REPORT TO:	**FINANCE AND MANAGEMENT COMMITTEE**	**AGENDA ITEM: 7**
DATE OF MEETING:	**20th FEBRUARY 2014**	**CATEGORY: RECOMMENDED**
REPORT FROM:	**DIRECTOR OF FINANCE and CORPORATE SERVICES**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (01283 595811)** **kevin.stackhouse@south-derbys.gov.uk**	**DOC:** u/ks/budget round 201415/final proposals/final budget proposals report1415
SUBJECT:	**FINAL BUDGET PROPOSALS 2014/15 and FINANCIAL PLAN to 2019**	**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 2014/15 is recommended to Council on 3rd March 2014.

1.2 That estimated net General Fund Revenue Expenditure totalling £11,022,455 for 2013/14 (revised) and £10,917,371 for 2014/15 is recommended to Council on 3rd March 2014.

1.3 That the Medium-term Financial Plan to 2019 on the Council's General Fund Revenue Account as detailed in **Appendix 1** is approved.

1.4 That the financial projection on the Housing Revenue Account (HRA) to 2024 as detailed in **Appendix 2** is approved.

1.5 That a Pensions Reserve be set-aside and funds transferred from the General Fund and Housing Revenue Accounts in 2014/15, in accordance with the reduction in pension contributions as detailed in the Report.

1.6 That the 5-year capital investment and financing plan to 2019 as detailed in **Appendix 3** is approved.

1.7 That the Councils estimated National Non-Domestic Rate Return (NNDR 1) for 2014/15 showing retained business rates (before the tariff) of £8.43m is noted.

1.8 That on-going budget savings of £175,000 are identified and taken out of the current Base Budget ahead of the 2015/16 Budget Round.

1.9 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 the Report

2.1 To detail the Council's final budget proposals for 2014/15 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 2014/15 by Council on 3rd March 2014.

2.2 The Council's overall proposed base budget for 2014/15 and projected medium-term financial position was reported in detail to the Committee on 16th January 2014 (details are available at: http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1645/Committee/322/Default.aspx

2.3 This report does not repeat those details but firms up the position following a period of scrutiny and consultation, together with the effect of some changes since January. These changes, which are detailed in **Section 3**, include:

- Minor budget amendments
- Additional grant following confirmation of the Financial Settlement
- Pension contributions
- Apportionment of central costs between the HRA and General Fund

2.4 The remaining issue outstanding is the recommended level of Council Tax for 2014/15 and this is detailed within the report.

2.5 The report also provides an overview of the Housing Revenue Account and the 10-year financial projection that was considered and approved by the Housing and Community Services Committee on 6th February 2013. This included the rent increase for 2014/15.

2.6 The report is divided into the following sections.

- Section 3: General Fund Revenue Account, including Council Tax
- Section 4: Housing Revenue Account
- Section 5: Capital Investment
- Section 6: Report of the Chief Finance Officer under Section 25 of the Local Government Act 2003

Appendices

- *Appendix 1 – Projected General Fund Revenue Account*
- *Appendix 2 – Projected Housing Revenue Account*
- *Appendix 3 – Capital Investment Programme*
- *Appendix 4 – Apportionment of Central Costs between the General fund and HRA*
- *Appendix 5 – List of Earmarked Reserves and Funds*

3.0 General Fund Revenue Account

Position in January

3.1 As reported in January, the Council's base budget and Medium Term Financial Plan (MTFP) was reviewed ahead of 2014/15. This took account of the Local Government Financial Settlement for 2014/15 and 2015/16, together with outcomes from a base budget review undertaken during the autumn.

3.2 Although this showed an expected reduction in core funding as previously reported, the medium term position was estimated to improve compared to October 2013, due mainly to budget savings and the impact of New Homes Bonus.

3.3 The level of projected general reserves showed a sustainable position until 2016/17. However, a continuing and increasing budget deficit in the meantime would reduce current reserves quite significantly, without any corrective action being taken.

