

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE SPECIAL - BUDGET	AGENDA ITEM: 7
DATE OF MEETING:	17th JANUARY 2013	CATEGORY: RECOMMENDED
REPORT FROM:	CHIEF EXECUTIVE	OPEN
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SUBJECT:	BUDGET REPORT 2013/14 Incorporating the Consolidated Budget Proposals and Medium Term Financial Plan to 2018	REF:
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the estimates of revenue income and expenditure for 2013/14 for the General Fund are considered and a level of income and expenditure be approved.
- 1.2 That consideration is given to the level of any inflationary increase in grants to voluntary bodies and payments to parish councils under concurrent functions.
- 1.3 That the estimated Council Tax Base for 2013/14 of 29,359 (equivalent Band D) properties as detailed in **Appendix 5** is approved.
- 1.4 That no surplus be declared on the Collection Fund for 2012/13.
- 1.5 That consideration is given to the principle of a Council Tax freeze for 2013/14 in accordance with the offer of specific grant from the Government.
- 1.6 That the updated 5-year financial projection on the General Fund to 2018 as detailed in **Appendix 1**, including associated assumptions and risks as set out in the report, be approved.
- 1.7 That the potential for further reductions in overall government grant following the Comprehensive Spending Review planned for 2013 is noted.
- 1.8 That on-going budget savings of £300,000 per year from 2013/14 are identified in order to meet the projected medium term budget deficit.
- 1.9 Consequently, the Council continues to progress a programme of service efficiency and transformation reviews in order to help address the projected medium term budget deficit.

- 1.10 That the decisions made in recommendations 1.1 to 1.9 are used as the basis for consultation with local residents, businesses, voluntary and community groups, etc. and are subject to review by the Overview and Scrutiny Committee.

2.0 Purpose of the Report

- 2.1 To detail the Council's overall financial position following a detailed review of income and expenditure on the General Fund for 2013/14. Effectively, it builds on the financial plan and strategy approved in October 2012 and is the detailed budget report for 2013/14. The report covers the following:

- The Council's provisional financial settlement from central government for 2013/14 and 2014/15 with estimated on-going implications for 2015/16 and beyond.
- The Council's current spending and proposed base budget position for 2013/14.
- The General Fund's 5-year financial projection including proposed spending by policy committees and associated analysis to 2017/18, which forms the Medium Term Financial Plan (MTFP).
- The proposed Council Tax Base for 2013/14 and Collection Fund position, 2012/13.
- Options for Council Tax levels in 2013/14 and future assumptions.
- An overview of the Council's projected medium-term budget position with associated assumptions and risks which formulates a target level of budget savings now required over the planning period to 2018.

- 2.2 The report is divided into several sections as follows:

- Section 3 – Executive Summary and Overall Commentary
- Section 4 – The Council's Financial Settlement for 2013/14 and the new Business Rates Retention System
- Section 5 – Proposed Base Budget and Consolidated Spending 2013/14
- Section 6 – Revised General Fund Financial Projection to 2017/18
- Section 7 – Council Tax, Tax Base and Collection Fund Position
- Section 8 – Overall Risk Analysis

3.0 Executive Summary and Overall Commentary

The Position entering the 2013/14 Budget Round

- 3.1 A report to the Committee in October 2012, reviewed the Council's medium-term financial position. The associated financial projection showed an improving and relatively strong position following budget savings and efficiencies made in recent years.
- 3.2 The position ahead of the 2013/14 Local Government Financial Settlement was summarised in the following table.

**Updated General Fund Projection
(As at October 2012)**

Year	Budget Deficit	Balance of Reserves
Base Budget 2012/13	£117,139	£2,537,798
Revised 2012/13	£24,974	£3,557,222
Projection 2013/14	£47,205	£3,190,018
Projection 2014/15	-£62,090	£3,162,108
Projection 2015/16	£69,018	£2,948,090
Projection 2016/17	£140,292	£2,537,798
Projection 2017/18	£186,400	£2,331,398

- 3.3 The table showed that the Reserve Balance was projected to be sustained well above the minimum level of £1m, although there was still an underlying budget deficit in the medium term. It was noted that the most significant issue that could challenge the financial position was future levels of central government support.
- 3.4 Given the Government's key aim of maintaining a fiscal policy to address the national budget deficit, it was considered inevitable that further reductions for local councils would materialise. Allied with a fundamental change to financing local authorities through the new Business Rates Retention System, there was uncertainty as detailed figures were awaited.
- 3.5 In principle, it was considered that the Council could benefit because the system for financing local government was to be based to a greater extent on growth. In addition, the cost of providing services in rural areas was also being recognised following a review of the funding formula.

The Updated General Fund Position

- 3.6 The Council's base budget has been reviewed to include (wherever possible) a zero based approach to assess spending levels. This has identified additional cost pressures and reducing income, although there have also been further budget savings identified.

- 3.7 Following the Government's Autumn Statement and subsequent financial settlement for local councils, the updated medium term position shows a weakening situation compared to October 2012. The updated projection is shown in the following table.

Year	Budget Deficit	Balance of Reserves
Base Budget 2012/13	£117,139	£2,537,798
Revised 2012/13	£24,974	£3,537,222
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	-£574,531

- 3.8 The level of projected reserves shows a sustainable position until 2015/16, although an increasing budget deficit in the meantime reduces current reserves quite significantly, without any corrective action being taken.

- 3.9 The table below shows how the overall position has changed.

Note – Amounts are cumulative over 5-years

Projected Reserve Balance 2017/18 (as at October 2012)	£2,331,398
Overall reduction in Government Grant	-£2,020,206
Reduction in Council Tax Income (assuming a freeze in 2013/14)	-£563,850
No Surpluses declared on the Collection Fund	-£83,123
Increase in Net Spending (following budget review)	-£238,750
Estimated Reserve Balance (updated) 2017/18	<u>-£574,531</u>

- 3.10 The decreases in the above table represent the cumulative effect over the 5 year financial planning period. The effect of the decreases in Government Grant and Council Tax income (if a council tax freeze is approved for 2013/14) reduces projected resources by approximately £2.9m over 5 years.
- 3.11 Consequently, this creates an increasing budget deficit which is not sustainable beyond 2013/14 without corrective action being taken. Even allowing for a margin of error, the medium to longer term financial position is not sustainable
- 3.12 As previously reported the current level of general reserves is healthy and well above the minimum contingency level of £1m approved in the Financial Strategy. They could act as a buffer for 2013/14 and possibly 2014/15, but corrective action would be required in the meantime to prevent a more critical issue by that time.

3.13 Consequently, in order for a sustainable position to be achieved in the medium term and to maintain a minimum level of balances by 2017/18, on-going budget savings of **£300,000 per year from 2013/14** would be required. The longer the delay in taking corrective action would ultimately increase this amount each year.

