

REPORT TO:	COUNCIL	AGENDA ITEM:
DATE OF MEETING:	2nd MARCH 2015	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF FINANCE and CORPORATE SERVICES	OPEN
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SUBJECT:	EVALUATION OF GENERAL FUND RESERVE AND OPTIONS FOR UTILSATION	REF:
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE:

1.0 Recommendations

- 1.1 That the options detailed in the report for utilising a proportion of the unallocated General Fund Reserve are considered.
- 1.2 If any specific proposals are approved in principle, any further detailed implications and process arrangements are reported to the Finance and Management Committee on 19th March 2015 prior to implementation.

2.0 Purpose of the Report

- 2.1 Following consideration of the final budget proposals for 2015/16 and the Medium Term Financial Plan to 2020, the Finance and Management Committee, at its meeting on 19th February 2015, agreed that a further report should be considered by the Council at the earliest opportunity.
- 2.2 This was in response to the current level of the General Fund Reserve. In accordance with the proposal agreed at the Finance and Management Committee, this report sets out options for utilising some of the uncommitted General Reserve.
- 2.3 The report firstly provides an indicative amount that can prudently be set-aside to fund any proposals. The report then details options for "*returning excess reserve funds to the Council Tax payers either as one-off projects or otherwise*" as proposed at the Finance and Management Committee."

3.0 Detail

- 3.1 The updated medium term financial projection was considered and approved by the Finance and Management Committee on 19th February 2015. This followed the conclusion of the 2015/16 Budget Round and the proposal to freeze the level of Council Tax for the forthcoming financial year.

3.2 The overall projected position is summarised in the following table.

General Fund: Medium-Term Projection as at December 2014

Year	Budget Deficit / Surplus (-)	Sums Earmarked against Reserve	Balance of General Reserve
Base Budget 2014/15	-£149,586	£202,000	-£5,857,676
Proposed Budget 2015/16	-£91,189	£881,000	-£5,067,865
Projection 2016/17	-£84,724	£420,000	-£4,732,589
Projection 2017/18	£526,904	£90,000	-£4,115,685
Projection 2018/19	£814,773	£20,000	-£3,280,912
Projection 2019/20	£1,101,315	£20,000	-£2,159,597

3.3 Effectively, the General Fund has a budget surplus for 2015/16 and 2016/17 based on current projections. A deficit is then forecast from 2017/18 as expected reductions in core government funding take effect.

3.4 In the meantime, the balance on the General Reserve remains healthy and after allowing for the deficit in the 3 years after 2016/17, the projected level is £2.1m, above the minimum contingency level of £1m.

Key Financial Points

3.5 When approving the Budget for 2015/16 and the medium term financial projection, the Committee noted the report of the Chief Finance Officer under Section 25 of the Local government Act 2003.

3.6 This highlighted that the greatest risks to the financial plan were considered to be the degree of future reductions in core government funding, together with underlying cost pressures. As reported, this will largely depend on the next spending review of the public finances expected after the next Parliament, later in 2015/16.

3.7 The Report also noted the impact of growth, which is steadily increasing across much of the District and this is realising additional income. It is important that further cost pressures associated with this growth and therefore increased demand for services, are kept under review.

3.8 The Report also highlighted that the overall financial position has been steadily improving over the last 2 years due to budget savings, together with positive out-turn positions compared to base budgets. Reserves should be further supplemented by the estimated underspend in 2014/15 (as reported in December 2014) although this has not been included in the MTFP at this stage as it is still to be confirmed.

- 3.9 The Budget continues to make on-going provision for some growth in expenditure and annual inflation. In addition, separate reserves are maintained to meet specific one-off costs.
- 3.10 However, it was stressed that the Council should remain cautious in the short-term, until the future funding position for local authorities is more certain and to remain flexible to meet any additional spending pressures. Future budget deficits are still projected based on increasing expenditure for current service provision, together with a reduction in core funding.

