
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	14th FEBRUARY 2012	CATEGORY: RECOMMENDED
REPORT FROM:	CHIEF EXECUTIVE OFFICER	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (01283 595811) CHIEF FINANCE OFFICER kevin.stackhouse@south-derbys.gov.uk	DOC: u/ks/budget round 201213/final budget proposals 1213
SUBJECT:	FINAL BUDGET PROPOSALS 2012/13 and FINANCIAL PLAN to 2017	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That a Council Tax Level and Band D equivalent rate for 2012/13 is recommended to Council on 27th February 2012.
- 1.2 That estimated net General Fund Revenue Expenditure totalling £11,440,816 for 2011/12 (revised) and £11,444,330 for 2012/13 is recommended to Council on 27th February 2012 (**subject to 1.1, above**).
- 1.3 That the Medium-term Financial Plan to 2017 on the Council's General Fund Revenue Account as detailed in **Appendix 1** is approved (**subject to 1.1, above**).
- 1.4 That the financial projection on the Housing Revenue Account to 2023 under the new self-financing framework as detailed in **Appendix 2** is approved.
- 1.5 That the minimum level of General Reserve on the Housing Revenue Account is increased from £1/2m to £1m following the implementation of self-financing.
- 1.6 That the 5-year capital investment and financing plan to 2017 as detailed in **Appendix 3** is approved.
- 1.7 That the Council continues to progress its service efficiency and transformation programme in order to achieve budget savings over the medium term.
- 1.8 That the report of the Council's Section 151 (Chief Finance) Officer under Section 25 of the Local Government Act 2003 is noted.

2.0 Purpose of Report

- 2.1 To detail the Council's final budget proposals for 2012/13 and medium term financial projections on its main revenue and capital accounts. This includes an assessment of the overall budget and level of reserves as required by the Local Government Act 2003. The proposals will form the basis of setting the Council Tax for 2012/13 by Council on 27th February 2012.
- 2.2 The Council's overall proposed base budget for 2012/13 and projected medium-term financial position was reported in detail to the Committee on 12th January 2012 (details are available at: <http://cmis.south-derbys.gov.uk/CmisWebPublic/Binary.ashx?Document=13228>)
- 2.3 This report does not repeat those details but firms up the position following a period of scrutiny and consultation. The remaining issue outstanding is the level of Council Tax for 2012/13 and this is detailed within the report.
- 2.4 The report also provides an overview of the Housing Revenue Account and the 10-year financial projection that was approved by the Housing and Community Services Committee on 2nd February 2011.
- 2.5 That report brought together the strategy for servicing the debt take-on (as approved by this Committee on 23rd January 2012) and the rent increase for 2012/13 under the self-financing framework.
- 2.6 The report is divided into the following sections.
 - Section 3: General Fund Revenue Account
 - Section 4: Housing Revenue Account
 - Section 5: Capital Investment
 - Section 6: Council Tax
 - Section 7: Report of the Chief Finance Officer under Section 25 of the Local Government Act 2003

3.0 General Fund Revenue Account

- 3.1 The report in January highlighted projected budget deficits over the life of the Medium Term Financial Plan (MTFP) to 2016/17. It also highlighted that General Fund Reserves were projected to remain above the minimum safe level of £1m over the life of the MTFP.
- 3.2 This position remains substantively unchanged and is detailed in **Appendix 1**, with a summary in the following table.

Year	Budget Deficit	Balance of Reserves
2011/12	-£3,557	£3,094,937
2012/13	£129,206	£2,545,731
2013/14	£105,260	£2,290,470
2014/15	£12,522	£2,187,948
2015/16	£140,356	£1,922,593
2016/17	£200,341	£1,452,252

NOTE

A small cost adjustment of £2,300 has been made to the base budget since January 2012 relating to Private Sector Housing. This has been updated in the above figures.

- 3.3 The overall trend of the projected budget deficit continues to be downwards until 2015/16. This is due to the effects of the on-going efficiency programme, although other changes such as lower pay inflation, additional resources from the New Homes Bonus, together with higher national insurance contributions have also had an effect.
- 3.4 The profile of the budget deficit then increases in 2015/16 due to the current Council Tax Freeze Grant falling out. At this time, it is also assumed that pay inflation will be back to more “normal” levels at 2.5% per year.
- 3.5 Clearly, the current level of general reserves is healthy and well above the minimum contingency level of £1m approved in the Financial Strategy. They are anticipated to fall over the planning period to meet the budget deficit and provisions continue to be made for the following:
- Pay and Grading Review - one off costs
 - Additional Support for the Community Sector
 - District Election (May 2015)
 - Provision for Land Charges Refunds (Property Searches)
 - Statutory Place Survey (or replacement) - Bi-annually
 - Capital Funding (2016/17)
- 3.6 Based on current spending plans and projections, reserves can sustain the budget deficit until 2016/17. However, as previously highlighted, an over reliance on reserves each year to balance the budget carries quite a high risk.

