REPORT TO:	**FINANCE & MANAGEMENT COMMITTEE**	**AGENDA ITEM: 7**
DATE OF MEETING:	**13th OCTOBER 2016**	**CATEGORY: RECOMMENDED**
REPORT FROM:	**DIRECTOR OF FINANCE and CORPORATE SERVICES**	**OPEN**
MEMBERS' CONTACT POINT:	**KEVIN STACKHOUSE (01283 595811)** kevin.stackhouse@south-derbys.gov.uk	**DOC:** u/ks/mtfp/midyear review/October 16/mtfp report Oct 16
SUBJECT:	**UPDATE on the COUNCIL'S MEDIUM TERM FINANCIAL POSITION**	**REF:**
WARD (S) AFFECTED:	**ALL**	**TERMS OF REFERENCE: FM 08**

1.0 Recommendations

1.1 That the updated financial projections on the General Fund to 2022 and the Housing Revenue Account to 2027 as detailed in the report, are approved.

1.2 That the financial projections provide the basis for planning purposes and for setting the General Fund and Housing Revenue Account's Base Budgets for 2017/18.

1.3 That the Protocol for the control and use of Earmarked Reserves as detailed in Appendix 3 is approved.

2.0 Introduction and Purpose of the Report

2.1 In accordance with the Council's financial policy framework, the report updates the Council's medium term financial position. This follows the reported out-turn for 2015/16, together with known and potential changes since the 2016/17 budget-round.

The Council's Financial Planning Framework

2.2 A key factor within the Council's overall Financial Strategy is medium term financial planning. This is considered good practice and is based on Audit guidance which directs councils to achieve a resilient and sustainable financial position. The Council's arrangements for achieving this, together with its performance, are subject to an External Audit each year.

2.3 The main target within the Financial Strategy is to achieve a minimum level of general reserves (£1m) on both the General Fund and the Housing Revenue Account (HRA) by the end of every financial planning period. This is based on a Medium Term Financial Plan (MTFP) which sets out a financial projection for 5-years on the General Fund and 10-years for the Housing Revenue Account (HRA).

2.4 The main focus of the projections is to estimate the Council's future financial position and provide an early warning sign of any financial challenges that may lie ahead in future years. This then provides an opportunity to take a planned approach to remedial action. In addition, it is used as the basis for building detailed budget plans each year.

2.5 It also helps the Council to focus on the resources that it will have available at the end of each period. In addition, it identifies where resources and spending are changing in the medium term to enable action to be taken at an early stage to prevent any loss of financial stability.

2.6 The financial models project forward current base spending and income. This is adjusted for anticipated changes in factors such as interest rates, inflation, together with the economic situation, Government policy and local spending/financing plans, etc. It is regularly updated to take account of previous spending changes and their effects on the medium term. The projection aims to show a prudent but realistic position over the 5 and 10-year periods respectively.

Aim of this Update

2.7 The Council's financial policy requires a mid-year review of the medium term financial position. This follows the budget out-turn for the previous year and before the forthcoming annual budget round. This provides a basis for planning purposes and identifies potential matters for consideration, together with risks and opportunities.

2.8 Since the current MTFP was approved in February 2016, the following announcements have been made by the Government which are likely to impact on the Council's financial position.

- Budget 2016 and in particular changes to Business Rates payable by small businesses, together with the basis used to increase the annual rate in the pound payable.

- The release of a consultation paper on the retention of 100% Business Rates in local government, together with a review of the distribution formula.

2.9 The potential impact of these announcements and consultations is included in the report. The report is divided into the following sections:

- Section 3 – A detailed analysis of the General Fund
- Section 4 – An updated General Fund position and overall analysis
- Section 5 – Housing Revenue Account
- Section 6 – Earmarked Reserves
- Appendix 1 – General Fund Medium-Term Projection to 2022
- Appendix 2 – Housing Revenue Account Projection to 2027
- Appendix 3 – A proposed Protocol for Earmarked Reserves
- Appendix 4 – An analysis of Earmarked Reserves

3.0 <u>General Fund – Detailed Analysis</u>

3.1 Following the budget round for 2016/17, the medium term financial position was projected as shown in the following table.

General Fund: Medium-Term Projection as at February 2016

Year	Budget Deficit / Surplus (-)	Sums Earmarked against Reserve	Balance of General Reserve
Base Budget 2015/16	-£563,667	£911,000	£5,787,667
Proposed Budget 2016/17	-£856,917	£433,000	£6,211,584
Projection 2017/18	£337,202	£420,000	£5,454,382
Projection 2018/19	£1,442,959	£90,000	£3,921,423
Projection 2019/20	£2,086,259	£20,000	£1,815,164
Projection 2020/21	£2,112,933	£270,000	-£567,769

3.2 The position at this time highlighted a budget surplus for 2015/16 and 2016/17 based on current budgets. This was mainly due to additional income anticipated from planning fees and business rates.

