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Our ref: DT/CL  
Your ref:

Date: 17 October 2013

Dear Councillor,

**Finance and Management Committee**

A Meeting of the **Finance and Management Committee** will be held in the **Council Chamber**, on **Thursday, 17 October 2013 at 18:00**. You are requested to attend.

Yours faithfully,

Chief Executive

To:- **Conservative Group**  
Councillor Wheeler (Chairman), Councillor Mrs. Watson (Vice-Chairman) and  
Councillors Jones, Lemmon, Murray, Smith and Watson.

**Labour Group**  
Councillors Bell, Rhind, Richards, Southerd, Taylor and Wilkins.



## AGENDA

### Open to Public and Press

- 1 Apologies
- 2 To receive the Open Minutes of the Special Meeting- 27th June & the Meeting 5th September 2013.
- 3 To note any declarations of interest arising from any items on the Agenda
- 4 To receive any questions by members of the public pursuant to Council Procedure Rule No.10.
- 5 To receive any questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 6 Reports of Overview and Scrutiny Committee
- 7 A Review of the Council's Financial Strategy **5 - 14**
- 8 A Review of the Council's Medium Term Financial Plan 2013 to 2018 **15 - 35**
- 9 Local Council Tax Support Scheme 2014/15 **36 - 39**
- 10 Audit Sub Committee **40 - 46**
- 11 Work Programme **47 - 48**

### Exclusion of the Public and Press:

- 12 The Chairman may therefore move:-  
That in accordance with Section 100 (A) of the Local Government Act 1972 the press and public be excluded from the remainder of the Meeting as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that there would be disclosed exempt information as defined in the paragraph of Part I of the Schedule 12A of the Act indicated in the header to each report on the Agenda.
- 13 To receive the Exempt Minutes of the Meeting held on 5th September 2013.

- 14 To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 15 Premises at Melbourne
- 16 Land at Melbourne
- 17 Land at Swadlincote
- 18 Discretionary, Mandatory and Hardship Relief
- 19 Write Off Report
- 20 Restructure Report



<b>REPORT TO:</b>	<b>FINANCE and MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM: 7</b>
<b>DATE OF MEETING:</b>	<b>17th OCTOBER 2013</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPOARTE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/live files/financial strategy/covering report
<b>SUBJECT:</b>	<b>A REVIEW OF THE COUNCIL'S FINANCIAL STRATEGY</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM 08</b>

## **1.0 Recommendations**

1.1 That the Council's Financial Strategy is approved.

## **2.0 Purpose of Report**

2.1 In accordance with Council policy, to review the Financial Strategy ahead of the budget round for 2014/15 and the Medium Term Financial Plan to 2018.

## **3.0 Executive Summary**

3.1 The Financial Strategy sets out the process on which the Council plans and manages its financial resources. Effectively, the Strategy is designed to ensure that:

- Finance contributes to the priorities of the Council, whilst ensuring that:
  - The Council's financial position is resilient, sustainable, and
  - Probity and stewardship exist in the use of financial resources

3.2 The key areas covered are:

- Moving resources to meet priorities and new spending pressures
- Setting a minimum level of reserve balances
- Maintaining a resilient and sustainable financial position
- Earmarked reserves
- Generating/maximising external funding and other income streams
- Local taxation
- Other charges such as Housing Rents
- Ensuring probity and stewardship
- Maintaining good financial management and raising awareness

3.3 The full Strategy for consideration is attached. It generally follows best practice, but should be reviewed considering the current economic conditions and the financial situation within the public sector and its impact upon local councils.

#### **4.0 Financial Implications**

4.1 None directly.

#### **5.0 Corporate Implications**

5.1 None directly.

#### **6.0 Community Implications**

6.1 The Strategy reports on how the Council plans and manages the financial resources, provided by the local community, in the provision of services whilst maintaining a strong financial position.

#### **7.0 Background Papers**

None

### 1. INTRODUCTION

- 1.1 This strategy sets out the process on which the Council plans and manages its financial resources and to ensure that they support the direction of the Council's priorities. The Strategy was updated in October 2013.

#### Its Objectives

- 1.2 In its broadest terms, the strategy is designed to ensure that:

- Finance contributes to the priorities of the Council, whilst ensuring that:
  - The Council's financial position is resilient, sustainable, and
  - Probity and stewardship exist in the use of financial resources.

- 1.3 The framework is cascaded down and detailed in other plans and strategies, which are:

- **The Medium Term Financial Plan** – setting out the medium term spending and financing plans to identify the extent of a budget surplus or deficit and the impact upon general reserves.
- **Treasury Management Strategy** – setting out how cash, borrowing and investment are managed.
- **Financial Management and Procedural Rules** – setting out the procedures to ensure that the use of finance is legal, properly authorised, reported and provides value for money.
- **Internal Audit Plan** – setting out when key financial and other systems will be reviewed over time to test the effectiveness of internal control.
- **Charging Policy** – setting out the formal framework within which the Council's fees and charges are formulated, reviewed, agreed and administered.
- **Capital Investment Strategy** – setting out how major investment is planned and managed.
- **Asset Management Plan** – setting out the management of land and property, together with identifying assets surplus to requirements for potential disposal.

#### Key Areas

- 1.4 The strategy is appropriate for all services. It identifies the key areas making up the overall framework that are considered on a regular basis. It then highlights the factors against each area that are used to meet the objectives (as set out in 1.2, above). These key areas are:

- Moving resources to meet priorities and new spending pressures
- Setting a minimum level of reserve balances
- Maintaining a resilient and sustainable financial position
- Earmarked reserves
- Generating/maximising external funding and other income streams
- Local taxation

- Other charges such as Housing Rents
- Ensuring probity and stewardship
- Maintaining good financial management
- Raising awareness of finance

### Timescale

- 1.5 The strategy is set against a medium-term time frame to fit in with the Council's corporate planning framework. However, in principle it will exist for longer as it provides the overall direction and parameters for financial management at the Council in accordance with best practice.
- 1.6 The strategy may develop in response to new financial opportunities/risks and new policy directions. Therefore, the strategy is reviewed on a regular basis and at least annually.

## 2. MOVING RESOURCES TO MEET PRIORITIES AND NEW PRESSURES

- 2.1 The Council's existing budgets at anyone time, are to a certain extent historically based. Consequently, they may not always meet the latest priorities and spending pressures and there is always a need to look to shift resources between services and cost types. The strategy to achieve this is:
- **To align and examine spending against priorities** on an on-going basis. This may from time to time include fundamental reviews of specific areas of the Council's base budget.
  - **To identify value for money efficiency savings** to build capacity and to redirect resources to priority areas. Although planned in advance, these efficiencies are only made available for spending when they are finally achieved.
  - **To gradually disinvest in areas identified as non-priority** by limiting increases (e.g. cash limiting budgets) and undertaking more fundamental reviews of services and structures when opportunities arise.
  - **To undertake strategic service reviews** in accordance with the Council's Procurement and Business Improvement Plans.
- 2.2 Where additional resources are identified, the Council evaluates proposals for service development and new investment through a pre-determined process.
- 2.3 However, this is balanced against the Council currently having an underlying budget deficit identified in its MTFP. In the current economic climate and with on-going reductions in overall Government funding, the Council continues to face a financial challenge.
- 2.4 Therefore, resources identified through the mechanisms highlighted above, need to be considered corporately in order for the overall financial position to be sustained.

## 3. SETTING A MINIMUM LEVEL OF RESERVE BALANCES

- 3.1 It is the responsibility of the Council's Chief Finance Officer (CFO) to recommend a minimum level of general reserves to act as a contingency against any unforeseen events or unexpected liabilities. There is no externally set figure and the CFO is required to recommend a level to reflect local circumstances.

- 3.2 The Council faces many financial and business risks. These are identified and reviewed in spending and resource projections.
- 3.3 Based on this, the Council's target is to have a minimum general reserve at the end of every planning period. The targets are:

- £1m on the General Fund at the end of every 5-year rolling plan period.
- £1m on the Housing Revenue Account at the end of every 10-year rolling period.

#### 4. MAINTAINING A RESILIENT and SUSTAINABLE FINANCIAL POSITION

4.1 With a principle set regarding a minimum level of general reserves, the Council plans and manages its finances within this target. This is detailed in a Medium Term Financial Plan (MTFP).

4.2 The MTFP details how financial resources will be utilised in order to deliver services set out in the Council's Corporate Plan. Essentially, it:

- Sets out the spending and financing plans over 5-years for general fund services and for capital investment.
- Maintains and keeps under review an associated 5-year rolling financial forecast on the General Fund.
- Maintains and keeps under review a 5-year capital expenditure and financing programme in accordance with a nationally recognised Code of Practice.
- Maintains and keeps under review a 10-year rolling financial projection on the Housing Revenue Account in accordance with the HRA Business Plan.  
**(This supports a wider 30-year Business Plan under the "self-financing" framework)**
- Assesses the affordability of proposed service developments and new capital investment over the associated planning periods.
- The MTFP is formulated as part of the Council's yearly budget setting process (in January each year). It is reviewed and updated where necessary and in particular, following the annual budget out-turn and Government spending reviews, in October each year.

4.3 The budget formulates spending plans in detail for the next financial year and details projections over the respective 5 and 10-year planning periods. As part of this process, financial risks are kept under review.

#### Evaluation Framework

4.4 A key part of the budget process is the assessment of proposals for new spending and investment. In the current financial climate, additional resources are limited, although from time to time, new demands for spending arise and these need to be prioritised to fit available resources.

4.5 Therefore, the evaluation framework [Page 8 of 47](#) aims to provide a guide and a more objective assessment against which new spending proposals are prioritised. It is constructed

to favour proposals that are aligned to the Council's priorities, together with any national targets.

- 4.6 The framework effectively provides a business case for both revenue funding and new capital investment. The system is corporate and an independent panel assesses all bids.
- 4.7 The associated scoring system takes account of the following:
- How far a bid meets Council/local community priorities
  - How far it meets wider regional and national priorities
  - The degree of risk involved
  - How much partnership working is delivered
  - External funding levered in
  - Income generation and future cost savings
  - Any environmental and social impacts

## **5. EARMARKED RESERVES**

- 5.1 In addition to general reserves, the Council maintains earmarked reserves that are held for specific purposes. They are provided to meet known commitments and in some cases, to spread expenditure over financial years.
- 5.2 These reserves can exist over a number of years. Although this is a prudent way of safeguarding the Council's financial position, it is equally important to check that resources are not under utilised unnecessarily and that they are in accordance with the Corporate Plan and accounting practice.
- 5.3 Therefore, these reserves are reported and reviewed as part of the Council's financial reporting process.

