REPORT TO:	**FINANCE AND MANAGEMENT COMMITTEE SPECIAL - BUDGET**	**AGENDA ITEM:** 7
DATE OF MEETING:	**12th JANUARY 2012**	**CATEGORY: RECOMMENDED**
REPORT FROM:	**CHIEF EXECUTIVE**	**OPEN**
MEMBERS' CONTACT POINT:	**CHIEF FINANCE OFFICER KEVIN STACKHOUSE (01283 595811)** Kevin.stackhouse@south-derbys.gov.uk	**DOC:** u/ks/budget round 201213/consolidated budget proposals 12 13/FM Consolidated Report
SUBJECT:	**BUDGET REPORT 2012/13** **Incorporating the Consolidated Budget Proposals and Medium Term Financial Plan to 2017**	**REF:**
WARD (S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: FM 08**

1.0 Recommendations

1.1 That the estimates of revenue income and expenditure for 2012/13 for the General Fund are considered and a level of income and expenditure be 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 2012/13 of 32,194 properties as detailed in **Appendix 2** is approved.

1.4 That a surplus of £172,000 (of which £20,000 is due to this Council) be declared on the Collection Fund for 2011/12 as detailed in **Appendix 3.**

1.5 That consideration is given to the principle of a Council Tax freeze for 2012/13 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 2017 as detailed in **Appendix 1**, including associated assumptions and risks as set out in the report, be approved.

1.7 That the potential for further reductions in central government grant from 2013/14 is noted.

1.8 That the Council continues to progress its service efficiency and transformation programme supported by Northgate in order to address the medium term budget deficit

1.9 That the updated capital investment programmes and available financing to 2017 (as detailed in **Appendix 4)** is approved.

1.10 That the recommendations of the Service and Financial Planning Working Panel are considered and proposals for new capital investment approved

1.11 That the decisions made in recommendations 1.1 to 1.10 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 <u>Purpose of the Report</u>

2.1 To detail the Council's overall financial position following a detailed review of income and expenditure on the General Fund for 2012/13. Essentially, it builds on the financial plan and strategy approved in October 2011 and is the detailed budget report for 2012/13. The report covers the following:

- The Council's provisional financial settlement for 2012/13 with estimated on-going implications for 2013/14 and beyond.

- The Council's current spending and proposed base budget position for 2012/13.

- The General Fund's 5-year financial projection including proposed spending by policy committees and associated analysis to 2016/17, which forms the Medium Term Financial Plan (MTFP).

- The proposed council tax base for 2012/13 and collection fund position, 2011/12.

- Options for council tax levels 2012/13.

- A review and update of the existing capital investment programme and financing available, including proposals for new investment.

- The Council's on-going service efficiency and transformation review.

2.2 The report is divided into several sections as follows:

- Section 3 – Executive Summary and Overall Commentary
- Section 4 – The Council's Financial Settlement 2012/13
- Section 5 – Proposed Base Budget and Consolidated Spending 2012/13
- Section 6 – Revised General Fund Financial Projection to 2016/17
- Section 7 – Council Tax, Tax Base and Collection Fund Position
- Section 8 – Capital Investment and Financing

3.0 <u>Executive Summary and Overall Commentary</u>

The Position entering the 2012/13 Budget Round

3.1 A report to the Committee in October 2011, reviewed the Council's medium-term financial position. The associated financial projection showed an improving position following budget savings and efficiencies made in the preceding 12 months.

3.2 In addition, due to the capital provision being replaced by the proceeds from the sale of Bretby Crematorium, this had reduced pressure on the Council's General Fund Reserve; reserve balances showed the minimum level of £1m being maintained by 2016/17.

3.3 However, there was still an underlying budget deficit. Although this was reducing, it was still projected to be approximately £300,000 by 2016/17 based on current spending plans and after other adjustments.

3.4 The report highlighted the history of prudently spending within budget but that this should not be assumed to continue. Based on an analysis of the risks in that report and the continuing impact of the economic situation, it was clear that the financial position could change compared to the forecasts.

3.5 The reported highlighted the effect of external factors and in particular the potential for further government grant reductions. Whilst the level of balances by 2017 was projected to be around the safe minimum level, in the medium term, the Council still had an underlying budget deficit.

3.6 Therefore, the report recommended that work continued on identifying further budget savings, including that being undertaken by Northgate Public Services as part of their guarantee to deliver cashable savings through efficiencies and transformation.

The Updated Position

3.7 The Council's base budget has been reviewed to include a zero based approach to assess spending levels. As part of the budget round, some additional costs and liabilities have arisen although some of these do not impact until after 2012/13. However, there have been costs savings, efficiencies and increased income which have also been identified.

3.8 Overall, the position at this stage shows an improvement to that reported in October 2011. The level of reserves shows a sustainable position until 2016/17 and the medium term budget deficit has reduced. A summary is provided in the table below.

