
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE SPECIAL - BUDGET	AGENDA ITEM: 7
DATE OF MEETING:	26th JANUARY 2009	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/budget round 200910/consolidated budget proposals Jan 09
SUBJECT:	CONSOLIDATED BUDGET PROPOSALS 2009/10 and FINANCIAL PLAN TO 2014	REF:
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the estimates of revenue income and expenditure for 2009/10 for the General Fund are considered and a level of income and expenditure approved.
- 1.2 That the Council Tax Base for 2009/10 of 30,641.6 as detailed in Appendix 4 is approved.
- 1.3 That the surplus as detailed in Appendix 5 be declared on the Collection Fund for 2008/2009 and included in the calculation of the Council Tax for 2009/2010.
- 1.4 That a level of Council Tax for 2009/10 be proposed.
- 1.5 That the updated 5-year financial projection on the General Fund to 2014 as detailed in Appendix 1 including associated assumptions and risks be approved.
- 1.6 That any additional resources arising from the re-distribution of concessionary travel costs and income from industrial holdings, is set-aside as a provision to meet capital commitments pending the generation of capital receipts.
- 1.7 That the updated capital investment programme and available financing to 2014 is considered and any changes approved.
- 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.

2.0 Purpose of Report

2.1 To detail the Council's overall financial position for the 2009/10 budget round. Essentially, it builds on the financial plan and strategy approved in September and October 2008. The report covers the following:

- The Council's current spending and proposed base budget position for 2009/10.
- The General Fund's 5-year financial forecast including proposed spending by policy committees and associated analysis to 2013/14, which forms the Medium Term Financial Plan (MTFP).
- The proposed council tax base and collection fund position.
- The effects of indicative Council Tax levels.
- A review and update of the existing capital investment programme and financing available.

3.0 Executive Summary

General Fund

- 3.1 The Council's overall financial position on its General Fund is forecasted to worsen over the next 5-year planning period to 2014. This is almost entirely due to the current economic downturn that has reduced income from building regulations, land charges, council tax and interest, together with the increased costs of gas and electricity.
- 3.2 The overall projection assumes the current downturn continuing well into 2009, stabilising in 2010 with a recovery starting to have a significant impact by 2011.
- 3.3 The effect of this is an increase in the use of general reserves over the next 2 to 3 years in order to meet the shortfall. However, the level remaining at the end of 2011/12 is now projected to be well below the approved safe minimum of £1m.
- 3.4 On the positive side, there are two issues still to be resolved that would have a beneficial impact on this position. These relate to an anticipated reduction in the costs of concessionary travel and increased rental income from industrial holdings.
- 3.5 As these issues have still to be fully resolved, their impact has been excluded at this stage, although it is anticipated that the situation will be much clearer before the Council approves the final budget in February 2009.
- 3.6 Clearly in addition, the economic situation could improve sooner over the planning period and this would hopefully increase income from planning fees and short-term investments in particular.

- 3.7 In the meantime, the current base budget assumes current and previously planned levels of service continuing. However, except for a committed increase on refuse collection due to population growth, no new spending is affordable at this stage. In addition, there remains an on-going budget deficit in years 4 and 5 of approximately £170,000.
- 3.8 The main bottom line outcome of the updated projection shows a general reserve of approximately £768,000 by 2011 and only £82,000 by 2014. However, if the anticipated effects of a reduction in concessionary travel costs and an increase from industrial rents are built in, the corresponding figures show £3m and just under £600,000 respectively. Clearly this is a much healthier position.
- 3.9 This also allows commitments on capital expenditure to be protected (as highlighted below), although the figure of £600,000 in 2014 is still below the minimum required by the Financial Strategy of £1m.
- 3.10 Therefore, together with the on-going budget deficit, it is vital that the Council, as a priority, continues to find efficiencies through business improvement and procurement. In accordance with the financial strategy, only those cashable efficiencies actually achieved to-date have been included in the forward plan.
- 3.11 Clearly as other efficiencies are generated, this will help to close the gap and may also generate additional resources for service development.
- 3.12 The 5-year projection continues to allow provision for known and probable changes to spending over the life of the MTFP, including the initial costs (pay protection) of the pay and grading review, increased pension contributions, etc. These factors could change.
- 3.13 However, it is important that the Council uses this projection as a clear focus for the future and continues to keep spending on the General Fund under regular review and control.