Main Assumptions

- 3.7 Prudently, the Budget continues to make provision for growth and inflation. In accordance with current policy, this “contingency” will be maintained centrally and only allocated once any additional costs are known.
- 3.8 The growth provision allows resources for a more substantial investment in a service, for example, refuse collection due to residential development. The projections assume a strengthening of the economy in two years (from

2013/14 into 2014/15) with a resultant increase in income from planning fees, etc, together with interest on balances.

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

New Homes Bonus

- 3.10 The most positive change is that additional resources have been awarded through the New Homes Bonus. Although an increase was anticipated, the actual amount is more compared to that previously estimated.
- 3.11 This is due to an increase in new homes arising from residential developments, together with an increase in the number of long term empty properties being made available. In total, additional grant of £286,000 per year has been awarded from 2012/13.

Public Sector Pay Restraint

- 3.12 The forward projections have been adjusted to reflect the Government's proposal for a 1% pay increase in 2013/14 and 2014/15. Previously, the MTFP had budgeted for 2.5% in each of these two years.

Cost Pressures

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

National Insurance Contributions (NIC)

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

Government Grant

- 3.15 This was confirmed broadly at the level notified to the Council last January (2011) following CSR 10. Following an adjustment to national control totals made by the Government in February 2011, the Council will receive an additional £47,000 for 2012/13.
- 3.16 The greatest concern following this settlement was the announcement from HM Treasury that local government funding levels will be cut by a further

£240m in 2013/14 and £497m in 2014/15. These reductions are over and above that announced in CSR 10.

- 3.17 It is unclear where these reductions will have the most impact. In addition, further reductions for the new Council Tax Allowance Scheme are anticipated following the approval of the Local Government Finance Bill.
- 3.18 That Bill also confirms proposals to replace the current local government funding mechanism. As reported to the Committee in October 2011, this will be based on a redistribution of Business Rates from April 2013.

Council Tax

- 3.19 It is important to note that the MTFP continues to assume a year on year increase in Council Tax of 2.5%. The Government have once again offered incentives for councils to freeze their Council Tax for the second consecutive year.
- 3.20 In line with 2011/12, the Government will reimburse councils "lost" revenue to the equivalent of a 2.5% increase. However unlike 2011/12, the associated grant will only be available for one year and not for the longer four year period as applied in 2011/12.
- 3.21 Therefore, councils will be faced with a potential reduction in their council tax income in subsequent years as their longer term council tax base position is reduced (they will need to pay for the cumulative effect of a standstill).
- 3.22 Clearly, this will depend on local MTFPs and local circumstances. However, the effect can be quite significant. For South Derbyshire, this reduces resources in the MTFP over the 5-year planning period by over £1/2m (net of the one year grant).
- 3.23 This would change the financial position compared to that shown in **3.2, above**. If a tax freeze is implemented for 2012/13 and with other factors remaining unchanged, reserve balances would be slightly below the minimum level of £1m by 2016/17 with the medium term budget deficit rising to over £300,000 per year. The revised position is summarised in the following table.

Revised MTFP with a Council Tax Freeze

Year	Budget Deficit	Balance of Reserves
2011/12	£3,557	£3,094,937
2012/13	£129,083	£2,545,854
2013/14	£230,363	£2,165,491
2014/15	£141,937	£1,933,554
2015/16	£274,219	£1,534,335
2016/17	£338,795	£925,541

Summary Position

- 3.24 Compared to last year, the medium-term financial position has improved with a reducing budget deficit and balances above the approved minimum level. It is considered that budgets are realistic but prudent and allow for inflation and growth. However, the over reliance on reserves to fund a budget deficit carries a risk and ultimately is not sustainable.
- 3.25 The current economic situation continues to pose the greatest risk to the financial plan with the distinct possibility that government grant will be reduced further from 2013/14. The current MTFP includes a real terms reduction of 1% in both 2013/14 and 2014/15 with a standstill position on the New Homes Bonus.
- 3.26 Immediately, there will be pressure to freeze council tax levels in 2012/13 and the effect of this on the MTFP has been highlighted above.
- 3.27 Therefore, it is important that the Council remains in a position to sustain its financial base and a continuation of its efficiency and transformation programme is considered fundamental to this.