3.3 A deficit was then forecast from 2017/18, but this becomes acute in 2018/19 as Revenue Support Grant falls out and proposed reductions in New Homes Bonus Payments take effect.

3.4 It was noted that the General Fund Reserve would eventually fall below the minimum level of £1m in 2020/21, with potentially a significant budget deficit by 2018/19.

3.5 The Government's Financial Settlement for 2016 to 2020 provided a significant challenge for local councils over the medium-term but, as the Government indicated, "there is sufficient lead in-time to meet this challenge".

3.6 In the meantime, the level of General Reserves was healthy and it was noted that they may increase further in the short-term as additional income and general under spending in the Base Budget for 2015/16 accrues.

3.7 Although a higher level of reserves is clearly beneficial, based on the projection in February, the level of reserves would not sustain the overall deficit in the medium-term.

3.8 It had been anticipated for some time that the General Fund would face reductions in its core spending power. Consequently, the Council has taken a cautious approach and built up a good level of General Reserves.

3.9 Based on these projections, it was agreed that the Council's Base Budget and forward spending plans would need to be reviewed. Without a significant increase in resources, <u>*base budget savings of up to £1.5m would need to be*</u>

made over the spending period in order for the minimum level of General Reserves to be sustained and for the longer-term budget deficit to be reduced.

3.10 Since February 2016, some additional expenditure and budget savings have been approved. In addition and as anticipated, the budget out-turn reported to the Committee in June and then in September, following the Auditor's report, was more favourable compared to that estimated.

3.11 The following table shows the overall impact on the General Fund Reserve as it currently stands.

Projected General Fund Reserve Balance

	£'000
Projected Balance as at 2021 (as reported in February 2016))	-567
Midway Community Centre - Running Costs	-59
Restructure of Legal and Democratic Services	-28
Restructure of Direct Services	216
Add: Increase in Reserve - 2015/16 Accounts	1,201
Less: Capital contributions carried over from 2015/16	-369
Projected Surplus Balance as at 2021 - Updated	**394**

3.12 Clearly, the savings in Direct Services, together with the increase in the opening reserve as at April 2016, has benefitted the overall 5-year projected position. However, the underlying situation regarding the level of reserves falling below the minimum level, together with the projected budget deficit in 2018/19 has not changed.

Financial Strengths

3.13 The Council is required to maintain a resilient and sustainable financial position. Currently, the Council continues in this position due to:

- Positive cash flow
- No debt outstanding (on the General Fund)
- Not reliant on interest rates rising to generate additional income
- Current General Reserve 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 and service income
- Capital expenditure not heavily reliant on revenue funding or borrowing

3.14 The Council also has a history of spending within its Net Budget. However, this cannot be guaranteed in future years and is never assumed for future budgeting purposes.

Financial Risks

3.15 There are many variables that are included in the projection that carry a risk in that should they impact, they could have a significant effect on the overall financial position. The main risks identified in the financial register when the Budget was approved were:

- **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

3.16 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.

3.17 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 population growth could eventually put pressure on the cost of services.

Updating the MTFP

3.18 An update and assessment of the main assumptions and variables, where this has been necessary, together with a consideration of external issues, are detailed in the following sections.

The Government's Budget 2016

3.19 The 2016 Budget introduced certain measures which will have a direct impact on the Council's finances. These were:

- The annual increase in the Business Rates multiplier being based on the CPI measure of inflation from April 2020; currently it is based on RPI.

- The extension of rate relief for small businesses.

- An increase in the rate of Insurance Premium Tax (IPT).

- The responsibility for taxing "off-payroll" payments for third parties being transferred to public sector employers.

The CPI Multiplier

3.20 Within the national system for Business Rates, all businesses are subject to a standard rate in the pound based on the rateable value of their business premises. There are no regional variations.

3.21 The national rate is increased each year by inflation, based on the RPI measure. This increases the annual income to local councils in the funding (rates retention) system. Within the resources allocated to councils, the Government's assumption is that the multiplier increases by an average of 2% per year.

3.22 In setting budgets for 2015/16 and 2016/17, the rate of RPI was well below 2%. Therefore, the Government compensated councils for the "lost" income.

3.23 The Government are intending to move the basis for increasing the national multiplier to the Consumer Price Index (CPI) measure of inflation – the Government's preferred measure in other areas. Although this will not be implemented until 2020, there is unlikely to be any on-going compensation payments to make-up the shortfall to 2%.

3.24 Typically, the CPI measure of inflation is lower than the RPI index which is currently running at 0.6%. Some economic commentators are forecasting a CPI of around 2% by 2020, so potentially there will be no significant impact. However, this could depend on the wider implications of returning all business rates to local councils.