	Budget Deficit		Balance of Reserves	
Year	Oct-11	Jan-12	Oct-11	Jan-11
2011/12	£115,443	-£3,557	£2,575,937	£3,094,937
2012/13	£238,834	£126,920	£2,337,103	£2,548,017
2013/14	£215,329	£102,950	£2,121,774	£2,295,067
2014/15	£178,635	£10,186	£1,943,139	£2,194,881
2015/16	£222,290	£137,994	£1,595,849	£1,931,887
2016/17	£301,024	£197,953	£1,044,825	£1,463,934

3.9 The overall trend of the projected budget deficit continues to be downwards until 2015/16. This is due to the effects of the on-going efficiency programme, although other changes such as lower pay inflation, additional resources from the New Homes Bonus, together with higher national insurance contributions have also had an effect.

3.10 The profile of the budget deficit then increases in 2015/16 due to the current Council Tax Freeze Grant falling out. At this time, it is also assumed that pay inflation will be back to more "normal" levels at 2.5% per year.

3.11 Clearly, the current level of general reserves is healthy and well above the minimum contingency level of £1m approved in the Financial Strategy. They are anticipated to fall over the planning period as provisions continue to be made for the following:

- Pay and Grading Review - one off costs
- Additional Support for the Community Sector
- District Election (May 2015)
- Provision for Land Charges Refunds (Property Searches)
- Statutory Place Survey (or replacement) - Bi-annually
- Capital Funding (2016/17)

3.12 Based on current spending plans and projections, reserves can sustain the budget deficit until 2016/17. <u>However, an over reliance on reserves each year to balance the budget carries quite a high risk</u>.

Main Assumptions

3.13 Prudently, 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.

3.14 The growth provision allows resources for a more substantial investment in a service, for example, refuse collection due to the growth of residential development. The projections assume a strengthening of the economy from 2013/14 into 2014/15 with a resultant increase in income from planning fees, etc, together with interest on balances.

3.15 These income projections have been reduced in this budget round but it is still assumed that income will again increase by £100,000 per year from 2013/14.

Main Changes

3.16 Since the review of the MTFP in October 2011, there have been several external factors that have impacted upon the overall budget and projections.

New Homes Bonus

3.17 The most positive change is that additional resources have been awarded through the New Homes Bonus.

3.18 Although an increase was anticipated, the actual amount is more compared to the MFFP. This is due to an increase in new homes arising from residential developments, together with an increase in the number of long term empty properties being made available. In total, additional grant of £286,000 per year has been awarded from 2012/13.

Public Sector Pay Restraint

3.19 The forward projections have been adjusted to reflect the Government's proposal for a 1% pay increase in 2013/14 and 2014/15. Previously, the MTFP had budgeted for 2.5% in each of these two years. This has maintained approximately £250,000 in the MTFP compared to that in October 2011.

Cost Pressures

3.20 Several areas have been identified within reports to individual policy committees. These include, fuel, utility costs and increased waste disposal charges. These have largely been offset by budget savings such as lower insurance premiums together with additional income, for example from property lettings.

National Insurance Contributions (NIC)

3.21 The single most significant increase in the Council's base budget is in respect of NIC from April 2012. This is due to changes announced in the Government's 2011 Budget which will reduce the current rebate given for contracted out (of the second state) pension schemes. This applies to the local government pension scheme and will increase the Council's NIC by approximately £90,000 per year from 2012/13.

Government Grant

3.22 This was confirmed (subject to an adjustment) at the level notified to the Council in January 2011 following CSR 10. Following an adjustment to national control totals made by the Government in February 2011, the Council will receive an additional £47,000 for 2012/13.

3.23 The greatest concern following this settlement was the announcement from HM Treasury that local government funding levels will be cut by a further £240m in 2013/14 and £497m in 2014/15. These reductions are over and above that announced in CSR 10.

3.24 It is unclear where these reductions will have the most impact and whether they also include amounts already announced with the abolition of council tax benefit. Coupled with proposals to replace the current local government funding mechanism, the level of grant from April 2013 appears to remain even more uncertain.

Council Tax

3.25 It is important to note that the MTFP continues to assume a year on year increase in Council Tax of 2.5%. The Government have once again offered incentives for councils to freeze their Council Tax for the second consecutive year.

3.26 In line with 2011/12, the Government will reimburse councils "lost" revenue to the equivalent of a 2.5% increase. However unlike 2011/12, the associated grant will only be available for one year and not for the longer four year period as applied in 2011/12.

3.27 Therefore, councils will be faced with a potential reduction in their council tax income in subsequent years as their longer term council tax base position is reduced (they will need to pay for the cumulative effect of a standstill).

3.28 Clearly, this will depend on local MTFP's and local circumstances. However, the effect can be quite significant. For South Derbyshire, this reduces resources in the MTFP over the 5-year planning period by over £1/2m (net of the one year grant).

3.29 This would change the financial position compared to that shown earlier. If a tax freeze is implemented for 2011/12 and with other factors remaining unchanged, reserve balances would be slightly below the minimum level of £1m by 2016/17 with the medium term budget deficit rising to over £300,000 per year.

