The effect on this Council was a 28% (£2.1m) reduction in Formula Grant over the 3 financial years 2011/12 to 2013/14. This was negated to an extent by an increase in the New Homes Bonus of approximately £600,000.

Current Grant

5.6 The current financial projection assumes the following amounts for grants which are included in the analysis detailed in Section 4.

Table 8: Current Grant Projections

Year	Formula Grant £'000	New Homes Bonus £'000
2012/13 Actual	5,203	969
2013/14 Provisional	5,156	969
2014/15 Forecast	5,105	969
2015/16 Forecast	5,105	969
2016/17 Forecast	5,105	969
2017/18 Forecast	5,105	969

5.7 The provisional figures for 2013/14 and 2014/15 reflect those forecasted at the time of the 2010 Spending Review and show a continuing decline in real terms until 2014/15. Thereafter, no further increases were assumed pending the outcome of the next Spending Review which would take effect from 2015/16.

Revised Spending Totals

5.8 Based on the Government's Autumn Statement in 2011 and confirmed in Departmental figures recently issued as part of the consultation leading up to the Financial Settlement for 2013/14, it now seems certain that the overall funding for local authorities will be cut further ahead of the next spending review.

5.9 The 2010 Review indicated reductions in central funding of 1% in 2013/14, together with a further 5% in 2014/15. The Government have reviewed the spending totals and have revised them downwards. Compared to 2012/13, funding reductions (excluding the NHB) of 12% and 8% are now planned for 2013/14 and 2014/15 respectively.

5.10 The Government's strategy for revising the spending totals is to "*maintain economic stability, together with current fiscal policy*." They have also set resources aside to help fund a safety net for the new redistribution system and to protect resources for the NHB until 2015/16.

Business Rates Retention Scheme

5.11 The Committee considered a report on 12th October 2011 regarding the Government's proposals to introduce a Business Rates Retention Scheme to replace the current Formula Grant system. This will be implemented from April 2013 under the 2011 Local Government Finance Bill. The Scheme will operate within the revised spending totals.

5.12 Currently, all income from business rates is paid direct to the Government. This is redistributed as part of Formula Grant but does not take account of what is actually generated in each area. It is simply pooled and redistributed based on a separate formula.

The New System

5.13 Under the new system, local authorities will keep a greater proportion of their business rates raised locally. 50% of business rates will still be paid over to a National Pool. It is intended that this Pool will be redistributed in the form of Revenue Support Grant as now for all local authorities.

5.14 Therefore, it is the remaining 50% that will be retained locally, subject to a system of tariffs, top ups, levies and safety nets designed to afford protection for some and avoid disproportionate gains for other authorities. Authorities with a strong business rates base will compensate for those authorities in a weaker position through a system of "top ups" and "tariffs."

5.15 From 2013/14, a <u>baseline funding level</u> will be set for each council, calculated using the current needs assessment formula. Where an authority receives more in business rates than its funding level then this will be paid over to the Government in the form of a "tariff." This will be used to "top up" those authorities who receive less than their funding level. **This funding level will be fixed until 2020**.

5.16 In two tier local government areas such as South Derbyshire, 80% of business rates will be applied to the District, with 18% to the County Council and 2% to the Fire Authority (*Police Authorities will continue to be funded separately for the time being).*

Levies

5.17 Once underway, the scheme will allow authorities to keep 50 per cent of the additional business rates that they generate <u>through growth,</u> i.e. new business development. However, this will be subject to a levy so that any gains in business rates are not disproportionate to the baseline funding level. This will operate on a 1 for 1 basis.

5.18 For example, if an authority grows its rates by 2 per cent and this leads to an increase in its funding level of 4%, it will only retain the equivalent of 2% of the growth. The 2% paid over to the Government will be used towards a safety net payment to protect any authorities who see their rates income fall in any particular year by between **7.5% and 10%**.

The Current Situation

5.19 Although the principles of the scheme, together with how it will operate in practice are known, the key information regarding the starting point and funding levels at individual authority level, are still to be set. These are expected in early December.

5.20 The System is designed to incentivise growth but risk will be increased at a local level. If income from business rates falls in the future due to, for example, the closure of a major business then this cost will fall on an authority and it may not be protected by the safety net.

5.21 The formula underpinning an authority’s base funding level has been subject to review and change in some areas ahead of the new system. Many of the changes will not affect this Council, although there is a particular issue that could benefit South Derbyshire.

The Cost of Providing Services in Rural Areas

5.22 The Government has reviewed the factor that takes account of the degree of “sparsity” in a local authority area. Additional weighting has been given to this factor to recognise the additional cost of delivering services in rural areas.

