REPORT TO:	**FINANCE AND MANAGEMENT COMMITTEE SPECIAL - BUDGET**	**AGENDA ITEM: 6**
DATE OF MEETING:	**24th JANUARY 2011**	**CATEGORY: RECOMMENDED**
REPORT FROM:	**DIRECTOR OF CORPORATE SERVICES**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (595811)**	**DOC:** u/ks/budget round 201112/consolidated budget proposals Jan 11
SUBJECT:	**BUDGET REPORT 2011/12** **Incorporating the Consolidated Budget Proposals and Financial Plan to 2016**	**REF:**
WARD (S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: FM 08**

1.0 Recommendations

1.1 That the estimates of revenue income and expenditure for 2011/12 for the General Fund are considered and a level of income and expenditure approved.

1.2 That consideration is given to the level of any increase in grants to voluntary bodies and payments to parish councils under concurrent functions.

1.3 That the Council Tax Base for 2011/12 of 31,855 properties as detailed in Appendix 2 is approved.

1.4 That a surplus of £895,000 (of which £102,000 is due to this Council) as detailed in Appendix 3 be declared on the Collection Fund for 2010/2011.

1.5 That consideration is given to the principle of a council tax freeze for 2011/12 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 2016 as detailed in Appendix 1, including associated assumptions and risks as set out in the report, be approved.

1.7 That progress on proposals regarding further budget and efficiency savings is reported to the Committee on 15th February 2011.

1.8 That the updated capital investment programme and available financing to 2016 (as detailed in Appendix 4) is considered and any changes approved.

1.9 That the decisions made in recommendations 1.1 to 1.8 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 2011/12. Essentially, it builds on the financial plan and strategy approved in October 2010 and is the detailed budget report for 2011/12. The report covers the following:

- The Council's provisional financial settlement for 2011/12 and 2012/13 with estimated on-going implications for 2013/14 and beyond.

- The Council's current spending and proposed base budget position for 2011/12.

- The General Fund's 5-year financial projection including proposed spending by policy committees and associated analysis to 2015/16, which forms the Medium Term Financial Plan (MTFP).

- The proposed council tax base for 2011/12 and collection fund position, 2010/11.

- A review and update of the existing capital investment programme and financing available.

- Outline proposals for meeting the shortfall in overall government grant from 2011/12 and the projected budget deficit.

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 2011/12 and 2012/13
- Section 5 – Proposed Base Budget and Consolidated Spending 2011/12
- Section 6 – Revised General Fund Financial Projection to 2015/16
- Section 7 – Council Tax, Tax Base and Collection Fund Position
- Section 8 – Capital Investment and Financing

3.0 Executive Summary and Overall Commentary

3.1 A report to the Committee in October 2010, reviewed the Council's medium-term financial position following the Government's Budget Statement in June 2010. That Statement sets out a clear policy to reduce the national budget deficit, by, amongst other things, reducing Central Government's financial support in overall terms to local government.

3.2 The October report projected that by 2015/16, the Council's General Fund would be in a surplus position, improving from a deficit position at the start of the planning period, i.e. 2011/12. In addition, the level of balances (contingency reserves) was projected to be above the minimum level of £1m by 2015/16 as required by the Financial Strategy.

3.3 This much improved position was established due to plans put in place over the previous 12 months. This included restructures in Community and Legal Services, together with savings arising from the Corporate Services Strategic Partnership which commenced on 1st August 2010.

3.4 The report re-modelled inflation, interest rates and other key financial variables based on the most up-to-date information. Key risks and assumptions were also reviewed and noted.

3.5 However, it was acknowledged that this position was prior to the announcement of the Comprehensive Spending Review (CSR 10). Consequently, the report looked at different levels of grant reductions on the revised position based on the latest information at that time.

3.6 It was clear from this analysis that even more moderate reductions of between 5% and 10% would continue to place financial challenges for the Council over the medium term. CSR 10 subsequently provided some broad indications and suggested grant reductions of upto 28% over the 4-year period ending in 2014/15.

3.7 The Council's provisional settlement was published on 13th December 2010. This showed a reduction in mainstream Formula Grant of 14.8% in 2011/12 and 11.5% in 2012/13.

3.8 In addition, based on this settlement, formula grant is estimated to reduce by 28% in total compared to the current level over the Government's spending review period to 2014/15. Of this, 94.3% (or £1.7m) of that reduction is in the first 2 years, 2011/12 to 2012/13, as shown in Table 1 below.

3.9 However, a proportion of this will be offset by the New Homes Bonus (NHB) and an estimate is also shown in Table 1 below.

Table 1: Summary of Grant Reduction

Summary of Grant Reduction over CSR 10 Period	Reduction in Formula Grant	Cumulative Reduction	Less Estimated New Homes Bonus	Net Loss
2011/12	£1,028,204	56.9%	£382,710	£645,494
2012/13	£1,704,959	94.3%	£683,268	£1,021,691
2013/14	£1,756,524	97.2%	£683,268	£1,073,256
2014/15	£1,807,579	100.0%	£683,268	£1,124,311
Totals	**£6,297,266**		**£2,432,514**	**£3,864,752**

Note – Figures are on a year-on-year cumulative basis

New Homes Bonus (NHB)

3.10 The NHB is designed to encourage authorities to build new homes. Every new home built will attract 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 incentive to reduce the number of long-term empty properties.

3.11 The annual amount payable will be 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. Therefore, it is likely that the figures for NHB in Table 1 will change each year, but they are considered to be prudent estimates at this stage based on the expected increase in properties over the next 4 years.

3.12 However, the main issue with the NHB appears to be insufficient detail on how it will be financed beyond 2012/13. The NHB will be paid for every new home for 6 years. It is expected that the amount in Table 1 will grow beyond 2012/13 and based on estimates could be as high as £1.3m by 2014/15.

3.13 However, the Government has indicated that beyond the first 2 years, any additional payments will be taken from mainstream formula grant. The first 2 years are being paid from additional resources re-directed from previous funding streams. Effectively, the principle is that the NHB will be self-financing (or revenue neutral) within the funding system over the longer-term.

3.14 Therefore, the effect of NHB is projected to be fairly neutral and at the same amount with no increase after 2012/13 as shown in Table 1. Ultimately, this will depend on the annual financial settlement, but the Council could be a net gainer if growth continues on recent trends. However, it is not considered prudent at this stage to build in this assumption.

3.15 In addition, consultation on the mechanics of the NHB only closed at the end of December. The Council submitted responses to several technical questions raised by the Government.