Summary Position

3.30 Overall, the medium-term financial position has improved with a reducing budget deficit and balances above the approved minimum level. It is considered that budgets are realistic but prudent and allow for inflation and growth. However, the over reliance on reserves to fund a budget deficit carries a risk.

3.31 In the medium term however, it is the current economic situation that continues to pose the greatest risk to the financial plan with the distinct possibility that government grant will be reduced further from 2013/14. The current MTFP includes a real terms reduction of 1% in both 2013/14 and 2014/15 with a standstill position on the New Homes Bonus.

3.32 Immediately, there will be pressure to freeze council tax levels in 2012/13 and the effect of this on the MTFP has been highlighted above. Therefore, it is important that the Council remains in a position to sustain its financial base and a continuation of its efficiency and transformation programme is considered fundamental to this.

Capital investment

3.33 Proposals for new capital investment are detailed within the report. Approval would see an investment of approximately £1.7m in leisure, community and local housing provision with the consequential investment in the local economy.

DETAIL BACKGROUND and BASE BUDGET ANALYSIS

4.0 The Council's Financial Settlement 2012/13

4.1 During the budget round, the Government effectively ratified their proposals from the previous year and confirmed grant allocations in line with that notified to councils last year in January 2011 as part of a two year settlement. The final allocations for 2012/13 are expected to be confirmed in late January 2012.

4.2 As part of the two year government grant reduction programme, the Council's main revenue (or Formula) Grant will reduce from £5.9m in 2011/12 to £5.2m in 2012/13, a reduction of 11.8%. However, grant in 2012/13 is approximately £47,000 greater than that included in the MTFP due to some technical adjustments in national control totals.

4.3 The MTFP continues to assume further real terms reductions in subsequent years in line with that set out in CSR 10. Grant is estimated to reduce to £5.15m in 2013/14 and to £5.1m in 2014/15.

4.4 Following this year's settlement, there was an announcement from HM Treasury that local government funding levels will be cut by a further £240m in 2013/14 and £497m in 2014/15. These reductions are over and above that announced in CSR 10.

Local Government Finance Bill

4.5 On 19th December 2011, the Government published its proposals for local government finance reform through this new Bill. Detailed parliamentary scrutiny will commence shortly and subject to this, the Bill will become law in March 2012.

4.6 Contained within the Bill are proposals to change the main funding system for councils through a model redistributing business rates. The detailed proposals are broadly those contained in the consultation considered by the Committee in October 2011. Some amendments have been made following consultation and an update will be reported to the Committee later in the year.

New Homes Bonus (NHB)

4.7 The NHB is designed to encourage authorities to build new homes. Introduced from 2011/12, every new home built attracts an annual bonus for six years equal to the amount of council tax payable on that home with an additional bonus for affordable homes. The system also includes an incentive to reduce the number of long-term (greater than 6 months) empty properties.

4.8 The annual amount payable is subject to the increase in the property tax base each year, the number of empty properties brought back into use and the number of affordable houses brought onto the market. It is calculated in October each year based on the council tax base compared to the previous year. This creates a time lag as the bonus for say 2012/13, reflects activity between October 2010 and October 2011.

4.9 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.

Amounts Awarded to the Council

4.10 The Council received £382,000 in 2011/12 and this was expected to rise to £683,000 in 2012/13. The Council will actually receive £969,805 in 2012/13, an additional £286,000 compared to that budgeted in the MTFP. It is expected that this will be on-going.

4.11 The total allocation for 2012/13 includes the £382,000 awarded in 2011/12, plus an additional £587,000 for new properties between October 2010 and October 2011. New additions amounted to 432 with the number of long term empties reducing by 113. In addition, 108 affordable properties were provided.

4.12 The MTFP assumed 300 new properties. The additional number is considered to be a "catch up" as recent residential developments have come onto the market in the year up to October 2011.

4.13 Furthermore, the Council has undertaken considerable work internally over the last year to identify and reduce the number of empty properties across the District. This has been monitored by the Housing and Community Services Committee supported by the Strategic Housing Group.

Funding the NHB beyond 2012/13

4.14 Clearly as a growth area, the Council should continue to benefit from the NHB. Although the amount can fluctuate depending on new properties, a prudent estimate highlights that around £200,000 year on year could accrue based on latest growth estimates.

4.15 This <u>excludes</u> any further reductions in long-term empties and an increase in affordable properties. Clearly, when the economy strengthens the NHB should be beneficial for the Council.

4.16 However, the main issue with the NHB is how it will be financed beyond 2012/13. The NHB will be paid for every new home for 6 years. The Government has indicated that beyond the first 2 years, any additional payments will be taken from mainstream formula grant.

4.17 The first 2 years (2011/12 and 2012/13) are being paid from additional resources re-directed from previous funding streams. Effectively, the principle is that the NHB will be self-financing (or revenue neutral) within the funding system over the longer-term.