## **6. EXTERNAL FUNDING**

- 6.1 It is recognised that the Council has limited resources and cannot achieve all of its aims in isolation. However (apart from local taxes) the Council does have access to a variety of funding sources as set out below.

### **Government Funding**

- 6.2 The Government's current policy is to reduce the reliance on central funding to local councils, both in general terms and via specific grants. However, the national exchequer still funds over 50% of all council spending – clearly a significant proportion.
- 6.3 In addition, some financing is not “mainstream” and not always guaranteed from year to year.
- 6.4 It is critical that the Council receives its fair and equitable share via the various distribution mechanisms used by the Government. Therefore, the Council seeks to consult with the Government through special interest and wider national groups containing other local authorities that share common issues with South Derbyshire.

### **Partnership/External Funding**

- 6.5 The Council has a good track record of leveraging in external funding. Delivery of some of the Council's priorities such as community development are dependent upon it.
- 6.6 In addition, the provision and enhancement of new community and recreational facilities, especially in high growth areas are dependent upon securing funding through the planning and development system.
- 6.7 Clearly, the maximisation of these resources is vital and the Council channels efforts in various ways to achieve this.
- 6.8 However, working in partnership and/or the bidding for external funding is only sought if it will contribute and help deliver the Council's priorities.

### **Resources for Capital Investment**

- 6.9 Plans for securing, maximising and utilising financing specifically for capital projects are detailed in the Council's Capital Investment Strategy. This covers:
- Proceeds from selling/disposing of fixed assets (capital receipts)
  - Generating additional resources via the Asset Management Plan
  - Partnerships and External Funding
  - Local Businesses and Developers
  - Prudential Borrowing

### **Fees and Charges**

- 6.10 The Council generates approximately £4m per year from various fees, sales, rents (excluding council houses) and other charges. The level of some of these is statutorily set or subject to periodic legal reviews such as rents and leases.
- 6.11 Many others are at the discretion of the Council. Optimising income is achieved in two ways:
- Each year, a target increase on current charges is set for each Council Division.
  - From time to time the Council undertakes a more comprehensive review of its charging structure, in particular for discretionary services and where charges could be introduced.

### **Charging Policy**

- 6.12 Maximising income, although clearly an important consideration, is not the only factor in deciding on the level of fees and charges. The Council has in place a charging policy.
- 6.13 This recognises that fees and charges can also play an important role in other areas such as:
- Demonstrating the value of a service
  - Discouraging abuse of a service
  - To strengthen service and corporate objectives
  - To promote and encourage access to services

- 6.14 Therefore, consideration is given on a regular basis (through this Policy) to the scope of raising revenue through charges for services and to reviewing the appropriateness and adequacy of the levels of charges being proposed or actually in force.

### **Investment Income**

- 6.15 The Council has an underlying borrowing requirement but is a net lender of funds on a daily basis. Consequently, it has surplus cash to invest on a temporary basis. The Council's Treasury Management Strategy sets out the way in which income from this source is maximised.
- 6.16 This includes measuring performance against an average market rate. However, the strategy also sets out how **security and liquidity of funds** is safeguarded – a key theme of that strategy.

## **7. LOCAL TAXATION**

- 7.1 Most Council spending is ultimately financed from the "public purse." At a local level, the main tax that contributes to the provision of local services is the Council Tax.
- 7.2 The Council is aware of the level of local tax that falls on its local residents and how much they are asked to contribute to the delivery and improvement of services.

### **Council Tax**

- 7.3 The Council has a lower level of Council Tax compared with its "family" group of authorities. The Council does have discretion over the level of Council Tax although yearly increases, over a certain amount, are subject to a local referendum.
- 7.4 For planning purposes, the MTFP is based on an annual increase which reflects the maximum allowed before a referendum is required. However, the level is reviewed each year in accordance with the overall financial situation.

### **Council House Rents**

- 7.5 This is the main way in which the cost of council housing is financed. Central Government effectively set local rent levels through their rent setting formula. This is designed to equalise rent levels with other (private sector) housing providers across the District, although this is currently being reviewed for 2014/15.
- 7.6 The Council does have some flexibility to vary rents. However, this would reduce the amount of income if they were set lower and if they were set higher, there is a risk that it would be penalised through the system the Government uses to reimburse councils for housing benefit payments – the level of this subsidy would be capped.
- 7.7 Therefore, the Council in principle sets its yearly rent increase in accordance with the Government's rent setting formula. However, this is subject to considering the affordability to tenants on a yearly basis.

## **8. PROBITY and STEWARDSHIP**

- 8.1 Ensuring probity and stewardship in the use of public funds is contained in the Council's constitution and is based on best practice set out by the Chartered Institute of Public Finance.

### **Financial Regulations**

8.2 These set out the policies in relation to:

- Financial accountabilities.
- Financial policy.
- Risk management and internal control.
- Financial administration.
- Partnerships, purchasing and contract arrangements.
- Prevention of Fraud and Corruption

### **Financial Procedural Rules**

8.3 These provide an interpretation of the regulations and set out responsibilities and detailed guidance for Members and Officers.

8.4 Both the regulations and procedures are subject to continuous review by the CFO who submits any additions or changes necessary to the Council for approval. In addition, the CFO will report, where appropriate, breaches of the rules to the Council.

## **9. MAINTAINING GOOD FINANCIAL MANAGEMENT**

9.1 Staying on track and monitoring financial plans and the use of resources is a key part of this strategy. This is achieved through a system of:

- Regular budget monitoring between budget holders and their service accountant to highlight variances and potential issues at an early stage.
- Regular budget and financial reporting to the Council's Finance and Management Committee.
- The referral of any adverse variance or potential issues to the Council's main Policy Committees for consideration and action.
- An annual budget review by the Overview and Scrutiny Committee.

## **10. RAISING AWARENESS OF FINANCE**

10.1 Local Government Finance is very technical and diverse. It is governed by a myriad of legislation, regulations and complicated distribution mechanisms. This can be over-bearing to the "non-finance" person.

10.2 The CFO plays a key role in setting the strategy, but the whole Council is involved in its delivery at various stages.

10.3 For example, the responsibility for managing budgets and using resources rests with Chief Officers and their service managers. The ultimate responsibility for allocating resources rests with elected members.

10.4 It is important therefore, that those having this responsibility have the necessary awareness and knowledge, etc. to manage budgets and make decisions. The role of the CFO is to help ensure this. [Page 12 of 47](#)

- 10.5 Raising awareness and training is an on-going issue. It can be gained as a matter of course (and often is) through experience and the gathering of knowledge from regular involvement.
- 10.6 In addition, the CFO provides more formal means of raising awareness and this is achieved in a number of ways:
- Through the induction process for new employees
  - Induction training for new members
  - Seminars for members
  - Ad-hoc teach-ins and awareness sessions for individual services
  - The provision of documents and guidance notes on the Council's Intranet
  - The provision of training material in audio and visual mode.

<b>REPORT TO:</b>	<b>FINANCE &amp; MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>17th OCTOBER 2013</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE ( 01283 595811)</b> <a href="mailto:kevin.stackhouse@south-derbys.gov.uk">kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/MTFP/midyear review/October 13
<b>SUBJECT:</b>	<b>A REVIEW of the COUNCIL'S MEDIUM TERM FINANCIAL PLAN 2013 to 2018</b>	<b>REF:</b>
<b>WARD (S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM 08</b>

## **1.0 Recommendations**

- 1.1 That the updated financial projection on the General Fund to 2019 as detailed in **Appendix 1** is approved.
- 1.2 That the updated financial projection on the Housing Revenue Account to 2024 as detailed in **Appendix 2** is approved.
- 1.3 That the financial projections provide the basis for planning purposes.
- 1.4 That an action plan to achieve the necessary budget savings, as detailed in **Section 6**, on the General Fund is formulated and progress is reported to the Committee on a quarterly basis.
- 1.5 That all budgets are challenged and fully scrutinised during the forthcoming budget round 2014/15.

## **2.0 Purpose of Report**

- 2.1 In accordance with the Council's Financial Strategy, the report reviews and updates the Council's Medium Term Financial Plan (MTFP). This includes a review of associated budget projections, risks and assumptions for the General Fund and Housing Revenue Accounts (HRA).
- 2.2 This follows the reported out-turn for 2012/13, together with changes since the 2013/14 budget-round. It is also includes the potential affects arising from the Government's review of Public Finances in June 2013, together with proposals to end rent convergence in the HRA after 2014/15.

### **Aims of the Council's Financial Planning Framework**

- 2.3 A key factor within the Council's overall Financial Strategy is medium term financial planning. This is to achieve a resilient and sustainable financial position in accordance with the Corporate Plan objective of achieving "value for money."

- 2.4 The main target within the Financial Strategy is to achieve a minimum level of general reserves by the end of every financial planning period. This is based on a MTFP which sets out a financial projection and commentary on the key spending areas across the Council.
- 2.5 The main focus of the projection is to estimate the Council's future financial position and provide an early warning sign of any financial challenges that may lie ahead in future years. This then provides an opportunity to take a planned approach to remedial action. In addition, it is used as the basis for building detailed budget plans each year.
- 2.6 It also helps the Council to focus on the resources that it will have available at the end of each period. In addition, it helps to identify where resources and spending are changing in the medium term to enable action to be taken at an early stage to prevent any loss of financial stability.
- 2.7 The projections are based on a series of assumptions based on an analysis of interest rates, inflation, together with the national economic situation and central government policy, etc. These can change over time which affects the MTFP and consequently the Council's spending plans.
- 2.8 The report is split into the following sections:
- **Section 3:** Executive Summary.
  - **Section 4:** An updated financial projection on the General Fund with analysis and assumptions.
  - **Section 5:** Core Funding - Government Grant and Council Tax
  - **Section 6:** Summary General Fund Position and Budget Savings
  - **Section 7:** An updated financial projection for the HRA.
  - **Appendix 1:** General Fund Projection
  - **Appendix 2:** Housing Revenue Account Projection

### **3.0 EXECUTIVE SUMMARY**

#### **General Fund**

- 3.1 The updated financial position on the General Fund ahead of the 2014/15 budget round is summarised in the following table.