3.16 Therefore, although the principle seems to be established and approved, the mechanics could be subject to change. It is envisaged that the results of, and the response to the consultation, will be known ahead of the next Committee in February.

2-Year Settlement

3.17 The figures for Formula Grant are currently provisional for the next 2 years, 2011/12 and 2012/13, with figures for years 3 and 4 of the CSR 10 period (2013/14 and 2014/15) being estimates. These are based on the overall reduction in grant expected over the Government's spending review period, i.e. to bring the overall grant reduction to 28% by 2014/15.

3.18 The figures included in the MTFP are shown in Table 2.

Table 2: Mainstream Formula Grant over CSR 10.

	Grant	Reduction	
2010/11 - Actual	£7,313,884		
2010/11 - Adjusted	£6,947,325	£366,559	5.3%
2011/12 - Provisional	£5,919,121	£1,028,204	14.8%
2012/13 - Adjusted	£5,884,825	£34,296	0.5%
2012/13 - Provisional	£5,208,070	£676,755	11.5%
2013/14 - Estimated	£5,156,505	£51,565	0.9%
2014/15 - Estimated	£5,105,450	£51,055	0.9%
2015/16 - Estimated	£5,105,450	£0	0.0%
Total Reduction		**£1,807,579**	**28.0%**

Note – The total reduction is the provisional figures added to those estimated

3.19 A detailed analysis of the grant settlement is provided in Section 4.

The Effect on the MTFP

3.20 Clearly, such significant reductions in grant levels will provide an additional financial challenge for the Council. From being in a position of a balanced budget in the medium-term, the Council is now faced again with a budget deficit in its General Fund services from 2011/12.

3.21 The adjustment to the grant levels as shown in Table 2 mainly reflects the transfer of concessionary travel to the County Council. The MTFP had budgeted for a much larger reduction in grant loss for this item than has taken place. This effectively provides some offset against the loss of grant within the MTFP.

3.22 In addition, a review of the current base budget has realised some budget savings which have been considered by the other Policy Committees. Some additional costs, in particular for housing benefits have been built into the base, and overall income from building regulation and local planning applications has been reduced over the period of the MTFP compared to previous estimates.

3.23 The receipts from the VAT refund, as previously reported, help to increase the current level of balances, which are now estimated to be £3.4m at March 2011, clearly well above the minimum level of £1m. However, capital commitments of £1.5m over the next 5-years are still earmarked against this sum.

3.24 In addition, approximately £887,000 (as shown in Table 3 below) will need to be set-aside to cover the projected budget deficit in 2011/12 depending on how quickly additional budget savings can be made.

Projected Budget Deficit

3.25 Following the review of base budgets and the financial settlement arising out of CSR 10, the Council's projected deficit, with a comparison to that reported in October 2010, is shown in Table 3.

Table 3: Projected Budget Deficit / Surplus (-)

YEAR	Oct-10	Jan-11
2010/11	378,282	-175,263
2011/12	486,625	887,152
2012/13	-83,472	525,328
2013/14	42,491	696,372
2014/15	-99,696	750,955
2015/16	-280,237	1,016,524

3.26 Clearly, the projected deficit position (as revised) from 2011/12 is a concern. This effectively represents the level of savings required over and above that already made in order to achieve a balanced budget. In addition, this does not provide for any new resources should the Council wish to develop services.

Projected Balances

3.27 In addition, the effect on the overall level of general reserves is shown in Table 4, below.

Table 4: Projected Balances

YEAR	Oct-10	Jan-11
2010/11	2,608,164	3,425,813
2011/12	1,656,539	2,143,661
2012/13	1,515,011	1,333,333
2013/14	1,162,520	326,961
2014/15	1,012,217	-673,994
2015/16	1,042,454	-1,960,518

3.28 Table 4 also shows that the overall financial position is unsustainable in the medium term with the level of balances now projected to fall substantially below the minimum level of £1m by 2013/14. Therefore, it is imperative that further budget savings are made.

Further Budget Savings/Efficiencies

3.29 Several areas are currently being reviewed and proposals are being reported to policy committees alongside the budget reports. As part of the Strategic Partnership in Corporate Services, the Council's service provider is currently reviewing certain services and areas of spend. This is to identify savings and efficiencies as part of their income/savings guarantee to the Council. It is expected that subject to the approval of detailed proposals, a savings programme will commence from April 2011.

3.30 In addition, savings are expected from the re-tendering of the leisure management contract and these will be built into the base budget when final contractual terms have been finalised. Furthermore, the Grounds Maintenance service is currently being tendered.

3.31 This may also provide further budget savings, although at this stage, that cannot be determined or guaranteed. Further details will be known during March/April 2011 when the tendering process is completed.

Capital Commitments

3.32 The projection allows for the capital commitments of £1.5m over the next 5 years to be financed from balances and this is included in the figures. As previously reported, these commitments relate to replacement vehicles and repayment of covenants.

3.33 Clearly, if capital receipts can be realised over this period, for example from the redevelopment of the Depot site, to meet these commitments, then this will help to improve the situation. However, the current capital programme allows for no new investment and it is considered that pressure remains on budgets for disabled facility grants, to improve facilities and develop services, etc.

Assumptions and Risks

3.34 There are many variables and associated risks within the Council's budget and forward projections. The financial settlement has perhaps increased this and details of future funding beyond 2012/13 remain unclear. Provisions continue to be made for known variations such as pension fund contributions and district growth, etc. in future years. Other sums remain set-aside to deal with the interim costs of implementing the pay and grading review, together with resources for the voluntary sector.

3.35 The base budget for 2011/12 and MTFP to 2015/16 is considered to be realistic but prudent, although factors will change.

3.36 However, it is important that the Council uses this projection as a clear focus for the future and continues to keep spending on the General Fund under regular review and control. Further budget and efficiency savings will need to be made to maintain and safeguard a sustainable financial position and to provide additional resources if the Councils wishes to improve and develop service provision.

DETAIL BACKGROUND and BASE BUDGET ANALYSIS

4.0 The Council's Financial Settlement 2011/12 and 2012/13

4.1 On 13 December 2010, the Secretary of State for Communities and Local Government (CLG) made his statement to Parliament concerning the provisional local government finance settlements 2011/12 and 2012/13. The provisional settlement provides local authorities with their provisional funding allocations for the next two years (2011/12 and 2012/13) only.

4.2 The final allocations are expected to be confirmed in late January 2011. The figures announced were based on the Spending Review (CSR 10) cash limits for local government which were published on 20 October 2010. These limits pointed towards some large reductions in funding for local authorities.

