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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE: SPECIAL – BUDGET</b>	<b>AGENDA ITEM: 7</b>
<b>DATE OF MEETING:</b>	<b>11<sup>th</sup> JANUARY 2018</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>STRATEGIC DIRECTOR (CORPORATE RESOURCES)</b>	<b>OPEN</b>
<b>MEMBERS’ CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811) <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a></b>	<b>DOC:</b> s/finance/committee/2017- 18/budget
<b>SUBJECT:</b>	<b>SERVICE BASE BUDGETS 2018 / 2019</b>	<b>REF:</b>
<b>WARD (S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM 08</b>

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## **1.0 Recommendations**

- 1.1 That the proposed revenue income and expenditure for 2018/19 as detailed in **Appendix 1** for the Committee’s Services are considered and included in the consolidated proposals for the General Fund.
- 1.2 That the proposed fees and charges as detailed in **Appendix 2** for 2018/19 are considered and approved.
- 1.3 That consideration is given to the level of any increase in contributions to Parish Councils in 2018/19 for Concurrent Functions.
- 1.4 That an increased one-off repairs and maintenance sum of £75,000 is approved and included in the Base Budget for expenditure on the Boardman Industrial units car park.

## **2.0 Purpose of Report**

- 2.1 As part of the annual financial planning cycle, the report details the Committee’s proposed base budget for 2018/19, with a comparison to the current year, 2017/18. This includes an overview of the Committee’s main spending areas.
- 2.2 It is proposed that the estimated income and expenditure is included in the consolidated budget of the Council for 2018/19 subject to the Council’s overall medium-term financial position. This is subject to a separate report on this Agenda.
- 2.3 The report also sets out proposals for the level of fees and charges under the responsibility of this Committee for the next financial year, 2018/19.

### **3.0 Summary and Overview**

- 3.1 The Committee is responsible for large spending areas, in particular the main support service functions, together with the corporate, management and democratic costs of the Council.
- 3.2 It is also responsible for the strategic management of the Council's property portfolio, revenue collection, benefit payments and treasury management, etc. As such, the associated income and expenditure is a significant part of the Council's financial position.
- 3.3 In addition, several of these spending areas provide statutory, governance, legal and advisory support for the Council.
- 3.4 Several of the main spending areas within this Committee were previously managed by Northgate Public Services and were transferred back to the Council on 1<sup>st</sup> February 2017.
- 3.5 Savings achieved with the transfer back of services have been included within the Base Budget for 2018/19 and have been reported in October within the Medium-Term Financial Plan.
- 3.6 In accordance with local government accounting regulations, Central Support Services are no longer required to be recharged and allocated across other Policy Committees.

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

- 3.7 The Council's MTFP was reviewed and updated in October 2017. In principle, the overall position on the General Fund has not changed fundamentally over the last year. The current level of the General Fund Reserve remains healthy and is projected to remain so over the next 3 to 4 years based on current forecasts.
- 3.8 However, the continuing issue is the projected budget deficit over the medium-term from 2019/20 when the impact of the reduction in core funding takes effect. Although the current level of reserves can be used to meet the projected deficit, this is not a sustainable solution in the longer-term. The MTFP continues to assume that base budget expenditure will increase year-on-year but overall core funding will reduce.
- 3.9 Therefore, ahead of considering the wider Council position, it is important that the Committee scrutinises its own spending base closely to identify potential budget savings and carefully examines any areas where there are cost pressures, together with any proposals to increase spending.

#### **Summary of Expenditure**

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

<b>Summary of Net Revenue Expenditure</b>	<b>Approved Budget 2017/18 £</b>	<b>Proposed Budget 2018/19 £</b>	<b>Change £</b>
Corporate and Democratic Costs	609,093	655,193	46,100
Pensions, Grants Interest Payments and Receipts	273,156	263,625	-9,531
Revenues and Benefits	472,350	507,142	34,793
Electoral Registration	177,032	180,841	3,809
Payments to Parish Councils	348,058	353,571	5,513
Central and Departmental Accounts	3,500,889	3,153,984	-346,905
Property and Estates	-207,054	-243,698	-36,644
<b>Total Net Expenditure</b>	<b>5,173,525</b>	<b>4,870,659</b>	<b>-302,866</b>

3.11 The above table shows that the Committee's net expenditure is estimated to decrease overall between 2017/18 and 2018/19 by £302,866. An analysis of the changes within each service area is detailed in **Appendix 1**.