3.14 However, this would not completely remove 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.

Main Assumptions

3.15 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.

Net Spending

3.16 Following the base budget review, net expenditure on services is now projected to increase by £238,750 over the 5-year planning period; the increase is summarised in the following table.

Reductions in Projected Income	£895,000
Cost Pressures	£913,750
Budget savings	-£1,055,000
Inflation Contingency	-£515,000
	<u>£238,750</u>

3.17 These figures are cumulative over the 5 years to 2017/18 and follow the review of base budgets by policy committees. The main decreases in income continue to be in planning and land charges, together with trade waste – the previous MTFP had anticipated an increase due to growth.

3.18 Given the continuing economic situation, growth continues to be limited and income projections have now been scaled back accordingly. In addition, grants and contributions for housing benefits and highways maintenance (to be confirmed) will fall in 2013/14, with on-going implications.

3.19 The main cost pressures are in housing benefit payments, together with repairs and maintenance liabilities on property, transport and plant. However, the level of budget savings identified together with the knock on effect to the inflation contingency, have helped to significantly offset the losses elsewhere.

Government Grant

3.19 The largest reduction in projected resources is overall government funding, as expected. The decrease is not significant in 2013/14, but additional reductions are already planned for 2014/15 as set out in the Government’s Autumn Statement. The effects have been built into the MTFP.

- 3.20 The projections for 2015/16 onwards are based on moderate levels of growth in the Council's business and residential tax bases (these are now key variables in future financial settlements) together with indicative control totals for local government. The MTFP shows an overall reduction in resources for the period 2013/14 to 2017/18 of **15.5%** compared to that received in 2012/13.

Spending Review 2013

- 3.21 As announced in the Autumn Statement, the Government will review and set new control totals for 2015/16 to 2017/18 as part of a comprehensive review of public finances. It has been indicated that further reductions will follow. As a growth area, the Council is likely to be better placed in the new system for financing local government compared to many shire districts. However, reductions in national resources are likely to lead to the Council losing resources overall.

Council Tax

- 3.22 It is important to note that the MTFP continues to assume a year on year increase in Council Tax of 2.5% from 2014/15. The Government have once again offered incentives for councils to freeze their Council Tax for 2013/14 and the consequences of this have been shown in the MTFP projections.
- 3.23 As in previous years, the scheme will reimburse councils "lost" revenue to the equivalent of a 1% increase in Council Tax for 2013/14 and 2014/15. As the Council plans on a 2.5% increase per year, this would reduce projected Council Tax income by approximately £560,000 over the planning period.
- 3.24 Under the Localism Act 2011, the Government has set a 2% limit on Council Tax increases for 2013/14. However, councils have discretion to set increases above this limit, but this would need to be subject to a local referendum.

Summary Position

- 3.25 Overall, the medium-term financial position has weakened and this could be affected further following the 2013 Comprehensive Spending Review. The Council's current level of general reserves is healthy and can be used as a buffer; ultimately however, the increasing budget deficit would need to be addressed.
- 3.26 The earlier corrective action is taken, the better the longer term position becomes and a sustainable position can be maintained. It is important that the Council maintains financial resilience ahead of the 2013 Spending Review and plans remedial action accordingly.
- 3.27 Although the new system of financing local government should benefit the Council as a growth area and offers opportunities, there could be greater risks; future government allocations will not be based on a national grant that is certain, but will be based on local growth, which can fluctuate and is more volatile, especially for Business Rates.

DETAIL, BACKGROUND and BASE BUDGET ANALYSIS

4.0 The Council's Financial Settlement 2013/14

The National Picture

- 4.1 As previously reported, a fundamental change is being introduced from April 2013 to the national distribution of local authority funding. The system is moving away from a predominantly based central funding allocation, to a model based on retaining a proportion of local business rates. However nationally, the Government will still control the overall level of resources for local authorities.
- 4.2 These resources are set to reduce now until 2017/18 following the Government's Autumn Statement in December 2012. This is in addition to reductions set in the last Spending Review in 2010. Overall control totals will be reviewed further during the next Comprehensive Spending Review (CSR) of the public finances later in this year.
- 4.3 Due to certain services receiving protection (Education and Social Services) the largest impact of the reductions is likely to fall on shire districts. Core funding has been reduced by an average of 6.8% for shire districts in 2013/14. A further reduction of 9.5% is now planned in 2014/15.
- 4.4 Following the Autumn Statement, it was indicated that core funding for the 3 years 2015/16, 2016/17 and 2017/18, would fall on a similar "trajectory" to that in the previous 3-years. That could see a reduction of around 20% to 30% over that period, subject to the CSR later in 2013.
- 4.5 Growth areas, such as South Derbyshire, will be in a position to partly offset these decreases through the Business Rates Retention Scheme and the New Homes Bonus. Overall however, it is likely that all councils will now see diminishing resources until 2017/18.

How the New System Will Work

- 4.6 Under the new system, a start-up funding assessment will be established for each council. It is calculated broadly in the same way as Formula Grant was under the previous system.
- 4.7 This assessment is then split between Revenue Support Grant (RSG) and Business Rates Retention (BRR – a Baseline Need). Once set each year, the RSG element is guaranteed, whilst the BRR element is not.
- 4.8 Therefore, overall funding levels are not guaranteed; ultimately the level of business rates collected by councils during the year will determine a significant part of overall funding - the Baseline Need is only the starting point.

The Baseline

- 4.9 To fund the Baseline, councils will each have an expected level of National Domestic Rates (NDR Income) to collect. This is based on the projected level of business rates to be collected nationally as determined by the Government.
- 4.10 50% of this amount will be retained by the Government, with 20% paid over to the County Council and the Fire Authority (combined) in two tier areas. The remaining 30% is effectively the target business rates to be collected by the District Council.
- 4.11 For councils with a Need higher than their Baseline, a Top Up grant will be paid and this will be guaranteed. Conversely, for councils with a Need lower than their Baseline, a Tariff will be paid to the Government. This funds the national redistribution mechanism.
- 4.12 Councils that see a higher level of NDR income compared to their Baseline will be rewarded through the scheme as they will be able to retain an element of the associated increase in revenues. However, councils that have a lower level of NDR income will see a decline in their resources and, subject to a safety net, will not be compensated.

A Damping Mechanism

- 4.13 The new scheme will contain a mechanism to limit individual gains and losses. A Safety Net will limit losses and this will be funded through a Levy (or charge) on disproportionate gains.
- 4.14 The Safety Net will apply when a council's income falls by more than 7.5% from its original baseline funding level, set on transition to the new system on 1st April 2013; the level will then be fixed and increased by inflation each year.
- 4.15 The Levy will limit what councils can gain in cash terms for any given level of NDR growth. This has been set at 1:1, meaning that a 1% increase in NDR growth cannot increase overall resources by more than 1%, but subject to a limit of 50p in the pound.
- 4.16 The calculation is complicated, but does allow councils to gain from incremental growth even after paying a levy.
- 4.17 Where councils actually collect business rates at their NDR target, the level of resources that they would receive (through retained business rates and RSG) will be their start-up funding assessment; i.e. they would neither gain nor lose.