Capital Investment

- 3.14 The position on capital investment also continues to worsen. This is due to a complete reduction in capital receipts from asset disposals and in particular council house sales.
- 3.15 Consequently, the financing element of the programme has once again been revised. Given the current economic downturn, no further receipts are projected beyond those generated to-date, over the next 5-years.
- 3.16 Clearly, at some stage the Council will in all probability generate resources over the planning period. Assets considered “surplus to requirements” have been identified and in some cases already approved for disposal by this Committee.
- 3.17 The timing of these disposals and the amount is currently very uncertain and no income is anticipated over the next 12 to 18 months.

- 3.18 Prudently, this can be considered the “worst case scenario,” but it does help to focus on how much the Council needs to generate to meet commitments on Covenant repayments, vehicle replacements and its contribution to disabled facility grants, all of which are unavoidable.
- 3.19 The Council needs to generate around £1.825m over the next 5-years to meet these commitments. If capital funding were not identified, then revenue funding in the form of direct contributions would need to be made.
- 3.20 As highlighted in 3.4, these revenue contributions will only be available if the effects of concessionary travel and industrial rents have the necessary impact on the General Fund. If so, it is proposed in the MTFP that a proportion of the gain is set-aside as a provision on a prudent basis, to meet capital commitments pending future receipts.

4.0 Detail

THE COUNCIL’S FINANCIAL SETTLEMENT 2009/10 to 2010/11

- 4.1 Back in January 2008, the Government announced the level of General (Formula) Grant for local authorities covering the 3-year financial years 2008/09 to 2010/11.
- 4.2 In December 2008, the Government confirmed the grant settlement from last year with no changes. Effectively, the Council’s increase is 2.7% for 2009/10 and 2.4% for 2010/11. This compares to the average increase for district councils across the country of 1.4% and 1.3% respectively.
- 4.3 The MTFP assumes increases of 2% per year beyond 2011. The actual increase will be determined through the next Comprehensive Spending Review (CSR 2010). A fairly tight settlement is once again expected with the Government already warning of greater efficiency targets for local government.
- 4.4 It should be noted that the Council is still “losing” grant through a contribution to protect other authorities (the Council is scaled back in a floor and ceilings mechanism). This is designed to guarantee a minimum increase to authorities that would potentially see a reduction in grant under the national funding formula.
- 4.5 Over the last 5 years this had been decreasing, the Council’s contribution being approximately £148,000 for 2007/08. Due to the limited increase for districts overall for the next 2-years, greater protection is effectively required for those facing potential reductions in grant.
- 4.6 Consequently, the Council’s contribution (or amount of grant reduction) will be £262,750 in 2009/10 (down from £333,950 in 2008/09) and £197,000 in 2010/11.

- 4.7 It should be noted that technically, these figures are still provisional. They could change depending on any representations to the Government. The final settlement is due to be approved in Parliament by 31st January 2009.

Other Grants Received

- 4.8 The Council is still awarded other specific grants to finance spending pressures at a local level, these having been identified by the Government. Those affecting the Council are summarised below.

Housing and Planning Delivery Grant

- 4.9 In recent years, the Council has received between £225,000 and £315,000 per year. This money has been used to improve performance in planning services and to meet the cost of additional burdens in this area.
- 4.10 It should be noted that although the grant is not ring-fenced directly for planning, the Government expects it to be used in this area. Consequently, current Council policy is that it is used to support the planning service.
- 4.11 The Council received £315,000 for 2008/09. It is likely that this grant will continue in the foreseeable future, although no individual authority allocations will be available until later in 2009. The Council's MTFP continues to assume £200,000 per year.

Homelessness Grant

- 4.12 This has already been confirmed at £45,000 per year for 2008/09, 09/10 and 10/11. The grant is used to fund projects to reduce the levels of homelessness in the District.

Benefits Administration Grant

- 4.13 This is an on-going grant paid as a contribution to staffing costs for administering benefit claims. As notified by the Department of Works and Pensions, will be reduced by 2.5% in 2009/10, down from £477,000 to £465,000. This had previously been built into the MTFP.

National Concessionary Travel (Bus Pass) Scheme

- 4.14 During last year's budget-round, the Council was informed of a 3-year capped settlement towards the cost of implementing the national scheme in South Derbyshire. The fixed amounts, built into the MTFP are as follows:

- 2008/09 £147,000
- 2009/10 £150,000
- 2010/11 £154,000

- 4.15 The whole issue of concessionary travel is detailed later in the report, from paragraph 4.73.