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

<b>Changes in Base Budget 2017/18 to 2018/19</b>	<b>£'000</b>
Termination of Shared Services Contract	-421
Procurement Savings	-31
Other Staffing Costs	20
Senior Management Restructure	-92
HRA Recharges	87
Bad Debt Provision	100
Reduced Industrial Unit Voids	-46
Pension Deficit	15
Reduced Admin Subsidy Grant	25
Additional Investment Interest	-25
<b>Approved Changes</b>	<b>-368</b>
Loss of Credit Card Surcharge Income	5
<b>Additional Changes</b>	<b>5</b>
<b>Change in Service Expenditure</b>	<b>-363</b>
Add: Depreciation	60
<b>Base Budget Decrease</b>	<b>-303</b>

3.13 Many factors included within the Committee's Base Budget have been provided for in the MTFP. In particular, the pension deficit, the termination of the Shared Services Contract, the Bad Debt Provision and the reduced Admin Subsidy grant, are all factors provided for in the MTFP.

3.14 The Senior Management Restructure saving is to be set-aside in contingent sums further to a larger Council wide restructure currently underway. This has been included within the updated MTFP.

3.15 The main changes are detailed in the following sections.

### **HRA Recharges**

3.16 As a result of the termination of the Shared Services Contract, savings made have reduced recharges for Central Services by £67k. A total provision of £54k was made in the MTFP for this alongside an assumed saving of £400k so the reduced recharge is off-set by the additional budgeted saving.

3.17 The Senior Management restructure has reduced recharges to the HRA by an additional £20k. This has not been included within the MTFP.

### Procurement Savings

3.18 A post has been removed from the Establishment in Procurement with the main service provision carried out off-site in a shared service arrangement after Committee approval on 30<sup>th</sup> November.

3.19 The reduced salary cost (£61k) has been partially offset by the cost of the new Shared Service arrangement (£30k) resulting in a total saving of £31k.

### Cash and Bank Movements

3.20 Credit card surcharge income has been removed from the Budget for 2018/19 due to the implementation of the EU Payments Directive (PSD2). From January 2018 the Council are no longer able to pass on the cost of credit card charges to the consumer resulting in a loss of income of £5k.

3.21 The Budget for interest received on investment income has been increased by £25k in 2018/19 due to the recent £1m investment in the CCLA Property Fund which is anticipated to increase our returns due to higher interest rates.

### Other Staffing Changes

3.22 Changes to other staffing areas are summarised in the following table and further detail is given below.

Other Staffing Costs	£'000
Incremental/Career Graded Pay Rises	22
Legal Restructure	8
Fraud Officer Deleted Post	-35
Derby City Fraud Partnership	25
<b>Total Other Staffing Changes</b>	<b>20</b>

3.23 Due to the transfer of the Fraud Officer (£35k) to the DWP in December 2015 and the subsequent partnership with Derby City Council (£25k), a net saving of £10k is included within the Base Budget for Fraud Investigation.

3.24 Incremental and career graded salary rises have increased Establishment costs by £22k. This cost has been included within the MTFP.

3.25 The restructure of Legal Services and further Job Evaluation of approved posts after the budget round in 2017/18 has resulted in an increased cost of £8k compared to original estimate.