4.18 In addition, after 2017/18, grant paid in 2011/12 will fall out following the first six year period. Unless this is replaced, overall resources will reduce.

4.19 Therefore, for the purposes of financial planning, the effect of NHB is projected to be fairly neutral and at the same level after 2012/13, i.e. £969,000. This is on the basis that any increase will be deducted from Formula Grant and is perhaps a more realistic position given further reductions in local authority funding expected next year.

Specific Grants

4.20 Two separate grants are also received as follows:

Grant	**2011/12 Actual**	**2012/13 Provisional**
Housing and Council Tax Benefit Administration	£485,231	£460,000
Preventing Homelessness	£64,470	£64,470

4.21 These grants are effectively ring-fenced for the services concerned. As part of on-going reductions by the DWP, it is expected that the benefit administration grant will be reduced in 2012/13 by 5% or £25,000 per year. These figures have been included in the MTFP.

4.22 The Council Tax Freeze Grant is detailed in **Section 7**.

5.0 <u>Proposed Base Budget and Consolidated Spending 2012/13</u>

5.1 All policy committees (including an earlier report on this Agenda) have considered their detailed budget proposals for 2012/13. 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. A summary of each Committee's proposed spending is shown in the following table.

Summary Committee Expenditure 2011/12 to 2012/13

Analysis of Net Revenue Expenditure Budgets 2011/12 and 2012/13	Approved Budget 2011/12	Proposed Budget 2012/13	Change
Environmental and Development Services	£3,855,356	£3,955,591	£100,235
Housing and Community Services	£2,366,644	£2,252,700	-£113,944
Finance and Management	£5,293,019	£5,132,799	-£160,220
Total	**£11,515,019**	**£11,341,090**	**-£173,929**

5.3 The above table shows that overall General Fund net expenditure is estimated to <u>decrease</u> between 2011/12 and 2012/13 by £173,929. A majority of this reduction was planned and included in the MTFP and relates to previous budget decisions which have reduced the cost base. In summary, the main reasons for the reduction are as follows:

Analysis of Change in Spending

One-off items Falling Out	-141,181
Items included in MTFP	-52,147
Sub-Total	**-193,328**
Increases in Income	-82,065
Budget/Efficiency Savings	-139,160
Reduction in Insurances	-34,137
Interest Paid/Received	-19,796
Employee Costs	51,329
Other Costs	243,228
Overall Total	**-173,929**

5.4 A detailed analysis of these changes has been considered by each Policy Committee. In summary, after allowing for planned changes through the MTFP and one-off items (£193,328) there has been a slight increase in net expenditure of approximately £19,000.

5.5 The one-off items relate to early termination costs (redundancy and pension payments) associated with staffing restructures incurred in 2011/12, together with the cost of the District Council Election in May 2011.

5.6 The items included in the MTFP are summarised below:

	£'000
Contracted Costs at Green Bank and Etwall Leisure Centres	-88
Grant to Groundwork Trust Falling Out	-32
External Grant for Affordable Housing Falling Out	53
Expenses to Parish Councils under Concurrent Functions	12

5.7 Although there has been a fairly significant increase in costs (£243,000), these have been offset by other reductions and increases in income elsewhere. Variances are due to a combination of internal and external factors. The key points are summarised below.

Employee Costs

5.8 Based on the forecast within the MTFP, these costs should reduce as the full year effect of staffing reviews and restructures takes effect in the base budget. However, the overall cost shows an increase but this is due to one factor.

National Insurance Contributions (NIC)

5.9 The single most significant increase in the Council's base budget is in respect of National Insurance Contributions (NIC) from April 2012. This is due to changes announced in the Government's 2011 Budget which will reduce the current rebate given for contracted out (of the second state) pension schemes.

5.10 This applies to the local government pension scheme and will increase the Council's NIC by approximately £90,000 per year from 2012/13.

5.11 The overall increase in direct employee costs is approximately £51,000. Therefore, excluding the NIC increase, the base cost has in fact reduced by approximately £40,000. This will also include incremental increases, where applicable, within pay scales.

Other Cost Pressures

5.12 The most significant pressures are within Environmental Services with the main items summarised below.

	£'000
Waste Disposal Charges	70
Contracted Price for Corporate Services	40
Prices for Recycling Contract	30
Overtime within Waste and Cleansing	25
Fuel Costs	22
Head Rent at Industrial Site	18
Extra Provision for Town Centre Car Parking	15
Private Sector Housing	14
Rates for Council owned Car Parks	10

5.13 Fuel costs and overtime continue to increase as previously reported in quarterly budget monitoring reports during 2011/12.

5.14 Approximately £60,000 of the waste disposal charges is offset by recycling credits and a proposed increase in Trade Waste Charges; this was considered by the Environmental and Development Services Committee at its earlier budget meeting.

5.15 The head rent and provision of town centre parking in Swadlincote is effectively contained within the additional income from lettings at commercial property and the Civic Offices (£49,000).