4.3 As part of CSR 10, a number of specific grants moved into the mainstream Formula Grant. The CLG has also awarded a separate "Transition Grant" which is intended to ensure that no local authority receives a reduction in its revenue spending power (not formula grant) of more than 8.9% between 2010/11 and 2011/12, or between 2011/12 and 2012/13.

4.4 Revenue spending power is a new definition defined by the CLG and includes money raised from council tax and specific grants, in addition to formula grant. The Council's calculation is shown in Table 5.

Table 5: Amounts included in order to Calculate entitlement to Transition Grant

Factor	2011/12 (£000)	2012/13 (£000)
Council Tax Requirement	5,212	5,212
Adjusted Formula Grant	6,947	5,919
Benefits Subsidy Admin. Grant	507	485
Homelessness Grant	46	65
Council Tax Freeze Grant	0	119
Total	**12,712**	**11,800**

4.5 The estimated reduction in spending power is £912k (£12,712 - £11,800) or 7.2%. For 2012/13 this is estimated to reduce to 6.2%. Therefore, the Council will not qualify for this as its revenue spending power is estimated to fall by less than 8.9%.

The Overall Settlement

4.6 Nationally, shire districts have borne the greatest reductions in formula grant with an average decrease of 15% in 2011/12. This compares with an average reduction across all categories of authority in England of 9.9%.

Floors and Ceilings

4.7 The distribution system continues to provide a mechanism for protecting authorities who would otherwise suffer disproportionately from changes in funding. This settlement has been more acute in terms of changes due to the overall pot being substantially reduced. In addition, more weighting has been given to deprivation indices and less to size of population.

4.8 "Losers" are effectively provided more resources by scaling back increases from "winners" so overall there is a neutral impact on the overall level of resources. A ceiling is placed on increases with a floor set to guarantee a minimum level.

4.9 Previously, the Council has lost out in this mechanism and contributed £197,000 in 2010/11 to protect other authorities. For 2011/12 the system has changed and the CLG has placed individual local authorities into one of four bands (for Shire Districts) based on an overall ranking, determined by grant dependency.

4.10 This is defined as the proportion of the Council's budget requirement for 2010/11 that was funded through the 2010/11 Formula Grant. There are an equal number of authorities in each of the four bands.

4.11 Band 1 contains those authorities considered to be highly dependent, with Band 4 being considered less dependent on central support, relative to other shire districts. The Council has been placed in Band 2 and is towards the top of that Band; the Council is a beneficiary of this mechanism as highlighted later in the report.

Adjusted Baselines

4.12 In order to aid comparison, the CLG has produced an adjusted baseline for 2010/11 and 2011/12. This is to reflect adjustments for functions transferring to and between authorities.

4.13 In South Derbyshire's case, the main adjustment related to the transfer of Concessionary Travel to the County Council. The Council's figures are shown in Table 6 below.

Table 6: Adjusted Baseline 2010/11 (Figures in £000s)

Actual Formula Grant 2010/11	7,314
Less: Adjustment for Concessionary Fares	-335
Less: Adjustment for Private Sewers (see note)	-36
Less: Planning Inspectorate Appeal Costs	-2
Add: Economic Assessment Duty	6
Adjusted Baseline 2010/11	**6,947**

Note: This reflects the proposed transfer of private sewers and lateral drains to the ownership of the statutory water and sewerage companies. Consultation proposals were considered by the Overview and Scrutiny Committee on 15th September 2010 and the Environmental and Development Services Committee on 7th October 2010.

4.14 All of the adjustments reflect that the Council will no longer be incurring costs on the above functions. Therefore, the “equivalent amount” contained in the formula grant is also reduced.

4.15 However, these amounts may not reflect the Council’s actual spend on these functions, but are the CLG’s assessment of costs for grant setting purposes. A small amount has been added for economic assessments. The effect of the adjustment for concessionary travel is more significant and that is discussed later in the report in Section 6.

Provisional Formula Grant 2011/12

4.16 The Council’s provisional grant for 2011/12 is £5,919,121, a reduction of £1,028,024 (14.8%) compared to the adjusted baseline in Table 6 above. This is above the national average reduction of 9.9% and just below the average for Shire Districts of 15%.

4.17 Within the figure of £5,919,121, the Council has benefited from the floors and ceilings mechanism (as described earlier) by £622,000. Effectively, this acts as “protection” against a further reduction.

Provisional Formula Grant 2012/13

4.18 A further adjustment has been made to the baseline for 2012/13, with a further reduction of £34,296 for the transfer of private sewers. Deducting this from the actual grant in 2011/12 of £5,919,121 (above) gives a revised baseline of £5,884,825.

4.19 The provisional grant 2012/13 is £5,208,070, a further reduction of £676,755 (11.5%) compared to the revised baseline. This is above the national average reduction of 7.3% and above the average for Shire Districts of 10.8%.

4.20 Within this, the “protection” amount from the floors and ceilings mechanism is reduced from £622,000 in 2011/12 to £496,000 in 2012/13.

Estimated Grant Beyond 2012/13

4.21 For the purposes of financial planning, estimates have been made for the remainder of the MTFP, 2013/14 to 2015/16. The provisional reductions in 2011/12 and 2012/13 total 26.3%. Further reductions of 0.9% per year have been estimated for 2013/14 and 2014/15.

4.22 In total, this would bring the overall reduction in grant expected over the Government’s spending review period, i.e. to 28%. Formula Grant in 2015/16 has been cash limited at the 2014/15 level. The expected grant position included in the revised MTFP is shown in Table 7, below.

Table 7: Mainstream Formula Grant over the MTFP to 2016

	Grant	Reduction	
2010/11 - Actual	£7,313,884		
2010/11 - Adjusted	£6,947,325	£366,559	5.3%
2011/12 - Provisional	£5,919,121	£1,028,204	14.8%
2012/13 - Adjusted	£5,884,825	£34,296	0.5%
2012/13 - Provisional	£5,208,070	£676,755	11.5%
2013/14 - Estimated	£5,156,505	£51,565	0.9%
2014/15 - Estimated	£5,105,450	£51,055	0.9%
2015/16 - Estimated	£5,105,450	£0	0.0%
Total Reduction		**£1,807,579**	**28.0%**

Note – The total reduction is the provisional figures added to those estimated

The New Homes Bonus (NHB)

4.23 The NHB is designed to encourage authorities to build new homes. Every new home built will attract 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 incentive to reduce the number of long-term empty properties.