3.25 The MTFP assumes an overall increase in retained business rates (*excluding a share of growth generated from the Derbyshire Pool)* of 3% per year to 2019/20, after which overall income is assumed to remain neutral. The increase of 3% in the interim period includes projected growth.

3.26 It is not considered necessary at this stage that these assumptions need to change, pending the outcome of the wider proposals for the whole funding system for local councils. This is outlined later in the report.

Rate Relief for Small Businesses

3.27 Currently, all businesses with a rateable value of less than £6,000 are entitled to 100% rate relief and consequently pay no Business Rates. This is factored into the national funding system.

3.28 The 100% relief is being extended from April 2017 to businesses with a rateable value of less than £12,000. In addition, businesses with a rateable value of between £12,000 and £15,000 will receive tapered relief and businesses with a rateable value of between £15,000 and £51,000 will pay a slightly lower rate in the pound of 48.4p (compared to the full rate of 49.7p).

3.29 It is estimated that these changes will reduce the Business Rates of approximately 500 businesses in the District, in addition to the existing 1,100 who already receive relief. Approximately 1,250 businesses (over 50% of all businesses) will pay no or minimal Business Rates from April 2017 in the District.

3.30 In monetary terms, this is fairly significant. The estimated reduction in income from these changes is £1.1m – approximately 5% of total Business Rates income. Initially, there will be no direct impact for the Council as the Government have already confirmed that they will fully compensate councils for the reduction in income.

3.31 However, in the medium-term, the Government have indicated that the impact will be considered as part of the work on implementing 100% Business Rates retention. Therefore, any overall changes to the MTFP at this stage cannot be quantified, until the outcome of the wider proposals for the whole funding system for local councils is known.

2017 Rating Valuation

3.32 A new valuation list has recently been published for non-domestic properties and this will take effect from April 2017. The revaluation is designed to be "fiscally-neutral" across local government.

3.33 The valuation has increased the rateable value nationally. Therefore, in order to remain fiscally neutral, the multiplier (rate in the pound) will be reduced from 49.7p to 48p in 2017/18. This will ensure that Business Rates receipts remain constant in real terms.

3.34 Individual businesses with increases are subject to transitional relief. This is funded from businesses which gain so that changes in individual rates are phased in.

3.35 The Government have previously indicated that the impact of a revaluation will not affect the retained income of an individual authority. The Government use a methodology to identify and isolate the amount by which Business Rates income in a council changes purely due to a revaluation. It uses these figures to adjust tariffs/top ups in order to cancel out the impact of a revaluation.

3.36 The impact of this latest valuation will be kept under review during the forthcoming budget round.

Insurance Premium Tax

3.37 This was increased from 6% to 9.5% in November 2015. The additional cost to the Council was £12,000 per year and was included in the Base Budget for 2016/17.

3.38 The rate (as planned by the Government) was increased to 10% from 1st October 2016. This will increase the cost of insurance premiums from 2016/17, although this will be minimal at approximately £1,500 per year for the Council.

“Off-Payroll” Payments

3.39 Current legislation requires individuals, working for public sector bodies as intermediaries, to pay Income Tax and National Insurance Contributions (NIC) as a direct employee would. Currently, these individuals, in some cases a person’s own limited company, are responsible for accounting and paying Tax and NIC to HMRC.

3.40 From 2017, the responsibility for accounting for Tax and NIC will transfer to public sector bodies. From this date, councils will become responsible for deducting Tax and NIC at source, from the amount they pay to intermediaries, and paying it over to HMRC.

3.41 The legislation for enacting this change is currently passing through the various Parliamentary stages as part of the Finance Bill (2017) so details are still to be finalised. During a consultation period with representative bodies, concern was raised regarding the additional administration for councils and potentially, additional costs through Employer’s NIC.

3.42 If the proposals receive approval, Tax and NIC will be calculated on the total cost of employing an intermediary, including any expenses, but excluding VAT. The rules regarding Employer’s NIC will apply as they do for employees of the Council. Depending on the cost of employing an intermediary, this could be up to 13.8% (of the cost).

3.43 HMRC will issue detailed guidance for councils once the legislation is approved. These rules will not apply where staff are employed through an Agency or are on the payroll of a recognised company where payment is made direct to the company or contractor.

3.44 However, this would affect the Council when it employs an external consultant directly to undertake work of a specialist nature. The total amount spent each year can fluctuate depending on the needs of the Council.

3.45 Further work is being undertaken in compiling the base budget for 2017/18, to ascertain what the potential cost to the Council could be. An initial estimate suggests that at an Employer’s NIC rate of 13.8%, the cost could typically be between £20,000 and £30,000 per year.

