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Date: 6 January 2016

Dear Councillor,

Finance and Management Committee

A Meeting of the **Finance and Management Committee** will be held in the **Council Chamber (Special)**, on **Thursday, 14 January 2016 at 18:00**. You are requested to attend.

Yours faithfully,



Chief Executive

To:- **Conservative Group**

Councillor Harrison (Chairman), Councillor Mrs. Plenderleith (Vice-Chairman) and Councillors Billings, Mrs. Coyle, Hewlett, MacPherson, Smith, Watson and Wheeler.

Labour Group

Councillors Rhind, Richards, Southerd and Wilkins.

AGENDA

Open to Public and Press

- 1** Apologies and to note any substitutes appointed for the Meeting.
- 2** To receive the Open Minutes of the Audit Sub-Committee Meeting held on 16th December 2015
Audit Sub-Committee 16th December 2015 Open Minutes **3 - 5**
- 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** SERVICE BASE BUDGETS 2016-2017 **6 - 19**
- 8** BUDGET REPORT 2016-17 INCORPORATING THE CONSOLIDATED BUDGET PROPOSALS AND MEDIUM TERM FINANCIAL PLAN TO 2021 **20 - 55**

Exclusion of the Public and Press:

- 9** 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.
- 10** To receive any Exempt questions by Members of the Council pursuant to Council procedure Rule No. 11.
- 11** CORPORATE SERVICES STRATEGIC PARTNERSHIP



AUDIT SUB-COMMITTEE

16th December 2015

PRESENT:-

Conservative Group

Councillor Grant (Chairman) and Councillor Mrs Wyatt.

Labour Group

Councillors Dunn and Shepherd.

AS/20 **APOLOGIES**

Apologies for absence from the Meeting were received on behalf of Councillor Ford (Conservative Group)

AS/21 **MINUTES**

The Open Minutes of the Meetings held on 17th June 2015, 23rd September 2015 and 30th September 2015 were taken as read, approved as a true record and signed by the Chairman.

AS/22 **DECLARATIONS OF INTEREST**

The Committee was informed that no declarations of interest had been received.

AS/23 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE PUBLIC PURSUANT TO COUNCIL PROCEDURE RULE NO.10**

The Committee was informed that no questions from members of the public had been received.

AS/24 **TO RECEIVE ANY QUESTIONS FROM MEMBERS OF THE COUNCIL PURSUANT TO COUNCIL PROCEDURE RULE NO.11**

The Committee was informed that no questions from Members of the Council had been received.

MATTERS DELEGATED TO SUB-COMMITTEE

AS/25 **ERNST & YOUNG: EXTERNAL AUDITOR COMMITTEE UPDATE BRIEFING**

The representative from the Council's new external auditors, Ernst & Young, introduced the report to Members, confirming that planning work will commence in the New Year, for presentation to the next meeting of the Sub-Committee.

Councillor Dunn raised a query relating to the Right to Buy Scheme, responded to by the Director of Finance and Management and Councillor Shepherd expressed a view that the four questions referred to on page eight of the auditor's report should be borne in mind for future reference by the Sub-Committee.

RESOLVED:-

That the briefing document be noted.

AS/26 **LOCAL CODE OF CORPORATE GOVERNANCE – REVIEW OF WORK PLAN 2015/16**

The Monitoring Officer presented this report to Members.

RESOLVED:-

That progress on the Action Plan for 2015/16 be considered and noted.

AS/27 **INTERNAL AUDIT PROGRESS REPORT**

The Audit Manager delivered the report, highlighting various aspects of its contents, in particular the item showing as 'Not Accepted' under Declarations of Interest. The Monitoring Officer and Audit Manager explained the legal perspective and transparency / good governance principles respectively. Councillor Dunn referred to the difficulties Members face when considering declarations, either on the Declaration of Pecuniary Interests form or at committee meetings.

The Chairman expressed his concern at the number of outstanding recommendations detailed in the report and queried the monitoring process. Councillor Shepherd suggested the issue be added to the Corporate Management Team meeting agenda.

RESOLVED:-

1.1 That the report of the Audit Manager be considered and that any issues identified be referred to the Finance and Management Committee or be subject to a follow-up report as appropriate.

1.2 That outstanding audit recommendations be added as an item to the Corporate Management Team meeting agenda.

AS/28 **LOCAL GOVERNMENT ACT 1972 (AS AMENDED BY THE LOCAL GOVERNMENT [ACCESS TO INFORMATION] ACT 1985)**

RESOLVED:-

That in accordance with Section 100 (A)(4) of the Local Government Act 1972 (as amended) 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.

EXEMPT QUESTIONS BY MEMBERS OF THE COUNCIL PURSUANT TO COUNCIL PROCEDURE RULE NO.11

The Committee was informed that no questions from Members of the Council had been received.

The Meeting terminated at 4.35pm.

COUNCILLOR J GRANT

CHAIRMAN

| | | |
|--------------------------------|--|--|
| REPORT TO: | FINANCE and MANAGEMENT COMMITTEE (SPECIAL – BUDGET) | AGENDA ITEM: 7 |
| DATE OF MEETING: | 14th JANUARY 2016 | CATEGORY: RECOMMENDED |
| REPORT FROM: | DIRECTOR OF FINANCE & CORPORATE SERVICES | OPEN |
| MEMBERS' CONTACT POINT: | KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@south-derbys.gov.uk | DOC: u/ks/budget round1616/ base budget policy reports3 FM//FM budget committee 16 17 |
| SUBJECT: | SERVICE BASE BUDGETS 2016 / 2017 | REF: |
| WARD (S) AFFECTED: | ALL | TERMS OF REFERENCE: FM 08 |

1.0 Recommendations

- 1.1 That the proposed revenue income and expenditure for 2016/17 as detailed in **Appendix 1** for the Committee's Services are considered and included in the consolidated proposals for the General Fund.
- 1.2 That the proposed fees and charges as detailed in **Appendix 3** for 2016/17 are considered and approved.
- 1.3 That consideration is given to the level of any increase in contributions to Parish Councils in 2016/17 for Concurrent Functions.

2.0 Purpose of Report

- 2.1 As part of the annual financial planning cycle, the report details the Committee's proposed base budget for 2016/17, with a comparison to the current year, 2015/16. This includes an overview of the Committee's main spending areas.
- 2.2 It is proposed that the estimated income and expenditure is included in the consolidated budget of the Council for 2016/17 subject to the Council's overall medium-term financial position. This is subject to a separate report on this Agenda.
- 2.3 The report also sets out proposals for the level of fees and charges under the responsibility of this Committee for the next financial year.

3.0 Summary and Overview

- 3.1 The Committee is responsible for some large spending areas, in particular the main support service functions, together with the corporate, management and the democratic costs of the Council.
- 3.2 It is also responsible for the strategic management of the Council's property portfolio, revenue collection, benefit payments and treasury management, etc. As such, the associated income and expenditure can have a big influence on the Council's overall financial position.
- 3.3 In addition, several of these spending areas provide statutory, governance, legal and advisory support for the Council.
- 3.4 Several of the main spending areas are delivered by Northgate Public Services as part of the wider Strategic Partnership for Corporate Services. They act as direct service provider for a range of services including revenue collection, benefits administration and customer services, together with ICT, HR and Organisational Development.
- 3.5 In accordance with local government accounting regulations, a substantial amount of the Committee's costs are recharged and allocated across other services and accounts within this Committee and across other Policy Committees.

The Council's Overall Financial Position

- 3.6 The Council's Medium Term Financial Plan was reviewed and updated in October 2015. This showed that the General Fund has built up a good level of reserves, mainly due to budget underspends. Much of this has been due to one-off factors such as staffing vacancies and additional income.
- 3.7 Whilst in recent years this has been a familiar pattern, it cannot be guaranteed in future years. Current spending in the medium term is projected to be greater than income as costs are expected to increase and overall core funding reduces. Consequently, there is a projected budget deficit from 2017/18 and this starts to rise sharply from 2018/19 based on current forecasts.
- 3.8 Therefore, ahead of considering the wider Council position, it is important that the Committee scrutinises its own spending base closely to identify potential budget savings and carefully examines any areas where there are cost pressures, together with any proposals to increase spending.

Summary of Expenditure

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

| Summary of Net Revenue Expenditure | Approved Budget 2015/16 £ | Proposed Budget 2016/17 £ | Change £ |
|---------------------------------------|------------------------------------|------------------------------------|----------------|
| Central and Departmental Accounts | 3,311,116 | 3,378,832 | 67,716 |
| Corporate and Democratic Costs | 677,852 | 654,192 | -23,660 |
| Electoral Registration / Elections | 276,104 | 154,250 | -121,854 |
| Payments to Parish Councils | 324,340 | 342,446 | 18,106 |
| Backdated Pensions and Interest | 205,820 | 172,033 | -33,787 |
| Property and Estates | -150,153 | -149,566 | 587 |
| Revenues and Benefits | 358,203 | 400,384 | 42,181 |
| Total - Net Expenditure | 5,003,282 | 4,952,571 | -50,711 |

3.10 The above table shows that the Committee's net expenditure is estimated to reduce overall between 2015/16 and 2016/17 by approximately £51,000. An analysis of the changes within each service area is detailed in **Appendix 2**. A summary of the changes is shown in the following table.

| Change in Base Budget 2015/16 to 2016/17 | £'000 |
|---|----------------|
| Changes in Income | -12,142 |
| Known Service Changes (mainly Election Costs) | -98,273 |
| Inflation | 92,744 |
| Decrease in Insurance Premiums | -1,524 |
| Changes in Pay | 20,407 |
| Changes in other Service Costs | -6,426 |
| Costs recharged to the HRA | -40,460 |
| Net Decrease in cost of Housing Benefits | -3,977 |
| Decrease in Depreciation Charge | -1,060 |
| Overall Base Budget Increase | -50,711 |

3.11 The main changes are a reduction in costs due to the District Council Election in 2015/16 falling out of the Base Budget, together with inflation or indexation increases on the Corporate Service Contract and Concurrent Functions.

3.12 The increase in pay is due to a new post of Payroll Manager (approximately £30,000) following the transfer of the service back to the Council. This cost has been offset by a reduction in the Contract Fee and is reflected in the overall reduction in other service costs.

3.13 After allowing for the new post of Payroll Manager, there is a reduction in pay costs (of approximately £10,000 per year) which is mainly due to the changes to the structure of Financial Services as approved by the Committee in September 2015.

3.14 The main changes specifically ~~are detailed~~ in the following table.

Additional Costs

| | |
|---|----|
| Indexation on Corporate Services Contract (financed from Inflation Contingency) | 78 |
| Reduction in Housing Benefits Admin. Grant (as expected) | 28 |
| Additional resources provided in Revenues and Benefits Service | 25 |
| Additional maintenance costs at Civic Offices and Depot | 16 |
| Increase approved for Concurrent Functions in 2015/16 built into Base Budget | 15 |
| Other variances | 4 |

Sub-Total - Additional Costs**166****Less Base Budget Reductions**

| | |
|---|------|
| Council Tax Costs recovered - budget aligned to actual | -10 |
| Reduction of staffing costs in Financial Services (as approved in September 2015) | -15 |
| Reduction in past service Pension costs | -25 |
| Proportion of cost increases recharged to the HRA | -41 |
| District Council Election - costs falling out in 2016/17 | -126 |

Sub-Total - Base Budget Reductions**-217****Overall Reduction in Base Budget****-51****4.0 Detail**

- 4.1 The Committee's budgets by service area are detailed in **Appendix 1**. **Appendix 2** details changes between 2015/16 and 2016/17 for each cost centre.