## **Repairs & Maintenance**

- 3.26 The Boardman Industrial Estate is leased to the Council on a 40 year lease expiring in October 2024, on full repairing and insuring terms. The surface of service yard and rear car park at the site has now deteriorated to the point where patching repairs are no longer effective.
- 3.27 Complaints have been received by tenants in respect of possible damage to vehicles arising from the surface's condition, and it is also possible that the Council could be held in breach of its repairing obligations by the landlord if the surface is not repaired.
- 3.28 Two specifications for resurfacing the service yard and car park have been provided to date; one at a cost of £82,000 and the other at £58,500. A procurement exercise needs to be undertaken so a proposal of £75,000 is put forward to cover the cost.

## **Depreciation**

- 3.29 Depreciation charges are reversed out of the Accounts on consolidating the Council's budget. They reflect charges for using capital assets in service delivery in accordance with accounting regulations. The increase for the Committee of £60k relates to upward revaluations for the Civic Offices and Town Centre buildings. There is no impact on actual spending levels.

## **4.0 Detail**

- 4.1 The Committee's budgets by service area are detailed in **Appendix 1**.

### **Basis of the Budget**

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

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

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

### **Changes in Pay**

4.6 A pay award is not included within the Base Budget at this stage as discussions are still on-going between the Local Government Unions and the National Employers. The MTFP includes a provision of 2% for a potential increase.

### **Inflation**

4.7 The base budget for 2018/19 has been uplifted by inflation/indexation where this applies, for example contract obligations and employee pay awards.

4.8 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.

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

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

- 2017/18 – 1.0%
- 2016/17 – 2.0%
- 2015/16 – 2.3%
- 2014/15 – 2.0%
- 2013/14 – 2.6%
- 2012/13 – No increase

4.10 Latest inflation rates show CPI running at 3%. The Government’s Autumn Statement forecasts CPI inflation falling to 2% by the end of 2018/19. The Council’s MTFP currently provides for a 2% increase.

4.11 Every 1% increase in the base level equates to approximately £3,000 per year in total.

### **Risks**

4.12 All Committee budgets have been reviewed and known changes to income and expenditure have been reflected in the proposed base budget for 2018/19 as detailed in the report.

### **Housing Benefit**

4.13 The main financial risk is considered to be the payment and recovery of Housing Benefit. The total amount administered and paid in respect of Rent Allowances and Rent Rebates is approximately £17m per year. However, in July 2018 working age claimants, in receipt of one of the six benefits that are moving over to the Universal Credit arrangements, who are living in postcodes that SDDC shares with Derby City will transition to that scheme and no longer receive Housing Benefit from this Council.

4.14 In November 2018 the majority of the remaining working age claimants will also move over to Universal Credit leaving only pensioners and a number of

people in supported accommodation on Housing Benefit. (Council Tax Support is not affected)

- 4.15 It is therefore estimated that Housing Benefit expenditure will fall from £17m to £14.2 m in 2018/19, a reduction of £1.3m in Council tenant Rent Rebates and £1.5 in Rent Allowances to private tenants. This equates to a full year reduction in expenditure to £8m in 2019/20, a reduction of £3.3m Rent Rebates and £5.7m Rent Allowances.
- 4.16 The change in nature of the retained caseload to predominately people of pensionable age should mean a modest increase in the rate recharged to the DWP increasing to 98.3% compared to the current rate of 97.8%. This arises from a reduction in overpaid housing benefit. However, given the amounts involved, the evolving nature of Universal Credit roll out and a falling caseload, the service remains sensitive to small variations in the recharge having a substantial impact on the budget.
- 4.17 The DWP Regulations set a threshold for errors which, if exceeded, would mean further subsidy being withdrawn.
- 4.18 The MTFP and Base Budget have not been updated for any of the risks regarding Housing Benefit at this stage.

#### **Factory Premises, Hearthcote Road**

- 4.19 The tenant of the above property has an option to break the lease on 24<sup>th</sup> March 2019, subject to six months' written notice. If the break is exercised, it is unlikely that the property could be let in the short-term. This is due to the overall size and configuration of the buildings at the property which could make it unattractive to a single occupier.
- 4.20 The current tenant pays a rental income of £185k per annum which increases to £190k per annum on 25<sup>th</sup> March 2018. The potential loss of income has been included in the MTFP.
- 4.21 Communication is on-going with the current tenant and the Council should have more clarity regarding the uptake of the break option in due course.