5.23 For South Derbyshire, this equates to an additional 9% share of the national resources. However, this needs to be taken from other factors within the overall formula and means other authorities potentially lose a share. Therefore, the Government are intending to “dampen down” these increases.

5.24 It is considered that this is unfair, that having recognised and accepted a change to a key factor that reflects the needs of certain authorities, it is then taken away through a separate mechanism.

5.25 In line with other authorities in this position, the Council has written to the Department of Communities and Local Government on the issue as part of the technical consultation on proposed formula changes.

Current Expectation and Projections

5.26 As highlighted earlier, it is almost inevitable now that overall grant will reduce. Provisional figures indicate that the Council will be a tariff authority in the new system.

5.27 In principle, the Council (as a growth area) should benefit from the Retention Scheme because the system for financing local government is being based to a greater extent on growth. However, if the national pot is being reduced, the Council may not see the benefit in cash terms.

5.28 Although individual allocations are still awaited, it is considered that overall funding from the new Retention Scheme and Revenue Support Grant combined will be 12% less in 2013/14 and 8% in 2014/15. This is much greater than the financial projection detailed in **Section 4**.

5.29 In accordance with their policy to encourage growth and new affordable homes, the Government have given a commitment that the NHB will continue and have set-aside separate resources to continue this until 2015/16. Based on current and planned property growth in South Derbyshire, this should help to offset some of the reductions in the General Grant/Retention System.

Possible Implications

5.30 Based on these parameters, the effect on overall grant (including rates retention) and NHB is shown in Table 9, below.

Table 9: Revised Projections for Central Government Grant

	Current Forecasts (£)			Updated (Indicative) Amounts (£)		
Year	RSG/Rates	NHB	Total	RSG/Rates	NHB	Total
2012/13	5,203,475	969,769	6,173,244	5,203,475	969,769	6,173,244
2013/14	5,156,063	969,805	6,125,868	4,361,660	1,260,000	5,621,660
2014/15	5,105,450	969,805	6,075,255	4,012,567	1,502,000	5,514,567
2015/16	5,105,450	969,805	6,075,255	4,012,567	1,502,000	5,514,567
2016/17	5,105,450	969,805	6,075,255	4,012,567	1,120,152	5,132,719
2017/18	5,105,450	969,805	6,075,255	4,012,567	533,115	4,545,682

5.31 The figures do not include any estimate for growth in business rates over and above the initial baseline. This would need to be reviewed during the first year of the new system. Projections beyond 2014/15 are subject to the next Government Spending Review which would take effect from 2015/16.

5.32 Projections for NHB have been based on 200 new homes and/or less empty properties per year. This is lower than previous years to allow for the current economic situation. Allocations beyond 2015/16 show a reduction due to the uncertainty of funding levels for NHB beyond the next Spending Review.

5.33 The net effect of the indicative figures show that the Council's overall grant (including rates retention and NHB) could be reduced by approximately £1m over the two years 2013/14 and 2014/15.

Impact on the Financial Projection

5.34 Inputting these figures into the financial model detailed in Section 4 would increase the budget deficit and reduce reserves fairly significantly, as shown in Table 10, below.

Table 10: Potential Impact on Deficit and Reserves

Year	Budget Deficit	Balance of Reserves
Base Budget 2012/13	£117,139	£2,537,798
Revised 2012/13	£24,974	£3,557,222
Projection 2013/14	£551,413	£2,685,810
Projection 2014/15	£498,598	£2,097,212
Projection 2015/16	£629,706	£1,322,505
Projection 2016/17	£1,082,828	-£30,323
Projection 2017/18	£1,715,973	-£1,766,296

5.35 Whilst the level of reserves would remain above £1m until 2016/17 the budget deficit would increase quite rapidly without any further action. The level of current reserves would effectively act as a buffer and allow a period for corrective action to be taken.

5.36 Clearly however, financing a budget deficit from reserves carries the risk of not being sustainable and this would indeed be the case by 2016/17. Based on these figures, corrective action would need to be taken before 2014/15 to ensure a sustainable financial position.

6.0 Financial Implications

6.1 As detailed in the report

7.0 Corporate Implications

7.1 The MTFP assesses the resources and options available to the Council in order for it to deliver its services and priorities set out in its Corporate Plan.

7.2 The projections continue to show some uncertainty, especially around central funding, with an underlying budget deficit. Therefore, it is important that all service areas continue to manage resources carefully and to generate cashable efficiency savings wherever possible.

8.0 Community Implications

8.1 Ultimately, the amount of financial resources affects the level and quality of services and facilities provided to the local community.

9.0 Background Papers

9.1 The Government's proposals for the Business Rates Retention Scheme.

http://www.communities.gov.uk/publications/localgovernment/businessratestechnical?view=Standard