3.4 Consequently, in order for a sustainable position to be achieved in the medium term and to maintain a minimum level of balances by 2018/19, it was approved to reduce the base budget by a further £300,000 per year from 2015/16 – although this was less than the £1/2m approved in October 2013.

Updated Position

3.5 Since January, some outstanding issues have been finalised, with corresponding adjustments made to the proposed 2014/15 budget and MTFP. These adjustments cover:

- Minor budget amendments
- Additional grant following confirmation of the Financial Settlement
- Pension contributions
- Apportionment of central costs between the HRA and General Fund

Budget Amendments

3.6 Firstly, final figures have been input for the Planning and Community Services Restructure approved in December 2013. Compared to the estimated figures included to-date in the base budget and MTFP, the reduction has slightly increased by £5,858 over the 5-year plan.

3.7 Secondly, the saving achieved of £10,000 per year following the tendering of the Council's banking services has now been included.

Additional Grant

3.8 A one-off grant of £24,000 in 2014/15 has been confirmed to reimburse the Council for loss of business rates income. This follows the Government's announcement to cap the rate increase at 2% in 2014/15, compared to a previously indicated increase of 3.5%.

Pension Contributions

3.9 Following the results of the 3-year actuarial valuation of the Pension Fund, the Council's overall contributions will **fall by approximately £35,000** per year from 2014/15. Although the overall projected deficit on the Fund has continued to increase over the last 3 years, contributions to the Fund regarding the deficit recovery will actually reduce.

3.10 The Council's (employer) contributions to the Pension Fund are currently 22.5% of an employee's pensionable pay. This is split between two elements – a future service cost of 11.8% and a deficit repayment of 10.7%.

3.11 The future service element is calculated to ensure that there are sufficient assets built up from current employees to meet future benefit payments .The deficit recovery element is calculated to finance the overall projected deficit on the Fund that has been built up for various reasons in past years and to continue to pay benefits to current pensioners.

Latest Valuation

3.12 The Council's share of the projected overall deficit on the Fund (£27m out of £663m) has risen from £22m over the last 3 years. Following the latest valuation, the Fund has an overall level of solvency of 83% with the Council's level falling from 81% to 79% over the last 3 years.

3.13 This is due to several reasons including lower mortality rates, lower investment returns with an increase in the value of overall liabilities. It should be noted that these figures are based on a series of assumptions regarding various factors into the future. However, it is clear that even allowing for a margin of error, there is still a significant projected deficit on the Pension Fund.

3.14 Based on these results and following the advice of the Actuary, Derbyshire County Council, as the Pensions Administering Authority, have set out the following contributions for the Council which will apply from April 2014.

Year	Future Service Rate	Deficit Recovery (Lump Sum)
2014/15	12.8%	£616,000
2015/16	12.8%	£637,000
2016/17	12.8%	£658,000

3.15 The above figures effectively change the methodology for contributions. The future service rate remains, although this has increased by 1% based on the latest valuation. This will continue to be applied to current employees at rate of 12.8%, fixed for 3 years.

3.16 The Actuary has then recommended that a separate rate for the deficit recovery element is not applied, but is converted into a lump sum payment, increasing over the next 3 years as shown in the preceding table.

3.17 With the equivalent lump sum payment being less than the current deficit recovery rate, this has reduced overall annual contributions by approximately £35,000 from £1,155,000 in 2013/14 to £1,120,000 in 2014/15.

3.18 Over the MTFP, this is a reduction of approximately £182,000 after allowing for inflation.

Stabilisation

3.19 The reason for the reduction is that the Actuary has applied what is termed a "*stability mechanism.*" This has been used by other local government pension funds elsewhere and is designed to cap contributions for major employers.

3.20 If a total overall rate was to be applied, the Actuary has estimated that this would "theoretically" increase to 24.1% from 22.5% in 2014/15. A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent longer term view of funding and to ensure the solvency of the Fund.