3.46 Unless additional resources are set-aside to meet this potential cost in future budgets, service areas will need to take account of this in their individual budgets when they employ intermediaries.

3.47 As a consequence of these regulations, whether they affect the pricing in the market for intermediaries remains to be seen.

Redistribution of Business Rates – National Consultation

3.48 This was reported to the Committee in September and an update is provided below.

3.49 In July 2016, the Government published a consultation paper "*Self-sufficient local government: 100% Business Rates Retention*." The paper asked for views regarding the implementation of 100% Business Rates Retention for local government as outlined in the Government's 2016 Budget. The consultation periods ended on 26th September.

3.50 The Government's intention is for a new system to be implemented in 2019/20 or 2020/21. The exact year will depend on the outcome of pilot exercises that are due to commence in April 2017 in Greater Manchester, the Liverpool City Region and London. Other authorities can apply to become a pilot where there is an agreed devolution deal in place covering their area.

3.51 The Government have indicated that they wish to retain the current system of top ups and tariffs in the new system to ensure that every council retains enough resources to operate at their assessed baseline need. A discussion paper was also published alongside the consultation on updating the needs assessment. This paper has also invited comments on the data to be used in assessing future need.

3.52 There will be no levy in the new system as all business rates and growth in receipts will stay directly within local government. Therefore, no payment will be made to Central Government. However, the distribution will need to be determined between different tier authorities.

3.53 The Government favour the continuation of a safety net mechanism to protect, in particular, smaller councils who may have a large business in their area that pays a disproportionate amount of rates compared to all other businesses. However, the consultation is inviting comments on whether this safety net should be applied regionally rather than at individual authority level.

3.54 On the regional issue, the Government is seeking views on the role and responsibilities of combined authorities in the new system. The Government has reiterated that the new system must be fiscally neutral at a national level – the return of the 50% of business rates currently paid over centrally is not "new money".

3.55 Therefore, the Government are proposing to devolve certain responsibilities to local councils and to transfer the funding with those responsibilities. They propose to do this by ending any specific funding for those responsibilities, currently financed centrally at the national level.

3.56 The consultation set out what devolved responsibilities could be, but asked for comments as part of the consultation. The main ones suggested in the consultation covered the following services:

- Transport
- Public Health
- Better Care / Independent Living
- Early years support
- Youth justice
- Investment / Infrastructure Boards
- Adult Education
- Sport

3.57 The consultation also asked for views on whether Combined Authority Mayors will be able to levy a supplement on business rates, whilst multi-tier areas could be given the flexibility to reduce the rate in the pound payable in their area.

3.58 In general, there were no definitive proposals within the consultation. There will be a subsequent consultation on the technical details, once the general principles have been established.

3.59 However, it is considered that the proposals, alongside the review of the needs formula, could herald a significant change in the distribution of resources for local councils. This is why a lead in time of at least 3 years is planned.

3.60 The Local Government Association continues to work direct with the DCLG on the proposals. The Council was consulted on joint responses from the District Councils Network, the Society of District Treasurers and the Rural Services Network.

3.61 These responses, although supportive of the broad proposals, set out the case for sufficient funding to be distributed to District Councils and rural areas in any retention system.

3.62 Derbyshire authorities also submitted a joint response. This focused on the principle of additional resources and future growth in a new system being shared across the County. This would look to build on the success to date of the current Derbyshire Business Rates Pool.

3.63 Further reports will be submitted to the Committee as further details emerge.

New Homes Bonus

3.64 The Government have indicated that they will be issuing a formal response shortly, to matters raised during its consultation on proposals to amend the distribution of the New Homes Bonus. As previously reported, the Council submitted a specific response in March 2016.

3.65 In particular, the Council requested that the DCLG should treat South Derbyshire as an exceptional case under the proposals, given the growth of the area and the disproportionate impact that the funding proposals will have on the Council's financial position.

Impact on Core Funding

3.66 Given that there are no definitive proposals, the existing forecasts in the MTFP for overall core funding are currently unchanged.

3.67 It is anticipated that the Government's Financial Settlement for 2017/18 will confirm figures for Revenue Support Grant (£668,000) together with Business Rates Income (£3m). These were provisionally notified to the Council in February 2016.

3.68 Forecasts for growth in Business Rates and the New Homes Bonus allocation for 2017/18 will be determined in the 2017/18 budget round. This will be reported to the Committee in January 2017.

The National Living Wage (NLW)

3.69 The MTFP includes provision to cover the anticipated increases in the NLW from £7.20 per hour in 2016 to £9 per hour in 2020. Following the recent implementation of the new pay and grading structure, the minimum pay rate at the Council is £7.52 per hour, which is above the national rate.