Area Based Grants

- 4.16 Currently, the Council receives funding from the County Council via the Local Area Agreement. This is used to support expenditure mainly in leisure and community services around crime prevention.
- 4.17 The Council has been awarded £30,000 for 2008/09 and 2009/10. Additional funding may become available in 2009/10 and beyond, although this has not been assumed in the current MTFP.

Funding for Climate Change

- 4.18 The Government has recently awarded all authorities extra funding to deal with additional burdens arising from climate change. Initially, this was aimed at work required around Planning Policy Statements (PPS).
- 4.19 However, advice received from the Government indicates that the funding can be used to deal with wider environmental and planning issues and is not particularly ring-fenced for climate change. The Council has been awarded £22,500 per year for 08/09, 09/10 and 10/11.
- 4.20 Work required on PPS can be met from within existing resources. Therefore, it is proposed that the funding for 08/09 and 09/10 (£45,000) is used towards the implementation of electronic document management in planning and land charges.
- 4.21 This has been identified as a key business improvement in these service areas where greater efficiency in processing and performance can be achieved. In addition, cashable savings of £7,000 per year in licensing and stationery costs are anticipated after its implementation.

GENERAL FUND 5-YEAR FINANCIAL PROJECTION

- 4.22 This is detailed in **Appendix 1** and summarised in **Table 1** below. This includes proposed spending levels of the Council's main policy committees, a subjective summary of which is provided in **Appendix 2**. This is the base budget on which the longer-term projection is based.

Table 1

YEAR	BUDGET DEFICIT £	BALANCE OF RESERVES £
2008/09	996,847	2,096,319
2009/10	759,251	1,337,069
2010/11	568,459	768,610
2011/12	347,150	421,460
2012/13	160,407	261,053
2013/14	179,534	81,519

- 4.23 The above table clearly shows that general reserves are projected to fall sharply over the next 5-years, especially upto 2011/12. This is almost entirely due to the current economic downturn that has reduced income from building regulations, land charges, council tax and interest, together with the increased costs of gas and electricity.
- 4.24 The overall projection assumes the current downturn continuing well into 2009, stabilising in 2010 with a recovery starting to have a significant impact by 2011. Clearly though, the level of projected reserves from 2011 onwards are well below the minimum level required by the Financial Strategy of £1m.
- 4.25 Within the overall projection, some anticipated future spending pressures in the form of higher pension contributions and the local pay and grading review in the form of pay protection, have been built in (based on best estimates). Provision has also been made in 2011/12 for local district elections.
- 4.26 In addition, the projection incorporates past measures such as efficiency savings, restructures, debt repayment and termination of leasing agreements.
- 4.27 Government grant as detailed earlier in the report has been incorporated. In addition, the projection continues to build in Council Tax increases (for district services) of 2.5% year on year from 2009/10.

Inflation

- 4.28 Unlike previous years, inflation has not been allocated directly into service base budgets. Clearly, some base costs will be subject to inflation during the year and in some cases it will be “unavoidable,” for example employee costs, when national pay increases are settled.
- 4.29 Allowances for inflation based on various assumptions regarding price increases, etc. have been calculated across the main spending heads and in total, will be held as a central contingency. The factors used are detailed in **Appendix 3**.
- 4.30 It is proposed that the overall contingency for inflation will be reviewed and monitored by this Committee separately and allocated into service budgets, as the actual effects of inflation become known over the year, through the financial monitoring framework.

Comparison to the Previous Projection

- 4.31 The previous projection (as reported in September 2008) following the budget out-turn for 2007/08 and first quarter’s monitoring for 2008/09, forecast a reserve balance of approximately £806,000 as at March 2014.
- 4.32 The main reasons for the reduction are summarised in **Table 2** below, with the sections following providing more detailed analysis. Where applicable, the on-going implications of the projected out-turn for 2008/09 has been included.

4.33 Clearly, a projection over 5-years, relies upon a certain degree of estimation based on assumptions regarding future pay and price changes. These are based as much as possible on the latest economic data available.