4.24 The annual amount payable will be 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.

4.25 A calculation will be undertaken each year and the amount will be added onto the previous year. If there is a negative reduction in properties (which is perhaps unlikely for South Derbyshire) no grant will be paid for that year but no deduction will be made to offset it against previous years.

4.26 Proposals for the bonus due to each authority are that 20% of it 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.

4.27 Consultation on the mechanics of the NHB only finished at the end of December. The Council submitted responses to several technical questions raised by the GLG. Although the principle of the NHB seems to be established and approved, the mechanics could be subject to change.

Potential Amounts for the Council

4.28 The amount due for 2011/12 can be assessed quite accurately as the base data used (i.e. the tax base for 2011/12) has already been audited and submitted to the CLG. Estimates can be made beyond this based on projections for property growth and affordable homes that are used elsewhere in the assumptions for financial planning purposes.

4.29 The amount payable in each year will be based on the change in property numbers over the preceding 12 months. For example, NHB paid in 2011/12 will be based on changes between October 2009 and October 2010, although this "time lag" is subject to consultation responses.

4.30 Based on this, calculations for the next 5-years show the following amounts as set out in Table 8.

Table 8: Estimated NHB

Year	Amount	New and Affordable Homes
2011/12	£382,710	382
2012/13	£683,268	300
2013/14	£983,825	300
2014/15	£1,284,383	300
2015/16	£1,584,941	300
Total	**£4,919,127**	

Note – This assumes the 80/20 split as set out in the consultation, i.e. the amount of £4,919,127 is after allowing for 20% to be passed over to the County Council.

Long-Term Empty Properties

4.31 The number of new and affordable homes is after adjusting for the difference in long-term empty properties. This is to provide an incentive to reduce the number of empty properties. Where the number increases between years, the amount payable is reduced, and vice-versa if it decreases.

4.32 For the Council, the number of empty properties in 2009/10 was 443 and this has increased to 457 for 2010/11 (as at the data compilation date). The amount of grant is therefore reduced and equates to approximately £20,000 for 2011/12.

4.33 A long-term empty property is one that has been unoccupied for over 6 months. Although that is not considered to be an issue, the classification of what is a long-term empty property does give some concern and the Council's response to the consultation reflected this.

4.34 This is because it includes new properties that have been built but have not been sold as part of a residential development. There is concern that if this is taken into account at any one time it will distort the figures as it is questionable whether new properties should be included.

Funding the NHB beyond 2012/13

4.35 The main issue with the NHB appears to be insufficient detail on how it will be financed beyond 2012/13. The NHB will be paid for every new home for 6 years. Table 8 shows that potentially, this could be a significant source of income for the Council as a growth area, reaching over £1.5m by 2015/16.

4.36 However, the Government has indicated that beyond the first 2 years, any additional payments will be taken from mainstream formula grant. The first 2 years are being paid from additional resources re-directed from previous funding streams. Effectively, the principle is that the NHB will be self-financing (or revenue neutral) within the funding system over the longer-term.

4.37 Therefore, for the purposes of financial planning, the effect of NHB is projected to be fairly neutral and at the same level after 2012/13 as shown in Table 8, i.e. approximately £683,000 per year after 2012/13. This is on the basis that any increase will be deducted from Formula Grant.

4.38 Ultimately, this will depend on the annual financial settlement, but the Council could be a net gainer if growth continues on recent trends. However, it is not considered prudent at this stage to build in this assumption.

Specific Grants

4.39 Although most specific grants have been moved into the mainstream formula grant, the Council will still receive 2 separate grants as follows:

Table 9: Specific Grants

Grant	**2010/11 Actual**	**2011/12 Provisional**	**2012/13 Provisional**
Housing and Council Tax Benefit Administration (HCTBA)	£506,959	£485,231	TBC
Preventing Homelessness	£46,000	£64,470	£64,470

4.40 These grants are effectively ring-fenced for the services concerned. The reduction in HCTBA follows the recent trend of reductions of up to 5% per year. The above figures have been included in the MTFP.

4.41 In addition, the Council could qualify for a Council Tax Freeze Grant. This is a new grant which will be paid for 4 years to reimburse lost income where a nil council tax increase is levied for 2011/12 up to the equivalent of a 2.5% increase. This is detailed and analysed further in Section 7.

5.0 Proposed Base Budget and Consolidated Spending 2011/12

5.1 All policy committees (including an earlier report on this Agenda) have considered their detailed base budget proposals for 2011/12. All services were asked to carefully consider their base income and expenditure with a view to finding further budget savings and efficiencies due to the reductions in government funding.

5.2 A full analysis of each Committee is detailed in separate reports to the respective policy committee. A summary of each Committee's proposed spending is shown in Table 10, below.

Table 10: Summary Committee Expenditure 2010/11 to 2011/12

Analysis of Net Revenue Expenditure Budgets 2010/11 and 2011/12	Approved Budget 2010/11	Proposed Budget 2011/12	Change
Environmental and Development Services	£3,112,183	£2,978,175	-£134,008
Housing and Community Services	£2,919,161	£2,847,533	-£71,628
Finance and Management	£6,323,212	£5,940,565	-£382,647
Total	**£12,354,556**	**£11,766,273**	**-£588,283**

5.3 The above table shows that overall General Fund net expenditure is estimated to decrease overall between 2010/11 and 2011/12 by £588,283. In summary, the main reasons for this are as follows:

Table 11: Analysis of Change in Spending

Known and Internal Adjustments	-£663,385
Changes in Income Levels	£20,180
Additional Costs	£164,003
Reduction in Section 106 Funding	£48,850
Savings/Efficiencies	-£157,931
TOTAL CHANGE	**-£588,283**

5.4 A detailed analysis of these changes has been considered by each Policy Committee. The key points are summarised below.

Known and Internal Adjustments

5.5 This mainly includes expenditure on Concessionary Fares falling out, together with savings from the Corporate Services' Strategic Partnership and reductions in insurance premiums being built into the base budget

5.6 It also includes one-off amounts being taken out that were included in budgets for 2010/11 only. In addition, known changes in expenditure through previous restructures or approved growth items are also included in this amount.

Changes in Income Levels

5.7 There are anticipated increases in income from the pest control service and land charges in particular. However, these have been more than offset by reductions in the grant for administering council tax and housing benefit (Table 9 in Section 4) together with reductions in rental income from industrial and commercial lettings.