**Updated General Fund Projection  
(As at October 2013)**

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

- 3.2 Based on an updated projection, the above table shows a negative reserve balance of minus £975,629 by 2018/19, with an increasing budget deficit in the interim term. Based on current income and expenditure projections, this is not considered sustainable over the medium term.
- 3.3 The main reason for the weakening financial position is the likely reduction in core funding. This follows announcements and provisional settlement figures included in the Government's Comprehensive Spending Review, which reported in June 2013.
- 3.4 In particular, a proposal to top slice the Council's New Homes Bonus allocation from 2015/16 by up to 20%, will reduce resources in the current MTFP by approximately £1.5m between 2015/16 and 2018/19.
- 3.5 The revised projection includes the current budget savings target of £300,000 in 2013/14. Although some of this still needs to be confirmed, it is likely that the full amount will be made and included in the base budget for 2014/15.
- 3.6 Based on these latest projections, in order for a sustainable position to be maintained over the medium term, additional budget savings of £1/2m will now need to be made before 2015/16 and included in the approved base budget for that year.

**Minimum Level of Balances**

- 3.7 The level of the current General Reserve is currently healthy at £4.3m. However, this is being drawn down over the planning period to meet the on-going shortfall between income and expenditure. The Council has a history of spending within budget which is prudent but it should not be assumed that this will continue and the MTFP is built on that assumption.
- 3.8 The Council continues to face many financial risks and variables. Therefore, it needs to be prudent in ensuring that it maintains an adequate level of general reserves on its General Fund to act as a contingency.
- 3.9 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.

- 3.10 Based on this, the Council's minimum level as set out in the Financial Strategy is **£1m** on the General Fund. This level is set based on an assessment of the major

financial risks facing the Council including core funding, major income streams, inflation and interest rates, etc.

- 3.11 Good practice suggests that the minimum level should be between **5%** and **10%** of net revenue expenditure. Based on the forecasted net revenue expenditure on the General Fund, a level of £1m equates to 8.8% on average over the planning period.

### **Housing Revenue Account**

- 3.12 The HRA continues to show a relatively strong and sustainable financial position over the medium term. Within this, there are risks and some substantial investment planned in capital works and New Build over the life of the MTFP under the self financing framework.
- 3.13 The overall financial position is now projected to improve due to the proposed change in the Government's rent policy from 2015/16, subject to consultation. Although this will include the ending of rent convergence after 2014/15, a commitment to raise future rents in real terms by 1% above inflation, will increase resources in the HRA compared to that previously estimated.
- 3.14 The level of the HRA's General Reserve is projected to rise to approximately £4.5m by 2023/24, compared to £3m in the previous projection. This includes earmarking an amount of £1.4m for New Build as approved by the Committee in April 2013.

## **4.0 GENERAL FUND FINANCIAL PROJECTION**

### **Background**

- 4.1 Apart from Council Housing, day-to-day income and expenditure on services is accounted for through the General Fund. The net expenditure is financed from Government Grant (Core Funding) and Council Tax, with any shortfall being financed from the Council's Reserves.
- 4.2 In accordance with the Financial Strategy, a 5-year planning period, on a rolling basis, has been adopted for the General Fund.

### **The Position Entering this Review**

- 4.3 In accordance with the financial planning timetable, the General Fund position was last reviewed in February 2013 as part of setting the detailed budget and Council Tax level for 2013/14. Based on spending plans and an estimate of likely resources, the medium-term financial projection as at February 2013 is shown in the following table.

**General Fund Projection (as at February 2013)**

<b>Year</b>	<b>Budget Deficit</b>	<b>Balance of Reserves</b>
Base Budget 2013/14	£109,357	£3,107,865
Projection 2014/15	£355,346	£2,662,519
Projection 2015/16	£730,595	£1,786,924
Projection 2016/17	£817,157	£699,767
Projection 2017/18	£1,254,298	<b>-£574,531</b>

- 4.4 The level of projected reserves showed a sustainable position until 2015/16 when compared to the minimum target of £1m. However, an increasing budget deficit in the interim period showed resources reducing without any corrective action being taken.
- 4.5 The main reason for the weakening financial position was the decrease in overall core funding. Even allowing for a margin of error, the medium term position was not considered sustainable.
- 4.6 Consequently, in order for a sustainable position to be achieved and to maintain a minimum level of balances by 2017/18, on-going budget savings of £300,000 per year from 2013/14 were approved by the Council.
- 4.7 It was also highlighted in the February Budget Report, that this level of savings may not completely correct the overall position in the longer-term. This was due to the fact that the Government were planning to review spending totals for local councils as part of their forthcoming Comprehensive Spending Review, which would impact on core funding from 2015/16 onwards.

### Updated Projection

- 4.8 The projection has now been updated and rolled forward to include 2018/19 in accordance with the 5-year planning period. It reflects budget savings reported to Committee since February, the effect of the 2012/13 budget out-turn and other changes which are detailed in subsequent sections.
- 4.9 The full projection is detailed in **Appendix 1** with a summary in the following table.

#### Updated General Fund Projection (As at October 2013)

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

- 4.10 The updated projection shows a negative general reserve balance of minus £975,629 by 2018/19, with an increasing budget deficit in the interim period. Based on current income and expenditure projections, this is not considered sustainable over the medium term

### A Weakening Financial Position

- 4.11 The main reasons for the change in the projected level of reserves is summarised in the following table.

## Summary of Changes to Projection (figures are cumulative over 5-years)

Projected Reserve Balance 2017/18 (as at October 2012)	-£574,531
	-
Overall reduction in Core Funding (Section 5)	£1,286,131
Reduction in Council Tax Income 2.5% to 2% per year (Section 5)	-£237,777
Reduction in Interest on Short term Investments	-£26,001
Savings 2013/14 - Senior Management Restructure and E-committees	£900,000
Savings 2013/14 - to be confirmed	£480,000
Budget Out-turn 2012/13 (as reported in June 2013)	£564,134
Revised Pay Inflation	£579,616
	-
Projected Budget Deficit 2018/19	£1,374,939
<b>Estimated Reserve Balance (updated) 2018/19</b>	<b><u>-£975,628</u></b>

4.12 The changes to the Council's projected level of core funding and Council Tax are detailed in **Section 5** of the report. The other major changes are detailed below.

### Senior Management Restructure

4.13 This is the final overall net savings (£160,000 per year) following implementation of the new structure approved by the Committee in April 2013.

### E-committees

4.14 This is the on-going saving following the introduction of paperless committees as approved in June 2013 (£10,000 in 2013/14 and then £21,000 on-going).

### Interest on Short-term Investments

4.15 The projection for future interest rates, on which the return on short term investments is based, is detailed later in the report.

### Pay Inflation

4.16 The projection has been revised to build in the Government's revised policy on increases in public sector pay for 2013/14, 2014/15 and 2015/16, which are being limited to 1%.

### Risks and Assumptions

4.17 Having reset the base position following known adjustments and changes as detailed above and in Section 5, the following sections set out the key risks and assumptions underpinning the financial projection.

4.18 It is recommended that the Committee consider and note the issues that are likely to have an impact, adverse or favourable, on the base position. The main areas impacting upon the projection are:

- Pay inflation
- Inflation on other costs and income
- Fees and Charges

- Growth and other Contingent Sums
- Pensions
- Interest Receivable
- Income generated from Local Services
- Other Cost Pressures

### **Pay Inflation**

- 4.19 The MTFP provides for inflationary increases of 1% for the 3 years 2013/14, 2014/15 and 2015/16. This is in accordance with the Government's proposals for public sector pay increases, with the increase for 2013/14 having already been implemented. For 2016/17, the projection is based on an increase of 2% and then 2.5% per year thereafter.
- 4.20 The Council's pay bill is currently around £6.9m per year in the General Fund. A 1% variation to the assumptions above, equates to approximately £69,000 per year.

### **Inflation on Other Costs and Income**

- 4.21 In accordance with the Financial Strategy, inflation is not automatically applied to all cost heads and a provision (in the form of a contingent sum) is made where it is considered unavoidable.
- 4.22 This mainly applies to items such as fuel, energy/utility costs, repairs/maintenance and contracted supplies/services. Allowances are also set for concurrent expenses paid to parish councils together with grants to voluntary bodies.
- 4.23 Most budget heads are in fact cash limited and in particular those relating to office and other overhead expenses. Allowance is made for increases in fees and charges where the Council has discretion to do so.
- 4.24 Total inflation is held and controlled as a separate contingency in the MTFP along with the provision for pay awards. It is only allocated to budgets once an inflationary increase or allowance is either approved or known to have impacted upon a base budget.
- 4.25 Since this policy was introduced, there has only been a limited need to use the contingent sum. However in the previous 3 years, there has been a pay freeze for local government workers and this makes up the most significant part of the contingent sum.
- 4.26 Any unused balance is returned to the General Reserve at the year end. There are also on-going savings if the base budget is not actually increased from one year to the next in accordance with the inflation factors.

### **Fees and Charges**

- 4.27 The level of increase for fees and charges may present a risk. Year on year, it may not be possible to generate the increase on each and every charge made. In accordance with the Council's Charging Policy, the level of fees and charges is reviewed on an annual basis during the budget round, with an average increase across each service area being used as a target.

## Growth

- 4.28 In addition to inflation, a provision continues to be made for the anticipated costs in future years due to the general growth of the District.
- 4.29 An analysis of the updated inflation/growth provision (including pay) is summarised in the following table.

### Analysis of Overall Inflation and Growth Contingency

	2013/14 Base £	2014/15 Projectio n £	2015/16 Projectio n £	2016/17 Projectio n £	2017/18 Projectio n £	2018/19 Projection £
Pay	68,168	68,850	69,538	140,467	179,096	183,573
Other Costs	126,423	128,625	130,868	166,787	187,277	191,452
Fees and Charges	-84,211	-85,895	-109,516	-112,254	-115,060	-117,937
<b>Total - Inflation</b>	<b>110,380</b>	<b>111,580</b>	<b>90,890</b>	<b>195,001</b>	<b>251,313</b>	<b>257,088</b>
Add - Growth Provision	49,000	49,000	49,000	49,000	49,000	49,000
<b>Total Contingency</b>	<b>159,380</b>	<b>160,580</b>	<b>139,890</b>	<b>244,001</b>	<b>300,313</b>	<b>306,088</b>

## Waste Collection and Recycling

- 4.30 In addition to the growth provision included in the above table, a separate provision of £100,000 per year continues to be made in the MTFP for Waste Collection. This was approved following a service review in 2009/10 which generated budget savings.
- 4.31 At some stage, it is anticipated that due to the amount of residential development having already and due to take place in the District, this will lead to additional costs for Waste Collection. Effectively, this is setting aside a proportion of the additional Council Tax from new properties.
- 4.32 In 2013/14, a proportion (£33,000) of the contingent sum is being temporarily used to finance the extended kerbside collection scheme, pending additional savings being made in the Waste Collection Service.