Reviewing the System

- 4.18 The Government intends that Baselines will be set until 2020, up rated each year for inflation. However, the Government reserve the power to review and if necessary reset the system in exceptional circumstances at anytime. However, they have indicated that a review will not occur within the first 3 years of the new system.

New Homes Bonus (NHB)

- 4.19 This was introduced in 2011/12 and will continue to be paid in the new system in addition to RSG and retained business rates. Nationally, it will be funded from within overall resources for local government.
- 4.20 Where authorities gain in NHB due to growth, RSG will be reduced. However, the overall system is designed to benefit those authorities who achieve residential growth (including new affordable housing) together with good management of empty properties.
- 4.21 Similar to RSG and retained business rates, the NHB is a flexible, unringfenced fund and is part of the support package that central government will continue to pay to local councils.

The Calculation

- 4.22 Every new home built attracts an annual bonus for six years equal to the amount of council tax payable on that home with an additional bonus for affordable homes. The system also includes an additional amount where there is a reduction in the number of long-term (greater than 6 months) empty properties.
- 4.23 The annual amount payable is subject to the increase in the property tax base each year, the number of empty properties brought back into use and the number of affordable houses brought onto the market.
- 4.24 It is calculated in October each year based on the council tax base compared to the previous year. This creates a time lag as the bonus for say 2013/14, reflects activity between October 2011 and October 2012.
- 4.25 20% of the subsequent grant is paid to the upper tier authority in each area, i.e. the County Council in South Derbyshire's case. 80% is then retained by the District. Once calculated each year, it is guaranteed.

The Overall Grant Settlement for South Derbyshire

- 4.26 The Council has received provisional allocations for all elements of general grant for 2013/14 and 2014/15. These are subject to consultation and will be confirmed at the end of January.
- 4.27 Based on information following the Autumn Statement regarding control totals and growth projections, indicative figures can be calculated for 2015/16 to 2017/18. These are however, subject to change.

The Council's Start-up Funding Assessment

- 4.28 The figures for 2013/14 and 2014/15 with a comparison to Formula Grant in 2012/13 are shown in the following table.

Reduction			
Formula Grant 2012/13	£5,908,475		
Start-up Funding 2013/14	£5,518,861	£389,614	6.6%
Start-up Funding 2014/15	£4,810,000	£708,861	12.8%

4.29 The reductions in Start-up Funding are greater than the average for shire districts of 6% in 2013/14 and 11.5% for 2014/15. These average reductions were expected following CSR 2010, except that a further 3% has been reduced in 2014/15 following the Autumn Statements of 2011 and 2012.

4.30 The Start-up amounts are broken down as follows:

	2013/14	2014/15	Reduction
Revenue Support Grant	£2,613,644	£1,837,217	-776,427
Retained Business Rates	£2,204,773	£2,273,000	68,227
Council Tax Support Grant	£516,683	£516,683	0
Council Tax Freeze Compensation 2011 to 2014	£119,655	£119,000	-655
Homelessness Prevention	£64,106	£64,100	-6
Total Start-up Funding	£5,518,861	£4,810,000	-£708,861

4.31 The Start-up amounts now include specific grants for the new Local Council Tax Support Scheme (this Council's share) and Homelessness Prevention. These will no longer be paid separately and in future years will not be identified as separate figures in the Start-up amounts

Revenue Support Grant (RSG)

4.32 This has been calculated based on formula contained in the previous system. The various factors have been updated to reflect current statistics.

4.33 The main change for the Council is that the weighting given to the "sparsity factor," which is designed to reflect additional costs of providing services in rural areas, has been increased. However, the effects of this have been "lost" in a dampening mechanism and in the overall reduction in resources.

Retained Business Rates and Baseline Need

4.34 The Council's NDR baseline income has been set at **£8,172,603** for 2013/14. This is the target amount against which growth, the Safety Net and Levy will be measured against in the future.

4.35 This is the Council's 30% share of projected business rate income in the District after allowing for 50% to be paid to the Government and 20% to the County Council.

4.36 The Council's Baseline Need has been set at **£2,204,773** as shown in the above table. This is much lower than the NDR Baseline income amount of £8,172,603. The difference of **£5,967,830** is effectively the Tariff that will be paid to the Government – as a District Council it is a Tariff Authority in the new system (as expected).

Sensitivity

4.37 Based on the Council's NDR Baseline and Start-up Funding Assessment for 2013/14, the following table shows how increases and decreases in actual NDR income would affect the overall funding level in the year.

Change in Actual NDR Income 2013/14	Actual NDR	Change on Baseline NDR	Minus Levy	Safety Net Payment	Revised Start-up Funding	Change in Start-up Funding
Baseline NDR	£8,172,603				£5,518,861	
Plus 3%	£8,417,781	£245,178	£123,039	£0	£5,641,000	122,139
Plus 2%	£8,336,055	£163,452	£81,313	£0	£5,601,000	82,139
Plus 1%	£8,254,329	£81,726	£40,587	£0	£5,560,000	41,139
Minus 1%	£8,090,877	-£81,726	£0	£0	£5,437,000	-81,861
Minus 2%	£8,009,151	-£163,452	£0	£0	£5,355,000	-163,861
Minus 3%	£7,927,425	-£245,178	£0	£80,317	£5,354,000	-164,861

4.38 The table shows that even a 1% increase in NDR income compared to the baseline figure would entail a levy payment. Up to 3%, the Council would retain about 50%% of the increase in income which would be added to the Start-up Funding Assessment.

4.39 With reductions in income, the table shows that the Safety Net does not apply until a 2% reduction (approximately £163,000) in NDR income is seen.

NHB Allocations

4.40 The Council has received a provisional allocation of £1,347,000 for 2013/14. Final allocations will be confirmed in February 2013.

4.41 The allocation includes on-going installments for 2010/11 and 2011/12 of £969,805 (paid for 2012/13) with a further £377,194 for 2012/13. New homes amounted to 391, including 96 affordable units.

4.42 The number of long term empty properties increased by 40. This is offset against the 391 total increase with a subsequent reduction in the maximum allocation.

4.43 The calculation is based on a point in time. It is considered that the increase in empty properties is mainly due to the time lag between completion and occupation. However, inspection of empty properties will be continued to ensure that future allocations are maximised.