3.70 The increase to £9 per hour by 2020 (an increase of 20%), will add approximately £15,000 to the Council's wage bill and this has previously been included in the MTFP.

3.71 There is a risk nationally that the implementation of the NLW could have knock-on effects on the overall pay bill for local government and there may be pressure to maintain broad "differentials" as the pay of those posts affected become closer to higher graded posts.

3.72 This could have an impact on the Council's overall grading structure although this is not considered material in the context of the overall pay bill of the Council. In addition, due to the impact being unknown nationally and the lack of robust data, no account has been taken of this issue in the MTFP at this stage.

Pay

3.72 The MTFP includes increases in pay of 1.5% in 2016/17, 2017/18 and 2018/19 and then 2% per year thereafter.

3.73 As reported to the Committee in September, the National Settlement for local government employees was agreed earlier in the year. Pay has increased by 1% from 1st April 2016, with a further 1% agreed from 1st April 2017. The settlement included higher increases for lower grades.

3.74 Therefore, the overall increase is estimated to cost the Council around 1.25% per year over the two years of 2016/17 and 2017/18. Consequently, compared to the budget of 1.5% per year, this will provide a saving of approximately £31,500 per year compared to the provision in the MTFP. The updated pay rates were included in the recent Job Evaluation exercise.

Auto Enrolment (AE)

3.75 As previously reported, from October 2017, any Council employee not in the Local Government Pension Scheme (LGPS) will need to be automatically opted in until such a time that they choose to opt out. Currently, there are 26 eligible employees at the Council who are not in the LGPS.

3.76 When these employees are opted in next year, the additional cost to the Council, based on the current pension rate of 12.8% of pensionable pay, is estimated at £75,000 per year. Provision for this amount has already been included in the MTFP and so there is no change.

3.77 Immediately following AE, some employees may ultimately choose to opt straight back out of the LGPS and this will clearly reduce the cost to the Council. If an employee subsequently opts out at any time, the Council will be required to automatically enrol the employee again at 3-yearly intervals.

Pensions

3.78 The latest Actuarial Valuation of the Derbyshire Pension Fund is due to report shortly. Any changes to contribution rates will be effective from April 2017.

3.79 In addition to the Council's contribution rate of 12.8% of an employee's pensionable pay, the Council also pays a lump sum on an annual basis of approximately £600,000. This lump sum is the contribution currently required to reduce the projected long-term deficit on the Pension Fund.

3.80 Nationally, there is some pessimism amongst commentators that projected deficits on most pension funds will have increased since the last valuation in 2013. This is mainly due to investment returns being low in the current financial climate.

3.81 In addition, it is unclear whether changes to employee benefits and employee contributions since 2013 have made an impact on reducing long-term costs in the LGPS.

3.82 The current MTFP includes a contingent (one-off) reserve amount of £182,000. This was earmarked in 2012/13 to cushion any further impact of increased contributions.

3.83 The Council will be notified of the results of the 2016 valuation during the forthcoming budget round; any impact will be assessed during this period and reported to the Committee in January 2017.

Pay and Grading – Job Evaluation

3.84 Following approval by the Committee in July, the proposed pay model was implemented as planned and was effective from April 2016. The MTFP had previously set-aside certain amounts to cover potential costs.

3.85 As reported in July, the following table summarises those amounts together with the actual costs incurred:

Provision Made For	MTFP Provision	Actual Cost
External Facilitator	£100,000	£55,000
On-going costs of pay structure	£165,000 per year	2016/17 - £68,684 2017/18 - £120,083 2018/19 - £172,388 2019/20 - £127,421 (*onwards*)
Pay protection	£420,000	Nil

External Facilitator

3.86 The Committee previously approved that the external facilitator be retained for the foreseeable future to independently assess new posts and any future job changes in accordance with the job evaluation process.

3.87 Therefore, the remaining provision of £45,000 (£100,000 less £55,000) will remain earmarked separately in the MTFP to fund any future costs. The amount will kept under review as part of the financial planning process.

The Costs of the New Pay Structure

3.88 The total overall cost is estimated at £127,000 from 2019/20 following the ending of the protection period. This can be contained within the provision made and provides an on-going saving in the longer-term MTFP of approximately £40,000 per year, compared to the provision.

3.89 The cost within the 3-year protection period will change due to:

- Posts that are increasing will be moved incrementally over a period of up to 3 years from the bottom of their new grade to the top.

- Posts reducing are fully protected for 3 years on their current grade.

- Vacant posts reducing will be recruited at the new grade.

3.90 This will affect the profile of costs as estimated and shown in the above table. However, the costs overall will be contained within the overall amount set-aside for the 3-year protection period at £165,000 per year.

3.91 Based on this outcome and with a low number of posts (17) being reduced in grade, there will be no requirement to utilise the protection pot of £420,000 that was originally set-aside.