Additional Costs

5.8 The main issue is the on-going cost of housing benefits as reported to the Committee in December 2010. In addition other cost pressures include the rising costs for replacement of wheeled bins and the cost of servicing “Bring Sites” where usage has increased, especially for recycling plastics

Reduction in Section 106 Funding

5.9 This relates to a sum of £48,850 for expenditure associated with maintaining Swadlincote Woodlands. Lower costs are anticipated in future years and these will be financed from savings elsewhere in Grounds Maintenance. This was considered by the Housing and Community Services Committee on 6th January.

Budget Savings and Efficiencies

5.10 All Committees have submitted saving/efficiency proposals and the main ones are summarised in Table 12, below.

Table 12: Proposed Budget Savings and Efficiencies 2011/12

Service	Amount
Grounds Maintenance	£46,000
Recycling - Contracting Costs	£44,000
Promotion of Recycling - use of technology	£30,000
Planning - Departmental Expenses	£11,000
Audit and Inspection Fees	£10,000
Rating Revaluations	£9,000
Cash and Payment Collections	£8,000
TOTAL	**£158,000**

5.11 These savings will be on-going and have been included in the MTFP.

Grants to Voluntary Bodies and Payments under Concurrent Functions

5.12 In previous years, the Council has agreed to increase these expenditure items by inflation, as measured by the Retail Price Index (RPI), as at September of the preceding year.

5.13 As at September 2010, RPI stood at 4.6%. The MTFP includes a provision of 2%. In 2010/11, although RPI was negative (as at September 2009) an increase of 1.5% was added to the base funding level for both grants and concurrent functions.

5.14 An increase of 4.6% equates to approximately £25,000 per year in total across all grants and concurrent functions, with 2% equating to around £11,000. This would be on-going across the MTFP.

5.15 However, it should be noted that there are no proposals to reduce the base level of funding in 2011/12. In addition, the overall expenditure for concurrent functions has been increased by £12,000 from 2010/11 to 2011/12.

5.16 This reflects a phased increase in resources (2^{nd} year of 3) to provide a fairer system of funding whilst protecting those parishes that potentially would lose resources through the revised system.

5.17 Housing and Community Services Committee has recommended no inflationary increase for grants and this Committee considered the issue for concurrent functions in the previous report on this Agenda (Item 6).

6.0 General Fund 5-Year Financial Projection to 2015/16

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 changes have also been reflected, although the main indices for inflation and interest rates, etc. remain unchanged unless otherwise stated, from the review in October 2010.

6.2 The projection is calculated within a financial model the summary of which is shown in **Appendix 1.** The key figures are shown in **Tables 13 to 16** in this section of the report. Firstly, an analysis of the projected budget deficit with a comparison to that reported in October 2010 is shown in Table 13.

Table 13: Projected Budget Deficit / Surplus (-)

YEAR	Oct-10	Jan-11
2010/11	378,282	-175,263
2011/12	486,625	887,152
2012/13	-83,472	525,328
2013/14	42,491	696,372
2014/15	-99,696	750,955
2015/16	-280,237	1,016,524

6.3 Clearly, the projected deficit position (as revised) from 2011/12 is a concern. This effectively represents the level of savings required over and above that already made in order to achieve a balanced budget. In addition, this does not included any new resources for services that the Council may wish to develop.

6.4 Table 13 shows that although there is a significant deficit each year, it does change between years. This is mainly due to how some cost provisions and one-off expenditure come in and fall out of the on-going spend.

6.5 For example, provisions for future pension increases, pay and grading review and local elections. This also includes changes to future inflation rates and estimates of government grant and council tax detailed elsewhere in the report. An analysis of the deficit is shown in Table 14.

Table 14: Breakdown of the Projected Deficit

Analysis of Projected Deficit	Budget 2010/11 £	Base 2011/12 £	Projection 2012/13 £	Projection 2013/14 £	Projection 2014/15 £	Projection 2015/16 £
Base Service Expenditure	12,354,556	11,766,273	11,592,802	11,732,537	11,915,113	12,133,098
Capital Adjustments	-357,425	-369,425	-381,425	-393,425	-405,425	-419,425
Provisions and Known Changes	79,608	893,304	403,492	567,574	578,327	696,831
Less Financing	-12,252,002	-11,402,999	-11,089,541	-11,210,313	-11,337,060	-11,393,980
Deficit / Surplus (-)	**-175,263**	**887,152**	**525,328**	**696,372**	**750,955**	**1,016,524**

6.6 Provisions continue to be made for known variations such as pension fund contributions and district growth, etc. in future years. Other sums remain set-aside to deal with the interim costs of implementing the pay and grading review, together with resources for the voluntary sector. Provision has also been made in 2015/16 for District elections.

Inflation

6.7 In line with current policy, inflation is not allocated directly into service base budgets. Clearly, some base costs will be subject to inflation during the year and in some cases it will be "unavoidable," for example employee costs, if/when national pay increases are settled in the future.

6.8 Allowances for inflation based on various assumptions regarding price increases, etc. have been calculated across the main spending heads and in total, will be held as a central contingency. These were detailed to the Committee in October 2010.

National Non-Domestic (Business) Rates - NNDR

6.9 Except for a provision for NNDR, all other indices remain unchanged. As regards NNDR, the Government have set out the multiplier for increasing the national non-domestic rate in 2011/12. This will increase by 4.6%, reflecting the RPI inflation rate at September 2010. The MTFP had previously assumed 2%.

6.10 The Council is subject to NNDR on its public buildings such as the Civic Offices and Depot. The Council's liability is approximately £250,000 per year and the increase in rate compared to that estimated adds around £6,500 per year to costs.

6.11 However, as reported previously, rating revaluations were recently undertaken on the main public buildings. This reduced the base liability by approximately £9,000 per year, more than offsetting the additional inflation.

Overall Inflation and Growth Contingency

6.12 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.

6.13 It should be noted that the contingency for inflation and growth is only a provision and does not mean that costs will automatically increase by that amount. It is a prudent assessment at a particular point in time of what is likely to increase. A breakdown of the overall contingency (including growth) is shown in Table 15, below.

Table 15: Inflation and Growth Contingency

Cost Type	Budget 2010/11 £	Base 2011/12 £	Projection 2012/13 £	Projection 2013/14 £	Projection 2014/15 £	Projection 2015/16 £
Employee Costs	131,334	40,562	41,170	194,191	199,046	204,022
Other Costs	84,063	102,565	122,334	173,664	178,008	182,460
Income - Fees and Charges	-448	0	-145,531	-123,419	-126,505	-129,667
Growth - Waste and Cleansing	53,748	53,748	69,856	85,985	100,000	100,000
Growth - Other	22,112	49,000	61,000	61,300	61,608	61,923
Total	**290,809**	**245,874**	**148,829**	**391,721**	**412,156**	**418,737**

6.14 There are no income figures for 2010/11 and 2011/12, as any inflationary charge has already been built into the base budget following the review of fees and charges for those years. In addition, the increase in employee costs assumes that there will be a national pay freeze for the next 2 years, with inflationary increases thereafter.