## Pay and Grading

- 4.33 In addition to the base budgeted spending level, a sum of £130,000 per year continues to be earmarked towards the local pay and grading scheme pending implementation. This was taken from savings on the pay bill in 2010/11.

## Pensions

- 4.34 The next actuarial valuation of the Pension Fund is imminent, with any changes to employer's contributions applying from April 2014. Given the relatively low investment returns, it is expected that the gap between liabilities and assets on the Fund has grown since the last valuation. Consequently, this will increase the projected long-term deficit on the Fund.

4.35 However, to offset this, the valuation will factor in the effect of changes made to the Local Government Pension Scheme (LGPS) since the last valuation, such as increased employee contributions and the ending of the “85 year rule.” Overall, it is likely that there will be no increases in what employers are currently paying.

### **Recent Pension Reform**

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

4.37 The main changes are as follows:

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

4.38 These changes are longer-term and will not generally influence the current valuation. The MTFP does not include any additional employer’s contribution over and above the current 22% being paid in 2013/14. Every 1% variation in the current employer’s rate equates to approximately £10,000 per year in cash terms.

### **Auto Enrolment (AE)**

4.39 Under the Pensions Act 2008, new legal requirements were introduced on 1<sup>st</sup> October 2012, which placed a duty on all employers in England to automatically enrol eligible jobholders into a pension scheme that meets certain minimum requirements. This applies to the LGPS.

4.40 In April 2013, the Committee approved to apply transitional arrangements under the regulations and deferred full implementation for existing employees until October 2017. New employees will be subject to AE from February 2014.

4.41 As reported in April, AE could potentially lead to additional costs for the Council if current employees, currently opted out of the LGPS, decide to remain in the LGPS following AE. This maximum has been estimated at £135,000 per year.

4.42 It is considered unlikely that the maximum cost will ever accrue. However, it would be prudent to acknowledge the potential cost and make some provision. As reported in April, it is recommended that the contingent sum for inflation continues to be set aside to meet any future costs associated with Pensions.

### **Interest Receivable**

4.43 The following interest rates on which income receivable is based, from money held on short-term deposit, is shown in the following table.

**Projected Bank Base Rates**

<b>Year</b>	<b>Previous Projection</b>	<b>Updated projection</b>
2013/14	0.50%	0.50%
2014/15	1.00%	0.50%
2015/16	1.50%	0.50%
2016/17	2.50%	1.00%
2017/18	2.75%	1.50%
2018/19	3.00%	2.00%

- 4.44 The current Bank of England Base rate of 0.5% has been at this level since 2009. The previous MTFP assumed small increases in this rate over a 5-year period.
- 4.45 Following a policy announcement by the Bank of England in August 2013 concerning future interest rates, the Base Rate is expected to remain at 0.5% until at least 2016. The updated projection reflects this as shown in the above table.
- 4.46 Changes to assumed interest rates have reduced projected resources by approximately £26,000 compared to the previous projection. However, this is a net figure after allowing for a higher level of funds held on deposit.

### Income from Planning Fees

- 4.47 The projection includes future estimates of income from planning, building regulations and land charges - significant income streams for the Council. Current estimates, together with historic levels are detailed in the following table.

#### Significant Income Streams included in the Current Projection

Year	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
Actual 2008/09	517,485	236,242	106,375	860,102
Actual 2009/10	677,070	232,875	134,023	1,043,968
Actual 2010/11	256,993	224,472	114,822	596,287
Actual 2011/12	596,292	223,538	99,459	919,289
Actual 2012/13	419,561	251,885	103,494	774,940
<b>Budget 2013/14</b>	<b>550,000</b>	<b>235,000</b>	<b>88,000</b>	<b>873,000</b>
Forecast 2014/15 onwards	550,000	235,000	98,000	883,000

- 4.48 These income streams can be volatile as shown in the above table, but the trend has been downwards in recent years. In accordance with future development, it is anticipated that income could increase above the projection although there may also be some increase in service costs from workloads associated with development.

### Other Cost Pressures

- 4.49 The current base budget includes provision for additional maintenance and utility costs as forecast in the 2013/14 Budget Round. The main cost that is likely to arise over the planning period is associated with the consultation and implementation of the Draft Local Plan.

4.50 Existing resources in the base budget for Planning Services should meet day to day operational costs and an earmarked reserve of £130,500 has been provided to meet any one-off costs. This will be kept under review.

### Other Provisions Earmarked against General Reserves

4.51 In accordance with previous approvals, several amounts continue to be set-aside to meet costs associated with a range of issues. These are itemised in **Appendix 1** and include:

- Pay and Grading Review – one-off costs
- Support to the Voluntary and Community Sector (*being allocated in 13/14*)
- District Elections (May 2015)
- Land Charges Refunds (*Property Searches – claims now being assessed*)

### Provision for Capital

4.52 An amount of 250,000 also continues to be set-aside against the General Fund Reserve in 2016/17 to meet vehicle replacements. This is a contingency should other capital receipts from non-housing land sales not be generated before this date.

## 5.0 GOVERNMENT GRANT and COUNCIL TAX

5.1 The Council's core funding from central government comprises the following funding streams, which are unringfenced general grants:

- Revenue Support Grant (RSG)
- Retained Business Rates (RBR)
- New Homes Bonus (NHB)

5.2 As previously reported, the aggregate overall funding for local councils has been reducing since 2010 and the MTFP had factored in on-going reductions in accordance with that set out in the Government's 2010 Spending Review.

### Current Grant

5.3 The financial projection approved in February 2013, was based on the following projections:

#### Grant Projections as at February 2013

Core Government Funding (February 2013)	2013/14	2014/15	2015/16	2016/17	2017/18
	Confirmed £	Provisional £	Provisional £	Projection £	Projection £
Council Tax Support Grant	516,683	516,683	516,683	516,683	516,683
Homelessness Prevention	64,080	64,080	64,080	64,080	64,080
Council Tax Freeze Grant 2012/13	119,655	119,000	0	0	0
General RSG	2,613,644	1,837,217	1,317,477	691,512	137,451
<b>Sub Total RSG</b>	<b>3,314,062</b>	<b>2,536,980</b>	<b>1,898,240</b>	<b>1,272,275</b>	<b>718,214</b>
Council Tax Freeze Grant 2013/14	49,175	49,175	0	0	0
Retained Business Rates	2,204,773	2,273,000	2,355,965	2,449,025	2,528,618
New Homes Bonus	1,347,000	1,700,000	1,953,000	2,450,000	2,548,000
<b>Total - Core Funding</b>	<b>6,915,010</b>	<b>6,559,155</b>	<b>6,207,205</b>	<b>6,171,300</b>	<b>5,794,832</b>

- 5.4 The table shows that RSG includes separate amounts for the Local Council Tax Support Scheme and Homelessness Prevention. From 2014/15, these amounts will not be separately identified and will become aggregated into one RSG amount.
- 5.5 The MTFP assumes that these amounts will continue to be earmarked at their existing levels for their current purpose, although overall RSG is reducing. However, the Council has discretion over how much funding is earmarked for specific purposes within its overall amount.
- 5.6 It should also be noted that is also an earmarked reserve for Homelessness Prevention of £176,000. This is an accumulation of unspent grants from previous years.
- 5.7 The amounts for Council Tax Freeze Grant are for a limited period as shown in the above table. Following CSR 2013, the Government announced that this Grant would be extended for a further 2-years, to 2015/16, to those councils who continue to freeze or reduce their Council Tax.
- 5.8 This grant, which will remain outside of the main RSG, will be equivalent to a 1% increase in Council Tax. Pending further details, this has not been reflected in the current projection; it is expected that figures will be published as part of the financial settlement in December.
- 5.9 The previous table shows a trend of reducing RSG in line with Government spending plans, being partly offset by increases in RBR and NHB due to growth.

### Revised Spending Totals – CSR 2013

- 5.10 The overall effect of CSR 2013 on local councils was that they were set further reductions in RSG of 1% in 2014/15 and 2% in 2015/16. These were based on a Departmental Expenditure Limit (DEL) set by the Government for the DCLG.
- 5.11 Within the DEL, the Government have provided resources for new initiatives and have protected certain services such as Education and Adult Social Care from any further decreases, effectively ring fencing amounts within the overall allocation.
- 5.12 In addition, RSG has been “top sliced” to provide additional resources to fund the safety net in the Business Rates Retention System. Consequently, the reduction in RSG for other services, and in particular for those provided by shire districts in 2015/16, is closer to 10% than 2%.

### Individual Totals

- 5.13 Based on the revised DEL, after factoring in protection and top slicing as outlined above, the Government have provided updated provisional RSG figures for 2014/15 and 2015/16 for each council. The effect on the Council is shown in the following table.

### Revised RSG Amounts as at August 2013

Year	Provisional £	Updated £	Change £	Change %
2014/15	2,536,980	2,531,000	-5,980	-0.24%
2015/16	1,898,240	1,723,000	-175,240	-9.23%

- 5.14 Clearly the additional reductions, in particular for 2015/16, are much greater than anticipated in the MTFP. Excluding the Council Tax Freeze Grant, the Council's RSG will reduce by over £1.5m (48%) between 2013/14 and 2015/16; the MTFP had projected a reduction of approximately £1.3m or 40%.
- 5.15 For those councils who froze their Council Tax level in 2013/14, they have benefitted to the extent that the specific grant has been maintained in the base level of RSG. For the Council, this is worth £49,175 in 2014/15 and 2015/16.
- 5.16 The updated figures are still provisional at this stage and subject to consultation. It is expected, that final figures for will be confirmed during December 2013.

### **Future Years**

- 5.17 The projections for 2016/17 onwards remain unchanged at this stage. Whether the more acute reduction in 2015/16 will mean lesser reductions in future years, is still to be determined. This is considered to be a possibility, but will depend on the next spending review post 2015, any central government policy changes and the economic situation.
- 5.18 Notwithstanding this point, it is widely considered that RSG will continue to reduce overall until as far as 2020 based on the latest economic forecasts.

### **New Homes Bonus (NHB)**

- 5.19 Following CSR 2013, the Government released proposals to allocate a proportion of NHB funding, to Local Economic Partnerships (LEPs), as a contribution to Local Growth Funds.
- 5.20 The proposals entail councils pooling a share of their NHB to the LEP to finance investment in local economic priorities and to support strategic housing. The proposals specify that this will be implemented from 2015/16.
- 5.21 The current share of the NHB in two tier areas is currently 80% to the District/Borough Council and 20% to the County Council. The proposals indicate that allocations would be broadly pooled as follows:
- 60% - District/Borough
  - 35% - LEP
  - 5% - County Council
- 5.22 Proposed regulations would enable this allocation to change depending on how much is required for the Local Growth Fund on an annual basis.
- 5.23 Effectively, the Council would see its initial NHB reduced by up to 20%; all or some of this could be redirected back to the Council depending on how the LEP decide to allocate their total pooled amount. However, it is unlikely that it would be in the form of core funding.