#### **Proposed Fees and Charges 2018/19**

- 4.22 **Appendix 2** provides a schedule of the proposed charges that will operate from 1st April 2018, together with a comparison to the existing charge. All charges are exclusive of VAT and where applicable, VAT is added at the appropriate rate in accordance with HMRC regulations.
- 4.23 The charges are mainly standard ones for the recovery of court costs, change notifications and payment fees. There are no proposals to change any of the charges that currently apply.

### **5.0 Financial Implications**

- 5.1 As detailed in the report.

## **6.0 Corporate Implications**

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

## **7.0 Community Implications**

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

## **8.0 Background Papers**

8.1 None



## BUDGET 2018/19

## Finance &amp; Management

		BUDGET			
£'s		2018/19	2017/18	VARIANCE	
PSX40	Senior Management	390,893	461,020	70,128	Favourable Senior Management restructure (£92k); adverse HRA recharges (£20k), salaries (£2k)
PSX50	Reprographic/Print Room	213,060	79,188	(133,872)	Favourable HRA recharge (£12k); adverse Northgate (£145k)
PSX55	Financial Services	298,323	318,815	20,492	Favourable Northgate (£74k); adverse HRA recharge (£19k), salaries from PSX95 (£23k), training (£4k), salaries (£8k)
PSX56	Internal Audit	103,115	103,115	0	
PSX57	Merchant Banking Services	78,186	61,137	(17,049)	Favourable HRA recharges (£4k); adverse bank charges (£21k)
PSX60	ICT Support	750,044	661,571	(88,473)	Favourable HRA recharge (£25k); adverse Northgate (£34k), TPP other (£79k)
PSX65	Legal Services	189,210	183,425	(5,785)	Salaries
PSX75	Personnel/HR	222,498	217,544	(4,954)	Favourable HRA recharges (£2k); adverse Northgate (£7k)
PSX76	Policy & Communications	149,658	236,995	87,337	Favourable Northgate (£103k); adverse HRA recharge (£16k)
PSX77	Customer Services	233,756	599,566	365,810	Favourable Northgate (£419k); adverse HRA recharge (£53k)
PSX78	Health & Safety	27,834	36,239	8,405	Favourable Northgate (£12k); adverse HRA recharge (£4k)
PSX81	Admin Offices & Depot	385,993	337,386	(48,607)	Favourable Tools (£5k); adverse depreciation (£53k)
PSX95	Procurement Unit	12,407	105,477	93,070	Favourable Northgate (£73k), salary trf to PSX55 (£23k), deleted post (£60k); adverse HRA recharge (£32k), shared service agreement (£30k)
KJE40	Caretaking	99,008	99,412	403	
<b>Central and Departmental Accounts</b>		<b>3,153,984</b>	<b>3,500,889</b>	<b>346,905</b>	
AAD00	Democratic Representation & Management	78,376	77,983	(393)	