General Reserve Balance

- 3.11 In the meantime, the General Fund does carry a sufficient balance which could allow some **one-off** investment only. Although the reserve balance could be used to fund future budget deficits (and the projection assumes this) in practice, this is not considered to be a sustainable solution and some remedial action would need to be taken to protect the financial base.
- 3.12 Although the current level of the General Reserve is actually around £5.9m, the projected balance by 2020 is £2.1m due to potential commitments against this reserve over the financial planning period.
- 3.13 This is the key figure and compares with a minimum target as set out in the Financial Strategy of £1m. A minimum level of £1m is still considered to be prudent, being approximately 8% of net revenue expenditure.

Updated Position and Potential Resources Available

- 3.14 Following the approval of the Budget for 2015/16, the Finance and Management Committee also approved that a further sum of £100,000 be set-aside to fund the implementation of the Pay and Grading Review. This would reduce the projected General Reserve balance from 2.1m to £2m.
- 3.15 Potentially, a sum of £1m is available for one-off investment. However, in the event that the Council wish to proceed, it is recommended that a much lower sum is considered at this stage to remain cautious in the short term, due to the factors highlighted above.
- 3.16 Therefore, it is considered that a maximum amount of £250,000 is set-aside; this would leave a projected reserve balance of £1.75m by 2020, £3/4m above the recommended minimum level.

Potential Options

- 3.17 The Finance and Management Committee put forward several areas that should be considered. Effectively, these covered further investment in capital projects or by "*relieving the burden of Council Tax, short of a reduction in the Band D rate.*" Given this, the various options are considered below.

Spending Options

- 3.18 The Committee proposed that options be investigated to consider the scope to meet one-off projects or for other investment to benefit the community. It was proposed that this could be achieved by either providing additional leisure facilities or improving Council efficiency to reduce costs and hence future pressure on the level of Council Tax.
- 3.19 An investment of £250,000 could provide some essential one-off funding into service areas that have been identified as needing resources but are not considered high priority against the Corporate Plan.
- 3.20 These areas include corporate based infrastructure projects which would help to increase efficiency. Broadly, the main options overall are considered to be:
- To supplement current capital projects
 - To provide funding for maintenance of public buildings
 - To upgrade the IT infrastructure
 - To fund improvements to Customer Access
 - To provide other support to residents by supplementing other funding pots

Supplement Current Capital Projects

- 3.21 During the recent 2015/16 Budget Round, the Council approved new capital investment of approximately £650,000 into new community based capital projects which were considered priorities against the Corporate Plan. These projects, such as the Community Partnerships Scheme identified by the Finance and Management Committee, could be supplemented further to enhance the scope of that investment.
- 3.22 Other existing capital projects could also benefit from an additional investment of £250,000 and enhance the current scope of those projects. This could include Disabled Facility Grants or to support approved schemes where funding is currently being secured. In particular, projects for redeveloping Grove Hall, enhancing Etwall Leisure Centre or to support the Melbourne Sporting Partnership could be considered.
- 3.23 All of these projects are designed to benefit local communities.

Maintenance of Public Buildings

- 3.24 Several repair budgets for the Council's leisure and community facilities were increased during the 2015/16 Budget Round to reflect the increasing costs of maintaining these facilities. Any further investment at this stage would potentially help to ease future cost pressures and liabilities.
- 3.25 Other public buildings, in particular the Civic Offices and Town Hall, could benefit from some major improvements. Although this would not directly benefit the community, it would potentially reduce potential liabilities that are increasingly being incurred by maintaining these ageing assets.

Upgrading the IT Network

- 3.26 It has also been recognised in the Council's ICT development plan for 2015/16, that the connectivity within the Civic Offices should be improved. Due to insufficient resources, the current strategy is to replace the most vulnerable parts of the network on a piece-meal basis in accordance with annual budgets.
- 3.27 The risk of this strategy is that as hardware and systems become more sophisticated and ICT volumes increase, the capability of the network structure becomes weaker. It is also more susceptible to outages.
- 3.28 To fully replace and upgrade the network (which is effectively the wiring, network ports and switches within the Civic Offices) to modern day standards would cost in excess of £100,000. It is unlikely that current IT budgets could support this amount of one-off investment.