4.0 Housing Revenue Account (HRA)

- 4.1 This was considered in detail by the Housing and Community Services Committee on 2nd February.
<http://cmis.south-derbys.gov.uk/CmisWebPublic/Meeting.aspx?meetingID=1543>
- 4.2 This included details of the proposed rent increase for 2012/13 under the Government's National Rent Setting Policy.

Self Financing

- 4.3 As previously reported, the current subsidy system for financing council housing nationally will be abolished on 31st March 2012. Under the Localism Act 2011, the Council will no longer pay a "negative subsidy" charge to the Government but will take-on a share of the national housing debt based on a valuation of its local housing stock / business.
- 4.4 Previous reports over the last 12 months have detailed the framework and estimated effects on the Council's HRA / 30-year Business Plan. Treasury Management and other issues such as capital investment and rent income have also been considered.
- 4.5 The Council's debt take-on has been confirmed at approximately £57.4m. The Committee considered the treasury management implications and options for repaying the debt at its meeting on 23rd January 2012.
- 4.6 The base budget for 2012/13 and 10-year financial projection is the first financial plan constructed under "self-financing." This includes the

recommended debt repayment profile and associated interest costs, together with previously approved stock investment needs.

- 4.7 In addition, the base budget for repairs and management costs, together with all other day to day income and expenditure has been reviewed.
- 4.8 **Appendix 2** shows the fully costed base budget and financial projection for the first 10 years of self-financing. This has been updated to reflect the final settlement figure of £57.423m, a reduction of £310,000 compared to that notified to the Council in December 2011.
- 4.9 The Appendix shows that the HRA is sustainable, can deliver the required capital investment in the stock and make the necessary surpluses in future years to repay debt.
- 4.10 This is a much improved position compared to previous estimates. Additional resources are now available within the Business Plan due to lower interest rates. Based on the approved debt profile, the average rate is forecast to be around 3% compared to 5.5% in the previous Plan.
- 4.11 At this stage, the projection assumes no further borrowing above the initial debt take-on. Including existing debt, headroom of around £8m remains before the HRA would exceed its borrowing limit which will be set and fixed by the Government on 1st April 2012 under self-financing.
- 4.12 It is important to note that the base budget and projected figures are based on annual rent increases in line with Government guidelines. The rent increase was approved at an average of 8.5% by the Housing and Community Services Committee, with many tenants still capped under the National Rent Setting Framework.
- 4.13 Full Rent convergence is now estimated in 2018/19, with annual rent rises being dependent on the future level of inflation – a key factor in the current national framework.
- 4.14 In addition, the projection assumes that there are no significant increases in interest rates prior to 28th March 2012 (the date of debt-take-on) from that currently projected and included in the base budget.

Risk

- 4.15 Self-financing will allow greater freedom and scope for local HRAs and for councils to deliver additional investment in their stock. However, this comes with a transfer of greater responsibilities and hence risk.
- 4.16 Therefore, it is recommended that a level of £1m is maintained as the minimum general reserve balance on the HRA from April 2012.

5.0 Capital Investment

- 5.1 Following Committee approval on 12th January for new capital investment, the programme has been updated for these schemes. In addition, the proposed total capital works for council houses as part of the new self-financing framework are also included.
- 5.2 The detailed spend on council houses was considered and approved by the Housing and Community Services Committee on 2nd February 2012.
- 5.3 All other schemes and associated commentary from that reported in January remains unchanged. The full programme along with financing is set out in **Appendix 3**. The relevant Prudential Indicators for the capital programme are detailed in the Treasury Management Report which is a separate item on this Committee Agenda.

Capital Receipts

- 5.4 As part of the self-financing proposals, the Council has previously approved that any retained proceeds from council house sales after 2011/12 will be maintained for council housing investment.
- 5.5 The General Fund investment programme assumes that receipts of £50,000 per year will continue to be generated. It is anticipated that these will accrue from smaller disposals of land and granting of easements, etc. This amount has been earmarked as a contingency against General Fund Reserves (as shown in **Appendix 1**) should receipts not be generated.
- 5.6 Any larger receipts that may be anticipated at this stage continue to be excluded until they are fully known and guaranteed. Clearly, larger receipts from current redevelopment projects will provide opportunities for additional investment.
- 5.7 The generation of capital receipts is a key objective within the Council's Asset Management Plan (also a separate item on this Committee Agenda). The Disposals Policy continues to identify assets "surplus to requirements" and to identify land and property that can generate income for the Council.