Table 2

Variance figures are cumulative over 5-years	£'000
Projected reserve balance @ March 2014 (as it stood in Sept 08)	(806)
Estimated increase in costs of waste and cleansing due to property growth	263
Increased costs of concessionary travel (assuming current cost allocation)	251
Estimated reduction in interest on short-term investments (lower rates)	237
Reduction in projected council tax base	236
Increase in gas and electricity on civic offices and leisure centres	148
Decrease in income from planning, building regulations and land searches	144
Estimated increase in running costs of new Etwall Leisure Centre	90
Increase in Housing and Council Tax Benefit Subsidy	(319)
Increase in Licensing income	(157)
Efficiencies and other reductions across services	(93)
Reduction in overall provision for inflation	(76)
Projected Balance @ March 2014 now	(82)

Waste and Cleansing

4.34 These services have been subject to a market testing exercise during 2008 in accordance with competitive tendering procedures. The outcome of this exercise was reported to the Environmental and Development Services Committee on 6th January.

4.35 After evaluating tenders, the estimated cost of meeting property growth over the life of the new contract has been established and now built into the MTFP. The anticipated savings on current costs were achieved, although these had already been built into the previous MTFP.

Concessionary Travel

4.36 The estimated increase at this stage reflects the increasing costs of the scheme, awarded to (through appeal) and being claimed by bus operators for 2008/09. It also includes the on-going effects of an anticipated increase on base costs of 8% for 2009/10.

4.37 However, as already reported to the Committee, this is likely to change fairly significantly as the distribution of costs for the new scheme are now close to being determined, based on data on actual usage in each area.

4.38 Initial indications suggest that the Council could be in a much better position. The likely effect on the overall financial position is detailed later in the report, from paragraph 4.73.

Reduction in Interest

- 4.39 As reported to Committee, the Council has seen a reduction in interest on its short-term investments due to the volatility of financial markets and in particular, the recent lowering of base interest rates.
- 4.40 From an average rate of 5% estimated in the 2008/09 base budget latest projections indicate an average of around 2.75% for 2009/10. Interest has been calculated on this basis. The MTFP assumes the following average rate.
- 2008/09 – 4% (revised from 5%)
 - 2009/10 – 2.75%
 - 2010/11 – 3.5%
 - 2011/12 – 4%
 - 2012/13 – 4.5%
 - 2013/14 – 5%
- 4.41 At this stage, it is still expected that the Council will be a net lender of funds over the next 5-years. Even before the current economic downturn, interest rates were historically low.
- 4.42 It is considered that a longer-term average of 5% is fairly prudent, but as with other issues underpinning this budget-round, it will depend upon the timing and extent of an economic upturn.

Reduction in the Council Tax Base

- 4.43 Unfortunately, this is another consequence of the economic downturn. The fall in the number of new house builds over the last few months will affect the level of council tax income compared to the previous projection.
- 4.44 The average increase in the tax base over the last 7-years to 2008/09 has been in excess of 1.5% or 450 new properties per year. This average had been assumed in previous projections and until recently, this was set to grow further.
- 4.45 However, as the calculation shows later in this report, the base will only increase by 0.9% (around 275 properties) in 2008/09, the lowest since 2001/02. The on-going effect of this is to reduce income by approximately £236,000 over the current MTFP.
- 4.46 The assumptions for new properties built in for future years are based on the latest projections for planning purposes, as follows:
- 2010 – 419
 - 2011 – 456
 - 2012 – 419
 - 2013 - 386

4.47 It should be noted that the above figures have been revised down from an average of around 600 per year. Therefore, it is considered that this is fairly prudent, but again, it will depend upon the timing and extent of an economic upturn.

Increases in the Cost of Gas and Electricity

4.48 This was reported to Committee in December and reflects the on-going effects of increases for the Civic Offices, together with Greenbank and Etwall Leisure Centres. New fixed term contracts were entered into earlier in this financial year when costs were still increasing.

4.49 These contracts were for fairly short periods (a year to 18 months). If energy prices do fall in the meantime (as expected by some commentators) then the Council will be in a position to take advantage of this.

Income from Land Charges, Building Regulations and Planning Fees

4.50 The reduction in income compared to budget, has been much sharper than estimated a year ago, due to the downturn in the economy.

4.51 It is anticipated that once the economy recovers and development/growth picks up, then income streams will again increase. However, the timing and level of this increase cannot be predicted and it is uncertain whether in the meantime, the current situation could worsen.