### **Potential Effect on the MTFP**

- 5.24 Current estimates of NHB in the MTFP are based on projected growth and indicative national allocations. The amount received (80%) for 2013/14 is approximately £1.35m; this is currently projected to rise to £2.5m by 2018/19, based on fairly moderate growth forecasts for new housing in the District.

- 5.25 A reduction of 20% on that projected, from 2015/16 to 2018/19, would take out of the MTFP potential resources of approximately £1.5m, with a revised projection in 2018/19 of £2.1m (assuming no change to current growth forecasts).

### **Retained Business Rates**

- 5.26 No changes have been made to the current projections. 2013/14 is the first year of the Retention System and there is no updated information at this stage that affects the estimates in the MTFP. As previously reported, due to an improved collection rate, performance in 2013/14 is currently better than estimated and this will be kept under review.

### **Council Tax**

- 5.27 A 2.5% increase per year in the rate of Council Tax has traditionally been included in the MTFP for planning purposes. In addition, the projections for Council Tax income assume a continuation of growth in new properties of 1% per year. The average growth over the last 5 years has been approximately 1.5%.
- 5.28 The MTFP has been adjusted and is now based on a yearly increase of 2%; this reflects the Government's limit above which a local referendum would be required to set a higher increase.
- 5.29 The reduction of ½% per year from 2014/15 has reduced resources in the MTFP by approximately £1/4m compared to the previous projection.

## **6.0 SUMMARY GENERAL FUND POSITION AND BUDGET SAVINGS**

- 6.1 In summary, the revised medium term projection clearly presents some further financial challenges from 2015/16. The main change is the likely reduction in the Council's overall core funding as detailed in Section 5 of the report.
- 6.2 Although grant figures are still provisional and subject to consultation, the Government have set out details earlier than usual to enable councils to have adequate time to address any issues. Although individual figures may change following consultation, given the Departmental spending limits set by the Government in CSR 2013, it is almost inevitable that further reductions overall will eventually be confirmed.
- 6.3 Consequently, it is important that remedial action is commenced in the short term to enable a sustainable financial position to be maintained.
- 6.4 It is considered that estimates of income and expenditure included in the projection are prudent, with some contingent sums set-aside. However, the Council's core funding is not fixed and amounts for the New Homes Bonus and Retained Business Rates could vary either way.
- 6.5 The current General Reserve Balance is strong, but this is being used to fund the current gap between income and expenditure over the MTFP. In addition, there is currently a projected underspend in 2013/14 which has not been included in the projection as it is not, as yet, fully guaranteed.
- 6.6 This would enable the current reserve to remain strong in the short term; any on-going implications will be assessed as part of the forthcoming budget round for 2014/15.

## Budget Savings Required

- 6.7 A savings target of £300,000 was approved for 2013/14. To-date, approved savings towards this target have been achieved from the Senior Management Restructure and the introduction of E-committees as previously reported. These currently total £180,000 per year and the 5-year effect has been built into the projection.
- 6.8 The remaining £120,000 is still to be achieved, although further proposals are being reported to this Committee elsewhere on the Agenda. It is considered that any shortfall below the £300,000 target will be identified in the forthcoming budget round for 2014/15; as shown in the projection, the MTFP now assumes that this £300,000 will be met in 2013/14.

## Additional Savings

- 6.9 Based on the latest projection, in order for a sustainable position to be maintained over the medium term, additional budget savings of £1/2m will now need to be made before 2015/16 and included in the approved base budget for that year. The effect of this is shown in the following table.

Year	Budget Surplus (-) / Deficit	Provisions against Reserves	Balance of Reserves
Base Budget 2013/14	-£70,643	£120,000	£4,322,999
Projection 2014/15	£73,329	£341,000	£3,908,669
Projection 2015/16	£318,687	£295,000	£3,294,982
Projection 2016/17	£287,724	£340,000	£2,667,258
Projection 2017/18	£747,948	£20,000	£1,899,310
Projection 2018/19	£854,939	£20,000	£1,024,371

- 6.10 This would correct the negative reserves position and ensure a level above the recommended minimum of £1m. However, a projected longer term deficit would still exist.
- 6.11 Clearly, this will be a challenging target in addition to what the Council has already achieved in recent years. Consequently, it is important that the Council starts planning to achieve these savings as soon as possible.
- 6.12 In addition, the forthcoming budget round should be used as an ideal opportunity to challenge spending with a review of on-going implications arising from the 2012/13 budget out-turn and projected underspend in 2013/14.

## 7.0 UPDATED FINANCIAL PROJECTION FOR THE HRA

- 7.1 The HRA projection has been updated to reflect:

- The 2012/13 budget out-turn as reported to the Committee in June
- The financial impact of delivering the approved strategy for New Build
- The Government's proposals for future rent policy following CSR 2013

## **The Position Entering this Review**

- 7.2 The projection included in the MTFP shows a HRA general reserve of £3m by 2016/17, well in excess of the £1m minimum approved in the Financial Strategy. This level of £3m is maintained over the remainder of the 10-year financial period as the HRA moves into surplus following the initial capital investment approved under the self-financing framework.
- 7.3 As planned, future surpluses after 2016/17 are to be set-aside to repay debt when it matures. As reported to the Committee back in February, this potentially gave the HRA additional resources (£2m) and various options regarding their usage were considered.
- 7.4 One of the main risks and factors to this position was considered to be the level of future rent rises under the rent convergence framework. The Committee will be aware that on average, Council rents are still below its rent formula and that full rent convergence would not be implemented until 2018/19.
- 7.5 To enable full convergence, the HRA projection assumed additional increases in rent in 2014/15 and 2015/16 well above inflation, in order for the average to catch up with the formula rent.

## **Budget Out-turn 2012/13**

- 7.6 The surplus on the HRA was approximately £270,000 greater than estimated in 2012/13. Consequently, this has increased the opening level of reserves for this planning period.

## **Delivery Mechanism for New and Additional Affordable Housing**

- 7.7 As approved by the Committee in April 2013, part of the funding package is to utilise some of the additional resources in HRA reserves as detailed above.
- 7.8 An amount of approximately £1.4m was approved and this has now been reflected in the updated projection. It has been profiled over 5-years for illustration and to reflect the commitment; the precise draw down will depend on actual delivery and the availability of other resources.

## **Rents**

- 7.9 Rent income is estimated at approximately £12m in total for 2013/14, rising to over £15m by 2023/24. Although the Council does have some flexibility in setting rents, its current policy is to adhere to the national rent convergence framework.
- 7.10 A Limit Rent also exists within which, the Council's average rent cannot exceed without it incurring a financial penalty through loss of benefit subsidy for rent rebates.
- 7.11 As previously reported, the Council's average rent has been below its formula. Rent policy generally, has been to move the average to the formula over the last 10 years or so, subject to annual reviews. For 2013/14, the headline rents are as follows:
- Average Rent - £74.48
  - Formula Rent - £77.79
  - Limit Rent - £75.83

7.12 The MTFP is based on the above average being moved towards the formula rent (after allowing for inflation) so that most properties will have converged by 2016/17. This includes additional real terms increases above inflation in 2014/15 and 2015/16 in particular. Following this policy would mean all properties being converged by 2018/19.

7.13 Assuming an inflation rate of 2.25% per year, the following rent increases were built into the HRA's projection.

- 2014/15 – 4.7%
- 2015/16 – 4.1%
- 2016/17 – 3.1%
- 2017/18 – 2.5%
- 2018/19 – 2.4%
- 2019/20 onwards – 2.25%

### **Future Rent Policy**

7.14 Following CSR 2013, the Department for Communities and Local Government (DCLG) wrote to representative housing groups. This set out the Government's intention to end rent convergence after 2014/15 and to introduce new policy direction from 2015/16.

7.15 The DCLG confirmed that, subject to consultation, rents in the social sector will be increased by the Consumer Prices Index (CPI) plus 1% annually from 2015/16 to 2024/25. Details will be provided in a consultation exercise, the timetable for which has not been confirmed.

7.16 Consultation aside, there appears no doubt that the Government's intention is to end rent convergence and set new rent policy. In principle, this could have a significant effect on those councils (such as South Derbyshire) who have still to fully converge.

7.17 However, this will depend on how close actual rents are to the Formula and exactly what assumptions have been used in individual councils. In addition, the proposals indicate a change in the inflation index from RPI to CPI.

7.18 Historically, RPI has been a higher figure, although it should be noted that the new policy will include an on-going real terms increase in rents of 1% per year.

7.19 Under rent convergence, this has been 0.5% (subject to caps being applied to individual tenants) and any real terms increase beyond 2015/16 has been uncertain until this announcement. Until 2013, the HRA projection had assumed no real terms increase.

### **Potential Effect on South Derbyshire**

7.20 Assuming CPI is 2.25%, the following rent increases would apply, based on the proposal of CPI + 1%, compared to that included in the MTFP.

## Revised Rent Projections Following DCLG Announcement

Year	MTFP % Increase	DCLG proposal % Increase	Increase in Income £
2014/15	4.7	4.7	-86,832
2015/16	4.1	3.25	-230,905
2016/17	3.1	3.25	-111,481
2017/18	2.5	3.25	13,208
2018/19	2.4	3.25	148,183
2019/20	2.25	3.25	292,664
2020/21	2.25	3.25	431,976
2021/22	2.25	3.25	583,801
2022/23	2.25	3.25	750,372
2023/24	2.25	3.25	914,113
			<b><u>2,705,100</u></b>

7.21 The above figures include the on-going effects of fewer properties due to the increased number of sales in 2012/13 and for that currently projected in 2013/14.

7.22 Although there is a reduction in estimated income over the next 3-years, the cumulative impact of the proposed real terms increase in rent, increases overall income significantly after 2017/18.

7.23 It should be noted that with the ending of rent convergence after 2014/15, this could lead to similar properties in certain areas still having different rent levels. Under the proposals, it has been assumed that a formula rent for each property will no longer apply.

### Revised HRA Projection

7.24 The updated projection is detailed in **Appendix 2**. This shows that the HRA's general reserve is projected to rise to approximately £4.5m by 2023/24 compared to £3m in the previous projection. The overall increase is summarised in the following table.