5.16 Furthermore, the additional costs in private sector housing for training, to advertise property lets and for supporting a statutory housing needs survey in 2012/13, is offset by additional fee income of £12,000.

Budget Savings and Efficiencies

5.17 Following the base budget exercise, a range of smaller budget and efficiency savings has been confirmed. It is considered that these savings will not have an adverse impact on service provision as they mainly relate to better pricing and the cost of overheads. The more significant reductions are as follows:

- A reduction in leasing charges for vehicles and plant as replacement is met from the Capital Asset Renewal Fund (£29,000).

- The cost of national non-domestic rates following the 2010 rating valuation will reduce on the Civic Offices by £9,000 per year. In addition, overall utility and maintenance costs are estimated to reduce by £5,000.

- There is no longer a requirement for temporary accommodation at the Depot due to the relocation of staff within the Civic Offices. This will reduce costs by £9,000 per year.

- Less reliance on work being sub-contracted on Street Cleansing as this is being sustained in-house saving £10,000.

- Savings in various budgets have been identified across democratic and other corporate management costs of approximately £20,000, including audit fees and court costs, together with a further £10,000 in Grounds Maintenance.

- Lower costs of £7,000 in the Pest Control Service as more work is being provided from "in-house" resources and less work being passed onto the appointed contractor.

5.18 In addition, as reported in the earlier detailed budget report for this Committee, there are savings on insurance premiums and from the final covenant payments falling out from 2012/13.

5.19 All of these savings will be on-going and have been included in the MTFP.

Grants to Voluntary Bodies and Payments under Concurrent Functions

5.20 In previous years, the Council has approved an increase for inflation as measured by the Retail Price Index (RPI) as at September of the preceding year. As at September 2011, RPI stood at 5.6%; the MTFP includes a provision of 3%.

5.21 An increase of 5.6% equates to approximately £29,000 per year in total across all grants and concurrent functions, with 3% equating to around £15,300. This would be on-going across the MTFP.

5.22 However, it should be noted that there are no proposals to reduce the base level of funding in 2012/13. In addition, the overall expenditure for concurrent functions has been increased by £12,000, as previously reported.

5.23 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 2016/17

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). Other factors have also been reviewed such as inflation indices and future interest rates.

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 and associated commentary is detailed in the following sections.

Projected Budget Deficit

6.3 An analysis of the projected budget deficit with a comparison to that reported in October 2011 is shown below.

	Budget Deficit	
Year	**Oct-11**	**Jan-12**
2011/12	£115,443	-£3,557
2012/13	£238,834	£126,920
2013/14	£215,329	£102,950
2014/15	£178,635	£10,186
2015/16	£222,290	£137,994
2016/17	£301,024	£197,953

6.4 Overall, the trend of the projected budget deficit continues to be downwards until 2015/16. This is due to the effects of the on-going efficiency programme, although other changes such as lower pay inflation, additional income from the New Homes Bonus, together with higher NIC have also had an effect.

6.5 The profile of the deficit increases from 2015/16 due to the current Council Tax Freeze Grant falling out. At this time, it is also assumed that pay inflation will be back to more "normal" levels at 2.5% per year.

6.6 The budget for 2011/12 is now expected to balance as the previous inflation contingency has been reduced to reflect expenditure during the year. The only call on this contingency is expected to be for fuel and utility costs as previously reported. The small provision for pay has been maintained at this stage.

6.7 In summary, over the medium-term, updated spending plans still indicate that overall expenditure is greater than income.

Inflation and Growth

6.8 Prudently, 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. 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 spending heads, the total of which is aggregated to form the central contingency.

6.10 In accordance with Government inflation predictions, the general rate of inflation that has been applied to most budget heads is 3% in 2012/13, with 2% from 2013/14 onwards.

Pay Inflation

6.11 The forward projections have been adjusted to reflect the Government's proposal for a 1% pay increase in 2013/14 and 2014/15. This follows the pay freeze in 2011/12 and 2012/13. A rate of 2.5% has been assumed from 2015/16 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.

	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £
Pay	36,474	34,180	68,703	69,390	175,209	179,589
Other Costs	0	154,351	129,992	132,227	190,293	194,564
Fees and Charges	0	0	-88,394	-90,162	-114,957	-117,831
Total - Inflation	36,474	188,531	110,301	111,455	250,546	256,323
Add - Growth Provision	25,000	49,000	49,000	49,000	49,000	49,000
Total Contingency	61,474	237,531	159,301	160,455	299,546	305,323

Note: No inflation is applicable to fees and charges in 2011/12 and 2012/13 as it is directly included in the income in the base budget following the review of fees and charges.