Medium Term Projections

4.44 Using 2013/14 and 2014/15 as the base position, projections have been calculated for the MTFP based on the following assumptions.

- Business Rates growth is 0.75% per year in real terms. This is in accordance with Government projections.
- The Council Tax Base increases by 1% each year (300 to 400 properties) which is in line with recent years.
- Control totals for Local Government fall by 11%, 12% and 13% respectively for the 3 years 2015/16 to 2017/18.
- Specific grants for the new Council Tax Support Scheme and Homelessness Prevention are cash limited and continue to be earmarked from RSG for these purposes at current levels.

4.45 Based on these assumptions, projected resources are shown in the following table.

	Revenue Support Grant	Retained Business Rates	New Homes Bonus	Total	Reduction	
2012/13 Actual	£900,000	£4,303,475	£969,769	£6,173,244		
2013/14 Provisional	£2,613,644	£2,204,773	£1,347,000	£6,165,417	£7,827	0.1%
2014/15 Provisional	£1,837,217	£2,273,000	£1,700,000	£5,810,217	£355,200	5.8%
2015/16 Projection	£1,317,477	£2,355,965	£1,953,000	£5,626,442	£183,775	3.2%
2016/17 Projection	£691,512	£2,449,025	£2,450,000	£5,590,537	£35,905	0.6%
2017/18 Projection	£137,451	£2,528,618	£2,548,000	£5,214,069	£376,468	6.7%
					£959,175	15.5%

4.46 The table shows that although core funding in the form of RSG is projected to reduce quite significantly over the next 5 years, it will be partly compensated by increases in retained business rates and the NHB. However, the projections assume growth, albeit fairly moderately, but this is not guaranteed and is a greater risk in the current economic climate.

4.47 Clearly, there are now greater risks overall to the Council's core funding and it will not be guaranteed from year to year. However, if growth was to increase more significantly, then this would provide resources over and above those projected in the above table.

Comparison to Previous Projections

4.48 The MTFP considered in October 2012, did not project further reductions in overall funding at that time. The financial projection showed a fairly strong position ahead of the financial settlement with a recognition that this would change when detailed figures were known regarding the new BRR system.

4.49 The following table compares the October projections with the updated figures in the previous table at total funding level.

	October	Revised	Change
2012/13 Actual	£6,173,244	£6,173,244	£0
2013/14 Provisional	£6,125,868	£6,165,417	£39,549
2014/15 Provisional	£6,075,255	£5,810,217	-£265,038
2015/16 Projection	£6,075,255	£5,626,442	-£448,813
2016/17 Projection	£6,075,255	£5,590,537	-£484,718
2017/18 Projection	£6,075,255	£5,214,069	-£861,186
			<u>-£2,020,206</u>

4.50 The table shows that the revised projections take out resources of approximately **£2m** compared to the MTFP in October 2012. The effects of this are detailed in **Section 6**.

Specific Grants

4.51 Separate grants outside of the new BRR/RSG system have also been received as follows:

Grant	2012/13 Actual	2013/14 Provisional
Housing and Council Tax Benefit Administration	£460,000	£420,000
New Burdens implementation of Council Tax Support	£84,000	£49,600
Council Tax Support - Transitional Grant 2013/14	n/a	£14,053

Note: The Council Tax Freeze Grant is detailed in Section 7.

4.52 These grants are effectively ring-fenced for the services concerned. The reduction in benefit administration has been considered in the Committee's budget report earlier on this Agenda.

5.0 **Proposed Base Budget and Consolidated Spending 2013/14**

- 5.1 All policy committees (including an earlier report on this Agenda) have considered their detailed budget proposals for 2013/14. All services were asked to carefully consider their base income and expenditure on a zero based budgeting basis.
- 5.2 A full analysis of each Committee is detailed in separate reports to the respective policy committee. The main spending areas are analysed in **Appendices 2 to 4**, with a summary of each Committee's proposed spending shown in the following table.

Summary Committee Expenditure 2012/13 to 2013/14

Analysis of Net Revenue Expenditure Budgets 2012/13 and 2013/14	Approved Budget 2012/13	Proposed Budget 2013/14	Change
Environmental and Development Services	£3,955,591	£3,991,837	£36,246
Housing and Community Services	£2,254,949	£2,404,124	£149,175
Finance and Management	£5,132,799	£5,039,881	-£92,918
Total	£11,343,339	£11,435,842	£92,503

- 5.3 The above table shows that overall General Fund net expenditure is estimated to increase between 2012/13 and 2013/14 by £92,503. A summary of this increase is shown in the following table.

Summary of Budget Changes	
One -off Items	£171,000
Contract Inflation	£38,655
Depreciation	£45,230
Sub - Total	£254,885
Additional Costs	£176,578
Reductions in income	97,116
Increase in Housing Benefits	42,630
Decrease in National Insurance	-£100,923
Budget Savings	-£377,783
Total Change to Base Budget	<u>£92,503</u>

- 5.4 After allowing for the one-off items and contract inflation which were known and built into the MTFP, together with Depreciation which is reversed out on consolidating the Council's overall budget, the total change to the base budget was a reduction of £162,382 (£254,885 - £92,503).
- 5.5 Clearly, the above table highlights cost pressures, together with reductions in income. However, there have also been cost reductions and budget savings, although several of these were anticipated in the MTFP.

- 5.6 A detailed analysis of these changes has been considered by each policy committee and the main reasons are analysed in following sections.

One-off Items (£171,000)

- 5.7 This relates to Housing and Planning Delivery Grant which has, for a number of years, financed expenditure in Planning Services. The amount of £171,000 relates to the final drawdown of monies in 2012/13 from an earmarked reserve.
- 5.8 The grant was withdrawn in 2010/11 and this amount reflects the remaining reserve which is being used to finance Planning Services in 2012/13. No resources are left and therefore net expenditure has been increased by £170,000 in 2013/14. This was known and had previously been included in the MTFP.
- 5.9 Some savings and staffing costs in Planning have been made, compared to the current budget, totalling approximately £30,000 for 2013/14. Other than that, mainstream expenditure and resources have been maintained at current levels.

Additional Costs (£176,578)

- 5.10 The main cost pressures involve repairs and maintenance of assets. The Policy Committees have considered several proposals to increase budgets to meet outstanding and expected day to day liabilities. The main increases are summarised in the following table.

Service Area	Increase £'000
Maintenance of vehicles and plant	24
Increase in Dog Kennelling Contract (approved April 2012)	10
Business Rates, maintenance and utility costs on car parks and public areas	12
Community Development - net reduction in grant funding	30
Repairs at Green Bank Leisure Centre	24
Maintenance of Community Centres, Cemeteries and Parks	28
Banking Services	11
IT Contracts	6
Caretaking and Cleaning - staff cover and materials	8
Replacement of Election Booths	9
Other costs	14
Total - Additional Costs 2013/14	176

Reductions in Income (£97,116)

- 5.11 Although budgets for income from planning and building regulations fees are on target to be achieved in 2012/13, they have not been increased to the level projected in the MTFP for 2013/14. The effects of this are detailed in **Section 6**.