Basis of the Budget

- 4.2 Budgets are usually calculated on an incremental basis, i.e. they are maintained at the same level as the previous year adjusted only for known changes and variations that have been identified through a restructure or efficiency programme.
- 4.3 However, many budgets are also subject to a base line review which is used to justify proposed spending. This process places greater responsibility on budget holders to justify their spending budgets by specifying their needs in a more constructed manner.
- 4.4 As well as identifying possible budget savings, it can also identify potential cost pressures; this approach has been well used across the Committee's services.

On-going Service Provision

- 4.5 The budgets are based substantively on a continuation of existing service provision (in respect of staffing levels, frequency, quality of service, etc.).

- 4.6 However, the full year effects of previous year's restructures and efficiencies are included, with any non-recurring items removed as identified in the report.

Inflation

- 4.7 The base budget for 2016/17 has been uplifted by inflation in 2015/16 where this applies.
- 4.8 Clearly, some base costs will be subject to inflation during future years and in some cases it will be "unavoidable," for example employee costs, when national pay increases are approved.
- 4.9 Allowances for inflation based on various assumptions regarding price increases, etc. will be calculated across the main spending heads and in total, held as a central contingency.
- 4.10 In line with current policy, this contingency will be reviewed and monitored separately by the Committee in the MTFP. It will only be allocated into budgets across Council services, as the actual effects of inflation become known over the year.

Increase in Payments for Concurrent Functions to Parish Councils

- 4.11 As part of the annual Budget Round, the Committee gives consideration to increasing the base contribution in payments to recognise inflationary pressures. Increases in recent years have been as follows:
- 2015/16 – 2.3%
 - 2014/15 – 2.0%
 - 2013/14 – 2.6%
 - 2012/13 – No increase
 - 2011/12 – No increase
- 4.12 Latest inflation rates show CPI running at 0.1% year on year, with RPI at 1.1%. The Government's Autumn Statement forecasts CPI inflation at 1% and RPI at 2% respectively in 2016/17. The Council's MTFP provides for a 2% increase.
- 4.13 Every 1% increase in the base level across all parish payments equates to approximately £3,500 per year.

Risks

- 4.14 All Committee budgets have been reviewed and known changes to income and expenditure have been reflected in the proposed base budget for 2016/17 as detailed in the report.
- 4.15 The main financial risk is considered to be the payment and recovery of Housing Benefit. The total amount administered and paid in respect of Rent Allowances and Rent Rebates is approximately £18.4m per year.

- 4.16 Of this, 98.5% is recharged to the DWP. Given the amounts involved, this is sensitive to small variations; if reimbursement is not maximised, every ½ % reduction equates to almost £100,000.
- 4.17 However, some of this risk lies with the Service Provider (Northgate) who are could face a financial penalty if error rates exceed thresholds set by the DWP.

Rollout of Universal Credit (UC) from May 2016

- 4.18 This is a further risk that currently, is difficult to quantify, although the consequences are likely to be more medium than short-term.
- 4.19 UC went live in South Derbyshire from October 2015 with a small number of claimants affected. Full implementation will begin in May 2016 and is planned to be completed by the middle of 2018.
- 4.20 The DWP has confirmed that benefits administration subsidy will continue unadjusted in 2016/17, whether or not implementation takes effect during the forthcoming financial year. The Council's subsidy for 2016/17 has been notified and this amount has been included in the base budget. The MTFP assumes continuing reductions in the subsidy level year on year to 2021.
- 4.21 It is not expected that the existing stock of housing benefit claims will be converted to UC until after 2018. According to the DWP timetable, this may not be complete until 2020/2021.
- 4.22 Consequently, there is likely to be a three to five year period for the gradual run-down of HB for people of working age. No proposals are currently in place to make changes to the delivery of HB for pensioners in this period.
- 4.23 The Government have confirmed that TUPE will not apply to existing local government staff. The Government have reached a firm conclusion that because of the nature of UC as a new benefit, delivered in a new and fundamentally different way, there will be no "relevant transfer" of staff working on HB today.
- 4.24 Therefore, at some point, the Council will need to start planning for this situation. The Government have also confirmed that where staff cannot be redeployed, the DWP will meet the full costs of compulsory redundancies, once councils can show that all redeployment and reassignment activity has been undertaken.
- 4.25 The position will be kept under review. During 2016, the Council is likely to be notified when UC will be implemented in full across South Derbyshire and where, between 2018 and 2020, the Council will need to address the resource implications.

Proposed Fees and Charges 2016/17

4.26 **Appendix 3** provides a schedule of the proposed charges that will operate from 1st April 2016, together with a comparison to the existing charge. All charges are exclusive of VAT and where applicable, VAT is added at the appropriate rate in accordance with HMRC regulations.

4.27 The charges are mainly standard ones for the recovery of court costs, change notifications and payment fees. There are no proposals to change any of the charges that currently apply in 2015/16.

5.0 Financial Implications

5.1 As detailed in the report.

6.0 Corporate Implications

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

7.0 Community Implications

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

8.0 Background Papers

8.1 None

BUDGET - 2016/17

Finance & Management

| £'s | | BUDGET | | | |
|-----------------------------------|--------------------------------|-----------|-----------|----------|--|
| | | 2016/17 | 2015/16 | VARIANCE | |
| PSX40 | Senior Management | 449,704 | 454,739 | 5,035 | Adverse salaries (£8k), car allows (£1k), favourable staff prof fees (£9k), internal recharge (£3k) |
| PSX50 | Reprographic/Print Room | 78,355 | 71,992 | (6,363) | Adverse contract fee (£1k), internal recharges (£5k) |
| PSX55 | Financial Services | 304,924 | 290,880 | (14,045) | Adverse salaries (£14k), training (£2k), prof fees (£4k), comp maintenance (£4k), favourable internal recharge (£9k) |
| PSX56 | Internal Audit | 103,115 | 103,115 | 0 | |
| PSX57 | Merchant Banking Services | 47,149 | 45,935 | (1,214) | Bank charges |
| PSX60 | ICT Support | 656,868 | 651,783 | (5,084) | Contract fee |
| PSX65 | Legal Services | 137,393 | 133,865 | (3,528) | Adverse salaries (£3k), prof fees (£1k) |
| PSX75 | Personnel/HR | 215,842 | 235,916 | 20,074 | Contract fee |
| PSX76 | Policy & Communications | 233,928 | 239,103 | 5,174 | Contract fee |
| PSX77 | Customer Services | 592,635 | 535,600 | (57,035) | Adverse contract fee (£69k), favourable internal recharges (£12k) |
| PSX78 | Health & Safety | 34,552 | 35,218 | 666 | |
| PSX81 | Admin Offices & Depot | 322,892 | 317,412 | (5,480) | Adverse R&M (£6k), business rates & utilities (£4k), favourable insurance (£4k) |
| PSX95 | Procurement Unit | 104,126 | 103,437 | (689) | |
| PSX99 | Corporate Services Partnership | 0 | 0 | 0 | |
| KJE40 | Caretaking | 97,349 | 92,122 | (5,227) | Adverse salaries (£8k), favourable overtime (£3k) |
| Central and Departmental Accounts | | 3,378,832 | 3,311,116 | (67,717) | |
| HTT00 | Concessionary Fares | 0 | 0 | 0 | |

Concessionary Travel

| | |
|-------|---|
| AAD00 | Democratic Representation & Management |
| AAM00 | Corporate Management |
| AAM01 | Corporate Finance Management |
| ABS00 | Impairment and Fixed Assets Written-off |
| ABU00 | Adjustments to Bad Debts and other Provisions |
| ACD00 | Elected Members |
| KJW00 | Debt Management Costs |

Corporate and Democratic Costs

| | |
|-------|--------------------------|
| ACE00 | Registration of Electors |
| ACE10 | Conducting Elections |

Electoral Registration

| | |
|-------|-----------------|
| ACT01 | Parish Councils |
|-------|-----------------|

Payments to Parish Councils

| | |
|-------|---|
| ABP00 | Funded Pension Schemes |
| W2A00 | Taxation & non-specific grant income (GF) |
| W4A00 | Interest & Investment Income (GF) |
| W6A00 | Pensions Adjustment |
| W7A00 | External Interest Payable (GF) |
| W8A00 | Other Operating Income & Expenditure (GF) |

| | | | |
|----------|----------|----------|--|
| 0 | 0 | 0 | |
| 81,575 | 82,528 | 954 | |
| 75,412 | 75,400 | (12) | |
| 51,817 | 64,459 | 12,642 | Favourable audit fee (£10k), bank charges (£10k), adverse internal recharges (£8k) |
| 0 | 0 | 0 | |
| 0 | 0 | 0 | |
| 318,365 | 329,758 | 11,393 | Favourable internal recharges (£5k), subsistence (£4k), insurance (£1k) |
| 127,023 | 125,707 | (1,316) | Contract fee |
| 654,192 | 677,852 | 23,660 | |
| 22,324 | 20,122 | (2,202) | Adverse training and sale of publications |
| 131,926 | 255,981 | 124,055 | Favourable salaries (£41k), election fees (£75k), fees (£20k), adverse insurance (£2k), printing & stationery (£8k), staff prof fees (£2k) |
| 154,250 | 276,104 | 121,853 | |
| 342,446 | 324,340 | (18,106) | Grant increase plus under budget in previous year |
| 342,446 | 324,340 | (18,106) | |
| 215,793 | 241,505 | 25,712 | Fee reduction |
| 0 | 0 | 0 | |
| (45,259) | (37,185) | 8,074 | Increased interest receivable |
| 0 | 0 | 0 | |
| 1,500 | 1,500 | 0 | Interest on small deposits |
| 0 | 0 | 0 | |

Pensions, Grants Interest Payments and Receipts

PSX85 Estate Management

Property and Estates

ACA00 Council Tax Collection

ACA10 Council Tax Benefits Administration

ACA30 Council Tax Benefits

ACA40 Non Domestic Rates Collection

KGL00 Rent Allowances Paid

KGL10 Net cost of Non-HRA Rent Rebates

KGN00 Net cost of Rent Rebates Paid

KGP00 Client Unit

Revenues and Benefits

| | | | |
|------------------|------------------|-----------------|---|
| 172,033 | 205,820 | 33,787 | |
| (149,566) | (150,153) | (587) | |
| (149,566) | (150,153) | (587) | |
| (76,390) | (66,652) | 9,738 | Favourable income court fees |
| 0 | 0 | 0 | |
| 0 | 0 | 0 | |
| 30,622 | 29,361 | (1,261) | Contract fee |
| 197,687 | 214,195 | 16,508 | Government grant entitlement |
| 0 | 0 | 0 | |
| 68,546 | 56,015 | (12,531) | Government grant entitlement |
| 179,920 | 125,284 | (54,636) | Decrease in Gov't grant (£28k), contract fee increase (£28k), savings on essential user (£1k) |
| 400,384 | 358,203 | (42,181) | |
| 4,952,572 | 5,003,282 | 50,709 | |

