

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE SPECIAL	AGENDA ITEM: 6
DATE OF MEETING:	27TH JANUARY 2014	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 201415/consolidated budget proposals 14 15/FM Consolidated Report Jan 14
SUBJECT:	BUDGET REPORT 2014/15 Incorporating the Consolidated Budget Proposals and Medium Term Financial Plan to 2019	REF:
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the estimates of revenue income and expenditure for 2014/15 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 any inflationary increase in grants to voluntary bodies and payments to Parish Councils under concurrent functions.
- 1.3 That the Council Tax Base for 2014/15 of 29,723 (equivalent Band D) properties as detailed in **Appendix 5** is approved.
- 1.4 That a Surplus of £173,000 be declared on the Collection Fund for 2013/14 and the Council's proportion of £20,000 is transferred to the General Fund in 2014/15.
- 1.5 That consideration is given to the principle of a Council Tax freeze for 2014/15 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 2019 as detailed in **Appendix 1**, including associated assumptions and risks as set out in the report, be approved.
- 1.7 That on-going budget savings of £300,000 are identified and taken out of the current Base Budget ahead of the 2015/16 Budget Round.
- 1.8 That the decisions made in recommendations 1.1 to 1.7 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 2013 and is the detailed budget report for 2014/15. The report covers the following:

- Confirmation of the Council's financial settlement from central government for 2014/15 and 2015/16 with estimated on-going implications for 2016/17 and beyond.
- The Council's current spending and proposed base budget position for 2014/15.
- The General Fund's 5-year financial projection including proposed spending by policy committees and associated analysis to 2018/19, which forms the Medium Term Financial Plan (MTFP).
- The proposed Council Tax Base for 2014/15 and Collection Fund position, 2013/14.
- Options for Council Tax levels in 2014/15 and future assumptions.
- An overview of the Council's projected medium-term budget position with associated assumptions and risks that update the level of budget savings now required over the planning period to 2019.

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 2014/15 and 2015/16
- Section 5 – Proposed Base Budget and Consolidated Spending 2014/15
- Section 6 – Revised General Fund Financial Projection to 2018/19
- 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 2014/15
- Appendix 6 – Estimated Collection Fund position 2013/14
- Appendix 7 – List of Earmarked Reserves

3.0 Executive Summary and Overall Commentary

The Position entering the 2014/15 Budget Round

- 3.1 A report to the Committee in October 2013, reviewed the Council's medium-term financial position. The updated financial position (as reported) on the General Fund ahead of the 2014/15 budget round is summarised in the following table.

General Fund Projection (As at October 2013)

Year	Budget Surplus (-) / Deficit	Sums Earmarked against Reserves	Balance of Reserves
Base Budget 2013/14	-£70,643	£120,000	£4,322,999
Projection 2014/15	£73,329	£341,000	£3,908,669
Projection 2015/16	£818,687	£295,000	£2,794,982
Projection 2016/17	£787,724	£340,000	£1,667,258
Projection 2017/18	£1,247,948	£20,000	£399,310
Projection 2018/19	£1,354,939	£20,000	-£975,629

- 3.2 Based on this projection, the above table showed a negative reserve balance of minus £975,629 by 2018/19, with an increasing budget deficit over this period. Based on existing income and expenditure projections, this would not be sustainable over the medium term.
- 3.3 The main reason for the weakening financial position was the likely reduction in core funding. This followed announcements and provisional settlement figures included in the Government's Comprehensive Spending Review (CSR 2013) which reported in June 2013.
- 3.4 In particular, a proposal to top slice the Council's New Homes Bonus allocation from 2015/16 by up to 20%, would reduce resources in the MTFP by approximately £1.5m between 2015/16 and 2018/19.
- 3.5 The revised projection included the budget savings target of £300,000 approved for 2013/14. In October, this target was well on the way to being met.
- 3.6 Based on those projections, in order for a sustainable position to be maintained over the medium term, it was approved to reduce the base budget by a further £1/2m by 2015/16.

The Updated General Fund Position

- 3.7 The Council's base budget has been reviewed to include (wherever possible) a zero based approach to assess spending levels. This has identified additional cost pressures, although there have also been further budget savings identified.
- 3.8 Following the Government's Autumn Statement and subsequent financial settlement for local councils, together with proposals contained in the Base Budget for 2014/15, the updated medium term position has improved compared to October 2013, although there is still an on-going deficit position. The updated projection is shown in the following table.

**General Fund Projection
(As at December 2013)**

Year	Budget Deficit	Sums Earmarked against Reserves	Balance of Reserves
Base Budget 2013/14	£14,314	£141,000	£4,217,042
Proposed Budget 14/15	£180,399	£320,000	£3,716,643
Projection 2015/16	£485,140	£295,000	£2,936,503
Projection 2016/17	£498,037	£340,000	£2,098,466
Projection 2017/18	£1,018,136	£20,000	£1,060,330
Projection 2018/19	£1,232,063	£20,000	-£191,733

- 3.9 The level of projected general reserves shows a sustainable position until 2016/17. However, a continuing and increasing budget deficit in the meantime reduces current reserves quite significantly, without any corrective action being taken.

- 3.10 The table below shows how the overall position has changed.