4.52 The MTFP includes the following projections regarding future income.

Table 3

Analysis of income from planning applications, building regulations and land charges	Planning Fees £	Building Regs. £	Land Charges £	Total £
Actual 2004/05	501,700	348,130	238,665	1,088,495
Actual 2005/06	612,198	370,232	229,826	1,212,256
Actual 2006/07	677,366	338,055	227,812	1,243,233
Actual 2007/08	573,747	297,089	192,798	1,063,634
Base Budget 2008/09	590,000	325,000	220,000	1,135,000
Projected Out-turn 2008/09	590,000	255,000	130,000	975,000
Projection 2009/10	531,000	255,000	130,000	916,000
Projection 2010/11	590,000	300,000	180,000	1,070,000
Projection 2011/12	590,000	340,000	220,000	1,150,000
Projection 2012/13	590,000	340,000	220,000	1,150,000
Projection 2013/14	590,000	340,000	220,000	1,150,000

4.53 The table shows that income started to reduce during 2007/08 and a more prudent budget was set for 2008/09. However, income has fallen much more sharply in 2008/09, especially in relation to building regulations and land charges.

- 4.54 This is expected to continue during 2009/10 with a recovery during 2010/11. It is projected that by 2011/12, overall income will be back to current base budget levels (although not as high as previous peaks).
- 4.55 On the plus side, it is expected that over the next year or so, some larger planning applications will be forthcoming as sites are released for development and the growth of the district continues. These are not included within the above projections.
- 4.56 However, it should be noted that additional fee income is needed to fund extra staffing resources in Planning Services as approved by the Council in July 2008. Recruitment and management of existing staffing levels are currently under review and being monitored closely whilst the current situation continues.
- 4.57 In addition, the Environmental and Development Services Committee have approved proposals to vary the level of fees for building control and land searches. This may also help to generate some additional income.

Provision of new Leisure Facilities

- 4.58 Work has been ongoing during the year to establish the revenue costs of the new leisure centre at Etwall and to draw up a revised agreement for the partners who will be responsible for managing the new facility. Draft proposals are due to be reported to the Joint Management Committee on 19th January 2009.
- 4.59 It is likely that the cost to the Council will exceed the current budget for the existing centre by approximately £20,000 per year. Provision has been made in the MTFP for this, subject to final approval.
- 4.60 It should be noted that the increased subsidy for Greenbank Leisure Centre approved in last year's budget round would cease after 2010/11. No provision continues to be made beyond this in the MTFP.

Housing Benefit Subsidy

- 4.61 The Council pays out and administers local housing benefit payments, effectively acting as agents for the Government. The Government largely reimburses the cost although this depends to a certain extent upon performance in processing, together with pro-active work undertaken to detect and prevent fraud.
- 4.62 Financially, this is a risk for the Council given the amounts involved (£14m paid in benefits per year) and where the final amount of reimbursement is not known until after a year has ended. This can make budgeting more difficult when a variation of ½% can have a fairly large impact overall.
- 4.63 In recent years, the Council has usually fared better than budget and the effect of this has been built into the MTFP.

Reduction in the Overall Provision for Inflation

- 4.64 It is considered that the current rate of inflation peaked during September 2008 and that prices are again reducing. The headline inflation rates (both CPI and RPI) fell sharply during October and November 2008 – the CPI from 5.2% in September to 4.1% by November and RPI from 5% to 3% by November 2008.
- 4.65 Although provision has still be made for inflation over the life of the MTFP (as detailed in **Appendix 3**), the indices for items such as fuel and energy prices in particular have been reduced to reflect this.

Financial Risks - Minimum Level of General Reserves

- 4.66 The previous sections clearly highlight that the Council faces 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.
- 4.67 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.
- 4.68 Based on this, the Council's minimum level as set out in the Financial Strategy is £1m on the General Fund. This level is calculated based on an assessment of the major financial risks facing the Council including major income streams, inflation and interest rates, all of which are detailed in previous sections of the report.

Risks and cost pressures considered by other Policy Committees

- 4.69 The Council's other policy committees (including a separate report to this Committee) have considered in detail their particular service budgets. This included potential cost pressures and risks. This consolidated report has incorporated these issues. Other potential pressure areas are summarised in **Table 4**, below.

