

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE (SPECIAL – BUDGET)	AGENDA ITEM: 7
DATE OF MEETING:	10 JANUARY 2019	CATEGORY: RECOMMENDED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
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SUBJECT:	BUDGET REPORT 2019/20 Incorporating the Consolidated Budget Proposals and Medium Term Financial Plan to 2024	REF:
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the estimates of revenue income and expenditure for 2019/20 for the General Fund are considered and a level of income and expenditure is approved.
- 1.2 That consideration is given to the level of an increase in grants to voluntary bodies and payments to Parish Councils under concurrent functions.
- 1.3 That the Council Tax Base for 2019/20 of 33,302 (equivalent Band D) properties as detailed in **Appendix 3** is approved.
- 1.4 That an estimated Council Tax Surplus of £1,000,000 is declared on the Collection Fund for 2018/19 and the Council's proportion of £110,200 is transferred to the General Fund in 2019/20.
- 1.5 That consideration is given to the rate of Council Tax for 2019/20.
- 1.6 That the updated 5-year financial projection on the General Fund to March 2024 as detailed in **Appendix 1**, including associated assumptions and risks as detailed in the report, is approved.
- 1.7 That efficiencies and budget savings continue to be pursued where opportunities arise to sustain the current financial position.
- 1.8 That the decisions made in recommendations 1.1 to 1.7 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 current income and expenditure on the General Fund. This builds on the financial plan and strategy approved in October 2018. The report covers the following:

- Confirmation of the Council's financial settlement from Central Government for 2019/20.
- The Council's current spending and proposed base budget position for 2019/20 including proposed spending by Policy Committees.
- The proposed Council Tax Base for 2019/20 and projected Collection Fund position, 2018/19.
- Planned Council Tax levels in 2019/20 and future years.
- The overall impact on the General Fund's 5-year financial projection.

2.2 The report is divided into several sections as follows:

- Section 3 – Summary and Overall Commentary
- Section 4 – The Council's Financial Settlement for 2019/20
- Section 5 – Proposed Base Budget and Consolidated Spending 2019/20
- Section 6 – Revised General Fund Financial Projection to March 2024
- Section 7 – Council Tax, Tax Base and Collection Fund Position
- Section 8 – Overall Risk Analysis

Appendices:

- Appendix 1 – General Fund Summary Budget and 5-year projection
- Appendix 2 – Proposed Base Budgets of Policy Committees
- Appendix 3 – Calculation of Council Tax Base 2019/20
- Appendix 4 – Estimated Collection Fund Position 2018/19

3.0 Summary and Overall Commentary

The Position entering the 2019/20 Budget Round

3.1 The updated medium-term financial projection was considered and approved by the Committee on 11th October 2018. This set out the projected level of net revenue expenditure on the General Fund, together with the level of the General Fund Reserve to March 2024.

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

	Budget Deficit / Surplus (-) £	Earmarked Sums £	General Reserve £
Approved Budget 2018/19	-778,399	1,808,080	-9,014,050
Projection 2019/20	723,481	784,904	-7,505,665
Projection 2020/21	673,230	383,475	-6,448,960
Projection 2021/22	760,245	382,010	-5,306,705
Projection 2022/23	1,000,347	380,508	-3,925,850
Projection 2023/24	1,304,547	378,969	-2,242,334

- 3.3 At that stage, it was reported that the overall position on the General Fund had not changed fundamentally over the last year. The current level of the General Fund Reserve remained healthy and was projected to remain so over the next 3 to 4 years based on current forecasts.
- 3.4 However, the main issue identified was the projected budget deficit over the medium-term from 2019/20 when the impact of the next reduction in core funding takes effect.
- 3.5 Although the current level of reserves could be used to meet the projected deficit, this was not considered a sustainable solution in the longer-term. The MTFP continued to assume that base budget expenditure would increase year-on-year but overall core funding would reduce in accordance with the Government's Spending Review (2015).

The Updated General Fund Position

- 3.6 As part of the annual budget round, the Council's base budget has been reviewed in detail. This has identified some additional cost pressures, although there have also been some budget savings arising out of the review.
- 3.7 Following the Government's provisional Financial Settlement which was published on 13th December 2018, together with proposals contained in the Base Budget for 2019/20, the medium-term position has been updated. This is summarised in the following table.

	Budget Deficit / Surplus (-)	Earmarked against Reserve	Balance of General Reserve
	£	£	£
Base Budget 2018/19	-831,697	1,835,323	-9,040,105
Projection 2019/20	430,506	791,519	-7,818,081
Projection 2020/21	701,719	361,206	-6,755,156
Projection 2021/22	893,964	358,878	-5,502,314
Projection 2022/23	1,133,774	356,411	-4,012,129
Projection 2023/24	1,521,472	393,217	-2,097,441

- 3.8 Initial forecasts suggest that the overall financial profile of the General Fund has marginally reduced from that previously reported. Base Budget expenditure has increased (as detailed in Section 5), but this has been partially offset by the increase in New Homes Bonus and Council Tax due to growth.
- 3.9 The Pilot for NNDR will no longer apply for Derbyshire in 2019/20 and the corresponding reduction in funding was included in the MTFP in October. However, a reduction in the Tariff payment due to Central Government as part of the Grant re-distribution process has now been updated. Further detail on funding is detailed in Section 4. A summary of the overall change is shown in the following table.

	£'000
Projected 5 year General Fund Balance (pre-Budget)	-2,242
Net Increase in Projected Spending (Sections 5 & 6)	1,128
Proposed Increase in Growth Provision (Section 6)	900
Proposed Senior Management Restructure	461
Increase in New Homes Bonus (Section 4)	-1,557
NNDR (Section 4)	-253
Council Tax Surplus Increase	-55
Council Tax Base Increase	-479
Projected Reserve Balance as at 2023/24	-2,097

- 3.10 The increase in projected income has helped to offset the increase in expenditure. However, the underlying issue of potential significant deficits in future 6 years still remains.
- 3.11 The General Fund is forecast to incur a deficit for 2019/20 of £430k based on current projections, although this is 40% lower than that forecast in October 2018. Deficits are projected to continue for the full term of the MTFP.
- 3.12 The current General Fund Balance is healthy and is forecast to remain above the minimum level of £1.5m in 2023/24. Therefore, the annual deficits could be financed by drawing down the current level of the General Reserve.
- 3.13 Effectively, the financial projection shows the implications of taking that action. However, it is considered that this is a high risk strategy. The annual budget

deficits are still projected to be significant even after increasing income as detailed above.