APPENDIX 2

ANALYSIS OF CHANGES BETWEEN 2015/16 APPROVED & 2016/17 PROPOSED BASE BUDGETS

Figures all in £s

| Cost Code | Service Area | Income | Known Service Changes | Inflation | Insurance | Pay | Deprn. | Service Costs | HRA Recharge | Benefit Payments | TOTAL |
|-----------|--------------------------------|--------|-----------------------|-----------|-----------|--------|---------|---------------|--------------|------------------|----------|
| PSX40 | Senior Management | | | | | | | (2,071) | (2,964) | | (5,035) |
| PSX50 | Reprographic/Print Room | 5,858 | | 870 | (365) | | | | | | 6,363 |
| PSX55 | Financial Services | | | 759 | 144 | 13,767 | | 8,735 | (9,360) | | 14,045 |
| PSX56 | Internal Audit | | | | | | | | | | - |
| PSX57 | Merchant Banking Services | | | | | | | 1,214 | | | 1,214 |
| PSX60 | ICT Support and Development | | | 5,238 | 629 | | | 886 | (1,669) | | 5,084 |
| PSX65 | Legal Services | | | | 207 | 3,486 | | 2,300 | (2,465) | | 3,528 |
| PSX75 | Personnel/HR | | | | 432 | | | (26,623) | 6,117 | | (20,074) |
| PSX76 | Policy & Communications | | | (6,087) | | | | | 913 | | (5,174) |
| PSX77 | Customer Services | | | 69,271 | 44 | | | | (12,280) | | 57,035 |
| PSX78 | Health & Safety | | | 434 | | | | (1,303) | 203 | | (666) |
| PSX81 | Civic Offices & Depot | | | (1,219) | (4,483) | | (1,060) | 12,242 | | | 5,480 |
| PSX95 | Procurement Unit | | | 1,802 | | | | (536) | (577) | | 689 |
| KJE40 | Office Cleaning and Caretaking | | | | | 5,374 | | 3,749 | (3,896) | | 5,227 |

| | | | | | | | | | | | |
|-------|----------------------------------|----------|-----------|--------|---------|---------|--|----------|----------|----------|-----------|
| HTT00 | Concessionary Fares | | | | | | | | | | - |
| AAD00 | Democratic Representation | | | | (686) | (4,055) | | 1,184 | 2,603 | | (954) |
| ACD00 | Elected Members | | | | (1,170) | | | (5,168) | (5,055) | | (11,393) |
| AAM00 | Corporate Management | | | | 12 | | | | | | 12 |
| AAM01 | Corporate Finance | | | | (1,672) | | | | (10,970) | | (12,642) |
| KJW00 | Debt Recovery Costs | | | 1,316 | | | | | | | 1,316 |
| ACE00 | Registration of Electors | | | | 202 | | | 2,000 | | | 2,202 |
| ACE10 | Conducting Elections | | (126,131) | | 2,076 | | | | | | (124,055) |
| ACT01 | Concurrent Functions | | | 15,032 | 3,074 | | | | | | 18,106 |
| ABP00 | Funded Pension Schemes | | | | 38 | | | (25,750) | | | (25,712) |
| W4A00 | Interest Received | (8,000) | | | (74) | | | | | | (8,074) |
| W7A00 | Interest Paid | | | | | | | | | | - |
| PSX85 | Asset and Estate Management | | | | 68 | 1,835 | | (256) | (1,060) | | 587 |
| ACA00 | Council Tax Collection | (10,000) | | 1,262 | | | | (1,000) | | | (9,738) |
| ACA40 | Non Domestic Rates Collection | | | 1,261 | | | | | | | 1,261 |
| KGL00 | Net cost of Rent Allowances Paid | | | | | | | | | (16,508) | (16,508) |
| KGN00 | Net cost of Rent Rebates Paid | | | | | | | | | 12,531 | 12,531 |
| KGP00 | Housing Benefits Administration | | | | | | | | | | |

| | | | | | | | | | | | |
|--|--------------|-----------------|-----------------|---------------|----------------|---------------|----------------|----------------|-----------------|----------------|-----------------|
| | | | 27,858 | 2,805 | | | | 23,971 | | | 54,634 |
| | TOTAL | (12,142) | (98,273) | 92,744 | (1,524) | 20,407 | (1,060) | (6,426) | (40,460) | (3,977) | (50,711) |

PROPOSED FEES & CHARGES 2016/17

| FINANCIAL SERVICES | Fee 2015/2016 £:P | Proposed Fee 2016/17 £:p | Note |
|--|-------------------------------------|-------------------------------------|---|
| Court Costs | | | |
| Court Costs Recovered | 70.00 | 70.00 | Generally applied across Derbyshire authorities |
| National Bus Pass Scheme | | | |
| Replacement Card | 5.00 | 5.00 | |
| Benefit Fraud | | | |
| Fraud Investigation Administration Charge | Up to 50% of overpayment as awarded | Up to 50% of overpayment as awarded | |
| Fraud Investigation Court Costs recovered | 500.00 | 500.00 | |
| Sale of Radar Keys | | | |
| Sale of Radar Keys - disabled | 2.55 | 2.55 | |
| Payments made by Cards | | | |
| Credit Card | Variable | Variable | Depends on bank charge incurred by the Council |
| Debit Card | No Charge | No Charge | |
| Penalty Charge | | | |
| Penalty charge for Council Tax accounts who fail to notify us of a change in circumstances relating to a discount or exemption. | 70.00 | 70.00 | |
| Penalty charge for Council Tax accounts who fail to notify us of a change in circumstances relating to a discount or exemption - second or subsequent failure to notify. | 250.00 | 250.00 | |

| | | |
|------------------------------------|--|---|
| REPORT TO: | FINANCE AND MANAGEMENT COMMITTEE SPECIAL - BUDGET | AGENDA ITEM: 8 |
| DATE OF MEETING: | 14th JANUARY 2016 | CATEGORY: RECOMMENDED |
| REPORT FROM: | DIRECTOR OF FINANCE & CORPORATE SERVICES | OPEN |
| MEMBERS' CONTACT POINT: | KEVIN STACKHOUSE (01283 595811) Kevin.stackhouse@south-derbys.gov.uk | DOC: u/ks/budget round 201617/base budget policy reports/4 consolidated/FM Consolidated Report Jan 16 |
| SUBJECT: | BUDGET REPORT 2016/17 Incorporating the Consolidated Budget Proposals and Medium Term Financial Plan to 2021 | REF: |
| WARD (S) AFFECTED: | ALL | TERMS OF REFERENCE: FM 08 |

1.0 Recommendations

- 1.1 The estimates of revenue income and expenditure for 2016/17 for the General Fund are considered and a level of income and expenditure is approved.
- 1.2 Consideration is given to the level of an increase in grants to voluntary bodies and payments to Parish Councils under concurrent functions.
- 1.3 The Council Tax Base for 2016/17 of 30,990 (equivalent Band D) properties as detailed in **Appendix 6** is approved.
- 1.4 A Council Tax Surplus of £175,000 and a Business Rates surplus of £1m is declared on the Collection Fund for 2015/16 and the Council's proportions of £20,000 and £400,000 respectively are transferred to the General Fund in 2016/17.
- 1.5 Consideration is given to the rate of Council Tax for 2016/17 in line with the Government's Financial Settlement.
- 1.6 The updated 5-year financial projection on the General Fund to 2021 as detailed in **Appendix 1**, including associated assumptions and risks, be noted.
- 1.7 A strategy and action plan is drawn up to generate budget savings of £1.5m on the General Fund over the spending review period to enable a minimum level of General Reserves of £1m by 2020.
- 1.8 The decisions made in recommendations 1.1 to 1.7 are used as the basis for consultation with local residents, businesses, voluntary and community groups, etc. and are subject to review by the Overview and Scrutiny Committee.

2.0 Purpose of the Report

2.1 To detail the Council's overall financial position following a detailed review of current income and expenditure on the General Fund. Effectively, it builds on the financial plan and strategy approved in October 2015 and is the detailed budget report for 2016/17. The report covers the following:

- Details of the Council's financial settlement from Central Government for 2016/17 and provisional allocations of core funding to 2019/20.
- The Council's current spending and proposed base budget position for 2016/17 including proposed spending by policy committees.
- The proposed Council Tax Base for 2016/17 and Collection Fund position, 2015/16.
- The impact on Council Tax levels in 2016/17 and future years.
- The overall impact on the General Fund's 5-year financial projection.

2.2 The report is divided into several sections as follows:

- Section 3 – Summary and Overall Commentary
- Section 4 – The Council's Financial Settlement for 2016/17
- Section 5 – Proposed Base Budget and Consolidated Spending 2016/17
- Section 6 – Revised General Fund Financial Projection to 2021
- Section 7 – Council Tax, Tax Base and Collection Fund Position
- Section 8 – Overall Risk Analysis

Appendices:

- Appendix 1 – General Fund Summary Budget and 5-year projection
- Appendix 2 – Environmental and Development Services Base Budget
- Appendix 3 – Housing and Community Services Base Budget
- Appendix 4 – Finance and Management Base Budget
- Appendix 5 – Summary of Changes to the Base Budget
- Appendix 6 – Calculation of Council Tax Base 2016/17
- Appendix 7 – Estimated Collection Fund position 2015/16

3.0 Summary and Overall Commentary

The Position entering the 2016/17 Budget Round

- 3.1 The updated medium term financial projection was considered and approved by the Committee on 15th October 2015. This set out the projected level of net revenue expenditure on the General Fund, together with the level of the General Reserve to 2021.
- 3.2 The overall projected position at that time, is summarised in the following table.

General Fund: Medium-Term Projection as at September 2015

| Year | Budget Deficit / Surplus (-) | Sums Earmarked against Reserve | Balance of General Reserve |
|---------------------|------------------------------------|---|----------------------------------|
| Base Budget 2015/16 | -£144,689 | £911,000 | £5,368,689 |
| Projection 2016/17 | -£424,381 | £433,000 | £5,360,071 |
| Projection 2017/18 | £206,616 | £420,000 | £4,733,455 |
| Projection 2018/19 | £603,559 | £90,000 | £4,039,895 |
| Projection 2019/20 | £934,976 | £20,000 | £3,084,920 |
| Projection 2020/21 | £1,115,766 | £270,000 | £1,699,154 |

- 3.3 The overall medium term position projected an adequate level of general reserves, but with a projected and increasing budget deficit after 2017/18. This was mainly due to an expected reduction in overall core funding in future years with a moderate increase in the cost base due to growth pressures.

The Updated General Fund Position

- 3.4 As part of the annual budget round, the Council's base budget has been reviewed in detail. This has confirmed some additional cost pressures, although there have also been some budget savings and additional income identified.
- 3.5 Following the Government's provisional Financial Settlement which was published on 17th December 2015, together with proposals contained in the Base Budget for 2016/17, the medium term position has been updated. This is summarised in the following table.

General Fund: Medium-Term Projection as at January 2016

| Year | Budget Deficit / Surplus (-) | Sums Earmarked against Reserve | Balance of General Reserve |
|-------------------------|------------------------------------|---|----------------------------------|
| Base Budget 2015/16 | -£145,321 | £911,000 | £5,369,321 |
| Proposed Budget 2016/17 | -£488,357 | £433,000 | £5,424,678 |
| Projection 2017/18 | £196,928 | £420,000 | £4,807,750 |
| Projection 2018/19 | £1,812,680 | £90,000 | £2,905,070 |
| Projection 2019/20 | £2,354,236 | £20,000 | £530,834 |
| Projection 2020/21 | £2,170,989 | £270,000 | -£1,910,155 |

- 3.6 The overall financial profile of the General Fund remains the same as previously reported. However, the projected position has worsened, mainly due to the Financial Settlement reducing core funding to a greater extent than expected.
- 3.7 The General Fund continues to show a budget surplus for 2015/16 and 2016/17 based on current projections. A deficit is then forecast from 2017/18, but this becomes acute in 2018/19 as Revenue Support Grant falls out completely and the proposed reductions in New Homes Bonus Payments take effect.
- 3.8 The General Fund Reserve falls below the minimum level of £1m in 2019/20; 2020/21 is effectively academic without corrective action being taken.
- 3.9 The position is not serious in the short-term but the medium-term forecast shows a significant financial deficit which will need to be corrected before, or at the very latest, in 2017/18.
- 3.10 The Government's Financial Settlement has provided a significant challenge for local councils but, as the Government have stated, provides sufficient lead in-time to meet this challenge.
- 3.11 Currently, the level of General Reserves is fairly healthy and may increase in the short-term as additional income and general under spending in the current Base Budget accrues. However, this is not guaranteed and has not been included in the MTFP at this stage.
- 3.12 Although a higher level of reserves is clearly beneficial, based on the latest projections, the level of reserves will not sustain the overall deficit in the medium-term.
- 3.13 It has been anticipated for some time that the General Fund would face reductions in core funding. Consequently, the Council has taken a cautious approach and built up a good level of General Reserves.