<i>Note - amounts are cumulative over 5-years</i>	£'000
Projected Reserves as at October 2013	-975
Increase in overall Core Funding (<i>New Homes Bonus</i>)	1,804
Overall reduction in projected Council Tax	-333
Increase in proposed Base Budget Spending	-687
Revised Projected Reserve Balance	<u><u>-191</u></u>

- 3.11 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 2014/15 (*subject of course to Council approval*).

- 3.12 Even though the overall position has improved, mainly due to the Government's decision (following consultation) not to top slice New Homes Bonus, the medium term position is not sustainable beyond 2015/16 without corrective action being taken, even allowing for a margin of error.
- 3.13 The current level of General Reserves remains healthy and well above the minimum contingency level of £1m approved in the Financial Strategy. Reserves should be further supplemented by the estimated underspend in 2013/14 (as reported in December) although this has not been included in the MTFP at this stage.
- 3.14 These reserves can be used to finance the short-term deficit, but as previously reported, this is not a sustainable strategy. The current projections highlight a significant reduction in reserves to below the minimum safe level after 2016/17 without corrective action being taken.
- 3.15 Consequently, in order for a sustainable position to be achieved in the medium term and to maintain a minimum level of balances by 2018/19, the base **budget will need to be reduced by £300,000 per year from 2015/16** – although this is down from the £1/2m approved in October 2013.
- 3.16 However, this would not completely remove the longer term budget deficit and additional budget savings may need to be made over the life of the MTFP; this will be kept under review.
- 3.17 The projected Budget Deficit increases more significantly beyond 2015/16 as central forecasts still highlight reductions in core funding in future spending rounds.

Main Assumptions

- 3.18 Prudently, the Budget continues to make provision for growth and inflation. In accordance with current policy, these contingencies will be maintained centrally and only allocated once any additional costs are known. Given the future uncertainty, it is considered important that these contingencies against future cost pressures are maintained.

Growth

- 3.19 The projections for future income from Retained Business Rates and the New Homes Bonus continue to allow for growth, although this is considered to be on the prudent side. However, this is also considered to be realistic given only moderate growth in recent years and projections until 2015/16.
- 3.20 Clearly, the District has aspirations and plans for significant growth into the next decade; this will be kept under review and factored into the MTFP when fully known.

Net Spending

3.21 Following the base budget review, net expenditure on services is now projected to increase by just over £100,000 more than originally projected in October 2013, over the 5-year planning period; the increase is summarised in the following table.

	£'000
Cost Increases	75
Reduction in Housing Benefit Admin Grant	50
Pay - additional NI and increments	23
Additional Income - Food Safety	-30
Additional Budget Savings	-20
Savings on base inflation	-21
Less share of savings passed to HRA	27
Other variances	5
Total increase in Base Budget	<u>109</u>

3.22 Cumulatively, this adds approximately £600k into the MTFP to 2018/19 and follows the review of base budgets by Policy Committees. The main cost increases relate to staff costs in waste and cleansing, maintenance and utility costs on public buildings, together with maintenance and equipment replacement in parks.

3.23 The reduction in Housing Benefit Administration Grant is over and above that estimated. These costs have been partly offset by additional budget savings and the target level of £300,000 for 2013/14 has been exceeded by approximately £20,000.

Government Grant

3.24 Following the provisional financial settlement for 2014/15, overall resources have increased by approximately £1.8m compared to that announced in June 2013. This is primarily due to changes to the allocation of New Homes Bonus from 2015/16.

3.25 Following consultation, the Government have decided not to top slice 20% of the allocation to individual authorities from 2015/16 and have committed to fund local economic partnerships from other resources. This has added approximately £1.5m back into the MTFP.

3.26 In addition, the allocation of NHB for 2014/15 was greater than estimated in the MTFP mainly due to a decrease in the number of empty properties. The on-going effects are that it increases resources in the updated MTFP by approximately £1/4m over the 5-year planning period.

Council Tax

- 3.27 The MTFP continues to assume a year on year increase in Council Tax of 2% from 2015/16. The Government have once again offered incentives for councils to freeze their Council Tax for 2014/15 and the effects of this have been shown in the MTFP projections.
- 3.28 As in previous years, the scheme will reimburse councils "lost" revenue to the equivalent of a 1% increase in Council Tax for 2014/15 and 2015/16. As the Council's MTFP assumed a 2% increase' this would reduce projected net Council Tax income by approximately £380,000 over the planning period.
- 3.29 Under provisions contained in the Localism Act 2011, the Government are still to decide on the limit for Council Tax increases in 2014/15. This was set at 2% for 2013/14. However, councils have discretion to set increases above any limit, but this would need to be subject to a local referendum.
- 3.30 The date for any referendum has provisionally been set for 22nd May 2014 to co-incide with other elections. The final principles regarding Council Tax for 2014/15 are currently before Parliament.

DETAIL, BACKGROUND and BASE BUDGET ANALYSIS

4.0 The Council's Financial Settlement 2014/15

Background

- 4.1 Following the Comprehensive Spending Review (CSR 13) which reported last June, additional reductions in core revenue support grant for local authorities were confirmed. The effect on the Council was analysed and reported to the Committee in October 2013 and incorporated into the revised MTFP at that time.
- 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 Based on CSR 13, the following estimated amounts were included in the updated MTFP in October 2013.