Projected Reserve Balances

6.14 A summary from **Appendix 1** of the projected level of general reserves is shown in the following table.

Year	Oct-11	Jan-11
2011/12	£2,575,937	£3,094,937
2012/13	£2,337,103	£2,548,017
2013/14	£2,121,774	£2,295,067
2014/15	£1,943,139	£2,194,881
2015/16	£1,595,849	£1,931,887
2016/17	£1,044,825	£1,463,934

6.15 The table shows that the current level of reserves is projected to stay above the minimum level required as approved in the Financial Strategy, i.e. £1m. This contains the projected budget deficits as highlighted above and also continues to make provision for certain items, as follows:

- Pay and Grading Review - one off costs
- Additional Support for the Community Sector
- District Election (May 2015)
- Provision for Land Charges Refunds (Property Searches)
- Statutory Place Survey (or replacement) - Bi-annually
- Capital Funding (2016/17)

6.16 It is important to note that at this stage, these projections are based on a yearly increase in council tax of 2.5%. Council Tax is analysed in further detail in Section 7 of the report.

Overall Comparison to the Previous Projection

6.17 To demonstrate the impact of changes in the base budget, assumptions on inflation and interest rates, etc. the updated projection has been compared to that reported in October 2011. This also helps to demonstrate how changes in the budget in the base year have a cumulative on-going effect over the life of the MTFP.

6.18 Overall, the reserve balance is now projected to be approximately £400,000 higher than projected in October 2011. The main reasons for this are shown in the following table.

Analysis of Major Changes in Projected Resources

Note: Figures are cumulative over 5 years	£
Previous Reserve Balance as at 31st March 2017	1,044,825
Add: Positive Variances	
Additional New Homes Bonus	1,432,685
Rent from lettings in Civic Offices and other Property	247,500
Reduction in Provision for Pay Inflation	258,833
Reduction in Insurance Premiums	161,618
Decrease in Corporate and Democratic Costs	57,500
Increase in Government Grant 2012/13	47,412
Sub Total	3,250,373
Less: Adverse Variances	
Increase in National Insurance Contributions	-476,420
Decrease in interest on temporary cash deposits	-358,714
Anticipated increase in Waste Disposal costs from 2013/14	-200,000
Decrease in Housing Benefit Administration Grant	-126,250
Additional Overtime cover in Waste and Cleansing	-121,535
Increase in cost of Fuel	-112,300
Reduction in Income from Planning Fees	-95,000
Increase in Utility Costs	-99,530
Increase in Head rents and cost of additional Car Parking	-95,500
Increase in Business Rates following Revaluation	-64,525
Other budget variances (net)	-36,666
PROJECTED BALANCE ON GENERAL RESERVE 2017	**1,463,934**

Note: Several changes to the base budget will have been included in the MTFP projection such as incremental salary and inflationary increases. Therefore, they will not be included in this comparison.

6.19 The above table shows that overall the Council is facing additional cost pressures mainly due to external factors. Generally, additional costs have been largely offset by savings and efficiencies as detailed earlier in the report.

6.20 Clearly, the impact of additional New Homes Bonus has had a very positive impact on the financial position. Against this, are the increase in NIC, together with anticipated reductions in income from planning fees, interest received, together with increased waste disposal charges expected from 2013/14.

Income from Planning, Building Regulations and Land Charges

6.21 As major income streams, income in this area can have a major impact on the MTFP as evidenced over the last 2 to 3 years. Income can be difficult to predict and is subject to external factors such as the type and volume of planning applications.

6.22 As previous budget and monitoring reports have highlighted over the last three years, the economic situation has had a negative impact on these income streams and this has had a significant effect on the Council's overall financial position.

6.23 During 2011/12, there has been some leveling off and income has stabilised at current predicted levels following several financial periods of reducing income. However, the budgets proposed for 2012/13 are still lower than previously assumed as shown in the following table.

Service Area	MTFP 2012/13 (£'000)	Proposed Budget 2012/13 (£'000)	Variance (£'000)
Building Regulations	240	225	- 15
Planning Application Fees	598	538	- 60
Land Charges	125	105	- 20
Total Income	**963**	**868**	**-95**

6.24 Following consideration by the Environmental and Development Services Committee, the MTFP has been updated to reflect the budgets for 2012/13. Clearly, this has reduced resources by £95,000. As shown in **Appendix 1**, the projection assumes that income levels will overall, climb back to £963,000 from 2013/14.

Interest Paid and Received

6.25 The report to the Committee in October 2011, noted that the forecast level of interest rates and associated interest had not been reviewed pending an update of the economic situation. The on-going views of many commentators are that the base level of interest rates (0.5%) will not increase for the foreseeable future and certainly not before late 2012 or even into 2013 at the earliest.

6.26 The MTFP at that time was based on rates increasing gradually from earlier in 2012 and eventually reaching 4.5% in 2016/17. It appears that at this stage, this is optimistic and therefore, the financial model has been updated. This is based on rates staying at their current level well into 2012 and then increasing at a slower rate to 3.5% by 2016/17.

Waste Disposal Costs

6.27 The Council is charged for taking and tipping waste at the relevant disposal site by the Waste Disposal Authority. It is currently estimated that these costs will increase by a further £50,000 per year from 2013/14.

Financial Risks and the Minimum Level of General Reserves

6.28 This report highlights that the Council faces many financial risks and variables, several of which are outside the direct control of the Council. 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.