Table 4

PRESSURE/RISK	NOTE
Recycling	There is evidence to suggest that the current economic situation is reducing the price of recycled materials due to a fall in demand. Although at this stage there has been no impact, this could also affect Council budgets through an increased cost of the kerbside collection service for recycled materials.
Funding Community Support and Crime Prevention Services	This is perennially subject to securing on-going funding including the Council's contribution. Posts reliant on external funding are currently subject to consideration by the Overview and Scrutiny Committee as part of their work on the Council's draft budget proposals. The Overview Committee is due to report on this matter in February 2008. Although funding for several of these

	posts has been secured for 2009/10 and beyond in some cases, funding for other posts will need to be reviewed ahead of the 2010/11 budget round.
Swadlincote Woodlands	The on-going revenue costs for managing and maintaining the Woodland has, for a number of years, been largely financed by drawing down money from a Section 106 pot, previously set-aside for that purpose. Based on current spending, this reserve will run out during 2011/12. No provision is currently in the Council's overall base budget to provide for these costs, which total about £50,000 per year.
Maintenance of the Civic Offices	The one-off increase in this budget for 2008/09 has helped to ease the pressure on maintenance liabilities. However, it is still considered by budget officers that the on-going demand and commitments will continue to place pressure on the overall budget. The Committee may need to consider this at some stage or allocate some additional resources to this budget if they become available. In the meantime, on-going monitoring of spending needs to continue.

The Council's Efficiency Programme

- 4.70 Given the tightening financial position, it is vital that the Council continues to find efficiencies through its business improvement and procurement programmes, including the series of service reviews.
- 4.71 In accordance with the Financial Strategy, only those cashable efficiencies actually achieved to-date have been included in the forward plan. The Council's efficiency programme including progress will continue to be reported to the Committee as part of the performance management framework.

A Changing Picture

- 4.72 There are 2 fairly significant issues currently in progress, the outcomes of which would have a positive impact on the Council's MTFP. These are concessionary travel and rental income from industrial property holdings.

Concessionary Travel

- 4.73 Concessionary travel, whereby all persons over 60 years old are entitled to free travel, is funded by local authorities. To a certain extent it is financed through general government grant, although amounts at individual authority level are not easily (if at all) identifiable.
- 4.74 The Council is part of a countywide scheme administered on behalf of all Derbyshire authorities, by the County Council. Historically, the costs of the scheme have been pooled at a County level and shared amongst each authority based on eligible population. South Derbyshire's share is 6.28% and currently equates to nearly £1m for 2008/09.
- 4.75 South Derbyshire is responsible for the costs of concessionary travel in its area. There have been benefits to the Council of being part of a countywide

scheme and being within a “partnership” arrangement. However, there has been some uncertainty on whether the costs were being allocated correctly, i.e. reflecting actual bus usage in each area.

- 4.76 The implementation of the Concessionary Bus Travel Act 2007 (from 1st April 2008) has effectively forced a change to the distribution of costs, i.e. to reflect actual passenger journeys within each area or if the journey starts within its boundaries. In addition, the costs should reflect those of the specific bus operators in each area only.
- 4.77 It is fair to say that there have been some problems with all operators submitting the required data in order for costs to be accurately assessed. However, the first 6 months data to September 2008 is now available.
- 4.78 This shows that the costs for South Derbyshire are significantly less than currently being paid, i.e. in excess of £600,000 per year. This is based on the actual data for 6 months extrapolated for a full year, adjusted by 10% (upwards) for seasonal variations.
- 4.79 Due to how this has affected other Derbyshire authorities and with other authorities lobbying at a national level for extra funding, the reduction in costs has not been taken into account at this stage.
- 4.80 However, it should be noted that the legislation seems fairly clear in that the costs of the scheme should be those of the operators in each individual district area based on actual usage. An update and proposals for finalising figures will be provided to Committee on 17th February 2009.

Rental Income from Industrial Holdings

- 4.81 During November 2008, one of the main leases of a council-let industrial unit expired. This was known about for some time and the MTFP had already assumed that the associated income would end at this date.
- 4.82 This was based on an assumption that the business concerned would not be continuing and would relinquish the premises. However, subject to outstanding negotiations, a new lease is close to being finalised.
- 4.83 This will continue to generate income for at least the next 3-years, but until negotiations are finalised, the income has not been built back into the MTFP.

Estimated Effect on the 5-year Projection

- 4.84 Clearly, these two issues of concessionary travel and industrial rents would have a significant effect on the projection. This is summarised in **Table 5** below.

