

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

## **1.0 Recommendations**

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

## **2.0 Purpose of Report**

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

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

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

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

### **3.0 EXECUTIVE SUMMARY**

#### **General Fund**

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

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

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

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

### **Minimum Level of Balances**

- 3.7 The level of the current General Reserve is currently healthy at £4.3m. However, this is being drawn down over the planning period to meet the on-going shortfall between income and expenditure. The Council has a history of spending within budget which is prudent but it should not be assumed that this will continue and the MTFP is built on that assumption.
- 3.8 The Council continues to face many financial risks and variables. Therefore, it needs to be prudent in ensuring that it maintains an adequate level of general reserves on its General Fund to act as a contingency.
- 3.9 The Local Government Act 2003, places the emphasis on each local authority to determine its minimum level of reserves, based on advice from the authority's Section 151 (Chief Finance) Officer. This will depend on local circumstances and the minimum level should be reviewed on a regular basis.
- 3.10 Based on this, the Council's minimum level as set out in the Financial Strategy is **£1m** on the General Fund. This level is set based on an assessment of the major

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

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

### **Housing Revenue Account**

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

## **4.0 GENERAL FUND FINANCIAL PROJECTION**

### **Background**

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

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

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

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

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

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

### Updated Projection

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

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

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

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

### A Weakening Financial Position

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

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

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

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

### Senior Management Restructure

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

### E-committees

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

### Interest on Short-term Investments

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

### Pay Inflation

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

### Risks and Assumptions

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

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

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

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

### **Pay Inflation**

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

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

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

### **Fees and Charges**

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

## Growth

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

### Analysis of Overall Inflation and Growth Contingency

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

## Waste Collection and Recycling

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

## Pay and Grading

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

## Pensions

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



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

### **Recent Pension Reform**

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

4.37 The main changes are as follows:

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

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

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

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

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

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

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

### **Interest Receivable**

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

**Projected Bank Base Rates**

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

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

### Income from Planning Fees

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

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

Year	Planning Fees £	Building Regs. £	Land Charges £	Total £
Actual 2004/05	501,700	348,130	238,665	1,088,495
Actual 2005/06	612,198	370,232	229,826	1,212,256
Actual 2006/07	677,366	338,055	227,812	1,243,233
Actual 2007/08	573,747	297,089	192,798	1,063,634
Actual 2008/09	517,485	236,242	106,375	860,102
Actual 2009/10	677,070	232,875	134,023	1,043,968
Actual 2010/11	256,993	224,472	114,822	596,287
Actual 2011/12	596,292	223,538	99,459	919,289
Actual 2012/13	419,561	251,885	103,494	774,940
<b>Budget 2013/14</b>	<b>550,000</b>	<b>235,000</b>	<b>88,000</b>	<b>873,000</b>
Forecast 2014/15 onwards	550,000	235,000	98,000	883,000

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

### Other Cost Pressures

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

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

### Other Provisions Earmarked against General Reserves

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

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

### Provision for Capital

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

## 5.0 GOVERNMENT GRANT and COUNCIL TAX

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

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

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

### Current Grant

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

#### Grant Projections as at February 2013

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

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

### **Revised Spending Totals – CSR 2013**

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

### **Individual Totals**

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

### **Revised RSG Amounts as at August 2013**

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

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

### **Future Years**

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

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

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

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

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

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

### **Retained Business Rates**

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

### **Council Tax**

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

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

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

## Budget Savings Required

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

## Additional Savings

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

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

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

## 7.0 UPDATED FINANCIAL PROJECTION FOR THE HRA

- 7.1 The HRA projection has been updated to reflect:

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

## **The Position Entering this Review**

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

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

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

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

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

## **Rents**

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



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

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

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

### **Future Rent Policy**

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

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

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

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

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

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

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

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

## Revised Rent Projections Following DCLG Announcement

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

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

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

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

### Revised HRA Projection

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

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

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

## 8.0 Background Papers

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

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

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

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

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

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