6.0 Council Tax

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

Council Tax Freeze (Specific) Grant

- 6.2 Where an authority freezes the Council Tax for 2012/13, i.e. sets a nil increase, a specific grant will be paid to reimburse the resources lost, to the

equivalent of a 2.5% increase. However, unlike 2011/12, this grant will only be paid for one year and not for 4 years.

- 6.3 Therefore, this will not reflect the loss of cumulative income over future years compared to the MTFP as the base income level is reduced by freezing the tax rate. Setting a lower increase between 0% and 2.5% would not qualify for the grant - it has to be frozen.
- 6.4 Although the Grant would reimburse the MTFP for 2012/13, the freezing of the 2.5% planned increase in the tax rate would reduce resources in the MTFP by **£527,000** to 2016/17 (net of the specific grant).

Effect upon the MTFP

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

Year	Budget Deficit		Balance of Reserves	
	Excl. Freeze	Incl. Freeze	Excl. Freeze	Incl. Freeze
2011/12	-3,557	-3,557	3,094,937	3,094,937
2012/13	129,206	129,083	2,545,731	2,545,854
2013/14	105,260	230,363	2,290,470	2,165,491
2014/15	12,522	141,937	2,187,948	1,933,554
2015/16	140,356	274,219	1,922,593	1,534,335
2016/17	200,341	338,795	1,452,252	925,541

- 6.6 This shows that the effect of the freeze would take effect from 2013/14 eventually increasing the medium term budget deficit to £338,000, with balances slightly below the minimum level at £925,000 by 2016/17; this tightens the financial position compared to that currently projected.
- 6.7 Clearly, any increase below the planned 2.5% would reduce resources in the MTFP. A 1% increase in the tax rate, although foregoing the grant for 2012/13, would “cost” the MTFP approximately £388,000 compared to £527,000 based on a freeze.
- 6.8 Equivalent “costs” for 1.5% and 2% increases are £259,000 and £130,000 respectively.
- 6.9 A 2.5% increase would raise the Band D tax rate for District Council services from £150.25 to £154 per year, an increase of £3.75 per year per property.

Referendum

- 6.10 Under the Localism Act 2011, any Council wishing to increase its council tax from April 2012 (and in future years) above 3.5% will be required to hold a local referendum. Detailed guidelines have been issued by the Government setting out timetables, procedures and for allocating costs should any precepting authority wish to hold a referendum.

7.0 Section 25 Report (under the Local Government Act 2003)

- 7.1 The Council's Section 151 (Chief Finance) Officer is required to provide an overall opinion on the robustness of the estimates included in budgets and the adequacy of Council reserves. The commentary is set out in the sections that follow.

Comments of the Chief Finance Officer

- 7.2 This report and that considered on 12th January 2012, highlights the risks and uncertainties surrounding the Council's financial plans and in particular, future Government grant levels and the continuing effects of the economic situation. The reports also set out proposed actions the Council intends to take over the medium term to maintain a sound financial position.
- 7.3 It is considered that estimates of expenditure are prudent in that they provide for inflation and other known variations, together with provisions that recognise potential cost pressures due to the Growth of the District. The Budget for 2012/13 and forward projections are based on the most up-to-date economic forecasts for inflation and interest rates, etc.
- 7.4 In addition, a realistic but prudent view has been taken regarding projected income levels from fees, charges and short-term investments. This includes the likely effects of future central government funding in the form of Formula Grant (or its replacement) and the New Homes Bonus.
- 7.5 The compilation of detailed budgets has been undertaken in conjunction with service managers, including a zero based approach for 2012/13. The Council has established performance and budget monitoring arrangements in place to help ensure that Council finances are monitored effectively. This includes a quarterly report to this Committee.
- 7.6 The Council's Financial Strategy directs the Council to plan its spending over a 5-year rolling period for the General Fund and 10 years for the Housing Revenue Account. This provides an indication of the sustainability of spending plans and allows sufficient time in which remedial action can be implemented to address any issues in a planned and timely manner.
- 7.7 The following table shows the projected level of revenue reserves over this planning period, i.e. 2012 to 2017.