Customer Access

- 3.29 The Council's Customer Access and Paperlite strategies have identified the implementation of a full electronic post and mailroom system for all council services (electronic document management is currently used in Revenues and Benefits) subject to identifying resources.
- 3.30 This would require an investment of approximately £200,000 as previously reported to the Finance and Management Committee. This would also allow the archiving of current paper records.
- 3.31 Future efficiency savings could be realised by reducing administrative work and through better utilisation of work space. However, the outline cost benefit analysis previously undertaken showed that the payback period for the initial investment could take several years. To-date, external or other financing has not been identified.
- 3.32 In addition, a recent report by the Overview and Scrutiny Committee identified that the reception and customer contact area in the Civic Offices could benefit from a redesign. This would supplement some of the developments, such as payment machines, being introduced into the customer contact service.
- 3.33 To enable this, it is estimated that capital works of £100,000 would be required.

Supporting Local Residents

- 3.34 This could be achieved by supplementing the current Discretionary Housing Budget. This is used to temporarily support vulnerable people adversely affected by current welfare reform to pay their rent.
- 3.35 The support is intended to provide short term financing to "bridge a gap" and is resourced by a funding allocation from the Government. The Council has the power to increase the Budget up to a maximum so that the Council's contribution is no greater than 60% of overall expenditure (including the

Government's allocation). The Council operates within the Government allocation only.

- 3.36 The Council has to apply strict criteria as this Budget does not always meet demand. The Budget was reduced in 2014/15 from £102,000 to approximately £90,000 and is being reduced further to £70,000 in 2015/16, based on indicative allocations.
- 3.37 It is difficult to estimate future demand due to the eventual outcome of the welfare reform changes although current indications suggest that current demand is on-going.
- 3.38 The Council could also consider providing extra support to its grant aided voluntary and community groups such as the CAB and CVS. Subject to agreement over how funding would be utilised, this could potentially enable those organisations to enhance the support currently provided, in partnership with the Council, to residents in the local community.

Overall Spending Options

- 3.39 There may be other options that the Council may wish to explore and take the opportunity to undertake some one-off community project or initiative with the resources available.
- 3.40 In the event that any of the above options are progressed, the Council should be satisfied that the expenditure at this time is a proper use of resources and will provide value for money.

Reducing the Burden of Council Tax

- 3.41 Several authorities have in the past reduced their basic level of Council Tax on an on-going basis. Although the Council's current position is well placed, this is not recommended for the Council as it could lead to significant financial pressures in later years.
- 3.42 This is due to the fact that the approved Financial Plan highlights future budget deficits, coupled with the risk around core funding. This was acknowledged by the Finance and Management Committee which effectively proposed that the Band D rate of Council Tax approved should not be reduced.
- 3.43 Other than this mechanism, it is rare for councils to refund or rebate Council Tax through any other means. Councils are generally constrained by the Local Government Finance Act 1992 as regards rebates and refunds.
- 3.44 Discretion does exist in subsequent regulations whereby discounts can be given. However, this is specifically aimed at the Council Tax Reduction Scheme (for those on Benefits) or other Section 13A discounts to support eligible households to meet their Council Tax liability in specific circumstances.

3.45 These discounts are discrete and any general discount would be subject to potential legal and administrative difficulties, including devising and consulting on proposals.

3.46 Such discounts also have to be agreed as part of the Council Tax setting process and approved by the Council by 31st January in any given year.

Reductions

3.47 Some authorities provide lump sum reductions for prompt payments and to encourage direct debit take-up. Other authorities have refunded Council Tax payers on a one-off basis.

3.48 This has been achieved through an "Efficiency Dividend" whereby budget savings have been returned to local residents by making a contribution to a monthly Council Tax instalment for its local residents.

3.49 In this instance, a flat rate sum (*£50 to £100 has been a typical value*) has been credited to the Council Tax account of all households in that area on a one-off basis.

3.50 Other authorities have given "cash back" to Council Tax payers during the year, due to a financial windfall. Again, this has been through a flat rate payment of typically £50 per household. However, this amount has just been paid over to the household and not directly credited to the Council Tax account.