<i>Figures in £'000</i>	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue Support Grant	2,580	1,723	1,273	718	706
Retained Business Rates	2,273	2,356	2,449	2,529	2,575
New Homes Bonus	1,700	1,643	2,060	2,143	2,103
Total Estimated Funding	6,553	5,722	5,782	5,390	5,384

Note: The RSG figure includes £64k per year for Homelessness Prevention. It is assumed that this continues to be transferred to the Housing and Community Services Committee.

- 4.4 The profile of funding was based on an increase in RBR and NHB due to residential and business growth with a reduction in Revenue Support Grant, but with overall resources falling over 5-years in accordance with Government 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. RSG and RBR are combined for grant purposes into a **Settlement Funding Assessment (SFA)**.

The Redistribution System

- 4.6 Within the SFA, RSG is fixed, whilst the RBR element will fluctuate between that set in the grant settlement and the actual business rates collected during that year. As previously reported, the new financial system was implemented for 2013/14 and redistributes Business Rates collected locally. For shire districts, overall rates income is distributed as follows:
- Central Government – 50%

- District Council – 40%
- County Council – 9%
- Fire and Rescue Service -1%

4.7 The RBR element of SFA sets a baseline level based on current collection rates and projections for growth. Central government's share is redistributed across local government and is used to partly fund NHB and to provide specific grants, etc.

4.8 The District Council's share is reduced further if its spending need, as assessed in the SFA, is lower than the 50% share of actual business rates collected. A Tariff is then paid to the Government who set-aside those resources and redistribute them to top up other authorities; this also provides a safety net for any authority facing significant losses compared to its baseline level.

The Council's Settlement Funding Assessment (SFA)

4.9 The financial settlement provided provisional figures for 2014/15 and illustrative figures for 2015/16, based on the 2013 Spending Review. These figures are currently subject to consultation and parliamentary scrutiny; they are expected to be approved at the end of January.

4.10 The Council's figures are shown in the following table.

	£'000
2013/14 Actual	5,569
2014/15 CSR 2013	4,853
2014/15 Settlement	4,811
2015/16 CSR 2013	4,079
2015/16 Settlement	4,059

4.11 The on-going reductions from 2013/14 were expected following the previous spending review in 2010 and revised downwards in June 2013 following that spending review. The CSR figures in the above table were included in the MTFP in October.

4.12 The settlement figures for 2014/15 and 2015/16 are those notified in the financial settlement and are slightly lower overall. A breakdown is shown in the following table.

	RSG £'000	RBR £'000	Total £'000
2013/14 Actual	3,364	2,205	5,569
2014/15 CSR 2013	2,580	2,273	4,853
2014/15 Settlement	2,563	2,248	4,811
2015/16 CSR 2013	1,723	2,356	4,079
2015/16 Settlement	1,749	2,310	4,059

4.13 There is an increase in RSG between CSR 2013 and the settlement for 2015/16. This is mainly due to previous Council Tax freeze grants being built into the on-going SFA. However the RBR element, which represents the Baseline amount, has been reduced.

4.14 This is due to specific grants being earmarked elsewhere in the system. In particular, to protect authorities potentially losing resources due to the cap being placed on yearly increases for small businesses. The Council may benefit from this, but further details are still to be published.

4.15 Overall, compared to the previous MTFP, this reduces resources in 2014/15 and 2015/16 by approximately £62,000 in total. However, the on-going effect of previous Council Tax freeze grants being built into future SFAs compensates for this as detailed later in this Section.

Homelessness Prevention

4.16 The RSG amount includes £64k for Homelessness Prevention. The MTFP continues to assume that this will be earmarked and transferred to the Housing and Community Services Committee. The Council does have discretion on how this funding is utilised.

Retained Business Rates and Baseline Need

4.17 This is shown in the following table.

<i>All figures in £'000</i>	2013/14	2014/15	2015/16
	Actual	Estimate	Estimate
Share of Business Rates (40%)	8,173	8,332	8,562
Baseline Funding Level (SFA)	2,205	2,248	2,310
Difference - Tariff	5,968	6,084	6,252

4.18 The Council's Business Rates income is forecasted to increase over the next 2 years by approximately 2% per year. However, under the redistribution system, this proportionately increases the Tariff.

Sensitivity

4.19 Based on the Council's Baseline and SFA for 2014/15, the following table shows how increases and decreases in actual Business Rates income would affect the overall funding level in the year.

Actual Business Rates achieved in 2014/15 (relative to Baseline)		Settlement Funding Assessment (£m)	Actual Funding (£m)	Difference in Funding
Baseline NDR +	5%	4.811	5.019	4.3%
Baseline NDR +	2%	4.811	4.894	1.7%
Baseline NDR +	1%	4.811	4.852	0.9%
Baseline NDR	0%	4.811	4.811	0.0%
Baseline NDR	-1%	4.811	4.769	-0.9%
Baseline NDR	-2%	4.811	4.727	-1.7%
Baseline NDR	-5%	4.811	4.642	-3.5%

4.20 Approximately, for every 1% increase in Business Rates, this would generate £40k per year in additional funding for the Council.

Safety Net

4.21 Conversely, the Council's Safety Net Threshold has been set at £2,079m in 2014/15. This means that Business Rates would need to fall by approximately £170,000 before the Council would qualify for protection. Any reduction in rates up to 5% as shown in the above table would therefore fall on the General Fund.