3.21 Clearly, a rate of 24.1% would place additional budget pressure on the Council, estimated at approximately £100,000 per year. At a time of tight financial constraint, this may not be affordable. Therefore, the Actuary undertook extensive analysis to explore the long term effect of capping increases.

3.22 This concluded that the lump sum elements balance stability, affordability and constitute a long term prudent view. The Actuary has placed greater importance on the fact that it is almost certain that the Council or a successor body will continue to exist into the future that would be liable for any outstanding deficit.

Risk

3.23 Clearly, the stabilisation payments are less than the theoretical contribution rate and this carries a risk. This could mean that following the next valuation of the Fund in 2017, payments may need to increase.

3.24 This needs to be balanced against some major changes to Pensions being implemented in April which are designed to reduce benefits to future pensioners, increase employee contributions and increase the retirement age. In addition, the return on the Fund's assets may improve in the meantime.

Use of a Pensions Reserve

3.25 However, this is not certain and it is therefore recommended that the reduction in estimated pension contributions (£182,000) is saved and set-aside in a Pensions Reserve. This strategy would allow a capital contribution to be made to offset any increases following the next valuation in 2017.

Apportionment of Central Costs between the HRA and the General Fund

3.26 As reported last year, a comprehensive review has been undertaken during the Budget Round of the apportionment of central services, senior management and other corporate costs between the General Fund and the HRA.

3.27 This included a review of 20 cost categories covering services such as HR, ICT, Finance and Customer Services, etc., together with the core management and democratic costs of the Council.

3.28 The review aimed to ensure that there is a fair and reasonable charge for these services in the HRA in accordance with accounting regulations.

3.29 The last review of the basis for these charges was in 2004/05; since that time the structure of the Council has changed several times and the social housing function has also undergone significant change culminating in the implementation of self-financing in 2012/13.

3.30 The review itself, together with the outcome has been assessed and validated by the Council's External Auditor. The assessment clarified the basis of charges and this has changed the apportionment between the HRA and General Fund.

3.31 A summary of the apportionment is shown in **Appendix 4**. Some apportionments into the HRA will reduce, but there are several areas where the current apportionment does not reflect service provision. In addition, there are several central and indirect housing costs where there is currently no apportionment and these alone total approximately £165,000.

3.32 The outcome of the review will apportion additional (budgeted) costs of £273,878 to the HRA from the General Fund. This will be effective from 2013/14 and has been included in the updated projection for both the General Fund and HRA.

Council Tax Level and Freeze Grant

3.33 The Budget for 2014/15 assumes a Council Tax freeze, subject to approval by Full Council on 3rd March 2014. The Committee is required to recommend a Council Tax rate to that meeting with the current Band D rate being £150.25p.

3.34 The Government have now confirmed the Freeze Grant which is £49,648 for both 2014/15 and 2015/16 – an increase from £44,112 as previously estimated for each of these years.

Summary of Changes

3.35 The cumulative effect of the above changes over the 5-year plan is highlighted in the following table.

Increase in central costs apportioned to the HRA	-£1,643,268
Budget Amendments	-£55,858
Section 31 (NNDR Compensation) Grant 2014/15	-£24,000
Increase in Council Tax Freeze Grant 2014/15 and 15/16	-£11,072
Total increase in Projected Resources	**-£1,734,198**

3.36 As the table shows, this increases projected resources in the MTFP by approximately £1.7m.

Updated Projection (as February 2014)

3.37 The updated medium term projection is detailed in **Appendix 1** and summarised in the following table.

Year	Budget Deficit / Surplus (-)	Sums Earmarked against Reserves	Balance of Reserves
Revised Budget 2013/14	-£260,372	£141,000	-£4,491,728
Proposed Budget 14/15	-£170,310	£502,000	-£4,160,038
Projection 2015/16	£172,321	£295,000	-£3,692,717
Projection 2016/17	£190,127	£340,000	-£3,162,590
Projection 2017/18	£690,732	£20,000	-£2,451,857
Projection 2018/19	£889,393	£20,000	-£1,542,465

3.38 Given the increase in resources to the MTFP, the projected level of reserves now shows a sustainable position over the life of the MTFP, compared to the minimum target of £1m

Projected Budget Deficit

3.39 However, there is still an estimated budget deficit in the future, rising from £172,000 in 2015/16 to nearly £900,000 in 2018/19; therefore corrective action is still recommended in the short to medium term.