Projected HRA Reserve as at February 2013	<b>£3,026,414</b>
Add: 2012/13 Budget Out-turn	£270,510
Add: Projected Increase in Rent Income	£2,705,100
Less: Resources earmarked for New Build	<b>-£1,434,000</b>
<b>Projected Reserve - Revised as at October 2013</b>	<b><u>£4,568,024</u></b>

7.25 Similar to the General Fund, provision continues to be made for inflation, pay and grading, together with pension increases.

## 8.0 Background Papers

*The New Homes Bonus and the Local Growth Fund – Technical Consultation*

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/225369/New\\_Homes\\_Bonus\\_and\\_the\\_Local\\_Growth\\_Fund\\_technical\\_consultation.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225369/New_Homes_Bonus_and_the_Local_Growth_Fund_technical_consultation.pdf)

*Local Government Finance Settlement 2014/15 and 2015/16 – Technical Consultation*

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/225390/130724\\_LGFS\\_2014-15\\_and\\_2015-16\\_Technical\\_Consultation\\_FINAL.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225390/130724_LGFS_2014-15_and_2015-16_Technical_Consultation_FINAL.pdf)

*Letter from the DCLG to the Association of Retained Council Housing – 2<sup>nd</sup> July 2013*

[http://www.arch-housing.org.uk/media/54231/clg\\_13-07-02\\_letter\\_on\\_convergence\\_and\\_rents\\_policy.pdf](http://www.arch-housing.org.uk/media/54231/clg_13-07-02_letter_on_convergence_and_rents_policy.pdf)

## APPENDIX 1

## GENERAL FUND REVENUE ACCOUNT - MEDIUM-TERM FINANCIAL PROJECTION (October 2013)

	Base Budget 2013/14 £	Projection 2014/15 £	Projection 2015/16 £	Projection 2016/17 £	Projection 2017/18 £	Projection 2018/19 £
Net Expenditure on Services	11,016,819	11,038,826	11,111,926	11,179,603	11,337,694	11,582,592
Savings Target 2013/14	-180,000	-300,000	-300,000	-300,000	-300,000	-300,000
Pay and Grading - additional on-going resources	130,000	130,000	130,000	130,000	130,000	130,000
Provision for Inflation and General Growth	159,380	160,580	139,890	244,001	300,313	306,088
Waste Collection - Provision for Growth of the District	85,985	100,000	100,000	100,000	100,000	100,000
<b>Total Estimated Spending (Net Revenue Expenditure)</b>	<b>11,212,184</b>	<b>11,129,406</b>	<b>11,181,816</b>	<b>11,353,604</b>	<b>11,568,006</b>	<b>11,818,680</b>

## Financing

Revenue Support Grant	2,613,644	1,831,237	1,142,237	691,512	137,451	125,000
Share of Redistributed Business Rates (after Tariff and Levies)	2,204,773	2,273,000	2,355,965	2,449,025	2,528,618	2,575,000
New Homes Bonus	1,347,000	1,700,000	1,642,557	2,060,555	2,142,977	2,102,607
Council Tax Support Scheme Grant	516,683	516,683	516,683	516,683	516,683	516,683
Council Tax Transitional Grant	14,053	0	0	0	0	
Payment to Parish Councils - Share of Council Tax Support Grant	-37,563	-37,563	-37,563	-37,563	-37,563	-37,563
Council Tax Freeze Grant 2011/12 and 2012/13	119,655	119,000	0	0	0	0
Council Tax Freeze Grant 2013/14	49,175	49,175	0	0	0	0
Council Tax Payers	4,411,190	4,559,443	4,697,247	4,838,745	4,984,029	5,133,195
Collection Fund Surplus	0	0	0	0	0	0
Section 106 Earmarked Reserve - Open Space Maintenance	44,217	45,101	46,003	46,923	47,862	48,819
<b>Total Estimated Financing</b>	<b>11,282,827</b>	<b>11,056,076</b>	<b>10,363,129</b>	<b>10,565,880</b>	<b>10,320,058</b>	<b>10,463,742</b>

## Surplus (-) / Deficit

<b>-70,643</b>	<b>73,329</b>	<b>818,687</b>	<b>787,724</b>	<b>1,247,948</b>	<b>1,354,939</b>
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## GENERAL FUND RESERVE

Balance at start of year (1st April)	4,372,356	4,322,999	3,908,669	2,794,982	1,667,258	399,310
Surplus / Deficit (as above)	70,643	-73,329	-818,687	-787,724	-1,247,948	-1,354,939
Pay and Grading Review - one off costs	0	-200,000	-150,000	-70,000	0	0
Additional Support for the Voluntary and Community Sector	-100,000	0	0	0	0	0
District Election (May 2015)	0	0	-125,000	0	0	0
Provision for Land Charges Refunds (Property Searches)	0	-100,000	0	0	0	0
Contribution to the Vehicle Fund (previously in cost of services)	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000
Transfer to Sports Development Reserve	0	-21,000	0	0	0	0
Provision for Capital Funding	0	0	0	-250,000	0	0
<b>BALANCE AT END OF YEAR (31st MARCH)</b>	<b>4,322,999</b>	<b>3,908,669</b>	<b>2,794,982</b>	<b>1,667,258</b>	<b>399,310</b>	<b>-975,629</b>

## HRA BASE BUDGET &amp; FINANCIAL PROJECTION (as at October 2013)

	Budget 2013/14	Projection 2014/15	Projection 2015/16	Projection 2016/17	Projection 2017/18	Projection 2018/19	Projection 2019/20	Projection 2020/21	Projection 2021/22	Projection 2022/23	Projection 2023/24
	£	£	£	£	£	£	£	£	£	£	£
<b>Income</b>											
Rent From Dwellings	-11,874,330	-12,091,647	-12,463,886	-12,847,550	-13,242,987	-13,650,557	-14,341,220	-14,503,592	-14,949,833	-15,409,760	-15,883,792
Garage and Shop Rents	-130,000	-136,099	-141,707	-146,063	-149,691	-153,233	-156,688	-160,217	-163,822	-167,508	-171,277
Insurances Recharged	-20,000	-20,500	-21,013	-21,538	-22,076	-22,628	-23,194	-23,774	-24,368	-24,977	-25,602
Other Fees & Charges	-180,750	-180,750	-180,750	-180,750	-180,750	-180,750	-180,750	-180,750	-180,750	-180,750	-180,750
Rechargeable Repairs	-20,000	-20,500	-21,013	-21,538	-22,076	-22,628	-23,194	-23,774	-24,368	-24,977	-25,602
Interest received from Gen Fund	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000
Supporting People Contributions	-350,000	-350,000	-350,000	-350,000	-350,000	-350,000	-350,000	-350,000	-350,000	-350,000	-350,000
<b>TOTAL INCOME</b>	<b>-12,595,080</b>	<b>-12,819,495</b>	<b>-13,198,369</b>	<b>-13,587,439</b>	<b>-13,987,581</b>	<b>-14,399,796</b>	<b>-15,095,047</b>	<b>-15,262,106</b>	<b>-15,713,141</b>	<b>-16,177,972</b>	<b>-16,657,022</b>
<b>Expenditure</b>											
Housing Repairs	3,235,959	3,316,858	3,399,780	3,484,774	3,571,893	3,661,191	3,752,721	3,846,539	3,942,702	4,041,270	4,142,301
General Management	1,316,659	1,349,575	1,383,314	1,417,897	1,453,345	1,489,678	1,526,920	1,565,093	1,604,221	1,644,326	1,685,434
Managing Tenancies	15,360	15,744	16,138	16,541	16,955	17,378	17,813	18,258	18,715	19,183	19,662
Rent Collection & Accounting	29,280	30,012	30,762	31,531	32,320	33,128	33,956	34,805	35,675	36,567	37,481
Sheltered & Other Services	888,726	910,944	933,717	957,060	980,987	1,005,511	1,030,649	1,056,415	1,082,826	1,109,896	1,137,644
Provision for Bad Debts	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Capital Charges (old debt)	51,872	51,751	51,629	51,508	51,386	51,265	51,143	51,022	50,901	50,779	50,658
Depreciation - Dwellings	2,851,007	2,851,007	2,851,007	2,851,007	2,851,007	2,851,007	2,851,007	2,851,007	2,851,007	2,851,007	2,851,007
Interest on Self-Financing Debt	1,574,805	1,574,805	1,684,805	1,804,805	1,904,805	2,004,805	2,024,805	2,024,805	2,024,805	1,504,805	1,504,805
Treasury Management Fees	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000
Capital Expenditure Requirement	5,500,000	5,500,000	5,500,000	5,500,000	3,452,362	3,452,362	3,452,362	3,452,362	2,996,741	2,996,741	2,996,741
Contribution to New Build	0	286,800	286,800	286,800	286,800	286,800	0	0	0	0	0
Capital Salaries	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Provision for Pay & Grading	22,950	23,524	24,112	24,715	25,333	25,966	26,615	27,280	27,962	28,661	29,378
<b>TOTAL EXPENDITURE</b>	<b>15,564,617</b>	<b>15,989,019</b>	<b>16,240,064</b>	<b>16,504,638</b>	<b>14,705,192</b>	<b>14,957,091</b>	<b>14,845,991</b>	<b>15,005,586</b>	<b>14,713,554</b>	<b>14,361,235</b>	<b>14,533,111</b>
<b>HRA NET EXPENDITURE</b>	<b>2,969,537</b>	<b>3,169,524</b>	<b>3,041,696</b>	<b>2,917,200</b>	<b>717,611</b>	<b>557,295</b>	<b>-249,056</b>	<b>-256,520</b>	<b>-999,587</b>	<b>-1,816,738</b>	<b>-2,123,911</b>
Less Depreciation	-2,851,007	-2,851,007	-2,851,007	-2,851,007	-2,851,007	-2,851,007	-2,851,007	-2,851,007	-2,851,007	-2,851,007	-2,851,007
<b>HRA Surplus (-) / Deficit</b>	<b>118,530</b>	<b>318,517</b>	<b>190,689</b>	<b>66,193</b>	<b>-2,133,396</b>	<b>-2,293,712</b>	<b>-3,100,063</b>	<b>-3,107,527</b>	<b>-3,850,594</b>	<b>-4,667,745</b>	<b>-4,974,918</b>
<b>Appropriation</b>											
Set aside for Debt Repayment	0	0	0	0	2,405,479	2,430,475	2,804,801	2,673,699	3,264,399	3,915,131	4,058,098
Transfer to (-) / from General Reserve	118,530	318,517	190,689	66,193	272,083	136,763	-295,262	-433,828	-586,195	-752,614	-916,820
<b>HRA GENERAL RESERVE</b>											
Balance b/f	-2,686,082	-2,567,552	-2,249,035	-2,058,346	-1,992,154	-1,720,070	-1,583,307	-1,878,569	-2,312,396	-2,898,592	-3,651,205
Transfer (as above)	118,530	318,517	190,689	66,193	272,083	136,763	-295,262	-433,828	-586,195	-752,614	-916,820
<b>Balance c/f</b>	<b>-2,567,552</b>	<b>-2,249,035</b>	<b>-2,058,346</b>	<b>-1,992,154</b>	<b>-1,720,070</b>	<b>-1,583,307</b>	<b>-1,878,569</b>	<b>-2,312,396</b>	<b>-2,898,592</b>	<b>-3,651,205</b>	<b>-4,568,025</b>
<b>DEBT REPAYMENT PROVISION</b>											
Balance b/f	0	0	0	0	0	2,405,479	4,835,954	7,640,755	10,314,454	3,578,853	7,493,984
Debt repayment set aside	0	0	0	0	2,405,479	2,430,475	2,804,801	2,673,699	3,264,399	3,915,131	4,058,098
Actual debt repayments	0	0	0	0	0	0	0	0	-10,000,000	0	-10,000,000
<b>Balance c/f</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,405,479</b>	<b>4,835,954</b>	<b>7,640,755</b>	<b>10,314,454</b>	<b>3,578,853</b>	<b>7,493,984</b>	<b>1,552,082</b>