3.92 In July, the Committee approved providing some resources to support, through training and development, those employees facing a reduction in their grade. It is not anticipated that a significant sum will be required. Therefore, a sum of £35,000 will continue to be earmarked in the MTFP and this will be kept under review.

Inflation Contingency and Overall Base Budget Spending

3.93 Inflation is not universally applied to all expenditure items in the Base Budget and provision is only made where it is considered unavoidable. This mainly applies to items such as fuel, energy/utility costs and contracted services.

3.94 Annual increases are also provided on concurrent expenses paid to parish councils, together with grants to voluntary bodies, although actual increases are subject to annual review.

3.95 Many cost heads are cash limited and in particular those relating to supplies, and other overhead expenses. A provision for increases is also applied to fees and charges where the Council has discretion to do so, subject to annual review.

3.96 Within the MTFP, inflation has been applied to the relevant cost heads at 2% per year for 2017/18, 2018/19 and then 2.5% per year thereafter. This is broadly in line with the Government's projection for future inflation.

3.97 The overall amount calculated is held as a separate contingent sum in the MTFP and is drawn down during the year if necessary. In addition, it also covers any additional increases required for bad debts and to meet smaller one-off, urgent or unexpected expenditure that may arise during a year.

3.98 Any unused balance on this contingency is returned to the General Reserve at the year end. There are also on-going savings if the base budget is not actually increased from one year to the next in accordance with the inflation factors, because the base position is lower compared to that forecast.

The Rate of Council Tax

3.99 Following changes to national and local policy regarding Council Tax in setting the Base Budget for 2016/17, an increase of 1.95% per year is included in the MTFP, subject to annual review. This is just below the Government's limit of 2%, above which a local referendum would be required to set a higher increase.

3.100 However, as a shire district, the Council has the option of increasing its Council Tax rate up to £5 at Band D, without it being subject to a local referendum. The Band D Tax for 2016/17 is £153.18. The 1.95% increase in the MTFP would raise Band D to £156.17, an increase of £3, adjusted across other bands accordingly.

3.101 An increase of £5 would equate to £158.18 – 3.3%. This would increase resources in the MTFP by an additional £66,500 per year, or £332,000 over the 5-year planning period.

Parish Councils and the Referendum Principles

3.102 From 2017/18, the Government are proposing to apply the same referendum principles to large parish and town councils as apply to shire districts. The principles will apply to those parishes with a Council Tax rate of greater than £75.46 (the lowest shire district rate for 2016/17 in England) and whose Precept is greater than £500,000.

3.103 It is not expected that these principles will apply to any parishes in South Derbyshire in 2016/17.

The Council Tax Base

3.104 The projections for Council Tax income assume a continuation of growth in new properties (Band D equivalents) of 400 per year. This is below the average increase in recent years of approximately 500 properties.

3.105 The Tax Base for 2016/17 was set at 33,693 Band D equivalent properties. As at August, the actual, was 33,818, and therefore surpassed this estimate. The estimated figure for 2017/18 included in the MTFP is 34,100, which is a mid-year estimate. Therefore, it is considered that future estimates are still prudent.

3.106 The effects of the increase in the Tax Base over that estimated, increases the surplus in the Collection Fund. The Council's share is approximately 11% or £20,000 per year. This has already been included in the MTFP. Unless there is a significant increase in the number of properties in an individual year, any variation to current projections is not considered material.

Residential Growth

3.107 Clearly, residential growth could be much higher in future years with the adoption of the Local Plan (Part 1). A consequent increase in the number of properties included in the Local Plan has not been included in the current MTFP. However, it will now be kept under closer review as any impact begins to take effect.

3.108 This could also increase the level of New Homes Bonus in future years (subject to the outcome of the Government's consultation earlier in the year). However, growth could also put extra pressure on Council Services and this is a risk that has been identified in the Financial Register.

3.109 The MTFP includes an on-going provision of £100,000 per year to help mitigate this risk.

Other Provisions

3.110 The MTFP continues to include the following provisions.

Cost of organising and administering the District Election in May 2019	£125,000
Introduction of the national Apprenticeship Levy in April 2017 (per year)	£27,500
Additional costs of Waste Collection and Recycling (per year)	£100,000
Reduction in DWP Benefits Administration Grant (per year)	£110,000

The Apprenticeship Levy

3.111 This is effectively a tax on organisations with an annual payroll in excess of £3m. This will be paid over to HMRC based on ½% of the Council's Payroll, less £15,000. However, the Levy will be held in the name of the Council in a separate "Levy Pot".

3.112 In principle, the Council will be able to draw-down against this Levy via a voucher system. This will enable the Council to potentially offset its training costs for any apprentices it employs. The Council would need to procure an accredited training establishment or training provider in order to do this.