3.40 The current level of general reserves remain healthy and well above the minimum contingency level of £1m approved in the Financial Strategy. These reserves could continue to finance an on-going deficit in the short-term and to finance one-off costs associated with achieving budget savings.

3.41 However, this is not considered to be a long term solution especially given the longer-term deficit, the continuing uncertainty of future funding, together with other potential risks and pressures.

3.42 Consequently, in order for a sustainable position to be achieved in the medium term, it is important that the estimated deficit in 2015/16 is corrected and the base budget reduced by a further **£174,000 per year before next year's budget round.** Clearly, due to an improved position as reported in January and in this report, this is less than originally estimated back in October 2013, i.e. £1/2m.

3.43 This level of budget savings may not completely meet the longer term budget deficit and additional savings may need to be made over the life of the MTFP; this will be kept under review. Based on this updated projection, General Fund expenditure is still greater than income in the medium term.

Main Assumptions

3.44 Prudently, the Budget continues to make provision for some growth and inflation. In accordance with current policy, this "contingency" will be maintained centrally and only allocated once any additional costs are known.

Government Grant

3.45 The figures reported in January have been confirmed and received parliamentary approval. These are included in Appendix 1. As highlighted earlier in this report, Council Tax Freeze Grant for 2014/15 and 2015/16 (subject to a nil increase being approved) together with additional grant to compensate business rate income, have been confirmed.

Retained Business Rates

3.46 As previously reported, this part of the Council's core funding is not fixed and will depend on actual transactions during the year. The Council is required to submit estimated figures to the Government through an annual return.

3.47 This calculates the estimated net rates available for distribution; following the completion of the annual return, the distributable amounts are estimated as follows:

Central Government	£10,540, 019
South Derbyshire District Council	£8,432,014
Derbyshire County Council	£1,897,203
Derbyshire Fire and Rescue Service	£210,800
Total Estimated Net Rates 2014/15	**£21,080,036**

3.48 The Council's estimated rates retention (before the Tariff payment) is £8,432,014. This is higher than the figure used by the Government in the financial settlement of £8,332,000 and is based on updated information locally.

3.49 If the out-turn is at the estimated level of £8.43m then additional resources will be retained locally compared to the provisional settlement for 2014/15.

4.0 <u>Housing Revenue Account (HRA)</u>

4.1 This was considered in detail by the Housing and Community Services Committee on 6th February.

http://south-derbys.cmis.uk.com/south-derbys/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1641/Committee/325/Default.aspx

4.2 This included details of the proposed rent increase for 2014/15 under the Government's current national rent setting policy for rent convergence.

4.3 2014/15 will be the third year under the self-financing framework. The HRA's base budget and 10-year financial projection is detailed in **Appendix 2**. This shows a summary of each main income and expenditure head within the HRA for 2013/14 to 2023/24, together with the yearly surplus/deficit and balance on the HRA's general reserve.

4.4 This also shows how future surpluses will be built up to repay debt in accordance with the Council's Treasury Management Strategy.

Summary

4.5 The longer-term projection shows that the HRA continues to be sustainable and can deliver the required capital investment in the stock (as planned) and make the necessary surpluses in future years to repay debt – also as originally planned.

4.6 The financial position continues to improve due to lower estimated costs and increase in projected rental income; the later is subject to consultation and further detail being published on the Government's proposal to change national policy for setting rents from 2015/16. It is now likely that 2014/15 will be the final year of the current rent convergence framework that has existed for the last 13 years.

4.7 In addition, there is also a higher increase in rents in 2014/15 in accordance with the national rent convergence criteria. The average increase approved for 2014/15 was 5.5% (£4.16 per week).