- 3.14 If no action is taken to reduce future deficits, it could quickly de-stabilise the financial position given that any action to achieve budget savings may take time to fully implement. Effectively, the current base budget remains unsustainable in the medium-term based on current projections.
- 3.15 However, provision for certain cost pressures and potential risks have prudently been included in the MTFP. In addition, it is likely that income from the New Homes Bonus and the increasing Council Tax Base will exceed projections, although this cannot be guaranteed and prudent estimates continue to be made for future years.
- 3.16 It is considered that a balanced approach needs to be undertaken by utilising reserves, identifying some budget savings and at the same time providing for additional costs associated with growth.
- 3.17 Therefore, it is recommended that the Council continues to pursue efficiencies and budget savings where opportunities arise to sustain the financial position.

DETAIL, BACKGROUND and BASE BUDGET ANALYSIS

4.0 The Council's Financial Settlement 2019/20

- 4.1 The provisional financial settlement (subject to consultation) was announced on 13th December 2018 and provided actual figures for 2019/20.
- 4.2 As part of the settlement, two Government consultations have been released to help determine future core funding from 2020/21. The consultations are in relation to Business Rates Retention Reform and the Fair Funding Review: *A Review of Relative Needs & Resources*. Both consultations are due a response by 21st February 2019.
- 4.3 In summary, the Government is working towards implementing an increase in Business Rates Retention, a full Business Rates baseline reset and outcomes of the relative needs & resources review as part of the 2019 Spending Review. The Fair Funding proposal is suggesting a more simplified funding formula using a per capita basis but at this stage it is unknown what the impact on the Council is likely to be.
- 4.4 It is the Government's intention to publish indicative allocations before the 2020/21 provisional Local Government Finance Settlement and an update will be provided to this Committee once more detail is known.
- 4.5 The outcomes of the 2019/20 provisional settlement are summarised below:

New Homes Bonus (NHB)

- 4.6 The allocation of NHB was published within the main financial settlement. The Government has not amended the funding formula for 2019/20 allocations.
- 4.7 The growth baseline set at 0.4% by the Government for 2017/18 has remained unchanged for 2019/20 allocations. This is subject to annual review depending on any significant changes to annual growth.

NHB - Implications for the MTFP

- 4.8 The Council's allocation for 2019/20 is £3.28 million, compared to an estimate in the MTFP of £2.9 million. This is based on growth of 974 properties, of which 282 were deemed as "affordable units". Within the growth numbers, empty properties decreased by 2 compared to the previous year which increases the NHB allocation.
- 4.9 The specific allocation for 2019/20 was £1.12m, the highest annual allocation since the Bonus was introduced in 2011/12. The remaining allocation of £2.16m relates to fixed amounts for the previous 3 years.
- 4.10 As reported in October, future allocations have been based on a reduction to the Baseline growth of 0.6% and the number of properties is unaltered at 863 per annum. The effect in the MTFP is solely due to the additional allocation in 2019/20 and the impact is summarised in the following table.

	2019/20	2020/21	2021/22	2022/23	2023/24	Total
New Homes Bonus - MTFP	Budget	Forecast	Forecast	Forecast	Forecast	
	£	£	£	£	£	£
Forecast October 2018	2,892,785	3,092,473	3,086,849	2,903,127	2,884,231	14,859,465
Actual/Provisional Allocations	3,281,951	3,481,639	3,476,015	3,292,293	2,884,231	16,416,129
Projected Increase	389,166	389,166	389,166	389,166	0	1,556,664

- 4.11 As the table shows, the overall increase in resources over the MTFP based on current forecasts is £1.5m. The increase in forecasted average properties is still well below Planning's predicted growth data. The allocation reduces in 2022/23 and 2023/24 due to the higher bonus allocations in 2018/19 and 2019/20 falling out.

Business Rates

- 4.12 As previously reported, an application was submitted by the Derbyshire Business Rates Pilot to Central Government for inclusion in the 75% Retention Pilot for 2019/20; this application has been unsuccessful. This was announced alongside the provisional Local Government Settlement on 13th December.
- 4.13 The Derbyshire Business Rates Pool, which was the former funding mechanism prior to the 100% Retention Pilot in 2018/19, has been approved by Central Government to resume in 2019/20.
- 4.14 Additional income included within the MTFP for Business Rates is due to a reduction in the tariff payment due in 2019/20. The impact on the MTFP is approximately £51k per annum.

4.15 As mentioned previously, a separate review by Central Government of spending needs is underway and this will be kept under review.

5.0 Proposed Base Budget and Consolidated Spending 2019/20

5.1 All Policy Committees (including an earlier report on this Agenda) have considered their detailed budget proposals for 2019/20. All services were asked to carefully consider their base income and expenditure.

Basis of the Budget

5.2 Budgets have generally been calculated on a “no increase basis,” i.e. they are maintained at the same level of service as the previous year adjusted only for known changes, price increases and variations due to contractual obligations, etc.

5.3 In addition, budgets are also subject to a base line review which is used to justify proposed spending. This process places greater responsibility on budget holders to justify their spending budgets by specifying their needs in a more constructed manner. This is supported by the Financial Services Unit who analyse recent trends in expenditure across services compared to current budgets.

On-going Service Provision

5.4 The budgets are based substantively on a continuation of existing service provision, in respect of staffing levels, frequency and quality of service, etc.

5.5 The full year effects of previous year’s restructures and budget savings have been included, with any non-recurring items being removed.

Inflation

5.6 The base budget for 2019/20 has been uplifted by inflation/indexation where this applies, for example contract obligations.

5.7 Clearly, some base costs will be subject to inflation during future years and in some cases it will be “unavoidable,” for example, employee costs when national pay increases are approved.