New Homes Bonus (NHB)

4.22 Following CSR 13, the Government announced its intention to top slice 20% off individual authority allocations and transfer it to Local Economic Partnerships (LEPs) from 2015/16. This amounted to an effective loss of potential funding to the Council of approximately £1.5m between 2015/16 and 2018/19.

4.23 However, after a period of consultation during subsequent months, the Government reconsidered this proposal and decided to find resources from other areas to fund LEPs; they then confirmed their intention not to top slice NHB, although they also committed to reviewing its use by authorities during 2014/15.

Calculating NHB

4.24 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.

- 4.25 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 2014/15, reflects activity between October 2012 and October 2013.
- 4.26 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.
- 4.27 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 2014/15

- 4.28 The Council has received a provisional allocation of £1,779,757 for 2014/15, an increase of approximately £80,000 compared to the MTFP. Final allocations will be confirmed in February 2014.
- 4.29 The allocation includes on-going installments for 2011/12 to 2013/14 of £1,346,999 with a further £432,758 for 2014/15. New homes amounted to 291, including 120 affordable units; the number of empty properties decreased by 97 from 384 to 287. The number of properties in the District on the valuation list as at October 2013 amounted to 40,392.
- 4.30 In round terms, each new home or a reduction in an empty property, equates to an average of £1,000 to the Council (its 80% share).
- 4.31 The reduction in the number of long term empty properties is the result of various initiatives undertaken to reduce the overall number. This included an enhanced inspection regime to identify properties that were classed as empty but effectively were furnished sufficiently to be classed as occupied for the purpose of the NHB.

Future Funding of the NHB

- 4.32 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 future years' allocations will each last 6 years.
- 4.33 Any unallocated funding each year is shared out in proportion to original allocations within a NHB Adjustment grant. The Council received £18,000 as a one-off payment in 2013/14 through this mechanism.
- 4.34 Based on provisional allocations for 2014/15 and overall RSG resources nationally, an estimate is possible of a further one-off payment in 2014/15. For the Council, this could equate to approximately £30,000 but will not be confirmed until later in the year. Therefore, it has not been included in the updated MTFP at this stage.

Medium Term Projections

4.35 Based on figures for 2014/15 and 2015/16, projections for future years have been calculated for the MTFP based on the following assumptions.

- The base figures have been reset following the financial settlement.
- RSG for 2016/17 to 2018/19 has been increased by £105k per year which is the Council Tax Freeze grant from previous years being built into SFA.
- Retained Business Rates for 2016/17 to 2018/19 allows for a 2.75% increase based on current Government forecasts (between 14/15 and 15/16).
- An amount of £64k per year for Homelessness prevention continues to be earmarked for that purpose and is passported to the Housing and Community Services Committee.
- The Council Tax Base continues to increase by around 1% each year (300 to 400 properties) which is in line with recent years and previous projections.
- RSG continues to reduce in 2016/17 and 2017/18 in accordance with previous projections.

4.36 Based on these assumptions, projected resources are shown in the following table.

	RSG	RBR	NHB	Total	Previous Projection	Change
	£'000	£'000	£'000	£'000	£'000	£'000
2013/14 Actual	3,364	2,205	1,365	6,934	6,916	18
2014/15 Provisional	2,563	2,248	1,780	6,591	6,553	38
2015/16 Provisional	1,749	2,310	2,150	6,209	5,722	487
2016/17 Projection	1,378	2,374	2,525	6,277	5,783	494
2017/18 Projection	823	2,439	2,568	5,830	5,390	440
2018/19 Projection	811	2,506	2,412	5,729	5,384	345
					1,821	

4.37 The table shows that overall funding is approximately £1.8m better compared to the October projection, mainly due to NHB allocations, as shown below:

NHB – No top slice + £1.55m

NHB – Additional Allocations + £0.24m

RSG – Council Tax Freeze grants built into Base + £0.33m

RBR – Reduction in national totals - £0.3m

5.0 Proposed Base Budget and Consolidated Spending 2014/15

- 5.1 All policy committees (including an earlier report on this Agenda) have considered their detailed budget proposals for 2014/15. All services were asked to carefully consider their base income and expenditure on a zero based budgeting basis.
- 5.2 A full analysis of each Committee is 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 Committee Expenditure 2013/14 to 2014/15

Summary of Net Revenue Expenditure	Approved Budget 2013/14 £'000	Proposed Budget 2014/15 £'000	Change £'000
Environmental and Development Services	3,836	3,598	-238
Housing and Community Services	2,425	2,340	-85
Finance and Management	5,202	5,148	-54
	11,463	11,085	-377

- 5.3 The above table shows that overall General Fund net expenditure is estimated to reduce between 2013/14 and 2014/15 by approximately £377,000. A summary of this decrease is shown in the following table.

Summary of Budget Changes	£'000
Depreciation	-172
Direct Service Costs	-110
Budget Savings	-100
Pay	-58
Leisure Management	-48
Interest	-17
Income	-5
Contract Inflation	72
Cost Increases	66
Minor Variances	-5
Total Change in Base Budget	-377

Depreciation (reduction of £172k)

- 5.4 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 as shown in Appendix 1 as they are not a true cost that the Council has to meet.