3.51 Based on what other authorities have achieved, in all cases, certain eligibility criteria has firstly been laid down and approved. For example, consideration would need to be made on the following matters:

- The date on which the reduction applied. In other authorities, to ease administration, it applied to households on the Council Tax register on a particular date. If the resident left the next day, they still received the reduction; conversely, new residents after the appointed day did not qualify.
- Does anyone exempt from Council Tax receive a reduction?
- The treatment of Council Tax payers in arrears.
- If any household's liability was less than the reduction, would they only receive a lower amount so that their liability effectively reduces to zero?
- With a "cash back" arrangement, money could be credited (in the Council's case) straight to the 27,000 Council Tax payer's bank account where they pay by direct debit. However, how would the reduction be credited to cash payers, standing orders and deductions from salaries and wages? In addition, if there are no cash payment facilities at the Council offices, what separate provision could be made? One authority used a voucher system to overcome these issues but this could be difficult and costly to administer.

- Would a flat rate amount apply irrespective, or alternatively, a set percentage taken off the Council Tax bill of each household? This would result in higher banded properties receiving more in cash terms compared to those properties in lower bands.

Impact on Individual Households/Residents

3.52 On the basis that there is potentially £250,000 available in the General Reserve, it is possible to reasonably estimate the impact on each household/resident in the District of a dividend or cash back payment.

Percentage Payment

3.53 The Council would need to achieve this in a way that did not contravene regulations under the Local Government Finance Act 1992. The percentage reduction would need to be applied to each household's total bill or net liability (after applying any discounts) but including the Council Tax charges of all other preceptors, including Parishes.

3.54 An amount of £250,000 would equate to 0.5% of each household's liability. Households subject to a 100% liability at each of the standard Council Tax Bands would benefit by the following amounts.

Band A	£5.05
Band B	£5.89
Band C	£6.73
Band D	£7.57
Band E	£9.25
Band F	£10.93
Band G	£12.62
Band H	£15.14

3.55 These amounts will vary where Parish Precepts apply. Approximately 40% of all properties within the District would receive a lower (pro-rata) payment in the relevant Band, due to discounts.

3.56 50% of all Council properties are within Bands A and B, with a further 33% in Bands C and D. 17% of properties are within the higher Bands of E to H.

Flat Rate Payment

- 3.57 If all properties on the current Council Tax register were eligible under the Council's criteria (when determined) £250,000 would be shared amongst 41,100 properties. At a flat rate across each household, this would equate to £6 each.
- 3.58 If exempt, empty properties and those not liable to Council Tax (currently around 4,000 properties) were excluded, this would increase for all other households liable to Council Tax to £6.75 each. This would apply to all those households whatever their banding and liability.
- 3.59 In percentage terms, the £6.75 would be greater for lower banded properties as shown in the following table. *The percentages in the table have been calculated on the District Council's share only of the overall Council Tax liability.*

Band A	6.7%
Band B	5.8%
Band C	5.1%
Band D	4.5%
Band E	3.7%
Band F	3.1%
Band G	2.7%
Band H	2.2%

- 3.60 On average, £6.75 equates to 5.4% of the District Council's share of the Council Tax.

Operational Considerations

- 3.61 The payment of a dividend or cash back arrangement is achievable. It is anticipated that the lead in time to allow for system changes and other administrative arrangements is 3 months. However, there would be additional costs incurred as detailed below.

System Changes

- 3.62 The Council uses one of the recognisable Revenue IT systems. This is developed and maintained for any authority to use as the administration of Council Tax is consistent across all billing authorities. Therefore, the system is not bespoke and is effectively an "off the shelf" package.

- 3.63 As the Council is one of approximately a hundred authorities across the country that uses this particular system, it benefits from competitive pricing and economies of scale from development. However, this means that any bespoke development is priced at a premium.
- 3.64 To administer a dividend or cash back arrangement, would require the software house to write in specific programme changes as the facility required is not available within the standard database.
- 3.65 The cost of doing this is estimated at £20,000 (to include testing). This would be slightly lower with a cash back arrangement and by paying a flat rate rather than applying a percentage. However, it is still estimated that the minimum cost would be in the region of £15,000.

Staffing Costs

- 3.66 It is not anticipated that additional costs would be incurred. However, it would be prudent to set-aside some provision to cover out of hours testing as this is outside normal operating arrangements.