Base Budgets 2019/20

5.8 An analysis of each Committee’s proposed budget has been detailed in separate reports to the respective Policy Committee ahead of this Committee. The main spending areas are summarised in **Appendix 2**, with a summary of each Committee’s proposed spending shown in the following table.

Summary of Net Service Expenditure	Approved Budget 2018/19 £	Proposed Budget 2019/20 £	Change £
Environmental and Development Services	4,275,184	4,551,034	275,850
Housing and Community Services	2,634,255	2,906,606	272,351
Finance and Management	5,061,511	5,175,747	114,235
	11,970,950	12,633,387	662,437

5.9 The above table shows that overall base budget Committee expenditure is estimated to increase between 2018/19 and 2019/20 by £662,437. An analysis of the variances across each Committee is detailed in the following table.

Changes in Base Budget 2018/19 to 2019/20	EDS £'000	HCS £'000	FM £'000	Total £'000
Staffing Costs	176	164	137	477
District Election	0	0	125	125
New Waste Treatment Plant Additional Costs	23	0	0	23
Computer Maintenance	0	0	19	19
Insurance	12	-14	14	12
Depreciation	-18	42	-55	-31
Included in MTFP October 18	193	192	240	625
Planning Income Reduction	85	0	0	85
County Contribution (see 5.19)	0	77	0	77
Reduced Grounds Maintenance Recharge to Highways	0	44	0	44
Reduction in Earmarked Reserve Funding	36	0	0	36
New Community Centre (Stenson Fields)	0	30	0	30
HRA Recharges	0	-13	20	7
Local Plan Professional Fees	-15	0	0	-15
Vehicle Hire Reduction	-15	0	0	-15
Rental and Service Charge Income	0	0	-19	-19
MHCLG Flexible support Grant	0	-28	0	-28
Professional Fees and Income at Rosliston	0	-37	0	-37
Benefit Overpayments	0	0	-45	-45
Interest Income and Bank Charges	0	0	-45	-45
Spare Parts	-50	0	0	-50
Building Control Partnership with Lichfield DC	-58	0	0	-58
Boardman Repairs	0	0	-75	-75
Approved Changes	-17	73	-164	-108
Increased Purchase of Bins	68	0	0	68
Business Rates	12	7	23	42
Computer Licences	0	0	35	35
Apprentice transfer between F&M and EDS	20	0	-20	0
Other Changes	100	7	38	145
TOTAL CHANGES	276	272	114	662

- 5.10 The table shows that of the total change, a £625k increase in cost was expected and has been included within the MTFP. This mainly relates to changes in pay, the District Election and inflation together with anticipated costs associated with the new Waste Treatment Plant.
- 5.11 The change in Depreciation is an accounting adjustment and not a cost to the Council; this amount is reversed out of the Budget on consolidation and is shown separately in Appendix 1.

Base Budget Changes

- 5.12 The preceding table does highlight that there is an overall increase in the proposed base budget of £662k. The most significant changes are the staffing changes, the District Election, reductions in Planning fee income and an increase in bin purchases.
- 5.13 The District Election is included in the MTFP every four years and so was an expected increase in 2019/20.
- 5.14 Based on the current size of planning applications, it is proposed to reduce the fee income by £85k in 2019/20 due to the adoption of the Local Plan resulting in less speculative residential development applications.
- 5.15 Reductions to earmarked reserve funding of £36k is in relation to the Local Plan and is partially offset by the reduced professional fees of £15k.
- 5.16 Industrial Unit income and service charges for rental of space in the Civic Offices has been increased by £19k due to a lower percentage of expected void properties. This is in line with current income projections and previous years' favourable variances.
- 5.17 As reported in July 2018, the new Waste Treatment Plant at Sinfin Lane is expected to increase costs of overtime and fuel by approximately £23k in 2019/20. This was included in the MTFP in October.
- 5.18 As part of a Section 106 Agreement, a new Community Centre in Stenson Fields is due to transfer to the Council in the Spring of 2019. The cost of £30k for 2019/20 was reported in June 2018 and has now been included in the Base Budget.
- 5.19 Reductions in funding from Derbyshire County Council are due to the transfer of responsibility for the Travellers site (£15k) and the contribution of Council Tax on second homes funding (£62k) for Homelessness which was approved for two years, ending in 2018/19.
- 5.20 The increase in the purchase of bins is due to growth of the District and the need to replace existing broken bins due to the age as in some instances the current bins are up to 30 years old. Growth of £28k can be drawn down from the Growth Provision and so is already included in the MTFP.

- 5.21 Computer licences for Microsoft costing £20k plus one-off first year implementation costs of £15k are included in the Base Budget for 2019/20 and are essential for continuation of the licencing agreement with Microsoft. Computer maintenance costs of £19k are due to inflation which is included within the MTFP.
- 5.22 Insurance cost increases are due to higher insured sums and an inflationary rise. This is included within the MTFP.
- 5.23 Business Rates costs have been based on current year actuals with a 2% inflationary increase.
- 5.24 The HRA recharges have reduced in the Base Budget by £7k. This is made up of an increased recharge of £13k from Grounds Maintenance and a reduction of £20k due mainly to the savings from the shared service arrangement with Chesterfield NHS Trust for Procurement.
- 5.25 Grounds Maintenance recharges have reduced due to the increased cost of gulley cleaning which has previously been reported.

Savings

- 5.26 The purchase of a new fleet of vehicles has resulted in a reduced cost for spare parts and vehicle hire in 2019/20 totalling £65k.
- 5.27 Grant funding from the Ministry of Homes, Communities and Local Government (MHCLG) for a three period was introduced alongside the Homelessness Reduction Act 2017. The grant funding value was not confirmed for the final year initially but has increased from prior year by £28k to £118,421.
- 5.28 A reduction to bank charges of £10k is proposed after a full transaction cost review following a tendering exercise for the banking contract. In addition to this, the investment of £2m with the CCLA Property fund is generating greater interest returns than are currently budgeted and therefore, an additional £35k is proposed for 2019/20.
- 5.29 As previously reported, the transfer of Building Control to Lichfield District Council as part of a shared partnership arrangement has reduced the Base Budget by £58k.
- 5.30 The restructure of the Revenues and Benefits team reported in August 2018 highlighted the need for increased focus on reclaim of Benefit Overpayments. The team is now fully recruited and it is expected that additional income of £45k per annum can now be achieved and so has been included in the Base Budget.
- 5.31 During the Budget round for 2018/19, a budget for repairs to the surface of the service yard at Boardman Industrial Estate was approved. The nature of these works was a one-off and the budget has therefore been removed going forward.