- 3.14 However, the Financial Settlement was much worse than expected and as the updated financial projection shows, this will present a considerable challenge in the medium-term.
- 3.15 Growth may accelerate at a greater rate than that contained in the Government's assumptions and built into the MTFP. In addition, additional resources may flow to the Council when the Government reviews the distribution of future Business Rates. However, this is not clear and cannot be guaranteed.
- 3.16 The current level of General Reserves will act as a buffer and can be used as a short-term measure to supplement the Base Budget. However, this is not a sustainable position and based on these projections, the Council's Base Budget and forward spending plans will now need to be reviewed.
- 3.17 Budget savings of up to £1.5m will need to be made over the spending period in order for the minimum level of General Reserves to be sustained and for the longer-term budget deficit to be reduced.

DETAIL, BACKGROUND and BASE BUDGET ANALYSIS

4.0 The Council's Financial Settlement 2016/17

- 4.1 Following the Government's Spending Review and Autumn Statement which was published in November 2015, it was confirmed that there would be reductions in core funding for local councils.
- 4.2 The provisional financial settlement (subject to consultation) was announced on 17th December 2015. This provided actual figures for 2016/17, together with provisional allocations for three further years 2017/18 to 2019/20. The provisional allocations are based on national control totals, which form part of the Government's budget and financial plan to the end of the current Parliament in 2020.
- 4.3 The settlement contained some changes to the way in which local government will be financed within this period. The consultation period runs until 15th January 2016.
- 4.4 Overall, local government will see a fall in resources in real terms of 6.7% between now and 2019/20.
- 4.5 The approach to Council Tax increases contained in the Settlement is a fundamental change compared to recent years, where Central Government has incentivised councils to freeze the level of Council Tax each year. This Settlement seems to encourage and indeed assumes that Council Tax will be increased over the forthcoming spending period. This is detailed later in **Section 7**.

The Movement of Resources

- 4.6 A major change is considered to be the switching of resources to upper tier and unitary councils to meet pressures in adult social care and children's services. The implications for other authorities and shire districts in particular, are that they now appear to face some significant reductions in resources. Although this is not immediate, it becomes significant from 2018/19 onwards.
- 4.7 As this section details later, the implications for the Council are challenging. Firstly, Revenue Support Grant is completely withdrawn after 2018/19 and additionally, there are reductions in the New Homes Bonus at the same time, based on proposals in the Settlement.

Core Spending Power

- 4.8 The Settlement has introduced a new term of Core Spending Power (CSP). This contains several elements of both central and local financing, as detailed in the following table, which also show the figures for the Council.

| Breakdown of Core Spending Power | 2015/16 Actual £ | 2016/17 Budget £ | 2017/18 Provision £ | 2018/19 Provision £ | 2019/20 Provision £ |
|--|------------------------|------------------------|---------------------------|---------------------------|---------------------------|
| Revenue Support Grant | 1,811,467 | 1,200,000 | 670,000 | 340,000 | 0 |
| Baseline Business Rates | 2,290,654 | 2,309,000 | 2,353,000 | 2,423,000 | 2,472,000 |
| New Homes Bonus | 2,322,405 | 2,849,878 | 2,915,743 | 1,800,000 | 1,700,000 |
| Council Tax Freeze Grant | 50,794 | 0 | 0 | 0 | 0 |
| Better Care Fund | 0 | 0 | 0 | 0 | 0 |
| Rural Services Delivery Grant | 0 | 0 | 0 | 0 | 0 |
| Total - Central Resources | 6,475,320 | 6,358,878 | 5,938,743 | 4,563,000 | 4,172,000 |
| Add Local Resources | | | | | |
| Mainstream Council Tax (including tax base growth) | 4,598,852 | 4,747,044 | 4,902,078 | 5,100,000 | 5,400,000 |
| Additional Council Tax ability for Social Care | 0 | 0 | 0 | 0 | 0 |
| Additional Council Tax ability for low Council Tax Districts | 0 | 0 | 0 | 0 | 0 |
| Total Core Spending Power | 11,074,172 | 11,105,922 | 10,840,821 | 9,663,000 | 9,572,000 |

Reduction in CSP

| 2016/17 Budget £ | 2017/18 Provision £ | 2018/19 Provision £ | 2019/20 Provision £ | Total £ |
|------------------------|---------------------------|---------------------------|---------------------------|------------|
| 0.3% | -2.4% | -10.9% | -0.9% | -14% |
| 31,750 | -265,101 | -1,177,821 | -91,000 | -1,502,172 |

4.9 The above tables show that the Council's core funding is expected to decrease by 14% (£1.5m) over the spending period, with the significant part of the reduction in 2018/19. This is much worse than previously projected in the MTFP.

The National Picture

4.10 Out of the 383 local authorities affected by this settlement, the Council ranks as the 45th in terms of loss of resources over the spending period.

4.11 The average reduction across England is 0.5%, but this is skewed quite considerably. The average for shire districts is 12% and for upper tier and unitary authorities, around 1%. A number of county and unitary authorities will actually see an increase as resources are shifted to adult social care and children's services.

4.12 It is important to note that the Government's figures include Council Tax increases averaging 1.75% per year, which is the OBR's forecast of average CPI inflation over the spending period. A provision for growth in the tax base has also been included, based on past trends.

4.13 The preceding table also shows that the Council will not benefit from some funding streams as follows:

- Better Care Fund – applies only to upper tier and unitary authorities.
- Rural Services Delivery Grant – although South Derbyshire is classed as a rural area, its sparsity weighting falls outside the Government’s benchmark to qualify for this Grant.
- Additional Council Tax for Social Care - applies only to upper tier and unitary authorities.
- Additional Council Tax for low Council Tax authorities – the Council’s current level of Council Tax is not in the lowest 25% of all district councils.

Revenue Support Grant (RSG)

4.14 The withdrawal of RSG was projected in the MTFP but is faster and sooner than anticipated. A comparison of the impact on the MTFP is shown in the following table.

| Revenue Support Grant - MTFP | 2015/16 Actual £ | 2016/17 Budget £ | 2017/18 Provision £ | 2018/19 Provision £ | 2019/20 Provision £ | 2020/21 Provision £ |
|------------------------------------|------------------------|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Forecasted Allocations - Sept 2015 | 1,811,467 | 1,378,000 | 823,000 | 811,000 | 800,000 | 700,000 |
| Actual and Provisional Allocations | 1,811,467 | 1,200,000 | 670,000 | 340,000 | 0 | 0 |
| Variance | 0 | -178,000 | -153,000 | -471,000 | -800,000 | -700,000 |

4.15 The overall effect is that approximately £2.3m of resources will need to be taken out of the MTFP over the spending review period. This is due to the fact that the previous MTFP was based on OBR estimates based on former spending reviews.

Business Rates (BR)

4.16 The amount included in CSP is the baseline amount. This has been increased by estimated levels of inflation as measured by the CPI, which are as follows:

- 2016/17 – 0.8%
- 2017/18 – 2.9%
- 2018/19 – 3.0%
- 2019/20 – 2.0%

4.17 It is anticipated that the Council will generate additional BR above the baseline level due to growth and/or better collection rates, etc. This surplus will accrue in the Collection Fund and will be distributed amongst the preceptors of BR. This is detailed in **Section 7**.

Complete Rates Retention

- 4.18 The Settlement confirmed the Government's Autumn Statement commitment that all BR receipts would stay within local government by the end of the current Parliament. The Government has committed to a review of how this will work and intend to report and consult with council's in the summer of 2016. No further details are known at this stage.
- 4.19 In principle, this is positive for the Council, as it currently loses approximately £10m in BR to central government each year through the rates retention mechanism. However, it is considered unlikely that the Council will maintain receipts of £10m as the Government has also confirmed that some form of redistributive mechanism will remain in any revised system.
- 4.20 The Government has also indicated that they will fund the on-going effects in 2016/17 only, of capping the BR multiplier in 2014/15 and 2015/16. These figures are still to be notified to councils.

New Homes Bonus (NHB)

- 4.21 Proposals for the allocation of NHB after 2016/17 were published alongside the main Financial Settlement. The Government has confirmed that the NHB will stay "indefinitely" but are proposing changes to its future allocation.
- 4.22 The figures for NHB in the CSP are based on the current calculation methodology, but scaled back on a pro-rata basis to illustrate the likely effect of Government proposals to reduce amounts paid nationally. Effectively, the Government intend to top slice NHB allocations to fund an additional £800m nationally for adult social care from 2018/19.
- 4.23 In the Council's case, the provisional allocations for 2018/19 and 2019/20 of £1.8m and £1.7m respectively, are approximately £1m less in each year compared to that which would be paid if the Council was to benefit in full, from local growth.

Sharpening the Incentive

- 4.24 As part of the Settlement, the Government issued a separate technical consultation paper titled "*New Homes Bonus: Sharpening the Incentive*." This sets out the proposals which the Government intend to implement to fund the £800m for social care.
- 4.25 The projected NHB allocations in the CSP assume that these proposals will be implemented in some form. There are four main proposals.

To reduce the period of Legacy Payments

- 4.26 For each new home built in any one year, it attracts NHB at the average Council Tax rate for England in the appropriate band, for 6 years. The Government is proposing to reduce these "legacy" payments from 6 to 4 years.

- 4.27 The consultation also puts forward options for the legacy period to be reduced down to 3 or even 2 years, or to phase it in stages from 6, to 5 to 4 years. However, the Government's preferred option is 4 years and the Settlement is based on this.

To remove "Deadweight"

- 4.28 This proposal would assume an underlying growth rate in new homes to remove the "deadweight" from future allocations. The Government is proposing to use the average national growth rate in new houses of 0.25%. The Council's recent and forecasted growth rate is above 1%.
- 4.29 Exemplifications in the consultation show how this would impact on NHB. Depending in which Council Tax band new homes are built, this would reduce payments by between 20% and 30%.
- 4.30 The consultation considers the point of setting different "deadweight" percentages for different authorities so that higher growth areas and those authorities that incentivise growth are not penalised. However, the consultation concludes that this may be difficult to administer.
- 4.31 The consultation also indicates that the national growth rate percentage would be reviewed regularly and increased if necessary, especially if there was a surge in growth.

Planning Appeals and the Local Plan

- 4.32 There are two other proposals in the consultation which are less quantifiable, but are aimed at penalising authorities who appear to be stifling growth. Firstly, NHB would not be paid on new homes built which were rejected by the planning authority but then overturned on appeal.
- 4.33 Secondly, any authority that has not adopted a Local Plan by 2017/18 will lose a proportion of its NHB until a plan is adopted.

Time Frame

- 4.34 The consultation on sharpening the NHB incentive proposes some fundamental changes. In any case, it seems that future NHB payments will be scaled back in some form as the Government cannot afford projected payments and they have committed to funding £800m for additional social care in the overall Financial Settlement.
- 4.35 The Government has confirmed that no changes will occur in 2016/17 and the payments, as calculated, will be paid. The new proposals (if approved) will be effective from 2017/18, but will really impact from 2018/19 when the national control total for NHB is reduced.

NHB – Implications for the MTFP

4.36 The MTFP approved in September 2015, forecast that the NHB would gradually be phased out over the spending period, with a longer-term impact beyond 2020.