5.12 In addition, pressures are now being identified in other income streams and these are summarised in the following table.

Service Area	Decrease £'000
Housing Benefits Administration Grant	45
Highways Maintenance - potential 10% reduction in contribution from County Council (to be confirmed)	27
Trade Waste income	22
Street Cleansing	17
Local Land Charges	12
Sub Total	123
Less additional income from planning and building regulation fees	-26
Total - Reduction in Income 2013/14	97

Increase in Housing Benefits (£42,630)

5.13 This has previously been considered by the Committee. The estimated increase in actual benefits paid reflects current claimants, with an allowance for rent increases in 2013/14.

5.14 The main increase relates to Rent Allowances which is due to the limitation the DWP place on allowances for temporary accommodation. The amount reimbursed is usually less than the actual cost that the Council incurs in paying benefit.

Decrease in National Insurance (£100,923)

5.15 The budget for employer's national insurance contributions can be reduced in 2013/14. As expected, new and increased rates were introduced on 1st April 2012.

5.16 However, they have impacted much less than anticipated due to average earnings at the Council being below the new thresholds for increased contributions.

Budget Savings (£377,783)

5.17 Clearly, there has been a fairly significant saving in current budgets, although several of these were previously known and anticipated in the MTFP. For example, they include the on-going effects of restructures and savings previously identified. The main areas are summarised in the following table.

Service Area	Saving £'000
Approved DSO Restructure	87
Planning Services	30
Youth Training in Housing (additional contributions)	12
Leisure Management (in accordance with tendered contract)	38
Arts Officer Post (temporary contract ending in 2013/14)	18
Reduction in past service pension costs	40
Restructure of Legal, Licensing and Democratic Services	26
Reduction in Corporate Training budgets	20
Increased income from property lettings - mainly Civic Offices	20
Corporate subscriptions and professional support fees	20
Canvass Fees - one-off in 2012/13	17
Reduction in External Audit fees	15
Lease payments falling out in 2013/14	6
IT and committee costs in Democratic Services	22
Other Savings	7
Total - Budget Savings 2013/14	378

Grants to Voluntary Bodies and Payments under Concurrent Functions

- 5.18 In previous years, the Council has approved an increase for inflation as measured by the Retail Price Index (RPI) as at September of the preceding year. However, in 2011/12 and 2012/13 base allocations have been cash limited.
- 5.19 As at September 2012, RPI stood at 2.6%; the MTFP includes a provision of 3%. An increase of 2.6% equates to approximately £13,000 per year in total across all grants and concurrent functions, with 3% equating to around £15,000. This would be on-going across the MTFP.
- 5.20 However, it should be noted that there are no proposals to reduce the base level of funding in 2013/14.
- 5.21 Housing and Community Services Committee considered an increase for grants to voluntary bodies and this Committee considered the issue for Concurrent Functions in the detailed budget report earlier on the Agenda.

Other Budget Pressures

- 5.22 Other issues that have been considered by other policy committees that could have an impact in the medium-term are detailed below.

The Local Plan

- 5.23 Current estimates indicate that this could cost up to £165,000, including the cost of preparation (£45,000) and public examination of the Core Strategy itself (£120,000). An amount of £76,000 has previously been set-aside in an earmarked reserve towards meeting these costs.

- 5.24 In addition, it is anticipated that an under spend on Planning Services in 2012/13 of £45,000 can also be used as a contribution towards costs. However, this will still leave a potential shortfall of over £40,000.
- 5.25 This will need to be kept under review during 2013/14, but a further contribution from general reserves may be required to make up any shortfall.

Waste Collection and Recycling

- 5.26 A report was considered by the Committee on 20th December 2012 to extend the kerbside collection service. The additional costs have been met from other budget savings identified from the baseline review of the Waste Collection Service.
- 5.27 Due to timing of reports, the implications have not been reflected in the proposed budgets. They will be adjusted to reflect the change in services when the final budget is considered by the Committee on 21st February 2013. However, there will be no net increase in overall budgets, i.e. the additional cost will be contained within existing budgets.

Housing Benefits

- 5.28 The implementation of Universal Credit from October 2013 could have an impact on administration of benefits locally. Further details are expected from May 2013.
- 5.29 In addition, the impact of the new Local Council Tax Support Scheme, together with the implementation of the Business Rates Retention System from April 2013, could also have an impact on administration and collection budgets. This will be kept under review.

6.0 General Fund 5-Year Financial Projection to 2017/18

- 6.1 The projection has been updated following the grant settlement (as detailed in Section 4) and the proposed base budgets (as detailed in Section 5). Other factors have also been reviewed such as inflation indices and future interest rates.
- 6.2 The projection is calculated within a financial model the summary of which is shown in **Appendix 1**. This also shows how certain items, such as future income levels and known changes to the base budget, are expected to change over the planning period. The key figures and associated commentary is detailed in the following sections.

Projected Budget Deficit

- 6.3 An analysis of the projected budget deficit with a comparison to that reported in October 2012 is shown below.

Comparison of Budget Deficit	Oct-12	Jan-13
Base Budget 2012/13	£117,139	£117,139
Revised 2012/13	£24,974	£24,974
Base Budget 2013/14	£47,205	£109,357
Projection 2014/15	-£62,090	£355,346
Projection 2015/16	£69,018	£730,595
Projection 2016/17	£140,292	£817,157
Projection 2017/18	£186,400	£1,254,298

- 6.4 Due mainly to the estimated reduction in overall government grant, the projected budget deficit will increase significantly from 2014/15 onwards over the medium term without corrective action.

Inflation and Growth

- 6.5 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. The growth provision allows resources for a more substantial investment in a service, for example, refuse collection due to the growth of residential development.
- 6.6 Allowances for inflation based on various assumptions regarding price increases, etc. have been calculated across the main income and expenditure heads, the total of which is aggregated to form the central contingency.
- 6.7 In accordance with UK economic inflation predictions, the general rate of inflation that has been applied (where applicable) is 2% per year.

Pay Inflation

- 6.8 The forward projections reflect the Government's proposal for a 1% pay increase in 2013/14 and 2014/15. This follows the pay freezes in 2011/12 and 2012/13. A rate of 2.5% has been assumed from 2015/16 onwards.

Monitoring Inflation

- 6.9 In line with current policy, it is proposed that the overall contingency for inflation will be reviewed and monitored by this Committee separately. It will be allocated into service budgets, as the actual effects of inflation become known over the year, through the financial monitoring framework.
- 6.10 It should be noted that the contingency for inflation and growth is only a provision and does not mean that costs and income will automatically increase by that amount. It is a prudent assessment at a particular point in time of what is likely to increase. The total contingency is summarised in the following table.