Staffing Changes

5.32 The Establishment has been updated to reflect additional approved resources for Revenues and Benefits, Planning and at Rosliston Forestry Centre.

5.33 The pay award, national living wage and incremental pay rises are included within the MTFP. The Apprenticeship Levy was included within contingent sums in the MTFP previously but has now been added to the Base Budget. A summary of the additional cost of the Establishment changes is provided in the following table.

	EDS £'000	HCS £'000	FM £'000	Total £'000
Pay Award and National Living Wage	99	55	85	239
Incremental Pay Rises	30	21	32	83
Rosliston Temporary Resource	0	78	0	78
Planning Restructure	49	0	0	49
Corporate Resources Restructures (approved Aug 18)	0	0	30	30
Apprenticeship Levy	10	10	9	29
Vacant Posts Appointed on Lower Scale Point	-12	0	-19	-31
NET COST	176	164	137	477

Individual Committee Risks

5.34 In addition to the cost pressures highlighted above, as part of the base budget review, each Committee identified several risk areas. The main issues are detailed in the following table.

Risk	Issue / Potential Effect	Mitigating Action
Reduction in Service income	Budgeted income from Planning, Licensing, etc. totals £1.6m and is not sustainable.	Base Budgets reflect actual income but remain prudent. This report has highlighted potential changes in charges for Planning Fees. Current income is far lower than 2016/17 and 2017/18 but is in line with the Budget for 2018/19; a reduced budget of £665k has been proposed for 2019/20 with regular review in the MTFP. With the adoption of the Local Plan, this should bring forward some major planning applications but will result in less speculative applications going forward.
Recycling	The Council has been made aware that the cost of the Kerbside Recycling Scheme may need to increase.	This is still under review. A provision of £100,000 has been set-aside in the MTFP to offset any additional costs.
Growth	The Council's MTFP identifies "underlying cost pressures yet to surface" as a risk, due to pressure from residential development. In addition, there is additional demand on current resources in Planning and Land Charges	A provision for growth has been set-aside in the MTFP and this is forecast to increase every year over the length of the Plan. Additional resources have been invested in Waste Collection and Grounds Maintenance and these costs, together

	to meet the volume of planning applications and land searches associated with development. It is also considered that this is likely to impact on services such as parks and open space provision / maintenance.	with their financing, have been included in the proposed budgets for 2019/20.
External Funding	Several Community based services are reliant on external contributions and reserve funding.	Earmarked reserves maintained to spread expenditure over a number of years. These are currently estimated to remain at approximately £2.2m by 2020 as detailed in the report. It is considered that this will maintain existing services over the MTFP period to 2024, but clearly this will need to be kept under review.

Grants to Voluntary Bodies and Payments under Concurrent Functions

5.35 As part of the annual Budget Round, the Committee gives consideration to increasing the base contribution in grants to recognise inflationary pressures. Increases in recent years have been as follows:

- 2018/19 – 2.0%
- 2017/18 – 1.0%
- 2016/17 – 2.0%
- 2015/16 – 2.3%
- 2014/15 – 2.0%
- 2013/14 – 2.6%

5.36 Latest inflation rates show CPI running at 2.3% as at November 2018. The Government's Autumn Statement forecasts CPI inflation falling to 2.0% by the end of 2019/20. The Council's MTFP currently provides for a 2% increase.

5.37 Every 1% increase in the base level across all grants and payments equates to approximately £6,000 per year.

5.38 Housing and Community Services Committee considered an increase for grants to voluntary bodies and this Committee considered an increase for Concurrent Functions in the detailed budget report earlier on the Agenda.

6.0 General Fund 5-Year Financial Projection to 2024

6.1 The projection has been updated following the financial settlement (as detailed in Section 4) the proposed base budget (as detailed in Section 5) together with the proposed Tax Base and Collection Fund Surplus for 2018/19 (as detailed in Section 7).

6.2 The projection is calculated from 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 matters are detailed in the following sections.

Projected Budget Surplus/Deficit and Reserve Balances

6.3 This is summarised in the following table.

General Fund: Medium-Term Projection as at Jan 2019

	Budget Deficit / Surplus (-)	Earmarked against Reserve	Balance of General Reserve
	£	£	£
Base Budget 2018/19	-831,697	1,835,323	-9,040,105
Projection 2019/20	430,506	791,519	-7,818,081
Projection 2020/21	701,719	361,206	-6,755,156
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Projection 2022/23	1,133,774	356,411	-4,012,129
Projection 2023/24	1,521,472	393,217	-2,097,441

6.4 Initial forecasts suggest that the overall financial profile of the General Fund has marginally reduced from that previously reported. Base Budget expenditure has increased (as detailed in Section 5), but this has been partially offset by the increase in New Homes Bonus and Council Tax due to growth.

6.5 The Pilot for NNDR will no longer apply for Derbyshire in 2019/20 and this reduction in funding was included in the MTFP in October. However, a reduction in the Tariff payment due to Central Government has now been updated. Further detail on funding is detailed more in Section 4. A summary of the overall change is shown in the following table:

	£'000
Projected 5 year General Fund Balance (pre-Budget)	-2,242
Net Increase in Projected Spending (Sections 5 & 6)	1,128
Proposed Increase in Growth Provision	900
Proposed Senior Management Restructure	461
Increase in New Homes Bonus (Section 4)	-1,557
NNDR (Section 4)	-253
Council Tax Surplus Increase	-55
Council Tax Base Increase	-479
Projected Reserve Balance as at 2023/24	-2,097

6.6 A proposal to increase the contribution to the Growth provision has been included within the MTFP. This increased contribution is as a result of the increased receipt of the New Homes Bonus and is in line with the recommendations reported in the MTFP in October.