4.8 This increases the base rental amount, and therefore, has an on-going and cumulative effect over the financial planning period.

HRA General Reserve

4.9 Based on the rent increase of 5.5% and following changes to the Base Budget, the balance on the HRA Reserve is forecast to increase from £2.6m in 2013/14 to £3.1m in 2017/18.

4.10 This level of £3.1m is maintained over the remainder of the 10-year financial period as the HRA moves into surplus following the current capital investment programme. As originally planned, future surpluses after 2017/18 will be set-aside to repay debt for when it matures.

4.11 The balance of £3.1m is in excess of the minimum level of £1m approved in the Council's Financial Strategy for the HRA.

4.12 It should be noted that there could be some additional cost pressures in the HRA. In particular, indications suggest that contributions from the County Council towards Supported Housing may reduce further, as they consider their level of overall funding for Derbyshire from next year; the current contribution is £300,000 per year, although this has previously been reduced from £400,000.

4.13 Overall, it is considered that proposed spending budgets are realistic but prudent and allow for inflation. The debt costs are sustainable and allow the planned repayment of debt.

4.14 Clearly, the most significant variable continues to be rent, with total income around £12m per year. As the report to the Housing and Community Services Committee highlighted, a relatively low change in percentage terms can have a significant impact in cash terms, particularly when projected over 10-years.

4.15 Depending on the outcomes of the consultation on proposed changes to national rent policy from 2015/16, the projected rent levels could change again.

Overall Reserves

4.16 In addition to the HRA Reserve of £3.1m, based on the current projections, there would also be £8.3m in the Debt Repayment reserve by 2024, making total projected reserves of £11.4m. This compares to a total of £8.2m in 2012, the first financial plan under self-financing.

Apportionment of Central Costs between the HRA and the General Fund

4.17 As detailed in Section 3, the apportionment of costs into the HRA of £273,000 per year will reduce the current level of projected reserves by approximately £3m, from £11.4m to £8.4m.

Pensions

4.18 The reduction in pension contributions as detailed earlier in the report in Section 3, attributable to the HRA is approximately £10,000 per year - £105,000 over the 10-year projection.

4.19 Similar to the General Fund, it is recommended that this is saved and set-aside in a Pensions Reserve. This strategy would allow a capital contribution to be made to offset any increases following the next valuation in 2017.

5.0 <u>Capital Investment</u>

5.1 The main areas of spend continue to be on council housing investment and the improvement of leisure and community facilities.

5.2 A substantial part of the investment programme is being financed from external sources, together with the Council's remaining capital reserves and borrowing for housing under the self-financing framework.

5.3 The full programme along with financing is detailed in **Appendix 3**. The relevant Prudential Indicators for the capital programme are detailed in the Treasury Management Strategy which is a separate report on this Committee's Agenda.

Capital Receipts

5.4 With the implementation of the self-financing framework, Council policy is to reinvest all housing receipts (after any pooling payment to Government) from the sale of council houses and land, into the housing stock and in particular, for New Build.

5.5 As regards New Build, the Council has entered into an agreement with the Government to enable it to retain additional receipts generated above a target level of council house sales each year (i.e. 1-4-1 receipts) to be used on New Build.

5.6 As highlighted to the Committee in quarterly budget monitoring reports, a New Build Reserve is accumulating and currently stands at just under £1m. The Housing and Community Services Committee are overseeing a New Build programme with a Phase 1 projects being developed.

General Fund Receipts

5.7 Future receipts are anticipated from the sale of land off William Nadin Way and as approved, this will be reinvested into relocating the Council Depot.

5.8 No other significant receipts are currently anticipated, although some further proposals are nearing Committee consideration.

5.9 The General Fund investment programme highlights receipts of £50,000 per year, rising to £125,000 per year from 201/18, to finance on-going capital asset expenditure, mainly the replacement of vehicles and plant for service provision.