6.29 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.

6.30 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, etc.

6.31 Based on the estimated net revenue expenditure on the General Fund for 2012/13 of £11.4m, £1m is 8.8%. By 2016/17, £1m will be 8.3%. As a general guide, a balance of between 5% and 10% should be maintained.

Summary Position

6.32 Overall, the medium-term financial position has improved with a reducing budget deficit and balances above the approved minimum level. It is considered that budgets are realistic but prudent and allow for inflation and growth. <u>However, the over reliance on reserves to fund a budget deficit carries a fairly high risk</u>.

6.33 In the medium term, it is the current economic situation that continues to pose the greatest risk to the financial plan with the distinct possibility that government grant will be reduced further from in 2013/14. The current MTFP includes a real terms reduction of 1% in both 2013/14 and 2014/15 with a standstill position on the New Homes Bonus.

6.34 Immediately, there will be pressure to freeze council tax levels in 2012/13 and the effect of this is detailed in the following Section 7. Therefore, it is important that the Council remains in a position to sustain its financial base and a continuation of its efficiency and transformation programme is considered fundamental to this.

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. The Tax Base for 2011/12 has increased virtually in line with that estimated. The MTFP is based on an increase of 300 new properties per year. The increase in 2011/12 is now estimated at 339, although this is the lowest for 3 years.

7.2 The increase in any year is used to calculate the Tax Base for the following year. For example, the increase in 2011/12 of 339 properties will be reflected in the Tax Base on which Council Tax for 2012/13 will be calculated.

7.3 The forward projections are considered prudent as growth in recent years has averaged 450 properties per year, compared to 300 in the MTFP. However as highlighted above, the increase in 2011/12 is the lowest over the last 3 years and this will need to be kept under review given the current economic situation, together with the degree of future local development.

Proposed Tax Base 2012/13

7.4 Regulations under the Local Government Finance Act (1992) require each billing authority to calculate its Tax Base for the forthcoming fiscal year. This is the amount that the actual council tax levels are based upon.

7.5 It reflects the number of properties in each area/parish within the District, adjusted for exemptions and discounts. This is known as the "relevant amount."

7.6 The proposed Tax Base for 2011/12 is summarised in **Appendix 2**. The calculation shows a total Tax Base for 2012/13 of 32,194 properties. This is an increase of just over 1% compared to 2011/12 and will been used to calculate the amount of income from Council Tax in the proposed budget for 2012/13.

Collection Fund Surplus/Deficit

7.7 Furthermore, in setting the level of Council Tax for 2012/13, the Council is also required to calculate the estimated balance on its Collection Fund for the current year, 2011/12.

7.8 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 National Business Rates Pool.

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

7.10 These factors inevitably provide a balance at the end of each year. This is not available for spending (if a surplus) or needs to be made good by the Council (if in deficit). Any balance is adjusted through the level of Council Tax levied in the following year, although at individual level this may be fairly small. The County Council as the major preceptor on the Fund picks up the majority of any balance.

7.11 The estimated position on the Collection Fund for 2011/12 is summarised in **Appendix 3**. The overall balance is distributed to the major precepting authorities on the Fund, i.e. this Council, Derbyshire County, Police and Fire Authorities in proportion to their precepts on the Fund.

7.12 It should be noted that Parish Councils do not get 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.

7.13 Appendix 3 shows an estimated surplus balance on the Collection Fund as at 31st March 2012 of approximately **£172,000**. In accordance with the prescribed formula, this is shared as follows:

- Derbyshire County Council - £125,000
- Derbyshire Police Authority - £19,000
- Derbyshire Fire Authority - £8,000
- South Derbyshire District Council - £20,000

Council Tax Levels

7.14 The MTFP has assumed for planning purposes that council tax increases by 2.5% each year, 2012/13 to 2016/17. As part of the financial settlement, the Government has provided an incentive for local authorities to again freeze their Council Tax for 2012/13.

Council Tax Freeze (Specific) Grant

7.15 Where an authority freezes the Council Tax for 2012/13, i.e. sets a nil increase, a specific grant will be paid to effectively reimburse the resources lost, to the equivalent of a 2.5% increase. However, unlike 2011/12, this grant will only be paid for one year and not for 4 years.

7.16 Therefore, 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. Setting a lower increase between 0% and 2.5% would not qualify for the grant - it has to be frozen.

7.17 Although the Grant would reimburse the MTFP for 2012/13, the freezing of the 2.5% planned increase in the tax rate would reduce resources in the MTFP by **£527,000** to 2016/17 (net of the specific grant).

Effect upon the MTFP

7.18 In summary, taking this level of resource out of the MTFP would have a fairly material effect on the overall financial position. This is shown in the following table, which compares the projected budget deficit and level of reserves between a 2.5% increase and a freeze in 2012/13 (including the specific grant).