- 6.7 The proposed Senior Management Restructure has been included within contingent sums in the MTFP. The consultation process is currently in progress and a further report is due to this Committee in February 2019.
- 6.8 The General Fund is forecast to incur a deficit of 430k for 2019/20 based on current projections, although this is 40% lower than that forecast in October 2018. Deficits are projected to continue for the full term of the MTFP.
- 6.9 The current General Fund Balance is healthy and is forecast to remain above the minimum level of £1.5m in 2023/24. Therefore, the annual deficits could be financed by drawing down the current level of the General Reserve.
- 6.10 Effectively, the financial projection shows the implications of taking that action. However, it is considered that this is a high risk strategy. The annual budget deficits are still projected to be significant even after increasing income as detailed above.
- 6.11 If no action is taken to reduce future deficits, it could quickly de-stabilise the financial position given that any action to achieve budget savings may take time to fully implement. Effectively, the current base budget remains unsustainable in the medium-term based on current projections.
- 6.12 However, provision for certain cost pressures and potential risks have prudently been included in the MTFP. In addition, it is likely that income from the New Homes Bonus and the increasing Council Tax Base will exceed projections, although this cannot be guaranteed and prudent estimates continue to be made for future years.
- 6.13 It is considered that a balanced approach needs to be undertaken by utilising reserves, identifying some budget savings and at the same time providing for additional costs associated with growth.
- 6.14 Therefore, it is recommended that the Council continues to pursue efficiencies and budget savings where opportunities arise to sustain the financial position.

Provisions and Contingencies

- 6.15 In addition to base budget expenditure, the MTFP continues to set-aside other sums. These are detailed and shown separately in the MTFP in Appendix 1 and provide resources to cover such items as:

- Provision for Growth
- Potential Loss of Industrial Unit Income
- Proposed Senior Management Restructure and one-off costs
- Cost of a District Election in May 2023
- Waste and Recycling – additional contract costs (to be determined)

Summary Position

- 6.16 It is considered that the Council's overall Base Budget is prudent whilst also being realistic based on the most up-to-date information. The MTFP reflects current spending priorities and also allows for potential cost pressures.
- 6.17 The financial risks that the Council faces, together with mitigating actions, are detailed in **Section 8**.
- 6.18 It has been anticipated for some time that the General Fund would face reductions in general core funding by the way of the Revenue Support Grant being phased out. However, the increase in other income streams such as the New Homes Bonus, together with previous budget savings, has led to a good level of General Reserves with other amounts set-aside to meet future cost pressures.
- 6.19 However, there are still considerable challenges. Firstly, to meet future budget deficits that may arise in the medium-term and secondly, to address potential service pressures arising from growth.

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 after taking account of exemptions and discounts, including the Local Council Tax Support Scheme.
- 7.2 The calculation of the estimated Tax Base for 2019/20 is detailed in **Appendix 3** and is based on the number of properties on the Council Tax register as at 31st October 2018.
- 7.3 This produces a "Band D equivalent" which will be used to calculate the amount to be collected from Council Tax in 2019/20, of 33,302. This is an increase of 835 (2.6%) compared to 2018/19.
- 7.4 The approved MTFP estimated an increase of 540 Band D properties in 2019/20 with a 4 year average of 540 additional Band D properties in future years. The proposed Tax Base of 33,302 will generate additional revenue of approximately £73k per year compared to the MTFP, assuming the rate of Council Tax is increased by 1.95% per year.

The Future Tax Base

- 7.5 The MTFP has previously assumed that the overall Tax Base will continue to increase by 540 properties per year. Over the last 3 years, average 4 year growth on a rolling basis in Band D properties has been 426, 540 and 674 respectively; the forecast for future growth in the tax base is positive.
- 7.6 Based on sites under construction, together with sites which have obtained outline and full planning permission, the latest planning estimates forecast the following completions in each year:

- 2018/19 – 1,042 properties
- 2019/20 – 1,472 properties
- 2020/21 – 1,634 properties
- 2021/22 – 1,479 properties
- 2022/23 – 1,277 properties

7.7 Even allowing for some slippage, it is considered likely that the Tax Base will increase to a greater extent than the average in recent years. Locally, the housing market remains buoyant, although clearly a change in economic circumstances could have an impact on the above figures. In addition, it is difficult to estimate the Band D equivalents from the overall number of properties.

7.8 However, it is considered both realistic and prudent to increase the figure used in the MTFP for planning purposes from 540 to 674 per year respectively. Although this will only generate additional revenue of approximately £22k per year, the biggest impact is on the revenue generated from the New Homes Bonus as detailed in **Section 4** earlier in the report.

Collection Fund Surplus / Deficit

7.9 In setting the level of Council Tax for 2019/20, the Council is also required to calculate the estimated balance on its Collection Fund for the current financial year, 2018/19.

7.10 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. The accounting treatment of Business Rates is now subject to the Pilot.

7.11 The account in principle should balance each year. However, not all Council Tax is collected as circumstances, such as the number of houses subject to tax and households receiving exemptions and discounts, changes during the year. In addition, final collection rates from previous years may be higher than estimated.

7.12 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 relating to Council Tax is transferred to the General Fund of the major preceptors, the biggest preceptor being Derbyshire County Council.

Estimated Position 2017/18

7.13 The estimated position on the Collection Fund for 2018/19 is summarised in **Appendix 4**. The Fund is split between Council Tax and Business Rates.

7.14 The overall balance on the Council Tax element is distributed to the major precepting authorities on the Fund, i.e. the District Council, Derbyshire County Council, together with the Police and Fire Authorities, in proportion to their

precepts on the Fund. The surplus or deficit on the Business Rates element is adjusted and allocated in year.

7.15 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.

Council Tax

7.16 The balance on the Council Tax element is estimated at £1,882k based on transactions up to November 2018. This is in line with that reported to the Committee in November following the half-yearly review. The main reason for the estimated surplus is the increase in the Tax Base above that budgeted, as detailed earlier in this section (above).

7.17 At this stage, it is considered prudent to declare a surplus of £1,000,000 for 2018/19, to leave a balance and ensure that the Fund does not fall into deficit.