4.37 Based on information at that time, the MTFP assumed that no new allocations would be provided from 2017/18, but all payments for previous growth would continue for the 6-year legacy period. The impact on the MTFP is shown in the following table.

| New Homes Bonus - MTFP | 2015/16 Actual £ | 2016/17 Budget £ | 2017/18 Provision £ | 2018/19 Provision £ | 2019/20 Provision £ | 2020/21 Provision £ |
|------------------------------------|------------------------|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Forecasted Allocations - Sept 2015 | 2,322,405 | 2,716,900 | 2,728,626 | 2,540,029 | 2,162,835 | 1,730,077 |
| Actual and Provisional Allocations | 2,322,405 | 2,849,878 | 2,915,743 | 1,800,000 | 1,700,000 | 1,700,000 |
| Variance | 0 | 132,978 | 187,117 | -740,029 | -462,835 | -30,077 |

4.38 The allocations for 2016/17 (confirmed) and 2017/18 (provisional) are higher due to growth. However, the impact of the Government's proposals are illustrated in 2018/19 and 2019/20.

4.39 The overall effect is that approximately £900,000 of resources will need to be taken out of the MTFP over the spending review period.

Core Spending Power – Summary of Impact on the MTFP

4.40 Including Council Tax and Business Rates, the following table shows the change in resources between that forecast in the MTFP in September 2015, compared to the CSP figures contained in this Financial Settlement.

| Overall CSP over the Spending Period to 2020 | MTFP Sept 2015 £ | MTFP Jan 2016 £ | Change £ |
|---|---------------------------------|--------------------------------|---------------------|
| Revenue Support Grant | 4,512,000 | 2,210,000 | -2,302,000 |
| Baseline Business Rates | 13,086,850 | 12,107,000 | -979,850 |
| Business Rates Growth | 550,000 | 1,200,000 | 650,000 |
| New Homes Bonus | 11,878,467 | 10,965,621 | -912,846 |
| Mainstream Council Tax | 25,380,949 | 25,849,123 | 468,174 |
| | 55,408,266 | 52,331,744 | -3,076,522 |

4.41 The updated figures have been built into the revised MTFP as detailed in **Section 6**.

5.0 Proposed Base Budget and Consolidated Spending 2016/17

- 5.1 All policy committees (including an earlier report on this Agenda) have considered their detailed budget proposals for 2016/17. All services were asked to carefully consider their base income and expenditure.

Basis of the Budget

- 5.2 Budgets have generally been calculated on an incremental basis, i.e. they are maintained at the same level as the previous year adjusted only for known changes, together with variations that have been identified through a restructure or efficiency programme.
- 5.3 However, many budgets have also been subject to a base line review which is used to justify proposed spending. This process places greater responsibility on budget holders to justify their spending budgets by specifying their needs in a more constructed manner.
- 5.4 As well as identifying possible budget savings, this can also identify potential cost pressures.

On-going Service Provision

- 5.5 The budgets are based substantively on a continuation of existing service provision (in respect of staffing levels, frequency, quality of service, etc.)
- 5.6 However, the full year effects of previous year's restructures and efficiencies are included, with any non-recurring items being removed.

Inflation

- 5.7 The base budget for 2016/17 has been uplifted by actual inflation in 2015/16 where this applies.
- 5.8 Clearly, some base costs will be subject to inflation during future years and in some cases it will be "unavoidable," for example, employee costs when national pay increases are approved.
- 5.9 Allowances for inflation based on various assumptions regarding price increases, etc. are calculated across the main spending heads and in total, held as a central contingency.
- 5.10 In line with current policy, this contingency is reviewed and monitored by this Committee and allocated into service budgets, as the actual effects of inflation become known over the year.

Base Budgets 2016/17

5.11 A full analysis of each Committee's proposed budget has been detailed in separate reports to the respective Policy Committee. The main spending areas are analysed in **Appendices 2 to 4**, with a summary of each Committee's proposed spending shown in the following table.

| Summary of Net Revenue Expenditure | Approved Budget 2015/16 £'000 | Proposed Budget 2016/17 £'000 | Change £'000 |
|--|--|--|-----------------|
| Environmental and Development Services | 3,735,644 | 3,702,694 | -32,950 |
| Housing and Community Services | 2,205,300 | 2,237,309 | 32,009 |
| Finance and Management | 5,003,282 | 4,952,572 | -50,710 |
| Total Net Revenue Expenditure | 10,944,226 | 10,892,575 | -51,651 |

5.12 The above table shows that overall base Committee expenditure is estimated to decrease between 2015/16 and 2016/17 by approximately £51,000. An analysis of the variances across each Committee is detailed in **Appendix 5**, with a summary shown in the following table.

| Change in Base Budget 2015/16 to 2016/17 | £ |
|--|-----------------|
| Changes in Income | 75,945 |
| Known Service Changes | -266,804 |
| Inflation | 107,134 |
| Increase in Insurance Premium Tax | 21,082 |
| Changes in Pay | 35,083 |
| Changes in other Service Costs | 26,347 |
| Recharges to the HRA | -40,460 |
| Transfers from Earmarked Reserves | -83,497 |
| Change in Service Expenditure | -125,170 |
| Add: Increase in Depreciation | 73,519 |
| Overall Base Budget Decrease | -51,651 |

5.13 The decrease in overall service expenditure was expected. This was due to the known service changes of £266,000. This figure mainly consists of an increase in planning fees (£150,000) together with the cost (£125,000) of the District Election in May 2015 falling out of the base budget.

5.14 The increases in inflation, changes in pay and other service costs have partly been offset by the transfers from earmarked reserves, mainly to finance additional resources in the Planning Service, together with recharges to the HRA. The MTFP also allows for inflation and pay increases arising from increments and the implementation of the National Living Wage.

Depreciation

- 5.15 Depreciation charges are internal accounting entries that reflect the use of capital assets in service delivery. They are reversed out of the final budget estimates under accounting regulations (as shown in **Appendix 1**) as they are not a true cost that the Council has to meet.
- 5.16 They reflect charges for using capital assets in service delivery in accordance with accounting regulations. Charges mainly relate to vehicles and buildings that are being written down and out of the Council's accounts over their useful life.

Actual Base Budget Changes

- 5.17 However, the preceding table (at 5.12) does not clearly show that there has in fact been an increase in the overall base budget between 2015/16 and 2016/17, compared to that projected in October 2015.
- 5.18 After allowing for known changes highlighted above, **Appendix 1** shows Total Estimated Spending for 2016/17 following the base budget review. This includes known variations and inflation, etc. and totals £11,037,566. This compares with a figure of £10,932,426 reported in September 2015, i.e. an increase of £105,140.
- 5.19 The reasons for this increase are shown in the following table.

| Main Changes in the Base Budget | £'000 |
|--|-------------|
| Increases in the Base Budget | |
| Decrease in Recycling Credits | 112 |
| Increase in the net cost of Trade Waste Collection | 37 |
| Cost of Gas and Electricity at Leisure Centres | 23 |
| Increases in Insurance Premium Tax | 21 |
| Decrease in income from Food Export Certificates | 18 |
| Maintenance Costs at Civic Offices & Depot | 16 |
| Total Increases | 227 |
| Decreases in the Base Budget | |
| Other variances (net) | -8 |
| Plant Maintenance | -18 |
| Grounds Maintenance - overall operating costs | -22 |
| Reduction in Vehicle Hire | -24 |
| Reduction in past service Pension Costs | -25 |
| Purchase of Refuse Containers | -25 |
| Total Decreases | -122 |
| Total | 105 |

- 5.20 The reasons for these increases have been reported in detail and considered by the relevant Policy Committee. The most significant changes relate to Direct Services (Waste Collection, Ground Maintenance, Transport and Plant, etc.). However, excluding the decrease in Recycling Credits of £112,000, the overall position is fairly neutral.

Recycling Credits

- 5.21 This is the largest change and was reported to the Committee in December 2015 as part of the half-yearly monitoring report for 2015/16. The budget for Recycling Credits was increased in 2015/16 based on an expected increase in tonnage being recycled.
- 5.22 Since 2012/13, income has increased, due mainly to the introduction of the kerbside recycling scheme. Income was £296,000 in 2012/13, rising to £358,000 in 2013/14 and £405,000 in 2014/15. This trend was expected to continue in 2015/16.
- 5.23 However, over the last year, the tonnages recycled have not increased at the same rate as the previous two years. They are now fairly consistent and it is likely that the income will out-turn in 2015/16 broadly in line with 2014/15 at approximately £400,000. The base budget for 2016/17 has therefore been reduced to reflect this position.

Individual Committee Risks

- 5.24 As part of the base budget review, each Committee identified several risk areas. In some cases, budgets have been increased to address cost pressures and these have been highlighted previously.
- 5.25 Other financial risks identified are detailed in the following table.

| Risk | Issue / Potential Effect | Mitigating Action |
|---|---|--|
| Reduction in Income | Budgeted income from Planning, Licensing, etc. totals £2.6.m is not sustainable. | Base Budgets are below current actuals and that projected in the MTFP, in particular Planning Fees, so they are considered prudent at this stage. |
| Greater Maintenance Costs | In particular on Transport and Plant where aging vehicles are subject to greater service costs and breakdowns. | Older vehicles are due to be replaced in 2015/16 and 2016/17 from the Asset Replacement Reserve. |
| Costs of Developing the Local Plan | Costs are currently being incurred on consultation, examination, publication, etc. A Public Inquiry could increase these costs further. Costs are estimated to be £125,000 in 2015/16 and £39,000 in 2016/17. | These costs are being met from an Earmarked Reserve set-aside for this purpose in 2013/14. This may need to be topped up from additional income currently being generated through planning fees. |
| Planning Appeals | Costs awarded against the Council are likely to be significant based on experience to-date. | The Council created a Provision in its Accounts in 2014/15 for £172,000. Based on the latest schedule costs for outstanding appeals, the estimated liability to the Council is over £300,000. |

| | | |
|---|--|---|
| Planning Appeals (cont.) | | Therefore, it is likely that resources will need to be identified to top-up the Provision in the final accounts for 2015/16. Planning fees are currently well in excess of budget for 2015/16 and a proportion of this may need to be transferred to the Provision. |
| Agency Income | The County Council reimburse highway maintenance and gulley cleaning costs of £275,000 per year. It has been indicated that this is under review. | Keep under review and assess implications if any reduction is proposed. |
| Recycling | The Council has been made aware that the cost of the Kerbside Recycling Scheme may need to increase. This has not been included in the proposed base budget for 2016/17. | The Council is currently working with the main contractor to ascertain the issues and potential costs involved. This will be kept under review and when further details are known, they will be reported to the Committee. Although the additional costs may not impact immediately in 2015/16, they are likely to have a greater on-going effect from 2016/17 onwards. |
| Growth | The Council's MTFP identifies "underlying cost pressures yet to surface" as a risk, due to pressure from residential development. In addition, there is additional demand on current resources in Planning and Land Charges to meet the demand from planning applications and land searches associated with development. | An on-going amount of £100,000 has been set-aside in the MTFP; this will be kept under review. Additional resources have also been provided in Planning and Land Charges and these costs, together with their financing, have been included in the proposed budgets for 2016/17. |
| External Funding | As detailed in the report; several services reliant on a degree of external contributions. | Earmarked reserves maintained to spread expenditure over a number of years. These are currently estimated to remain at approximately £1.1m by 2017 as detailed in the report. It is considered that this will maintain existing services over the MTFP period to 2021, but clearly this will need to be kept under review. |
| Maintenance Costs at Leisure Centres and Recreational Facilities | Annual budgets cannot sustain day-to-day maintenance. Budget at Green Bank Leisure Centre currently overspent in 2015/16. | Base budgets were increased for 2015/16. Capital works at the main leisure centres are now complete. This identified several areas of defect not known which were addressed in 2014/15. However, some further issues have been identified which may require further funding in 2015/16; this is currently being assessed. |
| Rosliston | Downturn in usage reduces income | Financial performance over the last couple |

| | | |
|---|--|---|
| Forestry Centre | whilst utility and maintenance costs continue to increase. | of years has been better than budget, with additional costs being offset by additional income. This is currently projected to continue for 2015/16. The base budget for utility costs has been slightly increased for 2016/17. The Council maintains an earmarked reserve funded by surpluses on the café/restaurant. This is used to meet one-off maintenance/capital costs. The balance on this reserve as at March 2015 was approximately £45,000. The Management Contract for the Centre is due to be retendered by April 2018 and this should provide an opportunity to strengthen the financial position. |
| Housing Benefits and Universal Credit (UC) | Loss of subsidy beyond tolerance levels and implications on local resource levels when UC is rolled out. | The risk of subsidy loss lies with the Service Provider. Roll out of UC expected between 2018 and 2020 provides time for the impact to be addressed, although the full implications are difficult to quantify. |

Grants to Voluntary Bodies and Payments under Concurrent Functions

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

- 2015/16 – 2.3%
- 2014/15 – 2.0%
- 2013/14 – 2.6%
- 2012/13 – No increase
- 2011/12 – No increase

5.27 Latest inflation rates show CPI running at 0.1% year on year, with RPI at 1.1%. The Government's Autumn Statement forecasts CPI inflation at 1% and RPI at 2% in 2016/17. The Council's MTFP provides for a 2% increase.