Projected Balances

6.15 A summary from Appendix 1 of the projected level of general reserves is shown in Table 16.

Table 16: Projected Balances

YEAR	Oct-10	Jan-11
2010/11	2,608,164	3,425,813
2011/12	1,656,539	2,143,661
2012/13	1,515,011	1,333,333
2013/14	1,162,520	326,961
2014/15	1,012,217	-673,994
2015/16	1,042,454	-1,960,518

6.16 Table 16 also shows that the overall financial position is unsustainable in the medium term with the level of balances now projected to fall substantially below the minimum level of £1m by 2013/14. Therefore, it is imperative that further budget savings are made.

Capital Commitments

6.17 The projection allows for the capital commitments of £1.5m over the next 5 years to be financed from balances and this is included in the figures. As previously reported, these commitments relate to replacement vehicles and repayment of covenants.

6.18 Clearly, if capital receipts can be realised over this period, for example from the redevelopment of the Depot site, to meet these commitments, then this will help to improve the situation.

Overall Comparison to the Previous Projection

6.19 The previous projection (as reported in October 2010) forecast a positive General Fund reserve balance of £1,042,454 as at March 2016. As Table 16 shows, this is now forecast to reduce to a negative balance of £1,960,518, a negative shift in projected resources of approximately £3m over 5 years.

6.20 Clearly, the reduction in government grant is the main reason. However, there are several areas that have had an impact, both positive and negative as summarised in Table 17.

Table 17: Analysis of Major Changes in Projected Resources

Figures are Cumulative - over 5 Years	Gains (£)	Losses (£)
Delay in Pay and Grading (2015/16 cost falling out)	36,000	
Increase in Area Based Grant 2010/11 - One-off	11,000	
Adjusted Balance b/fwd into 09/10 re: VAT Windfall - 1st Claim	264,000	
2nd Claim Received in November 2010	229,000	
Better Capital out-turn in 09/10 reduces contribution to capital commitments	70,000	
Known increase in Council Tax Base 2011/12 - on-going effect	222,795	
Future Year's Growth Softened		-164,300
Proposed Freeze in Council Tax in 2011/12 – **SEE NOTE BELOW**		-640,973
Replace with Council Tax Specific Grant (to 2014/15 only) – **SEE NOTE**	484,800	
Provision for costs arising from Boundary Review no longer required	100,000	
Additional savings from Corporate Services Partnership	75,000	
Provision for additional Statutory Housing Survey 2013/14		-60,000
Provision for Civic Car Replacement in 2015/16		-20,000
Provision for District Elections 2015/16		-125,000
Reduction in Overall Planning Income compared to previous assumptions		-82,000
Increase in NNDR Multiplier (inflation at 4.6%)		-33,730
Take out Concessionary Travel Provision for Grant Loss	4,000,000	
Put in revised Formula Grant		-10,516,582
Estimated New Homes Bonus	3,115,782	
Other Gains – lower increments and other costs	126,286	
Savings made in Environmental and Development Services	412,780	
Savings made in Housing and Community Services	23,175	
Additional Costs in Finance and Management (mainly Housing Benefits)		-765,115
Additional Section 106 Funding for Parks and Swadlincote Woodlands	234,110	
TOTALS	**9,404,728**	**-12,407,700**
NET REDUCTION IN RESOURCES		**-3,002,972**

Note: The proposed freeze in council tax for 2011/12 and the Government grant to meet this is detailed in Section 7.

6.21 As highlighted, the largest change is the difference in government grant. The figures detailed in Section 4 of the report reduce resources compared to the previous MTFP by approximately £10.5m. Effectively, some of this was provided for through the provision for concessionary travel - £4m over 5-years.

6.22 In addition, the New Homes Bonus could be worth around £3.1m. In total therefore, there is a net reduction in Grant of around £3.4m (just under 10%) compared to the previous MTFP.

6.23 Excluding the grant position, other variances show a net gain of approximately £400,000 (i.e. £3.4m grant loss compared to a net loss of £3m overall). The VAT windfall of nearly £1/2m is the other major factor; although one-off, it does help to keep balances at a relatively high level in the short term.

6.24 As reported to other policy committees and summarised in Section 5 of this report, service related budget savings and efficiencies, have released approximately £670,000 over 5 years. However, the increase in benefit costs together with the reduction in income from planning and property has offset this.

6.25 The tax base for 2011/12 will increase more than previously estimated, although the growth in the number of properties has been scaled back slightly compared to the previous MTFP. This is detailed in Section 7.

6.26 In addition, some changes to provisions have also been made. In particular, a provision for costs arising from the boundary review is no longer required, although this has been replaced by a provision for the local elections in May 2016, the final year of the current plan.

Concessionary Travel

6.27 As previously reported, the MTFP made a provision (through concessionary travel costs) of £800,000 towards the projected grant reduction. The Council's net cost for 2010/11, the final year it will be responsible for concessionary fares before it is transferred to the County Council, is estimated at approximately £444,000.

6.28 Although these costs can now be taken out of the Council's budget from 2011/12, provision had previously been made in the MTFP at the higher level, as above.

6.29 The £800,000 reflected the cost of the scheme before it was changed on 1st April 2008. This was intended to protect the financial position should the basis of actual grant loss be at this higher level.

6.30 As Section 4 highlighted, the Council's baseline for Formula Grant was adjusted downwards by £335,000 for 2011/12 (Table 6) for the transfer of concessionary travel. Effectively, this is the amount that has been removed from the Council's grant to reflect the transfer of function. It is based on the Council's net actual expenditure in 2009/10 (i.e. £397,000 cost less £62,000 specific grant).

6.31 Therefore, in the grant mechanism, the Council has benefited because the loss in grant is less than the estimated net costs in 2010/11 (£444k less £335k). As stated above, it is the actual expenditure in 2009/10 and not the latest estimate that is the basis of the grant adjustment.

6.32 It should be noted that for many other authorities, the reverse situation applies. Their grant loss is more than their estimated costs in 2010/11. This may become subject to a challenge by those authorities.