7.18 If the surplus again continues to increase in 2019/20 above that budgeted, then it will be declared in next year's budget – any surplus remains in the Fund until it is declared by the Council.

7.19 Consequently, it is recommended that the surplus (in proportion to individual Precepts) is declared and shared as shown in the following table.

Share of Council Tax Surplus 2018/19		£
Derbyshire County Council	73.35%	733,500
Police and Crime Commissioner	11.15%	111,500
Fire and Rescue Authority	4.48%	44,800
South Derbyshire District Council	11.02%	110,200
	100.00%	1,000,000

7.20 The amount attributable to the Council of £110,200 has been included in the updated MTFP for 2019/20. An estimated surplus of £55,000 per year remains in the MTFP in future years.

Business Rates

7.21 As previously reported to the Committee, Business Rates incurred a deficit in 2015/16 and 2016/17 due to significant provisions for appeals (subject to determination) which were lodged by businesses with the District Valuer regarding Ratable Values. A surplus was achieved in 2017/18 due to the settlement of the majority of the 2010 list of appeals but there was a deficit balance carried forward on Business Rates of £192k as at 31st March 2018.

7.22 During the budget round of 2018/19, the Council reported an estimated deficit on Business Rates for 2017/18 in its statutory return (known as NNDR 1) to the Government in January 2018.

- 7.23 Therefore, a deficit of £763,829 is being deducted from Preceptors (including the Council) from their share of expected Business Rates in 2018/19.
- 7.24 As shown in **Appendix 4**, the actual in-year (2018/19) position is currently below target, with the deficit projected to be significantly higher than originally forecast at £1.0 million.
- 7.25 In 2019/20, the Pilot for 100% retention will not continue and Derbyshire will revert back to the pooling arrangement that was in place previously. This has been confirmed by the Government.

The Rate of Council Tax

- 7.26 Following changes to national and local policy regarding Council Tax increases from 2017/18, an increase of 1.95% per year is included in the MTFP, subject to annual review. This is below the Government's limit of 3% or £5 at a Band D, above which a local referendum would be required to set a higher increase.
- 7.27 The Band D Tax for 2018/19 is £159.21. The 1.95% increase in the MTFP will raise Band D to £162.31, an increase of £3.10 in 2019/20.
- 7.28 An increase of 3% would raise Band D in 2019/20 to £163.98. A £5 increase would raise Band D in 2019/20 to £164.21 – 3.1%.
- 7.30 The updated MTFP continues to assume an increase of 1.95%. If an increase of £5 was applied in 2019/20, this would generate additional revenue of approximately £68k per year – cumulatively £342k over 5-years.

8.0 Overall Risk Analysis

- 8.1 The summary in **Section 6** highlights that the Council's current financial position is likely to come under a considerable challenge over the forthcoming spending period.
- 8.2 Each Policy Committee has identified specific financial risks and these have been detailed in **Section 5** with mitigating actions being put in place.
- 8.3 There are many variables that are included in the projection that carry a risk in that should they impact, they could also affect the overall financial position. Specifically, the MTFP sets-aside in year contingencies and provisions to guard against pay/pension increases, growth and unforeseen expenditure, etc.
- 8.4 More generally, the main risks in the financial register (as previously reported) are:

Higher Risks

- Further changes to the national funding system
- A reduction in Business Rates income due to appeals

- Additional pressure on service costs due to growth

Lower Risks

- A budget overspend
- A downturn in the national economy
- Impact of Welfare Reform

8.5 The risk register details the arrangements in place to mitigate the impact of these risks. Currently, any issues arising from the lower risks (above) are not significantly impacting upon the Council's financial position. The impact of the higher risks is or has the potential to be more significant.

8.6 The MTFP has already factored in overall reductions in core funding from the national system; a large provision was made in the Council's Accounts in 2015/16 due to Business Rate appeals and continuing population growth could eventually put further pressure on the cost of services.

Financial Strengths

8.7 The financial position is currently healthy. However, it still faces a challenge to maintain a resilient and sustainable financial base. Currently, the Council's financial position is underpinned by several strengths that will help to mitigate its financial risks; these are as follows :

- A positive cash flow
- No debt outstanding (on the General Fund)
- Not reliant on interest rates rising to generate additional income
- Current General Reserves healthy
- Contingent sums in the Base Budget to guard against inflation and growth
- Budget for a full employee establishment – no vacancy rate is assumed
- Earmarked reserves for capital replacements for IT, vehicles and plant
- Separate provision made for bad debts, appeals and pensions
- Earmarked reserves to sustain project and capital works
- Steady growth in the Tax Base.
- Capital expenditure not heavily reliant on revenue funding or borrowing

8.8 The Council also has a history of spending within its overall Net Budget and has generated additional income through growth. However, this cannot be guaranteed in future years and is never assumed for future budgeting purposes in the MTFP.

Financial Risks and the Minimum Level of General Reserves

8.9 Although the Council has several areas of financial strengths to mitigate risks, the Council still needs to be prudent in ensuring that it maintains an adequate

level of unallocated General Reserves on its General Fund to act as a contingency.

8.10 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.

8.11 Based on this, the Council's minimum level, as set out in the Financial Strategy, is **£1.5m** on the General Fund at the end of every 5-year planning period. This level has existed since 2017/18 after being uplifted from £1m during the Budget round in 2017/18. It is calculated based on an assessment of the major financial risks and reflects the relatively healthy level that currently exists.

8.12 Based on the estimated net revenue expenditure on the General Fund for 2019/20 of approximately £13m, £1.5m is 11%. By 2023/24, £1.5m will be around **10%**. 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

Employment Implications

10.1 None

Legal Implications

10.2 None

Corporate Plan Implications

10.3 The proposed budgets and spending under the responsibility of the Committee provides the financial resources to enable many of the on-going services and Council priorities as outlined in the Corporate Plan.

Risk Impact

10.4 The Financial Risk Register is detailed within the Medium-Term Financial Plan but individual Committee risks are listed in Section 5.

11.0 Community Impact

Consultation

11.1 The budget will be disseminated through Local Area Forums and separate consultation will be undertaken with the local business community.