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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM: 9</b>
<b>DATE OF MEETING:</b>	<b>17<sup>th</sup> OCTOBER 2013</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC: u/ks/council tax support scheme/2014 15 scheme/report to consider changes – Oct 13</b>
<b>SUBJECT:</b>	<b>LOCAL COUNCIL TAX SUPPORT SCHEME 2014/15</b>	<b>REF</b>
<b>WARD (S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM 08</b>

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## **1.0 Recommendation**

- 1.1 That the current Local Council Tax Support Scheme is reviewed and any changes that are proposed for 2014/15 are subject to external consultation as appropriate.

## **2.0 Purpose of Report**

- 2.1 To consider any changes that may be proposed to the current scheme ahead of the Budget Round for 2014/15 and to set out the appropriate level of consultation.

## **3.0 Detail**

- 3.1 Following abolition of the national benefits scheme for Council Tax on 31st March 2013, the Council implemented a local support scheme in its place which was implemented on 1st April 2013. The detailed parameters were largely based on the out-going national benefits system.
- 3.2 Within the local scheme, pensioner and disability households are protected. However, the total scheme was defined in the context of a finite resource. This meant that working age claimants within the previous national scheme are now paying more Council Tax.
- 3.3 Of these, approximately 2,000 households are contributing up to 10% of their Council Tax liability, for which previously they had been entitled to full benefit.
- 3.4 The main parameters of the local scheme, as currently approved, are detailed below.
- i. Claimants of pensionable age receive exactly the same level of support as existed under the previous national scheme (this is a statutory requirement).
  - ii. Households who qualify for benefit through disability premiums receive exactly the same level of support as existed under the previous national scheme.

- iii. War widow and war disabled claimants receive exactly the same level of support as existed under the previous national scheme.
- iv. Military compensation payments are fully disregarded in calculating Council Tax support.
- v. Working age claimants who previously received 100% Council Tax benefit are deducted 8.5% from their entitlement calculated under the Local Scheme.
- vi. Working age claimants who previously received less than 100% Council Tax benefit are deducted 10% from their entitlement calculated under the Local Scheme.
- vii. Full Council Tax support for claimants entering work is paid for 8 weeks, an increase from 4 weeks under the previous national scheme.

3.5 The total cost of the local scheme was estimated at £4.9m and this is being funded as shown in the following table.

<b>Local Council Tax Support Scheme 2013/14</b>	Estimate £
Total Cost of Council Tax Support Scheme	4,919,899
Grant Funding	-4,537,911
Transitional Grant (2013/14 only)	-123,422
Premium on Long-term Empty Properties	-45,900
Council Tax on Properties empty for longer than 3 months	-188,094
<b>Deficit</b>	<u>24,572</u>

- 3.6 Recent financial monitoring reports to the Committee have highlighted that the cost of the scheme so far in 2013/14 is lower than estimated. Together with additional Council Tax from empty properties, the overall cost is currently projected to be approximately £200,000 lower than estimated.
- 3.7 This includes provision for a lower collection rate associated with households paying some Council Tax for the first time under the Local Scheme. Overall, it is currently estimated that there will a surplus on the Collection Fund for 2013/14 as reported to the Committee in September.
- 3.8 It should be noted that the Transitional Grant of £123,422 is for one year only and was paid by the Government to help councils introduce their local schemes. It has been confirmed that this grant is unlikely to be on-going beyond 2013/14.
- 3.9 The main grant funding of approximately £4.5m will be included in the main Revenue Support Grant (RSG) for 2014/15. The MTFP assumes overall RSG will reduce year on year over the next 5-years in accordance with the Government's Public Spending Review.
- 3.10 The MTFP assumes that the Council's share of this amount (£516,000) will continue at the same level and is effectively earmarked to finance the Council's Local Scheme on an on-going basis. However, the Council does have complete discretion how it uses this funding.

## **Timescale**

- 3.11 Statutorily, the Council has to approve its Local Scheme each year even if there are no changes. This has to be approved by a meeting of the Full Council before 31<sup>st</sup> January each year. In respect of 2014/15, the Local Scheme will be proposed at the Council meeting on 23<sup>rd</sup> January 2014, based on the recommendation of this Committee and allowing for any consultation required.
- 3.12 Therefore, consideration needs to be given to the Scheme for 2014/15, which is timely and allows for public consultation if necessary, especially if any significant changes are proposed. This will need to include other Council Tax Preceptors as it would also affect their financial position.
- 3.13 Clearly, consideration is required to take place when the first year's scheme is still in its early stages and grant funding for 2014/15 has not been fully confirmed.

## **Options**

- 3.14 Effectively, there are 4 main options, although there may be alternative ways of delivering some of the options.

### **Option 1: No Change**

- 3.15 This would mean that the loss of the transitional grant in 2013/14 would need to be absorbed. As highlighted earlier in the report, this is a possibility given the reduced cost of the current scheme, compared to that budgeted.
- 3.16 This is considered to be the simplest and safest solution, allows some consistency, together with allowing a full year to be assessed. Besides volatility, which is an issue with any option, the main risk is that the amount of reduction in the RSG impacts on the level of support currently provided.
- 3.17 The level of consultation required with this option is minimal.

### **Option 2: Directly Reduce Support and Increase the Percentage of Council Tax paid by Working Age Claimants**

- 3.18 Council Tax payable by claimants on full benefit is 8.5% of their liability, with 10% payable for those on partial benefit. An increase would help to ease financial pressure on the Council as it allows an amount in the RSG funding to be retained for other purposes, together with increasing the Tax Base. However, this would need to be balanced against individual affordability and possibly, an increase in the cost of debt collection.
- 3.19 For every 5% increase in Council Tax payable for these claimants, this would generate approximately £180,000 additional income (£20,000 for this Council).

### **Option 3: Directly Increase Support and Reduce the Percentage of the Council Tax paid by Working Age Claimants**

- 3.20 The aggregate of the Council Tax payable by working age claimants currently totals approximately £145,000. Any increase in support would need to be absorbed in the Collection Fund, effectively against the lower cost in 2013/14 compared to that estimated.

3.21 However, there is a risk that the current surplus position could change. In addition, given the projected financial position overall on the Council's General Fund, this may not be the most prudent option.

#### **Option 4: Change the Parameters within the Scheme.**

3.22 This would aim to reduce support on a targeted basis and increase the contribution to Council Tax from certain groups. Various options were put forward as part of last year's consultation; these included the removal of the second adult rebate, disregarding certain other benefits for the purposes of calculating support, together with a "banded" scheme, whereby support is limited to a lower Council Tax band.

3.23 Apart from a banded scheme, other options would only generate smaller amounts of income. Feedback from last year's consultation, didn't favor any changes to these parameters

3.24 Under this option, any changes to the protected groups within the Council's scheme (apart from pensioners) could be reconsidered.

3.25 Any proposed changes would need extensive consultation as this would move the Council's scheme away from the current framework which was based on the previous national benefits scheme.

3.26 It should however be noted, that because of the removal of the link to the national scheme, the Council will from 2014/5, be required to set the numerous applicable amounts, allowances and premiums used in the calculation of entitlement and decide how these are to be up-rated each year.

3.27 It is recommended that the same methodology, followed by the DWP, in arriving at such values should be used. Consequently, this is a purely technical issue and as such, is not subject to consultation.

#### **4.0 Financial Implications**

4.1 As detailed in the report.

#### **5.0 Corporate Implications**

5.1 No additional implications.

#### **6.0 Community Implications**

6.1 As highlighted in the report, Option 1 would require no further consultation; options 2 and 3 would need some limited consultation as the principle is not changing, only the amount of support provided. This could be actioned through representative groups. Option 4 would require greater consultation with residents and stakeholders.

#### **7.0 Background Papers**

7.1 None

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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM: 10</b>
<b>DATE OF MEETING:</b>	<b>17<sup>TH</sup> OCTOBER 2013</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>CHIEF EXECUTIVE</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>DEBRA TOWNSEND 595848 debra.townsend@south-derbys.gov.uk</b>	<b>PARAGRAPH NO: N/A DOC: Audit Sub</b>
<b>SUBJECT:</b>	<b>AUDIT SUB-COMMITTEE</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM09</b>

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## **1.0 Recommendations**

1.1 That the Minutes of the Audit Sub-Committee Meeting held on 3<sup>rd</sup> April and 19<sup>th</sup> June 2013 are received and any recommendations contained therein are approved and adopted.

## **2.0 Purpose of Report**

2.1 To receive the Minutes of the Audit Sub-Committee Meeting held on 3<sup>rd</sup> April and 19<sup>th</sup> June 2013.

## **3.0 Detail**

3.1 The Open Minutes of the Audit Sub-Committee Meeting held on 3<sup>rd</sup> April and 19<sup>th</sup> June 2013 are attached at Annexe 'A'.

## **4.0 Financial Implications**

4.1 As detailed in the Minutes.

## **5.0 Corporate/ Legal/ Employment Implications**

5.1 See Minutes.

## **6.0 Community Implications**

6.1 See Minutes.

## **7.0 Background Papers**

7.1 See Minutes.

AUDIT SUB-COMMITTEE

3rd April 2013

**PRESENT:-**

**Conservative Group**

Councillor Harrison (Chairman), Councillor Ford (Vice-Chairman) and Councillor Mrs. Hood.