5.28 Every 1% increase in the base level across all grants and payments equates to approximately £6,000 per year.

5.29 Housing and Community Services Committee considered an increase for grants to voluntary bodies and this Committee considered an increase for Concurrent Functions in the detailed budget report earlier on the Agenda.

6.0 General Fund 5-Year Financial Projection to 2021

- 6.1 The projection has been updated following the financial settlement (as detailed in Section 4) the proposed base budget (as detailed in Section 5) together with the proposed Tax Base and Collection Fund Surplus for 2016/17 (as detailed in Section 7).
- 6.2 The projection is calculated within a financial model the summary of which is shown in **Appendix 1**. This also shows how certain items, such as future income levels and known changes to the base budget, are expected to change over the planning period. The key matters are detailed in the following sections.

Projected Budget Surplus/Deficit and Reserve Balances

- 6.3 This is summarised in the following table.

General Fund: Medium-Term Projection as at January 2016

| Year | Budget Deficit / Surplus (-) | Sums Earmarked against Reserve | Balance of General Reserve |
|-------------------------|------------------------------------|---|----------------------------------|
| Base Budget 2015/16 | -£145,321 | £911,000 | £5,369,321 |
| Proposed Budget 2016/17 | -£488,357 | £433,000 | £5,424,678 |
| Projection 2017/18 | £196,928 | £420,000 | £4,807,750 |
| Projection 2018/19 | £1,812,680 | £90,000 | £2,905,070 |
| Projection 2019/20 | £2,354,236 | £20,000 | £530,834 |
| Projection 2020/21 | £2,170,989 | £270,000 | -£1,910,155 |

- 6.4 The overall financial profile of the General Fund remains the same as previously reported. However, the projected position has worsened, mainly due to the Financial Settlement as detailed in **Section 4**.
- 6.5 The General Fund continues to show a budget surplus for 2015/16 and 2016/17 based on current projections. A deficit is then forecast from 2017/18, but this becomes acute in 2018/19 as Revenue Support Grant falls out and proposed reductions in New Homes Bonus Payments take effect.
- 6.6 The General Fund Reserve falls below the minimum level of £1m in 2019/20; 2020/21 is effectively academic without corrective action being taken beforehand.
- 6.7 The position is not serious in the short-term but the medium-term forecast shows a significant financial deficit which will need to be corrected before, or at the very latest, in 2017/18. The Government's Financial Settlement has provided a significant challenge for local councils but, as the Government has stated, provides sufficient lead time to meet this challenge.

- 6.8 Currently, the level of General Reserves is fairly healthy and may increase in the short-term as additional income and general under spending in the current base budget accrues. However, these are not guaranteed and have not been included in the MTFP at this stage.
- 6.9 Although a higher level of reserves is clearly beneficial, based on the latest projections, the level of reserves will not sustain the overall deficit in the medium-term.

Base Budget Impact on the MTFP

- 6.10 The on-going effect of the increase in the Base Budget (as detailed in **Section 5**) adds approximately £425,000 into the MTFP to 2020/21.

Apprenticeship Levy

- 6.11 In addition, a provision of £27,500 per year (£110,000 to 2020/21) has been made in the MTFP to meet the cost of the proposed Apprenticeship Levy from April 2017. This is to be implemented by the Government to fund incentives for organisations to employ and train apprentices.
- 6.12 It will be funded by placing a levy of ½% on the payroll costs of organisations, with a turnover in excess of £3m per year, from April 2017.

Inflation and Growth

- 6.13 The MTFP continues to make provision for growth and inflation with the Council's base expenditure still projected to increase incrementally over the planning period by around 2% per year.
- 6.14 An offer has been made by the Local Government Employers to increase pay for the period April 2016 to March 2018. This would equate in total to an increase in percentage terms of 2.4%, which includes greater increases for lower paid workers.
- 6.15 The MTFP includes a provision of 3% to cover this period, but this will be kept under review pending the outcome of national negotiations.

Other Provisions and Contingencies

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

| | Amount £'000 | Comment |
|--------------------------------|-----------------|---|
| Pay and Grading Review | 420 | One-off transitional protection costs |
| Pay and Grading Review | 165 | On-going costs following implementation |
| Melbourne Sporting Partnership | 213 | Pending Section 106 receipts |
| Vehicle Replacements | 500 | One-offs in 2017/18 and 2010/21 pending capital receipts (£250k in each year) |

Summary Position

- 6.17 It is considered that the Council's overall Base Budget is prudent whilst also being realistic based on the most up-to-date information. The MTFP reflects current spending priorities and also allows for potential cost pressures.
- 6.18 The financial risks that the Council faces, together with mitigating actions, are detailed in **Section 8**.
- 6.19 It has been anticipated for some time that the General Fund would face reductions in core funding. Consequently, the Council has taken a cautious approach and built up a good level of General Reserves.
- 6.20 However, the Financial Settlement was much worse than expected for the Council and as the updated financial projection shows, this will present a considerable challenge in the medium-term.
- 6.21 Growth may accelerate at a greater rate than that contained in the Government's assumptions and built into the MTFP. In addition, additional resources may flow to the Council when the Government review the distribution of future Business Rates. However, this is not clear and cannot be guaranteed.
- 6.22 Based on these projections, the Council's Base Budget and forward spending plans will need to be reviewed. Budget savings of up to £1.5m will need to be made over the spending period in order for the minimum level of General Reserves to be sustained and for the longer-term budget deficit to be reduced.

7.0 Council Tax, Tax Base and Collection Fund

The Council Tax Base

- 7.1 This relates to the number of chargeable properties for Council Tax after taking account of exemptions and discounts, including the Local Council Tax Support Scheme.
- 7.2 The calculation of the estimated Tax Base for 2015/16 is detailed in **Appendix 6** and is based on the number of properties on the Council Tax register as at 31st October 2015.
- 7.3 This produces a “Band D equivalent” which will be used to calculate the amount to be collected from Council Tax in 2016/17, i.e. 30,990. This is an increase of 382 (1.25%) compared to 2015/16, which is lower compared to recent years.
- 7.4 The MTFP (in September 2015) estimated an increase of 400 Band D properties. This has a slight effect on the revised MTFP and amounts to a loss of projected income of approximately £14,000 over the life of the MTFP to 2021.

The Future Tax Base

- 7.5 The MTFP continues to assume that the overall Tax Base will increase by 400 properties per year. As always this will be subject to the actual rate of growth.
- 7.6 The increase over the last 12 months is one of the lowest in recent years, although the average since 2002 has been approximately 460 per year. Residential growth could be much higher in future years depending on the outcome of the Local Plan. The impact of the Local Plan on the MTFP will be considered in more detail once the position on new property numbers has been confirmed.
- 7.7 The growth in the Tax Base in recent years has been a beneficial factor for the Council’s financial position and it will continue to be a key indicator; not only does it increase the Council’s ability to raise additional resources (even where the Council Tax rate itself is not increased) but it also has an influence on the New Homes Bonus as detailed in **Section 4**.

Collection Fund Surplus / Deficit

- 7.8 In setting the level of Council Tax for 2016/17, the Council is also required to calculate the estimated balance on its Collection Fund for the current financial year, 2015/16.
- 7.9 The Collection Fund is a separate ring-fenced account. It records all income collected from Council Tax and Business Rates and the money paid out to other authorities who precept on the Fund, together with payments to the Government under the redistribution mechanism for Business Rates.

- 7.10 The account in principle should balance each year. However, not all Council Tax is collected as circumstances, such as the number of houses subject to tax and households receiving exemptions and discounts, changes during the year. In addition, final collection rates from previous years may be higher than estimated.
- 7.11 These factors inevitably provide a balance at the end of each year. The Council has traditionally carried a surplus on its Collection Fund. Any surplus or deficit is transferred to the General Fund of the major preceptors, the biggest preceptor being Derbyshire County Council.
- 7.12 The Government will also receive a share of any surplus on Business Rates as they are effectively the largest preceptor under the current system.

Estimated Position 2015/16

- 7.13 The estimated position on the Collection Fund for 2015/16 is summarised in **Appendix 7**. The overall balance is distributed to the major precepting authorities on the Fund, i.e. the District Council, Derbyshire County Council, together with the Police and Fire Authorities, in proportion to their precepts on the Fund.
- 7.14 It should be noted that Parish Councils do not gain a share of any balance on the Fund as they are categorised as local (and not major) preceptors under the Local Government Finance Act 1992.
- 7.15 The Fund is split between Council Tax and Business Rates. Appendix 7 shows an estimated surplus on the Fund as at 31st March 2016 of £175,000 for Council Tax and £1m for Business Rates. This is generally the position reported to the Committee in December 2015.

Council Tax

- 7.16 The estimated balance on the Fund for Council Tax is £213,000, based on transactions up to November 2015. The Tax Base continues to grow steadily and it is likely that this will continue.
- 7.17 In addition, the cost of the Local Council Tax Support Scheme continues to reduce due to fewer claimants. In 2013/14, it reduced from £4.95m to £4.65m and was £4.5m in 2014/15. It is currently forecast to be approximately £4.38m in 2015/16.
- 7.18 At this stage, it is considered prudent to declare a surplus of £175,000 for 2015/16, in line with that included in the MTFP. Consequently, it is recommended that the surplus (in proportion to precepts) is declared and shared as shown in the following table.

| Share of Council Tax Surplus 2015/16 | | £'000 |
|---|-------|--------------|
| Derbyshire County Council | 72.9% | 128 |
| Police and Crime Commissioner | 11.4% | 20 |
| Fire and Rescue Authority | 4.5% | 8 |
| South Derbyshire District Council | 11.2% | 20 |
| 100.0% | | 175 |

7.19 The amount for the Council of £20,000 remains unchanged from that included in the previous MTFP.

Business Rates

7.20 As previously reported, the position regarding Business Rates continues to remain positive. Following the deficit in the first year (2013/14) of the Rates Retention System, surpluses in 2014/15 and 2015/16 will mean a projected surplus on the Collection Fund as at March 2016 of £1.14m. This allows a provision for bad debts, further appeals anticipated, together with the relocation of a major business in the area that will qualify for rate relief.