Table 5

YEAR	BUDGET DEFICIT £	TRAVEL COSTS £	RENT INCOME £	REVISED DEFICIT/ (SURPLUS) £	REVISED RESERVE BALANCE £
2008/09	996,847	(640,223)	(83,017)	273,607	2,819,559
2009/10	759,251	(676,890)	(77,500)	4,860	2,814,698
2010/11	568,459	(692,563)	(88,750)	(212,854)	3,027,552
2011/12	347,150	0	(75,000)	272,150	2,755,402
2012/13	160,407	0	0	160,407	2,594,995
2013/14	179,534	0	0	179,534	2,415,461

4.85 The effects of concessionary travel have not been projected beyond 2011. This is due to government proposal to transfer the responsibility to upper tier authorities, i.e. the County Council.

4.86 This would mean the costs of the scheme being fully transferred, but would also entail the transfer of government grant, i.e. a material reduction in grant for South Derbyshire.

4.87 As the amount of grant applicable to concessionary travel in the revenue support grant is not easily identifiable, it is not yet clear how this will ultimately affect the Council. This will be an issue in future reviews of the MTFP.

4.88 Clearly, the effects on the projected financial position are considerable in that the budget deficit is reduced and in fact a surplus would be achieved in 2010/11. In addition, this maintains the level of reserves at a level beyond the safe minimum of £1m.

4.89 However, it should be noted that even after the impact of these two issues, there is still a projected underlying budget deficit in the longer-term.

Revenue Contributions to Capital

4.90 Given this situation, it is proposed to set-aside resources from any gains arising out of concessionary travel and industrial rents. As detailed later in the report, there is a potential commitment to be financed on the capital programme totalling £1.825m.

4.91 If this is paid for from the General Fund, the effect on the General Reserve is summarised in **Table 6**, below.

Table 6

YEAR	RESERVE BALANCE (TABLE 5) £	PROPOSED CAPITAL CONTR £	REVISED PROJECTED BALANCE £
2008/09	2,819,559	0	2,819,319
2009/10	2,814,698	0	2,814,698
2010/11	3,027,552	400,000	2,627,552
2011/12	2,755,402	750,000	1,605,402
2012/13	2,594,995	350,000	1,094,995
2013/14	2,415,461	325,000	590,461

4.92 Clearly, until the final year of the current planning period, the level of reserves (when including concessionary travel, etc) would allow revenue contributions to subsidise capital.

4.93 However, any capital resources generated would reduce the amount required from the General Fund and therefore improve the above position further.

COUNCIL TAX

Council Tax Base

4.94 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.

4.95 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.”

4.96 The tax base as calculated for 2009/10 is summarised in **Appendix 4**. As usual, this assumes a collection rate of 99% and is based on the number of properties (by Parish/Area) as at 5th January 2009.

4.97 The calculation shows a total tax base for 2008/09 of 30,641.6. This is an increase of 0.9% compared to 2008/09 and this has been used to calculate the amount of income from council tax in 2009/10 included in these budget proposals.

Collection Fund Surplus/Deficit

4.98 In addition, in setting the level of council tax for 2009/10, the Council is also required to calculate the estimated balance on its Collection Fund for the current year.

4.99 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 rate pool.

- 4.100 The account is designed to balance each year. However, council tax levied for instance is not all collected, circumstances such as the number of houses subject to tax and people receiving benefit, changes during the year.
- 4.101 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 is fairly small. The County Council as the major preceptor on the Fund picks up the majority of any adjustment.
- 4.102 The estimated position on the Collection Fund for 2008/09 with a comparison to previous years is summarised in **Appendix 5**. 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.
- 4.103 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).
- 4.104 **Appendix 5** shows an estimated surplus balance on the Collection Fund as at 31st March 2009 of approximately £434,000. In accordance with the prescribed formula, this is shared as follows:

- Derbyshire County Council - £319,000
- Derbyshire Police Authority - £46,000
- Derbyshire Fire Authority - £19,000
- South Derbyshire District Council - £50,000

Council Tax Levels

- 4.105 As highlighted earlier, the projection has built in Council Tax increases (for District services) of 2.5% per year.
- 4.106 In announcing the financial settlement for 2009/10, the Minister for Local Government said:
- “The Government expects the average council tax increase in England to be substantially below 5% in 2009-10 and we will not hesitate to use our capping powers as necessary to protect council taxpayers from excessive increases, including requiring authorities to re-bill if that proves necessary.....As last year, I do not propose to send any further reminders about the risks of capping. The decisions are yours and the Government has now set out clearly the context in which you must take these decisions.”
- 4.107 A 1% increase or decrease in council tax equates to approximately £48,000 per year – £240,000 over the 5-year planning period.