**Labour Group**

Councillors Bell and Shepherd.

AS/28. **MINUTES**

The Open Minutes of the Meeting held on 20th February 2013 were taken as read, approved as a true record and signed by the Chairman. Under Minute No. AS/26, it was confirmed that guidance was still awaited on the changes to Internal Audit and this would be brought to the Sub-Committee once received.

**MATTERS DELEGATED TO SUB-COMMITTEE**

AS/29. **GRANT THORNTON : ANNUAL AUDIT PLAN 2012/13**

The Council's appointed Auditors presented their Annual Plan and approach for the year 2012/13. This set out where the External Auditors would focus their activities and predominantly would involve work on the annual accounts and financial statements, arrangements for securing value for money and assessing the Annual Governance Statement. It was a broad plan to detail how the auditors would approach their work in order to satisfy statutory requirements. The outcome would be reported to the Sub-Committee in September 2013, with the Annual Audit Letter being reported to Council in December 2013. Kyla Bellingall and Kate Taylor of Grant Thornton took Members through the report and responded to questions. The issues discussed included the impact of changes on accounting for the Local Government Pension Scheme, the current appointment of auditors by the Audit Commission and how the Local Audit Bill would enable district councils to appoint auditors directly, subject to certain requirements. Kyla Bellingall offered to bring an update to the Sub-Committee on this, as the position became more certain. Timing changes for the audit process were discussed together with further reference to the Internal Audit Standards.

**RESOLVED:-**

***That the proposed Audit Plan for 2012/13 and proposed approach to undertaking audit work for the year is approved.***

AS/30. **INTERNAL AUDIT PLAN 2013-14**

The Sub-Committee was asked to consider the Internal Audit Plan for 2013/14. It had been prepared by the Audit Manager of the Central Midlands Audit Partnership, which provided the Internal Audit service for the Council. The Plan detailed where Audit was proposing to allocate resources over the coming financial year and included an assessment of the Council's risk areas. The Plan was influenced by the requirements of External Audit and detailed the audit approach and coverage that the Council could expect from the Partnership. Adrian Manifold took Members through the circulated report and responded to questions.

**RESOLVED:-**

***That the Internal Audit Plan for 2013/14 is approved for implementation.***

J. HARRISON

CHAIRMAN

The Meeting terminated at 4.35 p.m.

AUDIT SUB-COMMITTEE

19<sup>th</sup> June 2013

**PRESENT:-**

**Conservative Group**

Councillor Harrison (Chairman), Councillor Ford (Vice-Chairman) and Councillor Mrs. Hood.

**Labour Group**

Councillors Dunn and Shepherd.

AS/1. **APOLOGY**

An apology for absence from the Meeting was received from Grant Thornton.

AS/2. **MINUTES**

The Open Minutes of the Meeting held on 3<sup>rd</sup> April 2013 were taken as read, approved as a true record and signed by the Chairman. Under Minute No. AS/28, it was confirmed that guidance was still awaited on the changes to Internal Audit Standards and progress on this would be reported back to the next meeting.

**MATTERS DELEGATED TO SUB-COMMITTEE**

AS/3. **INTERNAL AUDIT – QUARTERLY PROGRESS REPORT**

A progress report was provided detailing the performance and activity of Internal Audit between February and May 2013. Richard Boneham took Members through the circulated document. This comprised a summary, details of audit coverage, audit performance and recommendation tracking. There was discussion around various matters contained within the report.

**RESOLVED:-**

***That the report of the Audit Manager be received.***

AS/4. **EFFECTIVENESS OF INTERNAL AUDIT**

In accordance with statutory requirements, a report was submitted to give Members an overview of the effectiveness of the Internal Audit function. There was no mandatory requirement or guidance on who should perform the review of the function and the assessment had been undertaken by the Council's Director of Finance and Corporate Services in conjunction with the Head of Governance and Assurance at Derby City Council. The assessment was based on the framework guide developed by the Chartered Institute of

Public Finance and Accountancy's (CIPFA) Better Governance Forum, which aimed to provide practical support to help make internal audit more effective. The function had been assessed against the six building blocks for effective internal audit identified in the guidance. These comprised leadership, governance and relationships, customer focus, people, systems and processes and professional standards. The assessment of the Director of Finance and Corporate Services against each of these areas was summarised within the report.

**RESOLVED:-**

***That the Sub-Committee notes the conclusion that the Internal Audit function is considered to be effective.***

AS/5. **HEAD OF INTERNAL AUDIT'S ANNUAL AUDIT OPINION 2012/13**

A report was submitted to provide Members with the Head of Internal Audit Partnership's opinion on the adequacy and effectiveness of the Council's internal control environment. There was a requirement under the 'Code of Practice for Internal Audit in Local Government in the United Kingdom 2006' that the Head of Internal Audit should provide a written report to those charged with governance. This was timed to support the Annual Governance Statement. Management was responsible for the system of internal control. Internal Audit reviewed, appraised and reported on the effectiveness of the financial and other management controls. The audit opinion was based on the work undertaken in 2012/13 and in preparing the opinion, all audit activity carried out during the year was reviewed. Each audit assignment had an individual assurance rating and these were used, together with the progress on agreed actions, to help form the overall opinion.

Based on the work undertaken during the year, the overall opinion was that there was an acceptable level of internal control within the Council's systems and procedures. There were no critical risk recommendations made or adverse implications for the Authority's Annual Governance Statement arising from any of the work that Internal Audit had undertaken in 2012/13. All of the risks raised within the internal audit reports had been accepted and Internal Audit's recommendations or proposed alternate actions have been agreed to be implemented in all but 2 cases. In these cases, management had agreed to accept the risk but not to implement any mitigating actions. Progress on implementation of audit recommendations would be reported to the Sub-Committee in future reports on the 2013/14 work of Internal Audit.

**RESOLVED:-**

***That the Sub-Committee notes the Annual Audit Opinion for 2012/13.***

AS/6. **LOCAL CODE OF CORPORATE GOVERNANCE – ANNUAL REVIEW 2012/13**

A report was considered which provided Members with the annual detailed assessment of the Council's Local Code of Corporate Governance, together with progress on the Work Plan contained in the statutory Governance

Statement. The current Local Code of Corporate Governance was adopted by the Council in 2008 and the Committee was required to review progress in relation to compliance against six core principles on which the Code was based. A definition of corporate governance was provided and the purpose of the Local Code of Governance. The Council's governance arrangements were overseen by a corporate group of senior officers. On an on-going basis, this group monitored and reviewed a detailed self-assessment, which was effectively a checklist which assessed the documents and processes, together with any other means used to measure compliance with the six supporting principles. An updated assessment, which remained largely unchanged from the previous year, was appended to the report, together with a copy of the Work Plan, which was mainly completed during the year, with a couple of areas being carried forward pending the outcome of internal restructuring and new legislation.

**RESOLVED:-**

***That the annual assessment of the Council's Local Code of Corporate Governance for 2012/13 is approved and that progress on the Work Plan for 2012/13 is approved.***

AS/7. **ANNUAL GOVERNANCE STATEMENT 2012/13**

A report was submitted on the Annual Governance Statement (AGS) for 2012/13. A definition was provided on governance and it was confirmed that this was an area that concerned the whole Authority. In recent years, it had assumed a higher profile, due to greater expectations from stakeholders and the need to avoid issues around financial reporting, public conduct and accountability. Appended to the report was a flowchart that set out the process for compiling the AGS. It also provided a framework of issues to address and report upon for assuring the Sub-Committee in respect of internal control and governance arrangements. Details were provided of the CIPFA guidance on the production and publication of the AGS, together with the work undertaken in completing it. A Work Plan, produced in June 2012, was progressed during 2012/13 to address key issues identified to maintain and strengthen the governance environment. Details of the areas achieved were included within the report. The proposed plan for 2013/14 was also detailed in the AGS, to maintain robust governance. Details were also provided of the work programme.

**RESOLVED:-**

- (1) That it be recommended to the Finance and Management Committee that the Annual Governance Statement for the year ended 31<sup>st</sup> March 2013 be approved for publication alongside the Statement of Accounts for 2012/13.***
- (2) That it be recommended to the Finance and Management Committee that the Leader of the Council and the Chief Executive be authorised to sign the Annual Governance Statement.***

J. HARRISON

CHAIRMAN

The Meeting terminated at 5.10 p.m.

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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM: 11</b>
<b>DATE OF MEETING:</b>	<b>17<sup>TH</sup> OCTOBER 2013</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>CHIEF EXECUTIVE</b>	<b>OPEN PARAGRAPH NO: N/A</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (EXT. 5811)</b>	<b>DOC:</b>
<b>SUBJECT:</b>	<b>WORK PROGRAMME</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: N/A</b>

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### **1.0 Recommendations**

1.1 That the Committee receives the updated work programme.

### **2.0 Purpose of Report**

2.1 The Committee is asked to review its work programme.

### **3.0 Detail**

3.1 The updated work programme for the Finance and Management Committee is attached at Annexe 'A'. Members are asked to review this document.

### **4.0 Financial Implications**

4.1 None arising directly from this report.

### **5.0 Background Papers**

5.1 Work Programme.

## **Work Plan for 2013/14 – Finance and Management Committee Standing and Other Planned Reports**

### **Committee 5<sup>th</sup> December 2013**

- Corporate Plan 2009 – 2014: Performance Management Report July to Sept. 2013
- Budget and Financial Monitoring 2013/14
- Local Council Tax Support Scheme – Financial Update 2013/14
- Complaints and Freedom of Information Requests – April to September 2013
- Banking Contract 2014 to 2019
- Corporate Services Strategic Partnership – Annual Report 2012/13
- ICT Strategy 2013 to 2016

### **Committee 16<sup>th</sup> January 2014 - Special**

- Service Base Budgets
- Budget Report 2014/15
- Local Council Tax Support Scheme – Recommended Scheme 2014/15
- Single Fraud Investigation Unit

### **Committee 27<sup>th</sup> January 2014 - Special**

- Budget consultation with local businesses, community and voluntary groups

### **Committee 20<sup>th</sup> February 2014**

- Final Budget Proposals 2014/15
- Treasury Management Strategy 2014/15
- Corporate Plan 2009 – 2014: Performance Management Report October to Dec. 2013
- Budget and Financial Monitoring 2013/14

### **Committee 20<sup>th</sup> March 2014**

- Corporate Plan – Updated Priorities 2014/15

### **Committee 24<sup>th</sup> April 2014**

- No planned reports at present

### **Committee May 2014**

- Provisional Budget Out-turn 2013/14