

REPORT TO:	FINANCE & MANAGEMENT COMMITTEE	AGENDA ITEM: 11
DATE OF MEETING:	4th DECEMBER 2014	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
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SUBJECT:	PROPOSED CAPITAL INVESTMENT AND EVALUATION OF BIDS	REF:
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

## 1.0 Recommendations

- 1.1 That an initial sum of £300,000 is set-aside from the General Fund Reserve to fund new capital investment on a one-off basis.
- 1.2 That the above amount is subject to review depending on the Council's Financial Settlement and Council Tax level for 2015/16.
- 1.3 That the Service and Financial Planning Working Group be convened to consider relevant bids in line with the approved evaluation criteria.
- 1.4 That the Committee nominates members for the Working Group to evaluate bids and to make recommendations back to this Committee.
- 1.5 That the evaluation criteria for capital investment, together with the associated scoring system, as detailed in **Appendices 1 and 2**, are approved.
- 1.6 That this exercise is completed during the forthcoming budget round with recommendations being reported back to the Committee on 19th February 2015 as part of the proposed budget for 2015/16.

## 2.0 Purpose of the Report

- 2.1 Following consideration of the updated financial projection to 2020 on 16<sup>th</sup> October, the Committee agreed to consider proposals for new capital investment in local community and other projects as part of the 2015/16 budget round.
- 2.2 This report sets out the process for formulating and considering relevant bids, together with providing an indicative amount that can prudently be set-aside to fund any proposals.

### 3.0 Detail

3.1 The updated medium term financial projection was considered and approved by the Committee on 16<sup>th</sup> 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 is summarised in the following table.

#### ***General Fund: Medium-Term Projection as at October 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.

3.4 Following the addition of a further year (2019/20) to maintain a rolling 5-year period, the balance on the General Reserve is still projected to be above the minimum level of £1m, at approximately £1.8m in 2020. The balance in 2014/15 had increased from that previously reported of £4.1m to £5.7m due to the better out-turn position in 2013/14 as previously reported.

3.5 In addition, budget savings of £80,000 (£400,000 over 5-years) made to-date in 2014/15, towards the target of £175,000, have also been included.

3.6 The report in October set out in detail the key assumptions and variables, together with an assessment of financial strengths and risks. The projection aims to balance a realistic and prudent financial position.

#### **The Overall Position**

3.7 After several years of making budget savings, the updated projection continues to show the General Fund with a current budget surplus but an increasing deficit in future years. The current and short term financial position is considered to be sound.

- 3.8 The General Fund has built up a good level of reserves, mainly due to budget underspends. Much of this has been due to one-off factors such as staffing vacancies and additional income. Whilst in recent years, this has been a familiar pattern, it cannot be guaranteed in future years, although a net underspend is projected for the current year 2014/15, as reported elsewhere on this Agenda.
- 3.9 Current spending into the future is still projected to be greater than income as costs are expected to increase and overall core funding reduces. This becomes more acute from 2016/17 with further reductions in Revenue Support Grant expected and planned.
- 3.10 Therefore, it is considered prudent that the Council continues to plan based on the current projections. Therefore, it is not recommended that any on-going revenue spending is added (unless funded from within the current base budget) which could exacerbate the projected revenue deficit beyond 2016/17.
- 3.11 Depending on the next spending review, which is expected in the next Parliament in 2015/16, further revenue savings may be required in the future.

### **General Reserve Balance**

- 3.12 In the meantime, the General Fund does carry a sufficient balance which could allow some one-off capital investment. Although the reserve balance could be used to fund future budget deficits (and the projection assumes this) in practice, this is not considered to be a sustainable solution and some remedial action would need to be taken to protect the financial base.
- 3.13 Although the current level of the General Reserve is actually around £5.9m, the projected balance by 2020 is £1.8m due to potential commitments against this reserve over the financial planning period.
- 3.14 This is the key figure and compares with a minimum target as set out in the Financial Strategy of £1m. A minimum level of £1m is still considered to be prudent, being approximately 8% of net revenue expenditure.

*(It should be noted that several earmarked reserves are currently held separately to meet specific liabilities which may arise from the Pay and Grading review, development of the Local Plan, etc.)*

### **Potential Capital Available**

- 3.15 Potentially therefore, a sum of £800,000 is available for capital investment. However, it should be noted that the 2015/16 budget assumes, for planning purposes, an increase in Council Tax of 2%. In line with recent years, the Government may seek to limit and incentivise councils to limit increases next year.

- 3.16 Details are expected during this month. In the meantime, it would be prudent to set-aside £1/2m (the cost of freezing Council Tax with no government grant) until the situation becomes clear and a decision is taken by the Council on the level of any increase for 2015/16.
- 3.17 This then reduces the amount available for investment from £800,000 to £300,000.

### **Service and Financial Planning Working Group**

- 3.18 The Council has an established process in order to evaluate new investment into services and capital projects. This is co-ordinated through the Service and Financial Planning Working Group and it is recommended that this Group is convened to consider bids
- 3.19 Relevant bids are based on a business case submission as shown in **Appendix 1**. Bids are evaluated in accordance with the Corporate Plan which takes account of community benefits, risks and opportunities.
- 3.20 The evaluation also considers the extent of revenue savings and income generation. The associated scoring system is shown in **Appendix 2**. No changes are proposed as it is still considered relevant and provides a good rounded balance on which to assess bids.
- 3.21 The composition of the Working Group normally reflects political proportionality with 5 members (on a 3/2 basis) previously used.

### **4.0 Financial Implications**

As detailed in the report

### **5.0 Corporate Implications**

Relevant bids will be open from all areas of the Council

### **6.0 Community Implications**

New capital investment is designed to meet priorities identified in the Corporate Plan.

### **7.0 Background papers**

*Updated Medium Term Financial Projection to 2020 (as reported to Finance and Management Committee, 16<sup>th</sup> October 2014)*

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