3.113 The Levy will remain available for 18 months, after which any amounts not used will be kept by HMRC. However, the Government will top-up the Levy for each employer by an additional 10% to incentivise the employment of apprentices.

3.114 This could enable the Council to offset some of its existing training costs and effectively recoup some of the Levy. It could also provide opportunities to widen its apprenticeship programme, but clearly the Council would need to fund the associated wages.

3.115 In addition, it would need to support training and development in a relevant job role. Options are currently being explored and HMRC are due to issue further details shortly regarding the operational aspects of the Levy.

3.116 In addition to the Levy itself, all public sector organisations will be required to have 2.32% of their workforce on apprenticeship programmes. For the Council, this equates to 7 apprentices. The Council currently employs 4 apprentices with one vacancy to be filled.

3.117 Further details are awaited whether other posts, for example, "trainees" will count towards this target. It is expected that the definition of an "apprentice" will be widened to include employees studying for National Vocational Qualifications, but this has not been confirmed.

3.118 It is anticipated that a further report will be brought to the Committee in 2017 ahead of the Levy being introduced.

4.0 Updated General Fund Position

4.1 Section 3 analysed in detail the main variables and risks included in the General Fund's MTFP. The revised projection is detailed in **Appendix 1**.

4.2 This includes the impact of known changes detailed in Section 3, together with confirmed changes to the Council's Base Budget in future years. These relate firstly, to the savings made on extending the current Leisure Management Contract.

4.3 Secondly, the Council has been notified by the County Council that their funding for Etwall Leisure Centre of £32,000 per year, will be phased out over 2017/18 and 2018/19. This has been reported to the Joint Management Committee following consultation with the County Council.

4.4 The updated position showing all of these changes is shown in the following table.

Projected General Fund Reserve Balance - Updated as at October 2016

	£'000
Projected Balance as at 2021 (as reported in February 2016))	-567
Midway Community Centre - Running Costs	-59
Restructure of Legal and Democratic Services	-28
Restructure of Direct Services	216
Add: Increase in Reserve - 2015/16 Accounts	1,201
Less: Capital contributions carried over from 2015/16	-369
Projected Balance as at 2021 (as at June 2016)	**394**
Reduction in Leisure Management Subsidy payable following Contract extension	191
Reduction in County Council contributions to Etwall Leisure Centre (SSDC Share 62%	-66
Provision for Employer's NIC on "off-payroll" payments	-108
Reduction in 2016 and 2017 pay award (compared to Base Budget)	158
Direct Services Restructure - First Year Saving Used to Fund Secondment	-36
Job evaluation - less requirement for Pay Protection (£420k - £35k)	390
Job evaluation - on-going cost less than estimated	209
Increased revenue provision for Grove Hall Development (offset by subsidy reduction)	-108
Other changes	-29
Projected Surplus Balance as at 2021 (updated for known changes)	**995**
Add: Projected Deficit 2021/22 and use of General Reserve	-2,394
Projected Deficit Balance as at 2022	**-1,399**

Note – all figures are cumulative over 5-years

4.5 To maintain a rolling 5-year projection, the forecast position for 2021/22 has been added into the MTFP.

4.6 The projected position to 2021 has improved compared to that reported in February 2016 as shown in the above table with the General Fund Reserve balance virtually at the minimum level £1m.

4.7 The improved position, as shown in the above table, is mainly due to the better 2015/16 out-turn, the decrease in Leisure Management Subsidy, together with an overall reduction in pay (compared to that budgeted) due to lower pay awards and the cost of the job evaluation exercise being contained within the provision set-aside.

4.8 This has increased the General Reserve Balance and reduced the projected budget deficit in the medium-term.

4.9 However, with a projected budget deficit increasing from 2018/19 and with 2021/22 being added to the projection, the reserve balance will again fall sharply into negative without corrective action or a significant change developing.

4.10 A summary of the yearly position in the updated projection is shown in the following table.

General Fund: Medium-Term Projection as at October 2016

Year	Budget Deficit / Surplus (-) £	Sums Earmarked against Reserve £	Balance of General Reserve £
Base Budget 2016/17	-947,590	596,211	-7,339,878
Projection 2017/18	260,037	82,000	-6,997,841
Projection 2018/19	1,412,845	20,000	-5,564,996
Projection 2019/20	2,001,034	270,000	-3,293,962
Projection 2020/21	2,028,625	270,000	-995,337
Projection 2021/22	2,123,676	270,000	1,398,339

4.11 In principle, the overall position has not changed. The current level of the General Fund Reserve remains healthy and will remain so over the next 3 to 4 years based on current forecasts. However, the continuing issue is the projected budget deficit over the medium-term from 2017/18 and in particular form 2018/19 when the impact of the next reduction in core funding takes effect.