Equity and Diversity Impact

11.2 None

Social Value Impact

11.3 None

Environmental Sustainability

11.4 None.

12.0 Background Papers

12.1 The Government's Financial Settlement for 2019/20 and background papers are available at:

[Provisional-local-government-finance-settlement-2019-to-2020](#)

12.2 The review of the Medium-Term Financial Plan as reported to the Committee in October 2018.

[MTFP October 2018](#)

12.3 The detailed budget reports of each Policy Committee.

[Environmental and Development Services Committee](#)

[Housing and Community Services Committee](#)

**GENERAL FUND MEDIUM TERM FINANCIAL PLAN
BUDGET & PROJECTION as at JANUARY 2019**

	Approved Budget £ 2018.19	Proposed Budget £ 2019.20	Projection £ 2020.21	Projection £ 2021.22	Projection £ 2022.23	Projection £ 2023.24
BASE BUDGET						
Environmental & Development	4,290,775	4,551,034	4,714,311	4,853,095	4,995,579	5,142,273
Housing & Community	2,643,680	2,906,607	3,112,887	3,171,181	3,229,208	3,300,409
Finance & Management	5,075,571	5,175,747	5,343,821	5,513,882	5,686,310	5,861,471
Net Service Expenditure	12,010,026	12,633,388	13,171,020	13,538,157	13,911,097	14,304,153
Accounting Adjustments						
Reverse out Depreciation	-871,666	-842,289	-842,289	-842,289	-842,289	-842,289
Minimum Revenue Provision (MRP)	205,634	197,409	189,512	181,932	174,654	167,668
Voluntary Revenue Provision (VRP - Recycling Bins & Grove Active Zone)	131,226	131,226	131,226	75,891	20,556	20,556
	11,475,220	12,119,734	12,649,469	12,953,691	13,264,018	13,650,087
Add: Known Variations						
Planning Review	-7,443	0	0	0	0	0
Restructures (approved August 2018)	28,742	0	0	0	0	0
Rosliston Management Arrangements (approved August 2018)	27,067	0	0	0	0	0
Additional Grants Approved November 18	7,500	3,000	3,000	3,000	3,000	3,000
Proposed Senior Management Restructure	0	29,429	145,110	260,791	260,791	260,791
Proposed Senior Management Restructure - One-Off Costs Provision	41,202	20,266	20,266	20,266	0	0
Vehicle Maintenance Plan	0	0	17,000	15,000	38,000	35,000
Local Plan	0	0	25,000	40,000	40,000	25,000
Incremental Salary Increases	0	0	48,035	20,610	8,843	8,843
Apprenticeship Levy	31,377	0	0	0	0	0
Costs of Rateable Value Finder	100,000	0	0	0	0	0
Temporary Posts, Rosliston and Elections Updates	0	0	-321,245	-325,920	-330,813	-323,768
Potential Cost of New Waste Disposal Site	0	0	27,089	47,400	49,770	52,259
Potential Loss of Industrial Unit Income	0	0	190,000	190,000	190,000	190,000
District Election May 2023	0	0	0	0	0	125,000
TOTAL ESTIMATED SPENDING	11,703,665	12,172,429	12,803,724	13,224,838	13,523,608	14,026,212

	Approved Budget £ 2018.19	Proposed Budget £ 2019.20	Projection £ 2020.21	Projection £ 2021.22	Projection £ 2022.23	Projection £ 2023.24
Provisions						
Provision for Employer's NIC on "off-payroll" payments	10,000	10,000	10,000	10,000	10,000	10,000
Contingent Sum - Growth	315,000	500,000	500,000	500,000	500,000	475,000
Waste and Recycling	100,000	100,000	100,000	100,000	100,000	100,000
TOTAL PROJECTED SPENDING	12,128,665	12,782,429	13,413,724	13,834,838	14,133,608	14,611,212
FINANCING						
Business Rates Retention	-4,985,318	-3,584,572	-3,600,110	-3,614,345	-3,627,200	-3,638,600
Discretionary Business Rate Relief Scheme	-49,000	-20,000	-3,000	0	0	0
New Homes Bonus	-2,701,973	-3,281,951	-3,481,639	-3,476,015	-3,292,293	-2,884,231
Council Tax Income	-5,169,071	-5,405,401	-5,622,257	-5,845,514	-6,075,342	-6,311,909
Core Spending Power	-12,905,362	-12,291,923	-12,707,005	-12,935,874	-12,994,835	-12,834,740
Add Estimated Collection Fund Surplus - Council Tax	-55,000	-110,000	-55,000	-55,000	-55,000	-55,000
TOTAL FINANCING	-12,960,362	-12,401,923	-12,762,005	-12,990,874	-13,049,835	-12,889,740
General Fund yearly Surplus (-) / Deficit	-831,697	380,506	651,719	843,964	1,083,774	1,721,472
GENERAL FUND RESERVE BALANCE						
Balance b/fwd	-10,043,731	-9,040,105	-7,868,080	-6,855,156	-5,652,313	-4,212,129
General Fund Yearly Surplus (-) / Deficit (as above)	-831,697	380,506	651,719	843,964	1,083,774	1,721,472
MSP additional capital funding	50,000	400,000	0	0	0	0
NNDR Earmarked for Economic Development	1,000,000	0	0	0	0	0
Purchase of Town Centre Land	44,335	0	0	0	0	0
Community Partnership Scheme	250,000	0	0	0	0	0
General Fund Capital Bids Remaining	90,988	0	0	0	0	0
Pension Earmarked Reserve Drawdown	0	-8,481	-38,794	-41,122	-43,589	-6,783
Contribution to Asset Replacement Fund	400,000	400,000	400,000	400,000	400,000	400,000
Balance c/fwd	-9,040,105	-7,868,080	-6,855,156	-5,652,313	-4,212,129	-2,097,440

Environmental and Development Services Committee

Summary of Net Revenue Expenditure	Approved Budget 2018/19 £	Proposed Budget 2019/20 £	Change £
Transport	618,807	588,195	-30,612
Economic Development	260,734	264,629	3,895
Environmental Education	78,505	79,897	1,392
Environmental Health	514,770	532,773	18,003
Highways	44,548	48,487	3,938
Licensing and Land Charges	-21,086	12,835	33,921
Planning	534,881	670,603	135,722
Town Centre	95,137	107,339	12,203
Waste Collection & Street Cleansing	2,148,887	2,246,275	97,388
	4,275,184	4,551,034	275,850