6.33 However, the key point for the Council is that provision was made for continuing actual cash reductions (£800k) in grant at a higher level than the actual cost of concessionary fares in the Council's budget (£444k). Effectively, that has been the benefit to the Council as planned.

Income from Land Charges, Planning and Building Regulations

6.34 As major income streams, fees in this area can have a major impact on the MTFP as evidenced over the last 2 to 3 years. Although income has fallen quite significantly over this period, it is estimated that around £1m per year will still accrue over the MTFP.

6.35 The budget and future projections included in the MTFP are shown in Table 18, below. These have been considered by the Environmental and Development Services Committee.

Table 18: Income form Planning Fees, etc.

Analysis of income from planning applications, building regulations and land charges	Planning Fees	Building Regs.	Land Charges	Total
Budget 2010/11	£531,000	£210,000	£125,000	£866,000
Projected Out-turn 2010/11	£538,000	£210,000	£100,000	£848,000
Forecast 2011/12	£590,000	£340,000	£105,000	**£1,035,000**
Base Budget 2011/12	£538,000	£210,000	£125,000	**£873,000**
Forecast 2012/13	£590,000	£340,000	£125,000	£1,055,000
Forecast 2013/14	£590,000	£340,000	£125,000	£1,055,000
Forecast 2014/15	£590,000	£340,000	£125,000	£1,055,000
Forecast 2015/16	£590,000	£340,000	£125,000	£1,055,000

6.36 Table 18 shows that the total base budgeted income for 2011/12 at £873,000 is much lower than previously estimated at £1,035,000. In particular, income from building regulations, although no longer falling is not picking up to levels previously anticipated.

6.37 Following the scrapping of the personal search fee and the revised charging structure approved by the Committee in October 2010 in response to this, it is anticipated that income will rise from £100,000 to £125,000 per year.

6.38 Clearly, future income levels will depend on the economic situation, Central Government's revised plans for planning and housing and how this ultimately affects on-going growth across the District. However, this could also increase the cost base again if volumes increase significantly.

6.39 In addition, CLG has recently been consulting on setting fees for planning applications locally. The Council has submitted a response which was considered and approved by the Environmental and Development Services Committee on 4th January 2011.

Financial Risks and the Minimum Level of General Reserves

6.40 This report highlights that the Council faces many financial risks and variables, several of which are outside the direct control of the Council. 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.

6.41 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.

6.42 Based on this, the Council's minimum level as set out in the Financial Strategy is **£1m** on the General Fund. This level is calculated based on an assessment of the major financial risks facing the Council including major income streams, inflation and interest rates, etc.

6.43 Based on the net revenue expenditure on the General Fund for 2011/12 of £12.2m, £1m is 8.1%. By 2015/16, £1m will still be around the same level. As a general guide, a balance of between 5% and 10% should be maintained.

Pensions

6.44 The Actuary for the County's Pension Scheme has recently undertaken a triennial review of the Pension Fund. In anticipation of the Council's liabilities increasing, this plan continues to provide for an increase in the Council's pension costs from 2011/12 of approximately £60,000 per year. This equates to an increase of 1% on pensionable pay.

6.45 Deficits on pension funds nationally have continued to increase. The effects on the Council and any changes to its contributions will be known shortly.

The Council's Efficiency Programme

6.46 Given the tightening financial position, it is vital that the Council continues to find efficiencies through its business improvement and procurement programmes.

6.47 In addition, several service areas are currently being reviewed and proposals are being reported to policy committees alongside the budget reports.

6.48 As part of the Strategic Partnership in Corporate Services, the Council's service provider is currently reviewing certain services and areas of spend. This is to identify savings and efficiencies as part of their income/savings guarantee to the Council. It is expected that subject to the approval of detailed proposals, a savings programme will commence from April 2011.

6.49 In addition, savings are expected from the re-tendering of the leisure management contract and these will be built into the base budget when final contractual terms have been finalised.

6.50 Furthermore, the Grounds Maintenance service is currently being tendered. This may also provide further budget savings, although at this stage, that cannot be determined or guaranteed. Further details will be known during March/April 2011 when the tendering process is completed.

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. The tax base for 2010/11 has increased at a greater rate than estimated. The numbers used in the MTFP with a comparison to that previously estimated is shown in Table 19.

Table 19: Estimated Increase Each Year In Properties Liable for Council Tax

YEAR	Oct-10	Jan-11
2010/11	450	712
2011/12	419	300
2012/13	386	300
2013/14	386	300
2014/15	386	300

7.2 The increase in any year is used to calculate the tax base for the following year. For example, the increase in 2010/11 of 712 properties will be reflected in the revised tax base on which council tax for 2011/12 will be calculated.

7.3 The increase in 2010/11 is much higher than previously estimated. It is considered that this is due more to a catching up element of previous/existing residential developments. The softening of the increase from next year is based on the awaited outcomes from the CLG's proposals for future planning and the impact on local development.

7.4 The forward projections are considered prudent as it is likely that growth will continue to follow recent trends although it is the timing that remains unclear.

Proposed Tax Base 2011/12

7.5 Regulations under the Local Government Finance Act (1992) require each billing authority to calculate its tax base for the forthcoming fiscal year. This is the amount that the actual council tax levels are based upon.

7.6 It reflects the number of properties in each area/parish within the District, adjusted for exemptions and discounts. This is known as the "relevant amount."

7.7 The proposed tax base for 2011/12 is summarised in **Appendix 2**. The calculation shows a total tax base for 2011/12 of 31,855 properties. This is an increase of 2.3% compared to 2010/11 and will been used to calculate the amount of income from council tax in the MTFP.

Collection Fund Surplus/Deficit

7.8 Furthermore, in setting the level of council tax for 2011/12, the Council is also required to calculate the estimated balance on its Collection Fund for the current year, 2010/11.

7.9 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 rate pool.

7.10 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 benefit, change during the year. In addition, final collection rates from previous years may be higher than estimated.

7.11 These factors inevitably provide a balance at the end of each year. This is not available for spending (if a surplus) or needs to be made good by the Council (if in deficit). Any balance is adjusted through the level of council tax levied in the following year, although at individual level this may be fairly small. The County Council as the major preceptor on the Fund picks up the majority of any adjustment.

7.12 The estimated position on the Collection Fund for 2010/11 is summarised in **Appendix 3**. 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.