7.21 Therefore, it is considered prudent that a large part of this surplus (£1m) can be released in proportion to the precepts levied. The recommended share is shown in the following table.

| Share of Business Rates Surplus 2015/16 | | £'000 |
|--|-----|--------------|
| Central Government | 50% | 500 |
| Derbyshire County Council | 9% | 90 |
| Fire and Rescue Authority | 1% | 10 |
| South Derbyshire District Council | 40% | 400 |
| 100% | | 1,000 |

7.22 The amount attributable to the Council of £400,000 is greater than that included in the previous MTFP of £150,000. The proposed share has been reflected in the updated MTFP. At this stage, it is recommended that future surpluses of £200,000 per year are maintained in the MTFP.

7.23 As previously reported, the position regarding Business Rates in 2015/16 remains positive due to the Section 31 grants received for granting various rate reliefs under the Government's incentive scheme. As this scheme is due to finish in March 2016, no amounts have been included in the MTFP beyond 2015/16.

Derbyshire Business Rates Pool

7.24 In addition, this is also expected to generate additional income over and above the surplus estimated above. 2015/16 is the first year of the Pool. The benefit of pooling is that growth in business rates receipts across Derbyshire are not subject to the 50% Government levy but are shared between pool members.

7.25 Based on performance of the Pool in the first half-year, the Council's share of growth in 2015/16 is estimated at £267,000. The actual amount will be paid at

the year end when actual figures have been finalised and have not therefore been included in the MTFP at this stage.

- 7.26 The Government has indicated that the Pool can continue in 2016/17 unless any authority pulls out. At this stage, all authorities have indicated that they will continue.

Council Tax Limit

- 7.27 Under provisions contained in the Localism Act 2011, the Government has again set a 2% limit on Council Tax increases. Councils have discretion to set increases above this limit, but this would need to be subject to a local referendum.
- 7.28 The Government is also allowing upper tier and unitary councils that deliver Social Care services, to increase Council Tax by a further 2%. This does not apply to the Council.
- 7.29 Unlike previous years, the Government has not offered any incentives or financial support to councils who freeze their Council Tax for 2016/17. Indeed, as detailed in **Section 4**, the Council's future resources now assume that Council Tax is increased as contained in the MTFP.

Council Tax Levels

- 7.30 The MTFP assumes for planning purposes that the Council Tax rate increases by 2% each year, in accordance with the Council Tax limit set by the Government. Effectively, the actual increase has to be lower than the round 2% to avoid triggering the referendum formula when the Band D Council Tax is set.
- 7.31 To stay within 2%, a maximum increase of 1.95% would need to be approved. This would increase the District Council's Band D Council Tax from £150.25 to £153.26 in 2016/17; this has been factored into the updated MTFP as detailed in **Section 6**.
- 7.32 Given the projected deficits now forecast, together with the Council's Core Spending Power assuming increasing Council Tax, any variation from this assumption would need to be carefully considered.

8.0 Overall Risk Analysis

- 8.1 The summary in **Section 6** highlights that the Council's current financial position will come under a considerable challenge over the forthcoming spending period.
- 8.2 Each Policy Committee has identified some financial risks and these have been detailed in **Section 5** with mitigating actions being put in place.
- 8.3 There are many variables that are included in the projection that carry a risk in that should they impact, they could have a significant effect on the overall financial position. The main risks in the financial register are:
- Further changes to Core Spending Power
 - Sustainability of the national economy and its impact on growth
 - Limitations on Council Tax increases
 - Underlying cost pressures yet to surface due to growth/demand on services
 - Ageing assets increasing the cost of repairs and maintenance
 - Greater cost of Housing Benefits being met locally
 - Pressure on local pay rates and pensions including Auto Enrolment

Financial Strengths

- 8.4 The financial position is currently healthy. However, it has now been confirmed that the Council faces a challenge to maintain a resilient and sustainable financial base. Currently, the Council finances has certain strengths that will help to mitigate its financial risks; these are as follows :
- A positive cash flow
 - No debt outstanding (on the General Fund)
 - Not reliant on interest rates rising to generate additional income
 - Current General Reserve healthy
 - Contingent sums in the Base Budget to guard against inflation and growth
 - Budget for a full employee establishment – no vacancy rate is assumed
 - Earmarked reserves for capital replacements for IT, vehicles and plant
 - Separate provision made for bad debts and unexpected/one-off costs that could arise such as pay and grading, the Local Plan and pensions
 - Earmarked reserves to sustain project and ad-hoc work
 - Steady growth in the Tax Base and service income
 - Capital expenditure not heavily reliant on revenue funding or borrowing

- 8.5 The Council also has a history of spending within its overall Net Budget and has generated additional income through growth. This pattern is currently forecast to continue in 2015/16.
- 8.6 However, this cannot be guaranteed in future years and is never assumed for future budgeting purposes in the MTFP.

Financial Risks and the Minimum Level of General Reserves

- 8.7 Although the Council has several areas of financial strengths to mitigate risks, the Council still needs to be prudent in ensuring that it maintains an adequate level of General Reserves on its General Fund to act as a contingency.
- 8.8 The Local Government Act 2003, places the emphasis on each local authority to determine its minimum level of reserves, based on advice from the authority's Section 151 (Chief Finance) Officer. This will depend on local circumstances and the minimum level should be reviewed on a regular basis.
- 8.9 Based on this, the Council's minimum level, as set out in the Financial Strategy, is **£1m** on the General Fund at the end of every 5-year planning period. This level is calculated based on an assessment of the major financial risks and reflects the relatively healthy level that currently exists.
- 8.10 Based on the estimated net revenue expenditure on the General Fund for 2016/17 of approximately £11m, £1m is **9%**. By 2020/21, £1m will be around **8%**. As a general guide, a balance of between 5% and 10% should be maintained.

9.0 Financial Implications

- 9.1 As detailed in the report.

10.0 Corporate Implications

- 10.1 There are no other direct legal, personnel or other corporate implications apart from any highlighted in the report.

11.0 Community Implications

- 11.1 The proposed budgets and spending, provide the financial resources to enable services and Council priorities to be delivered to the local community.
- 11.2 The MTFP and associated projections provide an indication of the Council's longer term financial position and the potential effects upon the Council's services.

12.0 Background Papers

12.1 The Government's Financial Settlement for 2016/17 and background papers are available at:

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2016-to-2017>

12.2 The review of the Medium-Term Financial Plan as reported to the Committee in October 2015.

<http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1857/Committee/391/Default.aspx>

GENERAL FUND MEDIUM TERM FINANCIAL PROJECTION (January 2016)

| | Approved Budget 2015/16 £ | Proposed Budget 2016/17 £ | Projection 2017/18 £ | Projection 2018/19 £ | Projection 2019/20 £ | Projection 2020/21 £ |
|---|------------------------------------|------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| BASE BUDGET - Net Service Expenditure | 10,944,226 | 10,892,575 | 11,114,545 | 11,340,434 | 11,570,313 | 11,885,247 |
| Reverse out Depreciation | -645,650 | -718,739 | -718,739 | -718,739 | -718,739 | -718,739 |
| Minimum Revenue Provision (MRP) | 232,781 | 223,470 | 214,531 | 205,950 | 197,712 | 189,803 |
| Voluntary Revenue Provision (VRP - Green bins for kerbside recycling) | 109,663 | 109,663 | 109,663 | 109,663 | 109,663 | 109,663 |
| Known / Anticipated Changes to the Base Budget | | | | | | |
| External Facilitator - Pay and Grading Review | 100,000 | 0 | 0 | 0 | 0 | 0 |
| Pay and Grading - on-going costs | 0 | 35,000 | 35,000 | 35,000 | 35,000 | 35,000 |
| Incremental Salary Increases | 0 | 0 | 17,000 | 17,000 | 17,000 | 17,000 |
| Electoral Services Restructure | 11,500 | 0 | 0 | 0 | 0 | 0 |
| Phased implementation of the National Living Wage | 0 | 0 | 5,990 | 10,604 | 14,099 | 14,099 |
| Provision for Auto Enrolment (October 2017) | 0 | 0 | 37,720 | 75,440 | 75,440 | 75,440 |
| Pay and Grading - on-going costs | 0 | 130,000 | 130,000 | 130,000 | 130,000 | 130,000 |
| Increase in Planning Fee Income | 0 | 0 | -150,000 | 0 | 0 | 0 |
| Contingent Sum - Inflation | 89,704 | 221,970 | 225,889 | 229,879 | 314,933 | 322,350 |
| Contingent Sum - Growth | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| Payment to Parish Councils - Share of Council Tax Support Grant | 43,627 | 43,627 | 43,627 | 43,627 | 43,627 | 43,627 |
| <i>Budget Savings</i> | | | | | | |
| District Election May 2019 | 0 | 0 | 0 | 0 | 125,000 | 0 |
| TOTAL ESTIMATED SPENDING - CURRENT BASE BUDGET | 10,985,851 | 11,037,566 | 11,165,226 | 11,578,858 | 12,014,048 | 12,203,489 |
| Add Provisions | | | | | | |
| Apprenticeship Levy (April 2017) | 0 | 0 | 27,500 | 27,500 | 27,500 | 27,500 |
| On-going Reduction in DWP Benefits Administration Grant | 0 | 0 | 65,024 | 89,322 | 104,688 | 110,000 |
| TOTAL PROJECTED SPENDING | 10,985,851 | 11,037,566 | 11,257,750 | 11,695,680 | 12,146,236 | 12,340,989 |

| | Approved Budget 2015/16 £ | Proposed Budget 2016/17 £ | Projection 2017/18 £ | Projection 2018/19 £ | Projection 2019/20 £ | Projection 2020/21 £ |
|--|------------------------------------|------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| FINANCING | | | | | | |
| Revenue Support Grant | -1,811,467 | -1,200,000 | -670,000 | -340,000 | 0 | 0 |
| Business Rates Precept | -2,290,654 | -2,309,000 | -2,353,000 | -2,423,000 | -2,472,000 | -2,550,000 |
| New Homes Bonus | -2,322,405 | -2,849,878 | -2,915,743 | -1,800,000 | -1,700,000 | -1,700,000 |
| Council Tax Freeze Grant 2015/16 | -50,794 | 0 | 0 | 0 | 0 | 0 |
| Council Tax Income | -4,598,852 | -4,747,044 | -4,902,078 | -5,100,000 | -5,400,000 | -5,700,000 |
| Core Spending Power | -11,074,172 | -11,105,922 | -10,840,821 | -9,663,000 | -9,572,000 | -9,950,000 |
| Estimated Surpluses Generated above Core Funding | | | | | | |
| Collection Fund Surplus - Council Tax | -57,000 | -20,000 | -20,000 | -20,000 | -20,000 | -20,000 |
| Collection Fund Surplus - Business Rates | 0 | -400,000 | -200,000 | -200,000 | -200,000 | -200,000 |
| TOTAL FINANCING | -11,131,172 | -11,525,922 | -11,060,821 | -9,883,000 | -9,792,000 | -10,170,000 |
| General Fund - Yearly Surplus (-) / Deficit | -145,321 | -488,357 | 196,928 | 1,812,680 | 2,354,236 | 2,170,989 |
| GENERAL FUND RESERVE BALANCE | | | | | | |
| Balance b/f | -6,135,000 | -5,369,321 | -5,424,678 | -4,807,750 | -2,905,070 | -530,834 |
| General Fund - Yearly Surplus (-) / Deficit (as above) | -145,321 | -488,357 | 196,928 | 1,812,680 | 2,354,236 | 2,170,989 |
| Purchase of Town Centre Land | 230,000 | 0 | 0 | 0 | 0 | 0 |
| Pay and Grading Review - one-off costs | 0 | 200,000 | 150,000 | 70,000 | 0 | 0 |
| Melbourne Sporting Partnership (Section 106 Funding) | 0 | 213,000 | 0 | 0 | 0 | 0 |
| Contribution to Vehicle Replacement Fund | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 | 20,000 |
| Provision for Capital Funding / Replacement Fund Contributions | 661,000 | 0 | 250,000 | 0 | 0 | 250,000 |
| Balance c/f | -5,369,321 | -5,424,678 | -4,807,750 | -2,905,070 | -530,834 | 1,910,155 |