CAPITAL INVESTMENT and FINANCING

4.108 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.

4.109 The Council's current approved spending and financing programme to 2013/14 is detailed in **Appendix 6**.

General Capital Receipts

4.110 For the last 2 to 3 years, there has been a projected shortfall in resources to meet all capital commitments that are in the main, unavoidable. This has been due to a sharp reduction in council house sales. Consequently, any new capital investment has been subject to 100% external funding and government grants.

4.111 During recent months, the projected position has continued to worsen, another consequence of the economic downturn. This is due to a complete reduction in capital receipts from asset disposals and in particular council house sales.

4.112 Given the current economic downturn, no further receipts are projected beyond those generated to-date, over the next 5-years.

4.113 Clearly, at some stage the Council will in all probability generate resources over the planning period. Assets considered "surplus to requirements" have been identified and in some cases already approved for disposal by this Committee. The timing of these disposals and their amount is currently very uncertain and no income is anticipated over the next 12 to 18 months.

4.114 This can be considered the "worst case scenario," but it does help to focus on how much the Council needs to generate to meet commitments on covenant repayments, vehicle replacements and its contribution to disabled facility grants, all of which are really unavoidable.

4.115 Infact, the Council needs to generate around £1.825m over the next 5-years to meet these commitments. If capital funding cannot be generated, then revenue funding in the form of direct contributions would need to be made.

4.116 Clearly, this puts additional pressure on the General Fund. If the effects of concessionary travel and industrial rents have the positive impact on the General Fund as highlighted earlier in the report, it is proposed that a proportion is set-aside as a provision on a prudent basis, to meet capital commitments pending future receipts, i.e. to cover the £1.8m.

Other Earmarked Capital Receipts

4.117 As **Appendix 6** shows (pages 18 and 19) the Council still has other resources set-aside. Firstly, a provision remaining from "windfall receipts" generated

between 2004 and 2007. This balance of this money (£300,000) is currently earmarked to support the capital programme on the housing stock should it be required. However, it could be used to support the projected deficit of £1.825m.

4.118 Secondly, the Council has a capital reserve ring-fenced for the provision of approved low cost affordable housing schemes. This is currently being spent to deliver the Council's Sheltered Housing Vision and Standards. Under accounting regulations however, it cannot be used elsewhere.

The Current Investment Programme

4.119 Due to the financing situation, beyond the current year, this is now entirely dependent on external funding and government grant.

4.120 Besides improvements to council properties that are funded specifically by a government allowance, there is no funding for general schemes after current budgets are fully utilised.

Private Sector Housing Investment

4.121 In recent years, this area has received substantial funding from capital receipts and government grant. The Council does have statutory responsibilities in this area, together with an expectation to improve private housing through improvement grants, energy efficiency measures, etc.

4.122 The lack of resources is perhaps more acute in this area, as there is unlikely to be any slippage or unallocated money to carry forward from the current year's budget.

4.123 The Government has awarded the Council £320,000 for Decent Homes for Vulnerable People for 2008/09. A further bid for £150,000 has also been submitted with a decision expected in February.

Disabled Facility Grants (DFG's)

4.124 The Committee will also be aware of the shortfall in resources to fully meet the demand for DFG's, where again, the Council is faced with a statutory responsibility. Consequently, additional resources of £110,000 were shifted to this area earlier in the year, together additional funding being secured from the Government and the PCT.

4.125 The Council's programme continues to include a provision of £66,000 per year and is supplemented by Government Grant. The Council has been awarded £208,000 for DFG's for 2009/10, making a total budget of £274,000.

Other Funding

4.126 Due to external funding, the Council is still able to invest in capital. For example, Big Lottery funding is financing a programme of play schemes, Section 106 funding is financing community facilities in Hilton and Growth

Point money is financing various projects and initiatives across the District. These schemes are detailed in **Appendix 6**.

5.0 Financial Implications

5.1 As detailed in the report.

6.0 Corporate Implications

6.1 As detailed in the report.

7.0 Community Implications

7.1 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.

8.0 Conclusions

8.1 The Committee is requested to consider carefully the income and expenditure proposals for the Council in the light of its overall financial position, and to approve a set of proposals to be used as the basis for consultation with local residents, businesses, voluntary and community groups, etc.

9.0 Background Papers

9.1 None