Housing and Community Services Committee

Summary of Net Revenue Expenditure	Approved Budget 2018/19 £	Proposed Budget 2019/20 £	Change £
Community Development and Support	570,776	606,796	36,020
Recreational Activities	172,314	178,689	6,375
Leisure Centres and Community Facilities	579,612	632,355	52,743
Parks and Open Spaces	889,562	1,055,863	166,301
Private Sector Housing	421,991	432,904	10,914
	2,634,255	2,906,606	272,351

Finance and Management Committee

Summary of Net Revenue Expenditure	Approved Budget 2018/19 £	Proposed Budget 2019/20 £	Change £
Central and Departmental Accounts	3,210,540	3,326,065	115,524
Concessionary Travel	0	0	0
Corporate and Democratic Costs	671,110	613,418	-57,692
Electoral Registration	206,992	326,783	119,791
Payments to Parish Councils	359,832	362,497	2,665
Pensions, Grants, Interest Payments and Receipts	263,625	228,684	-34,941
Property and Estates	-166,557	-263,375	-96,818
Revenues and Benefits	515,970	581,676	65,706
	5,061,511	5,175,747	114,235
TOTAL ALL COMMITTEES	11,970,950	12,633,387	662,437

COUNCIL TAX BASE

PARISH	2018/19	2019/20	Change
ASH	22	23	1
ASTON ON TRENT	717	753	36
BARROW ON TRENT	239	247	8
BARTON BLOUNT	33	32	-1
BEARWARDCOTE	13	13	1
BRETRY	408	403	-5
BURNASTON	693	690	-3
CALKE	9	9	0
CASTLE GRESLEY	558	578	20
CATTON	22	22	0
CAULDWELL	46	46	0
CHURCH BROUGHTON	234	240	6
COTON IN THE ELMS	271	268	-4
DALBURY LEES	128	130	2
DRAKELOW	158	183	25
EGGINGTON	259	258	-1
ELVASTON	895	986	91
ETWALL	1,017	1,090	73
FINDERN	802	956	153
FOREMARK	33	33	1
FOSTON & SCROPTON	241	239	-2
HARTSHORNE	1,086	1,081	-5
HATTON	878	883	6
HILTON	2,640	2,685	45
HOON	22	21	-1
INGLEBY	49	49	0
LINTON	663	722	59
LULLINGTON	61	62	1
MARSTON ON DOVE	16	17	1
MELBOURNE	1,944	1,941	-3
NETHERSEAL	327	325	-2
NEWTON SOLNEY	284	298	14
OSLESTON & THURVASTON	123	124	1
OVERSEAL	813	853	41
RADBOURNE	51	79	28
REPTON	1,114	1,157	44
ROSLISTON	268	268	0
SHARDLOW & GREAT WILNE	413	413	-0
SMISBY	126	125	-1
STANTON BY BRIDGE	119	119	-1
STENSON FIELDS	1,479	1,493	14
SUTTON ON THE HILL	65	68	3
SWADLINCOTE	9,203	9,300	97
SWARKESTONE	122	189	67

TICKNALL	299	296	-3
TRUSLEY	41	42	1
TWYFORD & STENSON	67	69	2
WALTON ON TRENT	305	311	6
WESTON ON TRENT	483	479	-5
WILLINGTON	975	1,000	25
WOODVILLE	1,633	1,642	9
TOTAL	32,467	33,308	841

APPENDIX 4

COLLECTION FUND MONITORING 2018/19 (as at 30th November 2018)

	Actual 2017/18	Estimated 2018/19	Projection 2018/19
	£'000	£'000	£'000
COUNCIL TAX - INCOME & EXPENDITURE			
INCOME			
Council Tax Collectable	53,295	57,026	57,459
EXPENDITURE			
County Council Precept	38,345	41,302	41,302
Police and Crime Commissioner Precept	5,715	6,253	6,253
Fire and Rescue Authority Precept	2,297	2,426	2,426
SDDC Precept	4,942	5,169	5,169
SDDC Parish Precepts	756	773	773
Increase in Bad Debts Provision	-68	570	575
Total Expenditure	51,987	56,493	56,498
Surplus for the Year	1,308	532	961
COUNCIL TAX BALANCE			
Opening Balance 1st April	613	1,421	1,421
Share of Previous Surplus to County Council	-367	-367	-367
Share of Previous Surplus to Police	-56	-56	-56
Share of Previous Surplus to Fire Authority	-22	-22	-22
Share of Previous Surplus to SDDC	-55	-55	-55
Surplus for Year (as above)	1,308	532	961
Closing Balance as at 31st March	1,421	1,453	1,882

BUSINESS RATES - INCOME & EXPENDITURE

INCOME	Actual 2017/18 £'000	Estimated 2018/19 £'000	Projection 2018/19 £'000
Business Rates Collectable	24,457	26,635	25,389
Transitional Protection Payments	590	873	873
Total Income	25,047	27,508	26,262
EXPENDITURE			
Central Government Precept	12,402	0	0
SDDC Precept	9,922	13,338	13,338
Derbyshire County Council Precept	2,232	13,071	13,071
Fire and Rescue Service Precept	248	267	267
Cost of Collection	91	91	91
Increase in Bad Debts Provision	145	267	241
Provision for Appeals	-428	473	330
Total Expenditure	24,612	27,507	27,338
Surplus / Deficit (-)	435	1	-1,076

BUSINESS RATES BALANCE			
Opening Balance 1st April	-1,339	-192	-192
Transfer of Previous Year's Surplus (-) / Deficit	356	382	382
Transfer of Previous Year's Surplus (-) / Deficit	285	306	306
Transfer of Previous Year's Surplus (-) / Deficit	64	69	69
Transfer of Previous Year's Surplus (-) / Deficit	7	7	7
Surplus / Deficit (-) for the Year as above	435	1	-1,076
Closing Balance as at 31st March	-192	573	-504