5.10 It is anticipated that this will be achieved from smaller disposals of land and granting of easements, etc.

5.11 If these amounts are not generated, then any larger receipt generated would first need to be earmarked for these commitments. As a contingency, an amount has been earmarked against General Fund Reserves (as shown in **Appendix 1**) should no receipts be generated.

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

6.1 In their role as the Council's Section 151 (Chief Finance) Officer, the Director of Finance and Corporate Services, 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

6.2 This report and that considered on 16th January 2013, highlights the risks and uncertainties surrounding the Council's financial plans and in particular, future Government grant levels and the general economic situation beyond 2015/16.

6.3 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 potential growth of the District. The Budget for 2014/15 and forward projections are based on the most up-to-date economic forecasts for inflation and interest rates, etc.

6.4 In addition, a realistic but prudent view has been taken regarding projected income levels from fees, charges and short-term investments. This also includes the likely effects of future funding in the form of Retained Business Rates and the New Homes Bonus.

6.5 The compilation of detailed budgets has been undertaken in conjunction with service managers, including wherever possible, a zero based approach for 2014/15. It is recognised that the Council has well 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.

6.6 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.

6.7 The following table shows the projected level of revenue reserves over this planning period, 2014 to 2019.

Projected Level of Revenue Reserves

Revenue Reserves	March 2014 £'000	March 2015 £'000	March 2016 £'000	March 2017 £'000	March 2018 £'000	March 2019 £'000
General Fund	4,492	4,160	3,693	3,163	2,452	1,542
Housing Revenue Account	2,114	1,917	1,910	2,027	2,027	2,027
Other Earmarked Reserves	3,526	3,049	2,634	2,320	1,920	1,895
Total - Projected Reserves	**10,132**	**9,126**	**8,237**	**7,510**	**6,399**	**5,464**

Note, the balance on the HRA is after the apportionment of central costs from the General Fund as detailed in the report

6.8 The Council, based on the recommendation of the Chief Finance Officer, has approved to set a minimum (contingency) level of General Reserves of £1m on both the General Fund and Housing Revenue Accounts. This meets the requirements of the Local Government Act 2003.

General Fund

6.9 The previous table shows that the level of reserves on the General Fund is currently healthy compared to the minimum target of £1m and are sustainable over the life of the MTFP. However, without corrective action to finance the projected budget deficit, they will be drawn down to support the base budget.

6.10 This is not considered to be a sustainable solution especially given the longer-term deficit, the continuing uncertainty of future funding, together with other potential risks and pressures. The MTFP shows that the Council still needs to generate further budget savings on the General Fund in order to maintain a sustainable financial position.

6.11 Although the level of balances allows on-going spending to be financed in the short-term, the latest projection shows an increasing budget deficit over the planning period with reserves falling quite rapidly in the medium term.

6.12 As a growth area, income from planning fees, etc. could increase. However, this cannot be guaranteed and this income can fluctuate significantly from year to year. Therefore, the base budget should be reviewed when the impact of growth that arises from the development of the Local Plan in particular, is known.

6.13 Future projections for core funding in the Business Rates Retention System, have taken into account the latest forecasts for national control totals. Even with anticipated increases in New Homes Bonus and Business Rates income, overall funding is expected to reduce until 2018/19 in accordance with the latest forecasts from the *Office of Budget Responsibility*.

6.14 In order for a sustainable position to be achieved in the medium term, it is important that the estimated deficit in 2015/16 is corrected and the base budget reduced by a further **£175,000 per year before next year's budget round.**

6.15 This level of budget savings may not completely meet the longer term budget deficit and additional savings may need to be made over the life of the MTFP; this will be kept under review. Based on this updated projection, General Fund expenditure is still greater than income in the medium term.

6.16 The Council does have a history of under spending on its General Fund. This is reviewed each year and budgets adjusted accordingly. However, future under spends are not guaranteed and therefore, should not be relied upon.

Housing Revenue Account (HRA)

6.17 The overall financial position on the HRA continues to remain positive. If the financial plan regarding debt management and repayment, together with projected rent increases in particular is followed, then the HRA should remain sustainable.