AAM00	Corporate Management	61,509	55,786	(5,723)	Risk Management Fund (insurance - previously split across multiple cost centres)
AAM01	Corporate Finance Management	56,227	47,218	(9,009)	Adverse service professional fees (£16k); Favourable charges (£3k); HRA recharges (£4k)
ABS00	Impairment and Fixed Assets Written-off	0	0	0	
ABU00	Adjustments to Bad Debts and other Provisions	100,000	0	(100,000)	MTFP approved
ACD00	Elected Members	298,699	299,589	890	
KJW00	Debt Management Costs	60,383	128,517	68,134	Northgate
<b>Corporate and Democratic Costs</b>		<b>655,193</b>	<b>609,093</b>	<b>(46,100)</b>	
ACE00	Registration of Electors	49,473	37,537	(11,936)	Adverse postage (£15k); Favourable printing (£3k)
ACE10	Conducting Elections	131,368	139,495	8,127	Favourable printing (£41k); Adverse income
<b>Electoral Registration</b>		<b>180,841</b>	<b>177,032</b>	<b>(3,809)</b>	
ACT01	Parish Councils	353,571	348,058	(5,513)	Adverse TPP Grants (£3k), Insurance (£2k)
<b>Payments to Parish Councils</b>		<b>353,571</b>	<b>348,058</b>	<b>(5,513)</b>	
ABP00	Funded Pension Schemes	262,116	246,204	(15,912)	Adverse Enhanced Pension
W4A00	Interest & Investment Income (GF)	(42,818)	(18,174)	24,643	Favourable interest (re CCLA deposit)
W7A00	External Interest Payable (GF)	700	1,500	800	
W8A00	Other Operating Income & Expenditure (GF)	43,627	43,627	0	
<b>Pensions, Grants Interest Payments and Receipts</b>		<b>263,625</b>	<b>273,156</b>	<b>9,531</b>	
PSX85	Estate Management	(243,698)	(207,054)	36,644	Favourable voids (£46k); adverse depreciation (£7k)
<b>Property and Estates</b>		<b>(243,698)</b>	<b>(207,054)</b>	<b>36,644</b>	
ACA00	Council Tax Collection	(42,731)	(45,960)	(3,229)	Northgate
ACA40	Non Domestic Rates Collection	(26,805)	31,053	57,858	Favourable court fee income (£6k); adverse Northgate (£65k)
KGF00	Revenues & Benefits Support & Management	60,480	0	(60,480)	Favourable Admin subsidy grant trf from KGP00 (£225k); adverse Northgate (£286k)
KGL00	Rent Allowances Paid	142,561	176,637	34,076	Movement in Allowances to be paid

KGL10	Net cost of Non-HRA Rent Rebates	0	0	0	
KGN00	Net cost of Rent Rebates Paid	64,584	67,122	2,538	
KGPO0	Housing Benefits Administration	284,032	243,498	(40,535)	Favourable Northgate (£212k), adverse Admin subsidy grant trf to KGF00 (£249k)
KGR00	Corporate Fraud	25,020	0	(25,020)	
<b>Revenues and Benefits</b>		<b>507,143</b>	<b>472,350</b>	<b>(34,793)</b>	
		<b>4,870,660</b>	<b>5,173,525</b>	<b>302,866</b>	

APPENDIX 2

**PROPOSED FEES AND CHARGES 2018/19**

VAT WILL BE CHARGED WHERE APPLICABLE AT THE APPROPRIATE RATE

<b>FINANCIAL SERVICES</b>	<b>Fee 2017/18 £:p</b>	<b>Proposed Fee 2018/19 £:p</b>	<b>Note</b>
<b>Court Costs</b>			
Court Costs Recovered	70.00	70.00	Generally applied across Derbyshire authorities
<b>National Bus Pass Scheme</b>			
Replacement Card Scheme	5.00	5.00	
<b>Benefit Fraud</b>			
Fraud Investigation Administration Charge	50% of overpayment	Remove	Fraud Partnership
Fraud Investigation Court Costs recovered	500.00	At Cost	Recovery of actual costs incurred, due to wide spread of potential costs
<b>Sale of Radar Keys</b>			
Sale of Radar Keys - disabled	2.55	2.55	
<b>Debit Card/Credit Card Submission</b>			
Credit Card	Variable equivalent to charge made to the Council	<b>Defunct</b>	HM Treasury directive - no longer able to apply surcharges to card payments with effect from 13/01/2018
Debit Card	No Charge	<b>Defunct</b>	
<b>Penalty Charge</b>			
Penalty charge for Council Tax accounts who fail to notify us of a change in circumstances relating to a discount or exemption.	70.00	70.00	
Penalty charge for Council Tax payers who fail to notify us of a change in circumstances relating to a discount or exemption. Second or subsequent failure to notify	250.00	250.00	