5.5 Therefore, this reduction in total depreciation charges between 2013/14 and 2014/15 has been reversed out in the overall MTFP under accounting regulations; effectively, this is not a reduction in budgets.

5.6 The decrease in charges mainly relates to vehicles and buildings that are being written down and out of the Council's accounts over their useful life.

Direct Service Costs (Reduction of £110k)

5.7 This relates to the approved budget savings required to finance the implementation of the extended kerbside recycling scheme. In particular, this is the amount needed to finance the capital purchase of the new Green Bins approved by the Committee in May 2013.

5.8 The savings identified will be set-aside to repay the internal borrowing used to finance the capital expenditure. This will be in the form of an additional minimum revenue provision in the MTFP, as shown in Appendix 1.

5.9 Following a service review, one of the main savings has been achieved by transferring back in-house, channel sweeping; this function had previously been undertaken by an external contractor.

5.10 The other main saving is the reduction in current "bring sites," details of which will be considered separately by the Environmental and Development Services Committee.

Budget Savings (£100k)

5.11 These were detailed in the previous budget report for the Committee's services. As that report highlighted, based on earlier approvals and a review of budgets following the 2012/13 budget out-turn, several savings have been identified and built into the proposed base budget. These effectively count towards the approved target of £300,000 required in 2013/14.

5.12 The main savings follow the introduction of E-committees (£21k), renegotiation of software licenses (£25k), professional fees (£24k), cash collection charges (£8k) and a reduction in external audit fees of £6k.

Pay (overall reduction of £58k)

5.13 This is a combination of several factors as shown in the following table.

Senior Management Restructure	-146,491
Pay Award 2013	55,959
Incremental Increases	17,551
Other Increases	14,769
	<u>-58,212</u>

- 5.14 Following the Senior Management Restructure approved in March 2013, the on-going savings have been taken out of the Base Budget as set out in the MTFP.
- 5.15 The pay award relates to the national agreement of 1% in 2013 and is financed from the inflation contingency in the MTFP; the base budgets across each committee have been updated accordingly.
- 5.16 Incremental increases relate to employees on career graded posts and those subject to incremental steps within a specific grade which recognises experience and development. A provision of £10,000 was included in the MTFP, so the amount of £17,551 is higher and effectively an additional cost.
- 5.17 Other increases relate mainly to additional national insurance contributions following an increase in rates. This had not been budgeted for in the MTFP.

Leisure Management (reduction of £48k)

- 5.18 In accordance with the Contract for managing the Council's two main leisure centres (Green Bank and Etwall) the annual price is reducing as efficiencies and increased income are achieved. This reduction had been built into the MTFP.

Income (net increase of £5k)

- 5.19 Overall, income forecasts for 2014/15 have been maintained at current levels in the main service areas covering licensing and planning, in accordance with the MTFP. Income generated from Food Safety through export certificates continues to grow. Therefore, the base budget for 2014/15 has been increased by £30,000 to reflect current activity which is considered to be sustainable.
- 5.20 In addition, the base income budget from property rents has been increased by approximately £30,000 for 2014/15. This is in accordance with the MTFP and reflects a phased increase in rent from the main factory unit in accordance with the lease agreement, together with a reduction in empty properties.
- 5.21 However, these increases have almost been offset by a reduction in the specific government grant for Housing Benefit administration. The Council has been notified that the grant will be reduced from £420,000 in 2013/14 to £370,000 in 2014/15, a reduction of £50,000.
- 5.22 This was not expected and is on-going. It represents a 12% reduction - £250,000 over the MTFP.

Inflation/Annual Contract Indexation (£72,000)

- 5.23 In accordance with the contract for the Corporate Services partnership, the service fee was increased by 0.8% in August 2013, together with a provisional increase of 1% from August 2014 being included in the proposed base budget for 2014/15.

5.24 The increase is mainly based on the pay award for local authority staff and is applied on the anniversary of the contract in August each year. Base budgets for concurrent functions and grants to voluntary bodies have also been increased following the application of inflation in April 2013; provision for all of these inflationary/indexation increases is contained in the central contingency.

Other Cost Increases (overall £75k)

5.25 These represent additional cost pressures not currently identified in the MTFP. There are 3 main issues that have arisen from the Budget Round, as follows:

- Agency staff covering planned and unplanned absences in Waste and Cleansing - £40k;
- Maintenance and utility costs at the Civic Offices and the Depot - £20k;
- Maintenance and equipment in Parks and Open Spaces - £15k.

Comparison to the MTFP

5.26 The above sections detail the main changes contained in the Base Budget for 2014/15. As highlighted, many of the changes were expected in the MTFP with several others being identified during the budget review – these have now been added into the MTFP as follows:

	£'000
Cost Increases (as highlighted above)	75
Reduction in Housing Benefit Admin Grant	50
Pay - additional NI and increments	23
Additional Income - Food Safety	-30
Additional Budget Savings	-20
Savings on base inflation	-21
Less share of savings passed to HRA	27
Other variances	5
Total increase in Base Budget	<u>109</u>

5.27 These are on-going changes and cumulatively total approximately £600k over the 5-year MTFP. The effect on the MTFP is highlighted in Section 6 alongside other changes to the financial position.