	2012/13 Revised £	2013/14 Base £	2014/15 Projection £	2015/16 Projection £	2016/17 Projection £	2017/18 Projection £
Pay	34,877	68,168	68,850	173,846	178,192	182,647
Other Costs	40,123	126,423	128,625	180,821	184,854	188,978
Fees and Charges	0	-84,211	-85,895	-109,516	-112,254	-115,060
Total - Inflation	75,000	110,380	111,580	245,151	250,792	256,564
Add - Growth Provision	25,000	49,000	49,000	49,000	49,000	49,000
Total Contingency	100,000	159,380	160,580	294,151	299,792	305,564

Projected Reserve Balances

- 6.11 A summary from **Appendix 1** of the projected level of general reserves is shown in the following table.

Comparison of General Fund Reserve	Oct-12	Jan-13
Base Budget 2012/13	£2,537,798	£2,537,798
Revised 2012/13	£3,557,222	£3,537,222
Base Budget 2013/14	£3,190,018	£3,107,865
Projection 2014/15	£3,162,108	£2,662,519
Projection 2015/16	£2,948,090	£1,786,924
Projection 2016/17	£2,537,798	£699,767
Projection 2017/18	£2,331,398	-£574,531

- 6.12 As previously reported the current level of general reserves is healthy and well above the minimum contingency level of £1m approved in the Financial Strategy. This could act as a buffer for 2013/14 and possibly 2014/15, but corrective action would be required in the meantime to prevent a more critical issue by that time.
- 6.13 It is considered that the projected budget deficit by 2017/18 of £1.2m is unsustainable. Consequently, in order for a sustainable position to be achieved in the medium term, on-going annual budget savings of **£300,000 from 2013/14** would be required.
- 6.14 In addition to using current reserves, this would maintain balances of £1m by 2017/18. However, the budget deficit would still be significant and further savings would be required in future years based on these projections, even allowing for a margin of error. The longer the delay in taking corrective action will ultimately increase the overall savings required each year.

Provisions and Contingencies

- 6.15 Besides the main inflation contingency, the MTFP continues to make provision for several items, as follows:

Service/Cost	Amount £'000	Comment
Pay and Grading Review	420	One-off transitional protection costs
Pay and Grading Review	130	On-going costs following implementation
Waste Collection - Growth	100	On-going costs from 2014/15
District Election	125	One-off in May 2015
Land Charges	100	Refund of Property Searches
Vehicle Replacements	250	One-off in 2016/17 pending capital receipts

Comparison to the Previous Projection

- 6.16 The table on **Page 20** highlighted 5-year balances reducing from a surplus of approximately £2.33m to a deficit of around £0.57m – a reduction in resources of approximately £2.9m over the planning period.
- 6.17 Clearly, the main reason for this is the estimated reduction in overall government funding, together with the potential impact of a further Council Tax freeze next year in 2013/14.. The main changes are summarised in the following table.

Note – Amounts are cumulative over 5-years

Projected Reserve Balance 2017/18 (as at October 2012)	£2,331,398
Overall reduction in Government Grant (Section 4)	-£2,020,206
Reduction in Council Tax Income (assuming a freeze in 2013/14)	-£563,850
No Surpluses declared on the Collection Fund	-£83,123
Increase in Net Spending (following budget review)	-£238,750
Estimated Reserve Balance (updated) 2017/18	-£574,531

6.18 The overall reduction in Government Grant was detailed in **Section 4**.

6.19 The reduction in surpluses declared on the Collection Fund represents the Council's projected share. This will be held as a contingency in the Fund pending the changes associated with the implementation of the Local Council Tax Support Scheme on 1st April 2013, as recommended by the Committee on 10th January 2013.

6.20 The projected reduction in Council Tax income is covered in **Section 7**. The increase in net spending is detailed in the following sections.

Increase in Net Spending (£238,750)

6.21 This represents the on-going effect of variances identified (where applicable) in the proposed Base Budget as detailed in Section 5. A summary is shown in the following table.

Reductions in Projected Income	£895,000
Cost Pressures	£913,750
Budget Savings	-£1,055,000
Inflation Contingency	-£515,000
Net Increase in Overall Expenditure	£238,750

6.22 Although cost pressures have been identified, these have been offset by budget savings elsewhere in the Council's overall budget. The reduction in the inflation contingency reflects the on-going effects of not having to fully utilise the amount set-aside in 2012/13.

Reductions in Projected Income (£895,000)

6.23 These mainly relate to the areas detailed in Section 5 (projected over 5-years) as summarised in the following table.

Reductions in Income	
Additional Licensing and Environmental Health Income	-£60,000
Highways Maintenance Income (to be confirmed)	£135,000
Street Cleansing	£85,000
Land Charges	£185,000
Planning and Building Regulations	£215,000
Trade Waste	£110,000
Housing Benefit Administration Grant	£225,000
	£895,000

Income from Planning, Building Regulations and Land Charges

6.24 The amounts for Land Charges, Planning and Building Regulations are higher than just the variance between the 2012/13 and 2014/14 base budgets. This is because the previous MTFP had built-in projected real term increases in 2013/14.

6.25 A summary of the revised medium-term position is shown in the following table.

Service	MTFP 2013/14 (£'000)	Proposed Budget 2013/14 (£'000)	Variance (£'000)
Building Regulations	240	235	- 5
Planning Application Fees	598	550	- 48
Local Land Charges	125	88	- 37
Total Income	963	873	-90

6.26 The table shows that overall income now estimated for 2013/14, is approximately £90,000 below that forecast in the previous MTFP.

6.27 Income from building regulations and planning fees is showing signs of increasing, although they are not expected to achieve the levels in the current MTFP by 2014. Income from land charges is below the current budget of £100,000 per year.

6.28 Clearly, these income streams continue to have a big impact on the Council's overall financial position and are considered to be a fairly high risk in the Council's Medium-Term Financial Plan (MTFP).

6.29 Amounts are difficult to predict and are subject to external factors such as the type and volume of planning applications. Over the last year, there has been some leveling off and income has stabilised at estimated levels following several financial periods of a reducing base.

6.30 However, as highlighted, the budgets proposed are still lower than currently assumed in the MTFP.

6.31 The current economic situation is set to continue for the foreseeable future. As a growth area, it is expected that these income streams will again pick up when the economic situation improves. However, this remains uncertain.

Cost Pressures (£913,750)

6.32 Many of the costs pressures identified for 2013/14 (Section 5) will have an on-going effect over the MTFP. These are summarised in the following table.

