

Appendix 1

Questions and Response from Strategic Director of Resources

1 What is the inflation contingency and why is it not included in Directorate budget?

The inclusion of contingency sums to cover inflation in budgets is common across local authorities and is considered to be prudent good practice. In some authorities all inflation is held as a single contingency figure, while other authorities include some inflation within service costs and provide a contingency for specific areas. Rutland falls in the latter category and the contingency sum is provided to cover the costs of any annual pay awards to Council staff. All pay rates are negotiated nationally through local government employers' organisations and the Council applies any increases in line with the terms and conditions under which our staff are employed. For the 2013/14 budget a contingency of 1% has been provided and for future years a contingency of 2% per annum has been provided in the medium term financial plan. When any national agreement is reached any increase will be transferred out of the contingency and added to individual service budgets. Any variation between the contingency provided and the actual cost of any agreed pay award is reported through the quarterly monitoring process. The calculation for 2013/14 is:

Total staff salary budget at current rates	£10,327,300
Contingency at 1%	£ 103,300

2 Council Tax receipts – Can you explain how the Council Tax figure is calculated at £19,712,000 against a figure for 2012/13 of £20,790,200?

The calculation of the council tax base is covered in report 6/2013 considered by Cabinet on 22 January 2013. The tax base approved at that meeting was updated to take account of the most recent information on the likely impact of the new Local Council Tax Support scheme which reduces the council tax receipt in 2013/14 by £26,300 from the figure in the consultation budget considered at the Resources Scrutiny Panel. The council tax receipt is calculated as:

Tax base (Band D equivalent)	13,761.31
Band D tax (at same level as 2012/13)	£1,430.51
Council tax receipt = 13761.31 x 1430.51	£19,685,700
Reduction from 2012/13	£ 1,114,500

Comprising:

Growth in property base	£ 195,100
Extra income from technical changes	£ 138,300
Less additional loss on collection	£ 63,800
Less Local Council Tax Support Scheme	£ 1,374,100
Net reduction	£ 1,114,500

In each case the figures above refer only to Rutland's share of council tax receipts. As a billing authority Rutland also collects council tax on behalf of the police and fire authorities and local town and parish councils and all of those bodies will be affected by the changes. For example the Local Council Tax Support scheme reduces the total council tax to be collected by over £1.5 million, with £1,374,100 being Rutland's share.

3 Would it be possible for Members to have a full breakdown of how the New Homes Bonus is calculated, i.e. actuals, and just how the projections have been made for the MTFP?

This is calculated by the Department for Communities and Local Government based on the change in the number of properties on the valuation list in October each year. The provisional calculation for 2013/14 is:

Total units for reward (from CTB form Oct 11 to Oct 12)	91
Band D equivalent	80.2
Reward: £1,444.13 per Band D unit	£115,851
Affordable units included in above figures	26
Affordable homes premium: £350 per unit	<u>£ 9,100</u>
New Homes Bonus 2013/14 (payable for 6 years)	£124,951

For the medium term financial plan the annual projections are based on the estimated number of additional properties expected to be completed net of any demolitions with a proportion of these being affordable and attracting the extra premium. The calculation for 2014/15 for example is:

Estimated net additional Band D properties (Oct 12 to Oct 13)	125
Reward: £1,466.43 per Band D unit	£183,950
Affordable units included in above figures	35
Affordable homes premium: £350 per unit	<u>£ 12,250</u>
New Homes Bonus 2014/15 (payable for 6 years)	£196,200

4 The Business rates (NNDR) collection and retention at 49% is calculated at £4,076,500. This would suggest a total collection projected at £8,319,387 the Cabinet Report for 22nd January 2013, it states a NNDR

of£9.853M, of which 49% would equate to £4,828,000. Would you be good enough to advise why there appears to be a £751,500 difference?