Budget Savings

5.28 The Council set a targeted level of budget savings of £300,000 to be generated in 2013/14. The figure in the previous table of £20,000 is the amount of savings generated above this target.

5.29 As detailed earlier, all the savings generated have been identified and built into the Base Budget as set out in the MTFP. In summary, the net on-going savings (per year) are shown in the following table.

	£'000
Senior Management Restructure	146
Planning and Community Services Review	80
E-Committees	21
Retender of Microsoft Licenses	25
Professional Fees	24
Cash Collection Charges	8
External Audit Fees	6
Other Savings	10
Total Budget Savings 2013/14	<u>320</u>

Other Savings – Not Yet Included

- 5.30 The Committee approved some changes to the Land Charges function in December 2013. This will save approximately £30,000 per year. Proposals are currently subject to consultation and a further report will be considered by the Committee in February.
- 5.31 As previously reported, the Council has recently re-tendered its Banking Services with a new contract due to commence shortly. Subject to transaction volumes, a saving of £10,000 per year is anticipated.

Development of the Local Plan

- 5.32 Current estimates indicate that this could cost up to £165,000, including the cost of preparation (£45,000) and public examination of the Core Strategy itself (£120,000). There are also likely to be additional costs associated with the formulation of a charging scheme for the Community Infrastructure Levy (CIL).
- 5.33 An amount of £135,000 has previously been set-aside in an earmarked reserve towards meeting these costs. This will be monitored during 2014/15, but a further contribution from general reserves may be required to make up any shortfall. This will be reviewed at the budget out-turn for 2013/14 with a proposal to set-aside any underspendings or additional income generated in the year.

Grants to Voluntary Bodies and Payments under Concurrent Functions

- 5.34 In 2013/14, the Council approved an increase in base contributions to reflect inflation, as measured by the Retail Price Index (RPI), as it stood in September 2012, i.e. 2.6%.
- 5.35 Due to the reduction in the Council's general grant funding for 2011/12 and 2012/13, no increase was applied for these years although the base level of funding was maintained
- 5.36 As at September 2013, RPI stood at 3.2%. The MTFP includes a provision of 2%.

- 5.37 An increase of 2% equates to approximately £10,500 in total for all grants and Parish contributions, with 3.2% equating to around £16,000.
- 5.38 Housing and Community Services Committee considered an increase for grants to voluntary bodies and this Committee considered the issue for Concurrent Functions in the detailed budget report earlier on the Agenda.

6.0 General Fund 5-Year Financial Projection to 2018/19

- 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 Deficit and Reserve Balances

- 6.3 An analysis of the projected figures with a comparison to that reported in October 2013 is shown below.

	Budget Deficit		Reserve Balances	
	Oct-13	Jan-14	Oct-13	Jan-14
Base Budget 2013/14	-£70,643	£14,314	£4,322,999	£4,217,042
Proposed Budget 2014/15	£73,329	£180,399	£3,908,669	£3,716,643
Projection 2015/16	£818,687	£485,140	£2,794,982	£2,936,503
Projection 2016/17	£787,724	£498,037	£1,667,258	£2,098,466
Projection 2017/18	£1,247,948	£1,018,136	£399,310	£1,060,330
Projection 2018/19	£1,354,939	£1,232,063	-£975,629	-£191,733

- 6.4 Overall, up to 2016/17, the deficit position is better although by 2017/18 is still significant. Balances continue to remain healthy until 2016/17, but are then projected to reduce rapidly by 2018/19 into a potential negative position. The reasons for the change are summarised in the following table.

<i>Note - amounts are cumulative over 5-years</i>	£'000
Projected Reserves as at October 2013	-975
Increase in overall Core Funding	1,804
Overall reduction in projected Council Tax	-333
Increase in proposed Base Budget Spending	-687
Revised Projected Reserve Balance	-191

- 6.5 The increase in core funding is mainly due to revised New Homes Bonus allocations (as detailed in Section 4). The decrease in Council Tax income is based on a Council Tax freeze for 2014/15 (subject to Council approval). This is detailed in Section 7.
- 6.6 The increase in spending is the cumulative effect of the proposed additions to the Base Budget as detailed in Section 5.

Inflation and Growth

- 6.7 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.
- 6.8 The growth provision allows resources for a more substantial investment in a service, for example, refuse collection due to the growth of residential development.
- 6.9 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.
- 6.10 In accordance with UK economic inflation predictions, the general rate of inflation that has been applied (where applicable) is 2% per year.

Pay Inflation

- 6.11 The forward projections reflect the Government’s proposal for a 1% pay increase in 2014/15 and 2015/16. A rate of 2.5% has been assumed from 2016/17 onwards.

Monitoring Inflation

- 6.12 In line with current policy, it is proposed that the overall contingency for inflation will be reviewed and monitored by this Committee separately. It will be allocated into service budgets, as the actual effects of inflation become known over the year, through the financial monitoring framework.
- 6.13 It should be noted that the contingency for inflation and growth is only a provision and does not mean that costs and income will automatically increase by that amount. It is a prudent assessment at a particular point in time of what is likely to increase. The total contingency is summarised in the following table.