Main Cost Pressures - On-going Effects	
Repair and Maintenance of Vehicles and Plant	£120,000
Repairs and Maintenance - Green Bank Leisure Centre	£120,000
Community Development (Grant Funding)	£150,000
Banking Services	£55,000
Increase in Housing Benefits	£215,000
Business Rates, maintenance and utility costs	£45,000
Caretaking and Cleaning	£40,000
Insurance Renewal 2012	£120,000
Maintenance of Community Centres and Parks	£48,750
	£913,750

6.33 Although these amounts have been assessed and included in proposed base budgets, they should be kept under review, given the projected financial position. For example, increases in maintenance budgets may not be required for the entire 5-year planning period.

Budget Savings (£1,055,000)

6.34 These are shown in the following table.

Budget Savings	
Waste Disposal Costs	£250,000
National Insurance Contributions	£500,000
Environmental and Community Services	£70,000
Corporate, Central and Democratic Costs	£235,000
	£1,055,000

6.35 Many of the budget savings identified in Section 5 had already been anticipated in the previous MTFP. In particular, those relating to approved restructures, together with savings in external audit fees and corporate training, etc.

6.36 The amounts in the above table relate to additional savings identified in the base budget review, including the reduction in national insurance contributions as detailed in Section 5.

Waste Disposal Costs

- 6.37 In 2012/13, a provision was prudently made in the MTFP for a real terms increase in these costs from 2013/14 at £50,000 per year. It was considered at that time, that a significant increase would be passed onto the Council due to the rising price of fuel and other costs associated with tipping waste.
- 6.38 The actual increase has been more modest and included in the base budget for Waste Collection. Although this will be kept under review, it is considered that an increase of £50,000 per year will not materialise and can be taken out of the MTFP.

Pensions

- 6.39 No additional provision has been made for increasing employer's pension contributions over the MTFP. The Council currently contributes just over 22% of pensionable pay for each employee within the Local Government pension Scheme (LGPS).
- 6.40 The next triennial review of the LGPS is due to take place in 2013 and any changes to contributions will be effective from 2014/15.
- 6.41 Although the value of the Pension Fund's assets continue to under-perform due to the current economic conditions, long-term liabilities are also likely to reduce due to changes taking place in member benefits and employee contributions.
- 6.42 Further changes are due to be implemented in April 2013 and 2014. These are designed to reduce Fund deficits and lessen the burden on employer's contributions in future years. Therefore, the MTFP has assumed a neutral position at this stage.

Summary Position

- 6.43 The MTFP shows that the Council will need to generate further budget savings on the General Fund in order to maintain a sustainable financial position. Although the level of balances allows on-going spending to be financed in the short-term, the updated projection shows an increasing budget deficit over the planning period with reserves falling quite rapidly in the medium term.
- 6.44 The fairly healthy position in 2012/13, allows a period to enable the financial challenge to be addressed in a planned and timely fashion. However, the longer the time taken to implement corrective action, the greater the challenge will inevitably become.
- 6.45 It is considered that budgets and projections are prudent but realistic and do allow for inflationary, growth and other cost pressures. Income projections have once again been scaled back, but as a growth area, there is an expectation that this could improve the situation in the future. However, this cannot be guaranteed and budgeted for in the current economic climate.
- 6.46 Future projections for government funding in the new 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 will reduce until 2017/18 as the Government pursues its own fiscal strategy. The outcome of CSR 2013 may impact further.
- 6.47 Target savings of £300,000 per year from 2013/14 are recommended.
- 6.48 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 cannot be relied upon.

Efficiencies and Transformation

- 6.49 Resources have been set-aside in earmarked reserves to replace and upgrade IT, together with vehicles and plant. Investment is also being made in key corporate projects such as “Paperlite,” “E-Democracy” and “Customer Access.”
- 6.50 These reserves and investments are designed to deliver future efficiencies and budget savings in a planned manner. This should help to reduce direct pressure on individual service budgets by streamlining overheads and making better use of technology.
- 6.51 However, this may not generate sufficient savings, particularly in the shorter term due to lead in times. Therefore, a more fundamental and structural review of services may need to be undertaken as occurred in 2010.

7.0 Council Tax, Tax Base and Collection Fund

The Council Tax Base

- 7.1 This relates to the number of chargeable properties for Council Tax. As reported previously to the Committee, the introduction of the new Local Council Tax Support Scheme (LCTSS) in April 2013 has significantly changed the calculation of the Tax Base for 2013/14.
- 7.2 The calculation now factors in the estimated level of discounts awarded to eligible claimants, together with the estimated impact of changes to council tax payable on empty properties, as approved by the Committee on 10th January 2013. Under the 2012 Council Tax Base Regulations, the estimated impact has to be reflected in each Council Tax band and for each parished area.
- 7.3 The effect of the LCTSS is to reduce the Tax Base and effectively reduce the overall amount of Council Tax collected. As reported to the Committee, this reduction in income is being compensated through the government grant system (less 10%) for all preceptors (including Parish Councils) of Council Tax.
- 7.4 The calculation of the estimated Tax Base for 2013/14 is detailed in Appendix 5. This shows the unadjusted amount and applies the estimated effects of the LCTSS across each Parish as required by the Regulations.
- 7.5 This produces an adjusted amount (at Band D equivalent) which will be used to calculate the amount to be collected from Council Tax in 2013/14, i.e. **29,359**. It assumes an overall collection rate of 99%.
- 7.6 The unadjusted base as at October 2013 was 32,575; this compares with the Tax Base used for the 2012/13 budget of 32,194 – an increase of **381** Band D equivalent properties (1.18%).

The Future Tax Base

- 7.7 The MTFP continues to assume that the unadjusted tax base will increase by around 1% - or 300 properties per year. As always this will be subject to the rate of growth. The increase in the unadjusted Band D equivalent as highlighted above of 381 properties is one of the lowest in recent years. Clearly now, the impact of the LCTSS is a further factor which will affect this figure from 2013/14.
- 7.8 It is considered that the increase of 300 properties per year in the MTFP is fairly prudent but it will depend on how the local economy develops against the national situation. Depending on the outcome of the Growth Strategy and the effect this has on a new Local Plan, growth should be well in excess of the assumptions in the MTFP.
- 7.9 The growth in the Tax Base in recent years has been a beneficial factor for the Council's financial position and it is becoming increasingly fundamental; not only as it increases the Council's ability to raise additional resources (even

where the Council Tax rate itself is not increased) but it will have a significant influence on the New Homes Bonus as detailed in Section 4.