The operation of the new Business Rate Retention Scheme is covered in report 6/2013 considered by Cabinet on 22 January 2013. The new system for local retention of part of the business rates collected includes two elements, a tariff and a levy percentage that account for the difference in your calculation. The tariff is set at the outset of the scheme and increased each year by RPI and will continue until the scheme is reviewed and the baselines reset, currently planned for 2020. The levy percentage is also set at the start of the scheme and requires the Council to pass on 16% of any year on year growth in its share of business rate income to central government. For Rutland for 2013/14 the calculation is:

Rutland share of business rate income	£4,828,000
Less tariff	£ 760,000
Less levy	£ 9,000
Return of funding top-sliced for NHB	<u>£ 18,000</u>
Retained Business Rates	£4,077,000

5 Can you give a full breakdown of how the Collection Fund Surplus of £130,000 is arrived at?

The collection fund is a separate account required to be kept by billing authorities to record transactions relating to council tax and business rates. Each year on 15th January the Council is required to estimate the balance on the collection fund and to apportion any surplus or deficit between itself and the police and fire authorities. The estimate at 15th January 2013 has changed slightly from the figures calculated in December that were used in the report considered by Cabinet on 8th January 2013. The calculation at 15th January is as follows:

Surplus brought forward at 1 st April 2012	£ 31,300
Council tax charges for individual properties	£27,789,000
Contribution from Ministry of Defence	<u>£ 688,500</u>
	£28,508,800
Less discounts and reliefs	<u>£ 3,675,500</u>
	£24,833,300
Precepts and demands paid out	<u>£24,688,400</u>
Estimated surplus at 31 st March 2013	£ 144,900
Shares of estimated surplus:	
Rutland County Council (86.60%)	£ 125,500
Leicestershire Police Authority (10.25%)	£ 14,800

Leicestershire Fire Authority (3.15%) £ 4,600

6 Can we have a breakdown of “Additional Recurring Savings?”

Appendix 2 to report 5/2013 considered at Cabinet on 8th January 2013 listed all of the savings included within the budget for 2013/14. Part 2 of the appendix gave details of the additional recurring savings of £631,400 shown as a single line in the budget and medium term financial plan.

7 Can we have a breakdown of “Reversal of depreciation”?

Under local authority accounting rules depreciation is not a charge against council tax income and is therefore reversed out of the accounts as part of the year-end accounting process. However within the service budgets it is prudent to show depreciation of assets used in order to show the full costs associated with the provision of that service. The Council’s assets are re-valued at no longer than 5 year intervals on a rolling programme in order to ensure that the Balance Sheet reflects the current value of the assets and these valuations provide the basis for calculating the depreciation charge. As an example the Library service includes costs of £9,200 to provide for the depreciation of the Oakham library building, based on the value of the building and its remaining useful life. Because of the significant sums involved the value of the assets and the depreciation charges are an area that the external auditor pays particular attention to as part of the annual audit of the council’s accounts.

8 Can we have a breakdown of investments? Can we explain how we arrive at the amount to invest? Can we explain how we treat Banks in Administration? Why do we invest in the Money Market?

Report 241/2012 provides the half-yearly Treasury Management monitoring information and paragraph 5.4 covers the Prudential Indicator that ensures that the Council does not undertake any external borrowing except for capital purposes. The Capital Financing Requirement calculation sets the maximum level for external borrowing for the year 2012/13 and we measure against it our estimate of the maximum amount of external borrowing less the minimum amount of external investments that we expect to have at any point in the year. This ensures that the Council remains well within the limit for borrowing activity.

The Council’s accounts are prepared on an accruals basis, in line with good practice, and therefore there is no comparison between the level of reserves and cash balances. Using the final accounts for 2011/12 as an example the

relationship between reserves and the cash position can be illustrated as follows:

	£000
Usable reserves	15,664
Add creditors and provisions	<u>7,627</u>
	23,291
Less debtors and stocks	4,186
Less capital expenditure not funded by borrowing	<u>4,268</u>
Net cash at 31 st March 2012	14,837

The council does not earmark its cash balances into individual funds and therefore the investments cannot be attributed to specific sources. In practice the level of external investments will vary on a daily basis as part of the normal management of the Council's daily cash flow. The Council has a record of all receipt and payments it makes each day and a cash flow forecast that shows what payments/receipt are anticipated. For example, the Council can forecast in broad terms the value of invoice payments it makes, the payroll run, council tax receipts etc. We predict what our cash balance is likely to be so we know whether to reinvest money or keep it available to make payments.