6.18 Under self-financing, the HRA is less influenced by external factors unless there was to be a significant change to this framework. Financial risks are lower if fixed budgets for repairs and capital investment are met.

6.19 It is noted that funding provided to the HRA for Supported Housing may come under pressure and this will need to be kept under review. The 10-year plan allows for issues and remedial action to be addressed if there is any significant change.

Earmarked Reserves

6.20 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, ICT upgrades, vehicle replacements and grounds maintenance from Section 106 contributions.

6.21 It is considered that current reserves will remain sufficient overall to meet commitments over the life of the current MTFP. Reserves held to finance on-going community and sports development spending, will need to be kept under careful review if external and partnership contributions reduce.

6.22 A list of all other reserves and funds is detailed in **Appendix 5**, showing current balances.

Risk Analysis

6.23 The following table summarises the key risks and issues detailed in the report and during this particular Budget Round; it assesses the potential impact upon the Council's reserves as projected in the updated MTFP.

Factor	Issue	Mitigation	Effect on Reserves
Council Tax and the Collection Fund Balance	• Collection rates reduce due to the economic climate • Demand for Council Tax Support increases when resources are fixed. • Empty properties increase reducing New Homes Bonus	• "In built" surplus in the Collection Fund. • Local growth is continuing and even at a moderate pace is beneficial. • Council Tax liable on empty properties which has increased income and incentivised use/occupation.	**Medium** Only 11% of the Balance is transferred to the Council's General Fund. In addition, effect is not immediate and costs can be spread.
Growth	• A key factor in influencing future levels of grant funding under the business rates redistribution system and NHB. • The number of local businesses declines which reduces base income. • Affects Council Tax income and other income streams such as Development Control (Planning)	• The MTFP projects growth at 2% per year for Business Rates and 1% for the Council Tax Base; these rates are considered realistic and prudent based on recent years. • Income budgets for planning, land charges, etc. forecast no increase on current base level.	**High** This could affect reserves either way. Growth is a determining factor for the Council's income - and expenditure – and is subject to external factors. This will directly impact on the General Fund.
Budget Savings	• These need to be made and sustained over the medium-term – but they are delayed beyond 2015/16.	• Current level of reserves allows planned action to be taken. • Continuing efficiency and transformation programme in place.	**High** Directly impacts on the General Fund and if action is delayed, this will affect the MTFP further. However, this is an issue more under the Council's control.
Budget Overspend	• Unexpected costs or loss of income; there are on-going cost pressures as identified in the report for both the General fund and HRA.	• Current level of reserves is healthy and MTFP allows contingencies for inflation and growth, etc. • The base budget has been scrutinised and monitoring arrangements in place allow early identification of issues. •	**Medium**

General Economic Conditions	• Higher price increases on key costs such as fuel and utilities. • Interest rates affect investment returns and debt payments.	• Central inflation contingency for price increases. • The General Fund is currently “debt free” and not subject to movement in interest rates. • The HRA debt is largely fixed and at low interest rates. • Sufficient balances allow “internal borrowing” if required. • Budgeted income from short-term investments is low and insignificant now in the Base Budget.	**Low**
External Funding	• Contributions from other agencies and partner organisations continue to fall. This mainly affects services such as Community Development and Supported Housing.	• Some protection in earmarked reserves covering leisure and community development. • Current level of reserves allows planned action to be taken.	**Medium**

Consultation and Provision of Information

6.24 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 local businesses, together with the Community and Voluntary Sector, including a Special Finance Committee on 27th January 2014.

6.25 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.

6.26 Although there were many questions and queries, no substantive issues were raised. A record of all discussions has been minuted at each Area Forum, at the Overview and Scrutiny Committees on 22nd January and 12th February 2014, together with the Finance and Management Committee on 27th January.

7.0 Financial Implications

As detailed in the report.

8.0 Corporate Implications

There are no direct legal, employment or other corporate implications apart from those highlighted in the report.

9.0 Community Implications

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.

10.0 Background Papers

None