Environmental and Development Services Committee

| Summary of Net Revenue Expenditure | Approved Budget 2015/16 £ | Proposed Budget 2016/17 £ | Change £ |
|-------------------------------------|------------------------------|------------------------------|----------------|
| Transport and Plant | 855,557 | 854,975 | -582 |
| Economic Development | 236,636 | 240,851 | 4,215 |
| Environmental Education | 69,104 | 69,104 | 0 |
| Environmental Services | 513,831 | 494,704 | -19,127 |
| Highways | 5,347 | 27,150 | 21,803 |
| Licencing and Land Charges | -53,571 | -34,168 | 19,403 |
| Planning | 482,983 | 352,662 | -130,321 |
| Off Street Parking | 58,617 | 66,780 | 8,163 |
| Waste Collection & Street Cleansing | 1,567,140 | 1,630,636 | 63,496 |
| Total - Net Expenditure | 3,735,644 | 3,702,694 | -32,950 |

Housing and Community Services Committee

| Summary of Net Revenue Expenditure | Approved Budget 2015/16 £ | Proposed Budget 2016/17 £ | Change £ |
|--|------------------------------|------------------------------|---------------|
| Community Development & Support | 486,092 | 498,811 | 12,719 |
| Leisure and Recreational Activities | 156,553 | 149,953 | -6,600 |
| Leisure Centres and Community Facilities | 486,789 | 529,430 | 42,641 |
| Parks and Open Spaces | 698,819 | 682,087 | -16,732 |
| Private Sector Housing | 377,048 | 377,028 | -20 |
| Total - Net Expenditure | 2,205,301 | 2,237,309 | 32,008 |

Finance and Management Committee

| Summary of Net Revenue Expenditure | Approved Budget 2015/16 £ | Proposed Budget 2016/17 £ | Change £ |
|---------------------------------------|------------------------------------|------------------------------------|----------------|
| Central and Departmental Accounts | 3,311,116 | 3,378,832 | 67,716 |
| Corporate and Democratic Costs | 677,852 | 654,192 | -23,660 |
| Electoral Registration / Elections | 276,104 | 154,250 | -121,854 |
| Payments to Parish Councils | 324,340 | 342,446 | 18,106 |
| Backdated Pensions and Interest | 205,820 | 172,033 | -33,787 |
| Property and Estates | -150,153 | -149,566 | 587 |
| Revenues and Benefits | 358,203 | 400,384 | 42,181 |
| Total - Net Expenditure | 5,003,282 | 4,952,571 | -50,711 |

APPENDIX 5

CHANGES IN PROPOSED COMMITTEE EXPENDITURE 2015/16 to 2016/17

| Committee | Income | Known Service Changes | Cttee Transfer | Inflation | Insurance | Pay | Deprn. | Service Costs | HRA Recharge | Benefit Payments | Reserve Funding | TOTAL |
|-----------|---------|-----------------------------|-------------------|-----------|-----------|---------|--------|------------------|-----------------|---------------------|--------------------|---------|
| EDS | 88,279 | -150,000 | 33,273 | 1,852 | 10,726 | -21,613 | 28,628 | 46,300 | 0 | 0 | -70,395 | -32,950 |
| HCS | -192 | -18,532 | -33,273 | 12,538 | 11,880 | 36,289 | 45,951 | -9,550 | 0 | 0 | -13,102 | 32,009 |
| FM | -12,142 | -98,272 | 0 | 92,744 | -1,524 | 20,407 | -1,060 | -6,426 | -40,460 | -3,977 | 0 | -50,710 |
| | 75,945 | -266,804 | 0 | 107,134 | 21,082 | 35,083 | 73,519 | 30,324 | -40,460 | -3,977 | -83,497 | -51,651 |

COUNCIL TAX BASE

| PARISH | 2014/15 | 2015/16 | 2016/17 | Change |
|------------------------|---------|---------|--------------|--------|
| ASH | 24 | 24 | 25 | 0 |
| ASTON ON TRENT | 673 | 676 | 673 | -3 |
| BARROW ON TRENT | 234 | 234 | 235 | 1 |
| BARTON BLOUNT | 31 | 32 | 33 | 1 |
| BEARWARDCOTE | 12 | 12 | 11 | -2 |
| BRETBY | 406 | 408 | 413 | 5 |
| BURNASTON | 680 | 687 | 687 | 0 |
| CALKE | 10 | 11 | 10 | -2 |
| CASTLE GRESLEY | 471 | 485 | 518 | 32 |
| CATTON | 20 | 21 | 22 | 1 |
| CAULDWELL | 47 | 47 | 40 | -7 |
| CHURCH BROUGHTON | 235 | 233 | 234 | 1 |
| COTON IN THE ELMS | 256 | 269 | 271 | 2 |
| DALBURY LEES | 120 | 122 | 123 | 1 |
| DRAKELOW | 62 | 61 | 65 | 4 |
| EGGINGTON | 257 | 259 | 261 | 1 |
| ELVASTON | 698 | 699 | 734 | 35 |
| ETWALL | 987 | 985 | 992 | 7 |
| FINDERN | 622 | 624 | 636 | 12 |
| FOREMARK | 33 | 33 | 33 | -0 |
| FOSTON & SCROPTON | 241 | 247 | 240 | -7 |
| HARTSHORNE | 1,027 | 1,057 | 1,060 | 3 |
| HATTON | 806 | 838 | 853 | 15 |
| HILTON | 2,590 | 2,584 | 2,581 | -3 |
| HOON | 21 | 22 | 22 | -0 |
| INGLEBY | 48 | 47 | 49 | 2 |
| LINTON | 626 | 641 | 645 | 4 |
| LULLINGTON | 61 | 59 | 62 | 4 |
| MARSTON ON DOVE | 16 | 17 | 17 | 0 |
| MELBOURNE | 1,818 | 1,875 | 1,869 | -5 |
| NETHERSEAL | 319 | 319 | 321 | 3 |
| NEWTON SOLNEY | 281 | 278 | 282 | 4 |
| OSLESTON & THURVASTON | 125 | 123 | 125 | 1 |
| OVERSEAL | 771 | 787 | 787 | -1 |
| RADBOURNE | 49 | 50 | 51 | 1 |
| REPTON | 1,011 | 1,007 | 1,022 | 15 |
| ROSLISTON | 255 | 256 | 256 | -1 |
| SHARDLOW & GREAT WILNE | 413 | 418 | 415 | -2 |
| SMISBY | 122 | 122 | 125 | 3 |
| STANTON BY BRIDGE | 117 | 119 | 118 | -2 |
| STENSON FIELDS | 1,085 | 1,094 | 1,099 | 5 |
| SUTTON ON THE HILL | 63 | 64 | 64 | -0 |
| SWADLINCOTE | 8,347 | 8,803 | 8,899 | 95 |

| | | | | |
|-------------------|---------------|---------------|---------------|------------|
| SWARKESTONE | 85 | 89 | 89 | -0 |
| TICKNALL | 290 | 294 | 300 | 6 |
| TRUSLEY | 38 | 37 | 39 | 3 |
| TWYFORD & STENSON | 67 | 173 | 277 | 104 |
| WALTON ON TRENT | 297 | 298 | 303 | 4 |
| WESTON ON TRENT | 473 | 474 | 477 | 3 |
| WILLINGTON | 858 | 878 | 909 | 31 |
| WOODVILLE | 1,522 | 1,615 | 1,621 | 5 |
| TOTAL | 29,723 | 30,608 | 30,990 | 382 |

Total Calculation

| | |
|--|---------------|
| Total Dwellings on Valuation List | 41,377 |
| Less Exempt Dwellings | -377 |
| Less Discounted Properties | -6,147 |
| Less Properties subject to Council Tax Support | -3,863 |
| Total Band D Equivalent Properties | 30,990 |

COLLECTION FUND ESTIMATED SURPLUS 2015/16

| | Actual 2014/15 £'000 | Projected 2015/16 £'000 | |
|---|----------------------------|-------------------------------|--|
| COUNCIL TAX - INCOME & EXPENDITURE | | | |
| INCOME | | | |
| Council Tax Collectable | 45,729 | 47,496 | <i>Actual Debit as at November 2015</i> |
| EXPENDITURE | | | |
| County Council Precept | 32,657 | 34,295 | <i>Actual amount due as set in March 2015</i> |
| Police and Crime Commissioner Precept | 5,059 | 5,370 | <i>As above</i> |
| Fire and Rescue Authority Precept | 2,034 | 2,136 | <i>As above</i> |
| SDDC Precept | 4,466 | 4,599 | <i>As above</i> |
| SDDC Parish Precepts | 606 | 668 | <i>As above</i> |
| Increase in Bad Debts Provision | 396 | 411 | <i>0.87% of Council Tax Collectable</i> |
| Total Expenditure | 45,218 | 47,479 | |
| Surplus for the Year | 511 | 17 | |
| COUNCIL TAX BALANCE | | | |
| Opening Balance 1st April | 358 | 696 | <i>As per final accounts</i> |
| Share of Previous Surplus to County Council | -126 | -364 | <i>Actual amount approved by Committee in January 2015</i> |
| Share of Previous Surplus to Police | -19 | -56 | <i>As above</i> |
| Share of Previous Surplus to Fire Authority | -8 | -23 | <i>As above</i> |
| Share of Previous Surplus to SDDC | -20 | -57 | <i>As above</i> |
| Surplus for Year (as above) | 511 | 17 | <i>As above</i> |
| Closing Balance as at 31st March | 696 | 213 | |

BUSINESS RATES - INCOME & EXPENDITURE**INCOME**

| | | | |
|----------------------------|--------|--------|---|
| Business Rates Collectable | 22,823 | 23,370 | <i>Actual Debit as at November 2015</i> |
|----------------------------|--------|--------|---|

EXPENDITURE

| | | | |
|-----------------------------------|---------------|---------------|--|
| Central Government Precept | 10,540 | 10,990 | <i>Fixed - 50% of estimate in 2015/16</i> |
| SDDC Precept | 8,432 | 8,792 | <i>Fixed - 40% of estimate in 2015/16</i> |
| Derbyshire County Council Precept | 1,897 | 1,978 | <i>Fixed - 9% of estimate in 2015/16</i> |
| Fire and Rescue Service Precept | 211 | 220 | <i>Fixed - 1% of estimate in 2015/16</i> |
| Cost of Collection | 91 | 92 | <i>Amount approved by the Government</i> |
| Increase in Bad Debts Provision | 64 | 353 | <i>To allow for Section 44a Relief deducted from Rates Collectable</i> |
| Provision for Appeals | 54 | 451 | <i>To allow for Doctor's Surgeries and ATMs</i> |
| Total Expenditure | 21,289 | 22,876 | |

| | | |
|------------------------------|--------------|------------|
| Surplus / Deficit (-) | 1,534 | 494 |
|------------------------------|--------------|------------|

BUSINESS RATES BALANCE

| | | |
|---|------------|--------------|
| Opening Balance 1st April | -886 | 648 |
| Share of Previous Surplus to Government | 0 | 0 |
| Share of Previous Surplus to SDDC | 0 | 0 |
| Share of Previous Surplus to County Council | 0 | 0 |
| Share of Previous Surplus to Fire Authority | 0 | 0 |
| Surplus / Deficit (-) for the Year as above | 1,534 | 494 |
| Closing Balance as at 31st March | 648 | 1,142 |