Collection Fund Surplus/Deficit

- 7.10 In setting the level of Council Tax for 2013/14, the Council is also required to calculate the estimated balance on its Collection Fund for the current year, 2012/13.
- 7.11 The Collection Fund is a separate ring-fenced account. It records all income collected from Council Tax and Business Rates and the money paid out to other authorities who precept on the Fund, together with payments to the National Business Rates Pool.
- 7.12 The account in principle should balance each year. However, not all Council Tax is collected, circumstances, such as the number of houses subject to tax and people receiving council tax support, change during the year. In addition, final collection rates from previous years may be higher than estimated.
- 7.13 These factors inevitably provide a balance at the end of each year. The Council has traditionally carried a surplus on its Collection Fund. Any surplus or deficit is transferred to the General Fund of the major preceptors, the biggest authority being Derbyshire County Council.

Local Council Tax Support & Business Rates Retention Schemes

- 7.14 From April 2013, these schemes will have a major impact upon the Collection Fund as new transactions will take place (affecting cash flow) and collection rates will directly impact upon the Fund's balance.
- 7.15 As reported, additional Council Tax will need to be collected under the LCTSS and the risk of collecting business rates will fall more onto the Council and away from national government that exist under the current pooling arrangements.

Estimated Position 2012/13

- 7.16 The estimated position on the Collection Fund for 2012/13 is summarised in **Appendix 6**. The overall balance is distributed to the major precepting authorities on the Fund, i.e. this Council, Derbyshire County, Police and Fire Authorities in proportion to their precepts on the Fund.
- 7.17 It should be noted that Parish Councils do not gain a share of any balance on the Fund as they are categorised as local (and not major) preceptors under the Local Government Finance Act 1992.
- 7.18 Appendix 6 shows an estimated surplus balance on the Collection Fund as at 31st March 2012 of approximately **£196,000**; this includes the actual surplus balance on the Fund of £116,000 on 1st April 2012.

- 7.19 As previously reported to the Committee, it is recommended that the estimated surplus is not formally declared at this stage and is held as a contingency pending the effects of the new LCTS and BRR Schemes.

Council Tax Levels

- 7.20 The MTFP assumes for planning purposes that the Council Tax rate increases by 2.5% each year. In the lead up to the Financial Settlement, the Government had provided an incentive for local authorities to again freeze their Council Tax for 2013/14 – the 3rd consecutive year.

Council Tax Freeze (Specific) Grant

- 7.21 Where an authority freezes the Council Tax rate for 2013/14, i.e. sets a nil increase, a specific grant will be paid to effectively reimburse the resources lost, to the equivalent of a 1% increase, payable for 2 years – 2013/14 and 2014/15.

- 7.22 However, 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. Although the Grant would reimburse the MTFP for 2013/14 and 2014/15 up to 1%, this is below the 2.5% planned increase.

- 7.23 This reduces resources in the MTFP by **£563,850** to 2017/18 (net of the specific grant). This has been reflected in the updated MTFP as detailed in Section 6. Clearly this is subject to Full Council approval.

- 7.24 If Council Tax is frozen for 2013/14, this will maintain a Band D rate of Council Tax of £150.25p.

Government Cap

- 7.25 The Government have powers under the Localism Act 2011 to cap “excessive” increases in Council Tax in any year. This cap has been set at 2% for 2013/14.

- 7.26 A council can choose to set any level of council tax, but anything in excess of a 2% increase for 2013/14 would need to be subject to a local referendum.

8.0 Overall Risk Analysis

8.1 As the report highlights, the financing of local government is entering a period of substantial change. The following table summarises the key risks and issues detailed in the report and assesses the potential impact upon the Council's reserves as projected in the updated MTFP.

Factor	Issues	Mitigation	Effect on Reserves
Collection Fund Balance	<ul style="list-style-type: none"> • Introduction of LCTSS and BRRS reduces collection rates. • Demand for Council Tax Support increases when resources are fixed. • Local businesses disappear which reduces rating income. • Empty properties increase reducing Council Tax income and New Homes Bonus 	<ul style="list-style-type: none"> • In built surplus in the Collection Fund. • Local growth is continuing and even at a moderate pace is beneficial. • Benefit protection being extended for claimants entering work which should reduce longer term cost. • Additional Council Tax now liable on empty properties which will increase income and incentivise occupation. 	<p>Medium</p> <p>Only 12% of the Balance is transferred to the Council's General Fund. In addition, effect is not immediate and costs can be spread.</p>
Growth	<ul style="list-style-type: none"> • Now a key factor in influencing future levels of grant under the new financial system for councils. • Affects Council Tax income and other income streams such as planning. 	<ul style="list-style-type: none"> • The MTFP projects growth at 0.75% per year for Business Rates and 1% for the Council Tax Base - these rates are considered prudent based on recent years. • Income budgets for planning, land charges, etc. forecast no increase on revised base level. 	<p>High</p> <p>This could affect reserves either way. Growth will be much more of a determining factor for the Council's income - and expenditure - and is subject to external factors. This will directly impact on the General Fund.</p>
CSR 2013	<ul style="list-style-type: none"> • Overall funding for shire district councils is reduced further. 	<ul style="list-style-type: none"> • The MTFP forecasts further reductions but this could change. 	<p>High</p> <p>If further reductions are made this will have consequences for the longer term financial position.</p>

Budget Savings	<ul style="list-style-type: none"> • These need to be made and sustained over the medium-term - they are delayed beyond 2013/14. 	<ul style="list-style-type: none"> • 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 under the Council's control.
Budget Overspend	<ul style="list-style-type: none"> • Unexpected costs and there are on-going cost pressures as identified in the report. 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Higher price increases on key costs such as fuel and utilities. • Interest rates affect investment returns and debt payments. 	<ul style="list-style-type: none"> • Central inflation contingency for price increases. • The General Fund is currently "debt free" and not subject to movement in 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

Financial Risks and the Minimum Level of General Reserves

- 8.2 The above table highlights that 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.
- 8.3 The Local Government Act 2003, places the emphasis on each local authority to determine its minimum level of reserves, based on advice from the

authority's Section 151 (Chief Finance) Officer. This will depend on local circumstances and the minimum level should be reviewed on a regular basis.

- 8.4 Based on this, the Council's minimum level as set out in the Financial Strategy is **£1m** on the General Fund at the end of every 5-year planning period. This level is calculated based on an assessment of the major financial risks and reflects the relatively healthy level entering this planning period.
- 8.5 Based on the estimated net revenue expenditure on the General Fund for 2013/14 of £11.4m, £1m is **8.8%**. By 2016/17, £1m will be **8.3%**. As a general guide, a balance of between 5% and 10% should be maintained.

9.0 Financial Implications

- 9.1 As detailed in the report.

10.0 Corporate Implications

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

11.0 Community Implications

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

12.0 Background Papers

- 12.1 The Government's Financial Settlement for 2013/14 and background papers, including guides to the new Business Rates Retention System, is available at:

<http://www.local.odpm.gov.uk/finance/1314/settle.htm>