Projected Level of Revenue Reserves

FUND	MARCH 2012 £'000	MARCH 2013 £'000	MARCH 2014 £'000	MARCH 2015 £'000	MARCH 2016 £'000	MARCH 2017 £'000
General Fund Reserves	3,095	2,546	2,290	2,188	1,923	1,452
Housing Revenue Account	1,927	1,947	1,570	1,232	1,046	954
Other Earmarked Reserves	2,435	2,285	2,135	1,985	1,835	1,685

7.8 The Council, based on the recommendation of the Chief Finance Officer, has approved to set a minimum level of General Reserves of £1m on the General Fund and, following the implications of self-financing, £1m on the Housing Revenue Account (this was previously £1/2m).

General Fund

7.9 The previous table shows that the level of reserves on the General Fund is currently healthy compared to the minimum target of £1m. Over the MTFP, reserves will be drawn down to finance the on-going budget deficit and to allow for certain provisions as follows:

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

7.10 Clearly, this is before any decision is made regarding the level of council tax for 2012/13. The report highlighted previously, the longer-term implications of a council tax freeze and how this would reduce the reserve balance to just under £1m by 2016/17 and increase the yearly deficit.

7.11 As previously reported, it is the continuing medium term deficit that is considered to be the main issue on the General Fund. Although the Council usually spends within budget, this cannot be guaranteed. Therefore, the medium term position may not be sustainable and carries an inherent risk.

HRA

7.12 The overall financial situation for the HRA appears much more positive. If the current projected interest rates can be secured for the approved funding package under self-financing, this will enable the stock investment needs to be fully delivered. It will also allow, in the longer-term, the debt to be repaid in accordance with the Business Plan.

7.13 Current reserves will be utilised in the first 5-years of self-financing eventually reducing to just over £1m by 2017 – the revised minimum level.

7.14 That reserve should then remain flat and ring-fenced as a contingency. In accordance with the approved strategy, surpluses generated in the Business Plan are then set-aside to repay debt in accordance with the maturity profile.

Earmarked Reserves

7.15 The Council also maintains several reserves that are used to meet one-off/known commitments or to defray expenditure over a number of years, for example, the Vehicle Renewals Fund or Grounds Maintenance from Section 106 contributions.

7.16 It is considered that current reserves they will remain sufficient overall to meet commitments over the life of the current MTFP.

Risks

7.17 Although there remains a projected budget deficit in the medium term, it is considered that overall, spending plans are realistic but prudent. Reserves remain healthy.

7.18 Potentially, there are several risks and issues that can affect the Budget and spending plans, but it is external factors that pose the greatest risk to the MTFP and in particular, to the General Fund.

7.19 Unfortunately, there are clear signs that the Council's overall grant from central government will reduce from 2013/14, as nationally, the Government continue to address the deficit position.

7.20 Reductions have been built into the MTFP but it is unclear how further reductions in addition to those set out in CSR 10, will be cascaded down to individual councils. In addition, further reductions are anticipated for the grant to support the new Council Tax Allowance Scheme.

7.21 Furthermore, the whole distribution system for local authority grants will be fundamentally changed from April 2013 and this causes further uncertainty. Therefore, it is clear that the Council continues to face a tough period financially. Overall, its financial base is sound, but this could change quite quickly.

7.22 To maintain this sustainable position and to place the Council in a position to withstand any further reductions, will mean that reviewing existing spending levels to identify efficiencies and budget savings should continue. This includes the programmed service reviews currently on-going.

Consultation and Provision of Information

7.23 The information and broad budget proposals, together with details on where the Council spends its money, have been presented across the District. Specifically, this has been undertaken via:

- Local Area Forums
- Consultation with the Community and Voluntary Sector, including a Special Finance Committee on 23rd January 2012.
- Meetings with members of the local business community

7.24 In addition, the proposals have been subject to the Council's scrutiny process. A separate report by the Overview and Scrutiny Committee is included elsewhere on the Agenda.

8.0 Financial Implications

8.1 As detailed in the report.

9.0 Corporate Implications

9.1 There are no direct legal or employment implications apart from any considered in the report.

10.0 Community Implications

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

11.0 Background Papers

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

11.2 Department for Communities and Local Government – The Housing Revenue Account Self-financing Determinations available at:
<http://www.communities.gov.uk/housing/socialhousing/councilhousingselffinance/>

11.3 Finance and Management Committee, 12th January 2012 – Detailed Budget Proposals and Analysis, available at:
<http://cmis.south-derbys.gov.uk/CmisWebPublic/Binary.ashx?Document=13228>