7.13 It should be noted that Parish Councils do not get 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.

7.14 Appendix 3 shows an estimated surplus balance on the Collection Fund as at 31st March 2011 of approximately **£895,000**. In accordance with the prescribed formula, this is shared as follows:

- Derbyshire County Council - £653,000
- Derbyshire Police Authority - £99,000
- Derbyshire Fire Authority - £41,000
- South Derbyshire District Council - £102,000

7.15 This balance is far better than expected and is due to a greater number of properties being liable for council tax in 2010/11 (as shown in Table 19), together with better collection rates (of arrears) from previous years. This reflects on-going improvements in recovery action.

7.16 At this stage, the Fund does not take into account the effects of the Single Person Discount Review (SPD) which is currently taking place.

Council Tax Levels

7.17 The MTFP has assumed for planning purposes that council tax increases by 2.5% each year, 2011/12 to 2015/16. As part of the financial settlement, the CLG has provided an incentive for local authorities to freeze their council tax increases for 2011/12.

Council Tax Freeze (Specific) Grant

7.18 Where an authority freezes the council tax for 2011/12, i.e. sets a nil increase, a specific grant will be paid to effectively reimburse the resources lost, to the equivalent of a 2.5% increase. This grant will then be paid for the next 4-years (2011/12 to 2014/15) to reflect that the loss of income is cumulative over future years.

7.19 Therefore, the Council is in a position to consider and take advantage of this as the financial plan indicated a 2.5% increase in 2011/12. Setting a lower increase between 0% and 2.5% would not qualify for the grant - it has to be a freeze. The Council could in fact be worse off by setting a lower level (as shown in Table 20, below).

7.20 The CLG will effectively pay for a 2.5% increase for the next 4-years. It will be adjusted each year to reflect changes to the tax base so the Council is protected over this period and the effect is neutral over the MTFP for 4-years.

7.21 However, as the grant is only payable for 4-years, there will be a shortfall in the 5th year of the MTFP (2015/16). This shortfall compared to the MTFP is estimated at approximately £156,000 (Table 20, below).

7.22 This can be compared with setting a lower increase to ascertain where a lower level in 2011/12 could in fact be more beneficial over 5-years, compared to the shortfall of £156,000. This is summarised in Table 20.

Table 20: Comparison to the MTFP of Council Tax Freeze Versus Lower Tax Rises for 2011/12

Loss of Income from Freeze (5-years)	-640,973
Replace with Specific Grant (4-years)	484,800
Shortfall over 5-years	**-156,173**
Loss of Income - Over 5 Years	
1% Increase	-384,821
1.5% Increase	-256,547
1.75% Increase	-192,410
2% Increase	-128,274

7.23 The table shows that with a 1% increase, the loss of resources over 5-years (compared to the planned 2.5%) is higher at £384,821 than the loss of a freeze at £156,173. This is the case at up to 2%, where the loss is then lower than the freeze at £128,274.

7.24 In his statement on the 13th December, the Secretary of State said:

> "The Government also want to ensure that council tax payers are protected against Authorities that reject the offer and impose excessive council tax rises. We will introduce powers for residents to veto excessive council tax increases through a local referendum. In the meantime, the Government will take capping action against councils that propose excessive rises.
>
> When the House debates the final local government finance report next year, I will set out the capping principles. I will also publish shortly details of the figures that will be used to compare authorities' budgets between years, should capping be necessary. The previous Government had planned to cap the police authorities of Greater Manchester and Nottinghamshire after they set excessive increases in 2010-11. Subject to challenge, we will ensure that, should they decide not to freeze the council tax, neither can impose an increase of over 2.5% in 2011-12."

7.25 Given this, it is considered by some commentators that this is a signal that the Government would like the capping limit to be very close to 2.5%.

7.26 The revised MTFP assumes that the Government's offer is accepted and the effects as shown in Table 20 have been built into financial projections, at this stage. **Clearly this is ultimately a decision for the Council which will be determined at its meeting on 28th February 2011**.

8.0 Capital Investment and Financing

8.1 The Council is guided under a National Prudential Code to set a 5-year capital investment programme. Clearly, this has to be based on assumptions about likely resources to be available and potential commitments facing the Council over this period.

8.2 The Council's current approved spending and financing programme to 2015/16 is detailed in **Appendix 4**.

The Current Investment Programme

8.3 Despite the lack of its own resources, the Council still has a fairly substantial capital programme in the short-term. However, this will wind down over the coming months as the biggest schemes such as the town centre improvements come to an end.

8.4 Section 106 funding is expected to provide further recreational and community facilities in growth areas of the District.

8.5 The Council has been extremely successful over recent years in attracting external and partnership contributions for capital investment. However, this could be harder to achieve in the foreseeable future as the Government has decided to refocus their priorities in order to deal with the UK budget deficit and this is expected to affect these funding streams.

Asset Management

8.6 Therefore, asset management will need to play an ever increasing role. The Council is already making use of its land holdings to enable development and in some instances, generate a capital receipt at the same time.

8.7 For example, this has enabled the affordable housing scheme at Wilmot Road, the Extra Care Project in Swadlincote and is a key factor in the Depot relocation and associated development. The Council's updated asset management strategy will be reported to the Committee at its next meeting.

Housing Investment

8.8 The Council has been allocated a provisional Major Repairs Allowance of £1,914,049 for 2011/12. In cash terms, this is virtually at the same level as 2010/11.

8.9 Although the allowance per property has increased by 1.2% to £626 per unit for 2011/12, this has been offset by a reduction in property numbers of 38, mainly due to properties decommissioned as part of the Extra Care Project. The allowance will be used to continue the work of major improvements to council houses.

8.10 Government allocations for Disabled Facility Grants for meeting "Decent Homes" in the private sector are still awaited for 2011/12.

Capital Receipts

8.11 The need to generate capital resources to finance outstanding commitments still remains. As previously reported, capital commitments of £1.5m in total over the next 5 years to replace vehicles and to repay the final covenant instalments remain.

8.12 Capital receipts from two major developments are likely during 2011/12 and 2012/13. In the meantime, provision continues to be made against General Fund Balances pending the receipts being generated.

8.13 As highlighted earlier, if capital receipts can be realised over this period to meet these commitments, then this will help to improve the situation on the General Fund.

8.14 However, the current capital programme allows for no new investment and pressure remains on budgets for disabled facility grants, to improve facilities and develop services etc.

8.15 In accordance with the Council's Capital Investment Strategy, if any new investment can be realised, proposed bids (including those externally funded) will be subject to options appraisal and reported to the Council for consideration.

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, provides the financial resources to enable many of the on-going services and Council priorities to be delivered to the local community.

12.0 Background Papers

12.1 The Government's Financial Settlement for 2011/12, available at: http://www.local.communities.gov.uk/finance/1112/grant.htm