Rebilling

- 3.67 If a dividend was paid and applied to a Council Tax instalment, this would require (under statute) the Council to re-issue the original Council Tax bill to reflect the change and notify the Council Tax payer of a change in a monthly instalment. The cost of doing this is mainly in additional stationery, postage and banking costs. These are estimated at £17,500.

Other Administrative Costs

- 3.68 Experience from other authorities highlights that good publicity and communication is required to reduce the number of queries associated with the payment of a dividend or cash back. Some costs could be incurred.
- 3.69 It is considered that some additional contact should still be expected from residents querying payment changes. Although this may not incur any further direct costs, it could potentially divert staff resources.
- 3.70 There could be additional administrative issues with a cash back payment. The main advantage firstly, compared to a credit payment to offset the Council Tax liability, is that there would be no requirement to reissue bills.
- 3.71 It was highlighted earlier that money could be credited straight to the Council Tax payer's account where they pay by direct debit because the Council has their bank details. However, refunding people who pay by cash, standing order or have deductions from salaries and wages would be more problematic.
- 3.72 Experience elsewhere shows that vouchers have been issued which people cashed in. However, the logistics and cost of doing this is difficult to estimate and there is a risk that vouchers are lost or misused, etc.

3.73 Approximately 65% of Council Tax payers in the District pay by Direct Debit. Consequently, this would leave 35% or approximately 14,400 (including 4,000 households who currently do not pay if they are included) households to reach in order to apply the cash back payment.

3.74 The eventual cost of doing this could be greater than re-issuing bills under a dividend arrangement where Council Tax accounts are credited directly.

Total Costs

3.75 In total, it is estimated that a Council Tax dividend would cost approximately £40,000 to implement and administer. This could be greater with a cash back arrangement. There is currently no budget to meet this amount.

3.76 Clearly, there are technical and administrative issues to be considered with a dividend or cash back arrangement.

3.77 However, the Council would also need to be satisfied that it has passed 4 key tests. These tests relate to:

- Legality
- Affordability
- Process
- Value for Money.

Legality

3.78 Other authorities have used the general power of competence under Section 1 of the Localism Act 2011. In using this power, the Council would need to be satisfied that the dividend or cash back is in the bounds of:

“The power to do anything those individuals of full legal capacity may do, to give authorities the power to take reasonable action they need for the benefit of the authority, its area or persons resident or present in its area.”

Affordability

3.79 Although the Council’s current level of General Reserves is healthy, the Council should be aware of potential budget deficits in future years as highlighted earlier in the report.

Process

3.80 The Council would need to adhere to its own governance arrangements to ensure that final proposals are considered and approved by the relevant Committee. In addition, relevant and clear communication should take place on the reasons for a dividend or cash back payment and how it will affect individual households/residents.

Value for Money

3.81 The Council would need to be satisfied that the use of resources in this manner provides value for money in the current economic climate, compared to other investment options.

Accounting Arrangements

3.82 Where a dividend is credited to individual Council Tax accounts to reduce liability, this would leave a shortfall (of £250,000) in the Collection Fund. This would require a transfer from the General Fund to comply with regulations under the 1992 Local Government Finance Act. This transfer would need to be actioned in the month that any dividend is paid to keep the Collection Fund in balance.

External Audit

3.83 Due to the exceptional nature and relatively large amount in total, this would require additional disclosure in the Council's accounts. As with any exceptional transaction, this would be examined closely by the Council's External Auditor.

3.84 In particular, it is expected that they would examine the use of Council resources in this manner against the 4 tests highlighted above.

Effect on other Preceptors

3.85 Although the dividend would be applied to the total Tax liability of each household, the Council would need to make it clear that the dividend does not impact on the precepts or Council Tax rates of other preceptors. This would need to be made clear in communications and on reissued bills to specify that this was a South Derbyshire reduction only.

3.86 The Precepts set by the other authorities would be paid as normal from the Collection Fund.

4.0 Financial Implications

As detailed in the report

5.0 Corporate Implications

As detailed in the report

6.0 Community Implications

As detailed in the report

7.0 Background papers

None