In the current financial year for example the level of cash balances has varied between a maximum of £20,390,000 and a minimum of £13,450,000 although the minimum level is expected to fall over the last two months of the financial year. As an example the investments held on 30th January 2013 are:

Name	Maturity Type	Amount	Rate
HSBC - Sterling Liquidity Fund	Balance (Including Interest)	20,786.67	0.29%
HSBC - Money Market	Balance (Including Interest)	1,056,000.00	0.35%
Yorkshire Building Society	Fixed to 05 February 2013	1,000,000.00	0.40%
Progressive Building Society	Fixed to 08 February 2013	1,000,000.00	0.48%
United Overseas Bank	Fixed to 12 February 2013	1,000,000.00	0.36%
Leeds Building Society	Fixed to 13 February 2013	1,000,000.00	0.45%
Nationwide Building Society	Fixed to 19 February 2013	1,000,000.00	0.44%
Principality Building Society	Fixed to 5 March 2013	1,000,000.00	0.40%
Coventry Building Society	Fixed to 12 March 2013	1,000,000.00	0.46%
Newcastle Building Society	Fixed to 19 March 2013	1,000,000.00	0.55%
Nationwide Building Society	Fixed to 26 March 2013	1,000,000.00	0.43%
National Counties Building Society	Fixed to 02 April 2013	1,000,000.00	0.48%
West Bromwich Building Society	Fixed to 09 April 2013	1,000,000.00	0.47%
Nottingham Building Society	Fixed to 16 April 2013	1,000,000.00	0.45%
Skipton Building Society	Fixed to 23 April 2013	1,000,000.00	0.43%
Lloyds TSB	Fixed to 29 April 2013	1,000,000.00	0.70%
Bank of Scotland	Fixed to 29 April 2013	1,000,000.00	0.70%
<i>Heritable Bank - In Administration</i>	<i>Fixed to 15 January 2009</i>	<i>227,196.50</i>	<i>6.09%</i>
		16,303,983.17	

The policy on investments is covered within its Treasury Management Strategy which is approved annually by Council. Report 29/2013 will be considered by Cabinet on 5th February 2013 and a recommendation made to Council to approve the Strategy for 2013/14. Appendix B to the report specifically covers the Investment Strategy and outlines the rationale and the risks upon which the strategy is based.

The reference to 'Banks in Administration' relates to an investment that the Council holds with Heritable Bank which is registered in Scotland and is therefore classified as within the UK. The Council is required to account for the investment in accordance with appropriate international accounting standards that specify how the value is recorded; hence it is shown at £254,000 being the balance at 30th September 2012 not yet repaid from the original investment of £1 million and interest due of £14,000. The footnote in the report provided additional information for Members based on the latest forecast from the Administrators for the bank however the international accounting standards do not permit the Council to record within its accounts the potential final position based upon this forecast.

9 How are budgets derived? Can you explain what reversals and other adjustments are?

The way in which the budget papers work is as follows (please refer to Appendix 4 of Cabinet report 5/2013 by way of example):

- 12/13 Budget – this shows the budget as approved in 12/13: the net amount the Council intended to spend in the given area
- In order to show how the Budget for 13/14 is created we then:
 - Reverse one off items – expenditure items included in 2012/13 that will not be incurred again in 13/14. For example, in 12/13 the budget could include the cost of a subscription of £5k. In working out the budget for 13/14 officers may decide they no longer need that subscription. We therefore reverse out the cost for the 13/14 budget i.e. we exclude it.
 - Add/subtract adjustments – include movements between cost centres, adjusting estimates for more accurate figures. An example could be a member of staff transferring departments. The cost would be deducted from one budget and added to another.
 - Add Inflation – inflationary increases on supplies and services
 - Add Pressures – this shows the extra increase in cost because we are doing something different/ or costs have gone up e.g. a supplier is charging us more or we are recruiting a member of staff because of increased workload

- Deduct Savings – costs that we incurred in 12/13 but are reducing in 13/14 e.g. we have renegotiated a lower cost with our supplier.
- The 13/14 budget is the outcome of the above process. The 13/14 shows the amount we intend to spend in any given areas. It includes the costs of staff, supplies, premises, contracts etc

In the examples you refer to the budgets for Digital Rutland, Economic Development etc. The budgets for 2013/14 are the amounts that the Council plans to spend in these areas as determined by officers.

The 2013/14 budget for Digital Rutland is £204,000. The budget has been reduced compared to 2012/13 based on officer's view of need. Staff costs/legal costs have been incurred on the project in 2012/13.