Inflation and Growth – Total Amounts

2014/15	£ 128,196
2015/16	£ 136,867
2016/17	£ 240,759
2017/18	£ 296,916
2018/19	£ 302,605

- 6.14 As previously reported, in recent years the yearly contingency has not been fully utilised. Where this is the case, the under spend is returned to General Reserves.

Other Provisions and Contingencies

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

Service/Cost	Amount £'000	Comment
Pay and Grading Review	420	One-off transitional protection costs
Pay and Grading Review	130	On-going costs following implementation
Waste Collection – Growth	100	On-going costs from 2014/15
District Election	125	One-off in May 2015
Land Charges	100	Refund of Property Searches (being finalised)
Vehicle Replacements	250	One-off in 2016/17 pending capital receipts

Waste Collection

6.16 The growth provision included in the above table reflects the anticipated increase in residential development due to take place in the District. Effectively, this is setting aside a proportion of the additional Council Tax from new properties and it is important that this is maintained wherever possible as a contribution to any future costs associated with growth.

Pensions

6.17 The results of the recent actuarial valuation of the Pension Fund are imminent, with any changes to employer's contributions applying from April 2014. It has already been reported that the projected long term deficit on the Pension Fund is increasing.

6.18 However, to offset this, the valuation has factored in the effect of changes made to the Local Government Pension Scheme (LGPS) since the last valuation, such as increased employee contributions and the ending of the "85 year rule."

Recent Pension Reform

6.19 The Public Service Pension Act 2013 contains the legislation to enact further changes to the LGPS. These changes are designed to make savings on the cost of pensions to the taxpayer.

6.20 The main changes are as follows:

- Moving to career average pension schemes to replace final salary schemes.
- Moving pension age in the current LGPS to that of state pension age.
- Setting an employer cost cap.

- 6.21 These changes are longer-term and will not generally influence the current valuation. The Base Budget does not include any additional employer's contribution over and above the current 22% being paid in 2013/14.
- 6.22 Every 1% variation in the current employer's rate equates to approximately £10,000 per year in cash terms. The results of the valuation are expected to be confirmed before the final budget proposals are considered next month.

Auto Enrolment (AE)

- 6.23 Under the Pensions Act 2008, new legal requirements were introduced on 1st October 2012, which placed a duty on all employers in England to automatically enroll eligible jobholders into a pension scheme that meets certain minimum requirements. This applies to the LGPS.
- 6.24 In April 2013, the Committee approved to apply transitional arrangements under the regulations and deferred full implementation for existing employees until October 2017. New employees will be subject to AE from February 2014.
- 6.25 As reported in April, AE could potentially lead to additional costs for the Council if current employees, currently opted out of the LGPS, decide to remain in the LGPS following AE. This maximum cost has been estimated at £135,000 per year.
- 6.26 It is considered unlikely that the maximum cost will ever accrue. However, it would be prudent to acknowledge the potential cost and make some provision. As reported in April, it is recommended that the contingent sum for inflation continues to be set aside to meet any future costs associated with Pensions.

Summary Position

- 6.27 The updated MTFP shows an improved position overall, mainly due to the Government's decision not to top slice New Homes Bonus. However, the medium term position is still not sustainable much beyond 2015/16 without corrective action being taken, even allowing for a margin of error.
- 6.28 The current level of General Reserves remains healthy and well above the minimum contingency level of £1m approved in the Financial Strategy.
- 6.29 Reserves should be further supplemented by the estimated underspend in 2013/14 (as reported in December) although this has not been included in the MTFP at this stage.
- 6.30 These reserves can be used to finance the short-term deficit, but as previously reported, this is not a sustainable strategy. The current projections highlight a significant reduction in reserves to below the minimum safe level after 2016/17 without corrective action being taken.

- 6.31 Consequently, in order for a sustainable position to be achieved in the medium term and to maintain a minimum level of balances by 2018/19, the base **budget will need to be reduced by £300,000 per year from 2015/16** – although this is down from the £1/2m approved in October 2013.
- 6.32 However, this would not completely remove the longer term budget deficit and additional budget savings may need to be made over the life of the MTFP; this will be kept under review.
- 6.33 It is considered that budgets and projections are prudent but realistic and do allow for inflationary, growth and other cost pressures. As a growth area, there is an expectation that this could improve the situation in the future. However, this cannot be guaranteed and budgeted for in the current economic climate.
- 6.34 The Council does have a history of under spending on its General Fund. This is reviewed each year and budgets adjusted accordingly. However, future under spends are not guaranteed and cannot be relied upon.
- 6.35 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 and Welfare Reform.
- 6.36 Several reserves (from matched and external funding) are held to finance costs on a yearly basis, especially in Leisure and Community Services. A list of current earmarked reserves is detailed in **Appendix 7**.

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 2014/15 is detailed in **Appendix 5** and is based on the number of properties on the Council Tax register as at 30th November 2013.
- 7.3 This produces a “Band D equivalent” which will be used to calculate the amount to be collected from Council Tax in 2014/15, i.e. **29,723**. This is an increase of 364 (1.2%) compared to 2013/14.
- 7.4 The MTFP contained an estimated increase of 300 properties; before any change to the actual Council Tax rate itself, the increase in properties will generate an additional £50,000 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. The increase over the last 12 months is one of the lowest in recent years.
- 7.6 However, it is considered that the increase of 300 properties per year in the MTFP is still prudent but it will depend on how the development of the Local Plan and the extent of improvement in the local economy.
- 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 2014/15, the Council is also required to calculate the estimated balance on its Collection Fund for the current financial year, 2013/14.
- 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.