Year	Budget Deficit		Balance of Reserves	
	With 2.5%	Excl 2.5%	With 2.5%	Excl 2.5%
2011/12	-3,557	-3,557	3,094,937	3,094,937
2012/13	126,920	127,264	2,548,017	2,547,673
2013/14	102,950	228,053	2,295,067	2,169,621
2014/15	10,186	139,601	2,194,881	1,940,020
2015/16	137,994	271,857	1,931,887	1,543,163
2016/17	197,953	336,407	1,463,934	936,756

7.19 This shows that the effect of the freeze would take effect from 2013/14 eventually increasing the medium term budget deficit to £336,000, with balances slightly below the minimum level at £936,000 by 2016/17; this tightens the financial position compared to that currently projected.

7.20 Clearly, any increase below the planned 2.5% would reduce resources in the MTFP. A 1% increase in the tax rate, although foregoing the grant for 2012/13, would "cost" the MTFP approximately £388,000 compared to £527,000 based on a freeze.

7.21 Equivalent "costs" for 1.5% and 2% increases are £259,000 and £130,000 respectively.

7.22 A 2.5% increase would raise the Band D tax rate for District Council services from £150.25 to £154 per year, an increase of £3.75 per year per property.

7.23 The Government still retains the power to cap what it believes to be "excessive" increases in Council Tax in any year. They have the flexibility to make a judgement on this each year and any decision is generally made after council tax levels have been set.

7.24 Given that the Government have offered a specific grant to freeze Council Tax in 2012/13, it is considered that this is a clear signal that the Government will use its capping powers for any large increases in Council Tax, i.e. the capping limit will be 2.5%.

8.0 Capital Investment and Financing

8.1 The Council is guided under a National Prudential Code to set a 5-year capital investment programme. Clearly, this has to be based on assumptions about likely resources to be available and potential commitments facing the Council over this period.

8.2 The Council's current approved spending and financing programme to 2016/17 is detailed in **Appendix 4**. This effectively remains unchanged from that reported in October 2011, updated for the wet side refurbishment of Green Bank Leisure Centre as reported in December 2011.

The Current Investment Programme

8.3 Subject to proposals for new investment which are considered below, the remaining programme is limited from 2012/13 onwards. Due to limited resources from general capital receipts, investment will be reliant upon Section 106 (or equivalent) contributions, together with external funding that can be generated through grants and partner contributions.

Housing Investment

8.4 The programme assumes continuing government allocations for Private Sector Housing at current levels and spending will continue to be tailored to meet actual allocations.

8.5 Investment in the Council's own housing stock will be considered as part of the self-financing framework and the capital programme will be monitored through the Business Plan. There will be no separate Major Repairs Allowance from 2012/13.

Capital Receipts

8.6 As part of the self-financing proposals, the Council has previously approved that any retained proceeds from council house sales after 2011/12 will be maintained for council housing investment. The investment programme in Appendix 4 assumes that receipts of £50,000 per year will continue to be generated.

8.7 It is anticipated that these will accrue from smaller disposals of land and granting of easements, etc. This amount has been earmarked as a contingency against General Fund Reserves (as shown in **Appendix 1**) should receipts not be generated.

8.8 Any larger receipts that may be anticipated at this stage continue to be excluded. Clearly, any larger receipts from current redevelopment projects will provide additional resources for investment.

New Capital Investment Proposals

8.9 As approved by the Committee in December 2011, the Service and Financial Planning Working Panel have considered and evaluated 14 schemes for investment following the capital funding generated from the sale of Bretby Crematorium in May 2011.

8.10 Total resources of just over £1.7m are available. The proposed schemes/projects are summarised in the following table.

Proposed Project / Scheme	TOTAL (£)	Notes / Comments
Melbourne Sports Partnership	1,000,000	Gross Cost is £2.5m
Rosliston Forestry Centre Developments	50,000	Gross Cost is £193,710
Replacement of Noise Monitoring Equipment	13,000	No external funding
Bill Shone (Melbourne Leisure) Centre	125,000	Gross Cost is £325,000
Green Bank Leisure Centre Redevelopment	215,000	Gross Cost is £470,000
Etwall Leisure Centre - Fitness/Community Facilities	120,000	Gross Cost is £360,000
GIS Software - Land Contamination	16,000	No external funding
Empty Properties - Landlord Grant Initiative	600,000	No external funding
Etwall Leisure Centre Artificial Grass Pitch	100,000	Gross Cost is £550,000
Disabled Facility Grants	1,250,000	No external funding
Property Assets - Planned and Backlog Maintenance	150,000	No external funding
Empty Properties - First Time Buyer Initiative	60,000	No external funding
Empty Properties - Private Sector Leasing Scheme	30,000	Revenue
Empty Properties - Extension of Rent Deposit Scheme	15,000	Revenue

8.11 A separate paper detailing the recommendations of the Panel are set out in an Addendum to this report.

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 that highlighted in the report.

11.0 Community Implications

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

12.0 Background Papers

12.1 The Government's Financial Settlement for 2012/13, available at: http://www.local.communities.gov.uk/finance/1213/grant.htm