Estimated Position 2013/14

7.12 The estimated position on the Collection Fund for 2013/14 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 Appendix 6 shows an estimated surplus balance on the Collection Fund as at 31st March 2014 of approximately £173,000. This allows for an increase in Bad Debt provisions for Council Tax and Business Rates.

7.15 The surplus position is mainly due to the lower costs of the Local Council Tax Support Scheme and greater revenue from empty properties as previously reported.

7.16 If approved, the balance will be distributed as shown in the following table.

	£'000
Derbyshire County Council	126
Derbyshire Police Authority	19
Derbyshire Fire and Rescue Authority	8
South Derbyshire District Council	20
	<u>173</u>

7.17 The Council's share of £20,000 would be a one-off income for 2014/15 and has provisionally been included in the MTFP.

Council Tax Levels

7.18 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 2014/15 – the 4th consecutive year.

Council Tax Freeze (Specific) Grant

- 7.19 Where an authority freezes the Council Tax rate for 2014/15, 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, payable for 2 years – 2014/15 and 2015/16.
- 7.20 However, this will not reflect the loss of cumulative income over future years compared to the MTFP as the base income level is reduced by freezing the tax rate. Although the Grant would reimburse the MTFP for 2014/15 and 2015/16 up to 1%, this is below the 2% planned increase.
- 7.21 Overall, this reduces resources in the MTFP by approximately £380k to 2017/18 (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.
- 7.22 If Council Tax is frozen for 2014/15, this will maintain a Band D rate of Council Tax of £150.25p.

Council Tax Limit Government

- 7.23 Under provisions contained in the Localism Act 2011, the Government are still to decide on the limit for Council Tax increases in 2014/15. This was set at 2% for 2013/14. However, councils have discretion to set increases above any limit, but this would need to be subject to a local referendum.
- 7.24 The date for any referendum has provisionally been set for 22nd May 2014 to co-incide with other elections. The final principles regarding Council Tax for 2014/15 are currently before Parliament.

8.0 Overall Risk Analysis

8.1 The following table summarises the key risks and issues detailed in the report and assesses the potential impact upon the Council's reserves as projected in the updated MTFP.

Factor	Issue	Mitigation	Effect on Reserves
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 Tax liable on empty properties which has increased income and incentivised use/occupation. 	<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 in influencing future levels of grant funding under the business rates redistribution system and NHB. The number of local businesses declines which reduces base income. Affects Council Tax income and other income streams such as Development Control (Planning) 	<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. Income budgets for planning, land charges, etc. forecast no increase on current base level. 	<p>High</p> <p>This could affect reserves either way. Growth is a determining factor for the Council's income - and expenditure - and is subject to external factors.</p> <p>This will directly impact on the General Fund.</p>
Budget Savings	<ul style="list-style-type: none"> These need to be made and sustained over the medium-term - but they are delayed beyond 2015/16. 	<ul style="list-style-type: none"> Current level of reserves allows planned action to be taken. Continuing efficiency and transformation programme in place. 	<p>High</p> <p>Directly impacts on the General Fund and if action is delayed, this will affect the MTFP further. However, this is an issue more under the Council's control.</p>

Budget Overspend	<ul style="list-style-type: none"> • Unexpected costs and there are on-going cost pressures as identified in the report. 	<ul style="list-style-type: none"> • Current level of 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

- 8.2 The above table highlights that 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.
- 8.3 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.
- 8.4 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.

8.5 Based on the estimated net revenue expenditure on the General Fund for 2014/15 of £11.24m, £1m is **8.9%**. By 2018/19, £1m will be **8.6%**. 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 2014/15 and background papers are available at:

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2014-to-2015>

12.2 The review of the Medium-Term Financial Plan as reported to the Committee in October 2013.

<http://south-derbys.cmis.uk.com/south-derbys/Document.ashx?czJKcaeAi5tUFL1DTL2UE4zNRBcoShgo=nxhHEkwStcVF0LjrrUH4%2fJIUP5cLdNAaEL33sSGqUp8fgu%2b3i4hjtQ%3d%3d&rUzwRPf%2bZ3zd4E7lkn8Lyu%3d%3d=pwRE6AGJFLDNlh225F5QMaQWcTPHwdhUfCZ%2fLUQzga2uL5jNRG4jdQ%3d%3d&mCTIbCubSFfXsDGW9IXnlq%3d%3d=hFfIUdN3100%3d&kCx1AnS9%2fpWZQ40DXFvdEw%3d%3d=hFfIUdN3100%3d&uJovDxwdjMPoYv%2bAJvYtyA%3d%3d=ctNJFf55vVA%3d&FgPIIEJYlotS%2bYGoBi5oIA%3d%3d=NHdU RQburHA%3d&d9Qji0ag1Pd993jsyOJqFvmyB7X0CSQK=ctNJFf55vVA%3d&WGewmoAfeNR9xqBux0r1Q8Za60lavYmz=ctNJFf55vVA%3d&WGewmoAfeNQ16B2MHuCPMRKZMwaG1PaO=ctNJFf55vVA%3d>