4.12 Although the current level of reserves can be used to meet the projected deficit, this is not a sustainable solution in the longer-term. The MTFP continues to assume that base budget expenditure will increase year-on-year but overall core funding will reduce.

4.13 Section 3 detailed the uncertainty at this stage regarding future funding arrangements and the potential impact that this could have on the later years of the MTFP. In addition, the outcome of the consultation on the New Homes Bonus is still awaited.

4.14 The MTFP aims to set out a realistic but prudent assessment of the future financial position. Based on the potential significance of future deficits, it is considered that a substantial change or combination of factors would need to occur to materially change the longer-term forecast in a positive way.

Risks, uncertainties and potential opportunities

4.15 The MTFP continues to prudently set-aside amounts to cover future costs associated with growth and inflation, together with external pressures relating to pensions, etc. The Council has a history, over several years, of managing overall expenditure well within budget and has benefitted from additional income over the same period. This has enabled a healthy reserves position to become established. However, this trend cannot be guaranteed in future years.

4.16 One of the key risks entering 2016/17 was the financial impact of job evaluation. This has now been implemented and subject to it becoming established, the costs have been contained in the MTFP.

Core Spending Power (CSP)

4.17 The projected budget deficit widens acutely from 2018/19 due to an overall reduction in CSP. The Council is already aware that its Revenue Support Grant will reduce from £1.8m in 2015/16 to zero by 2019/20. This equates to 16% of current CSP.

4.18 Consequently, the Council will have to rely on Retained Business Rates (RBR) New Homes Bonus (NHB) and Council Tax income. Although these income streams are projected to increase over the same period, the overall reduction in core funding is forecast to reduce from £11.5m in 2015/16 to £10.3m in 2021/22, i.e. £1.2m.

4.19 It is possible that income could rise further, but this is not certain and there are risks associated with the funding from Business Rates, in particular stagnant growth and appeals. The outcome of the NHB consultation is a key issue. If this is positive for the Council and the General Fund is not as adversely affected as forecast in the Government's proposals, it could materially alter the outlook.

4.20 The move towards 100% business rates retention and the review of the needs formula is still at an early stage to judge any potential impact and this will be kept under review. The Government have given further scope for shire districts to increase Council Tax in future years and this is an option that could be considered.

4.21 It is considered that there is still sufficient time for proper and remedial action to be taken. The Council did resolve to formulate a plan to achieve future budget savings when setting the Budget for 2016/17. The time for completing this ahead of April 2018 is reducing.

4.22 As usual, all budgets will be carefully reviewed during the forthcoming budget round for 2017/18.

5.0 Housing Revenue Account

5.1 The HRA budget (2016/17) and updated financial projection to 2027 was approved by the Committee in February 2016. This was updated and reported to the Committee in June following changes to the on-going capital investment and Council House New Build programmes, together with the 2015/16 budget out-turn position.

5.2 That projection highlighted that the HRA's General Reserve would fall to £1.07m in 2017/18, only slightly above the minimum level of £1m. As previously reported, the longer-term financial position for the HRA was significantly changed in 2015.

5.3 This was due to the Government legislating to reduce Council House rents by 1% per year to 2020. Consequently, planned capital expenditure was reduced in the 10-year financial plan to reflect a reduction in resources.

5.4 The updated projection is detailed in **Appendix 2**. Since June, there have been no significant changes with the projection being updated for the impact of the national pay award and job evaluation on the HRA. Provision for these changes had already been made and there is no material impact.

The HRA's Financial Model

5.5 The projection is based on a financial model designed so that a £1m minimum balance is maintained on the HRA's General Reserve and that planned resources are set aside for debt repayment in future years. These are the priority financial objectives to ensure that the HRA Business Plan is sustainable and the core housing service is delivered.

5.6 Given that these objectives are met, any increase or decrease in resources are reflected in the planned capital or new build programmes and these can be flexed accordingly into the longer term where there is a more significant change in resources.

5.7 The main focus of the Plan is over the medium term of 5 years. This ensures that any changes do not materially affect plans already in place to deliver the approved capital investment and new build programmes.

5.8 On implementation of "self-financing" in April 2012, provision was made in the HRA for a major capital upgrade programme due to the additional resources it gained at that time by the abolition of "negative subsidy." This initial investment programme is close to being completed, but has been curtailed to some extent due to the reduction in rental income.

5.9 Following this capital investment, the HRA is projected to generate operating surpluses which will be set-aside to repay the debt of £57m it took over from the Government as part of the self-financing framework.

HRA Reserves

5.10 The HRA has 3 separate reserves as shown in the following table.

Working Balance or General Reserve	Held as a contingency with a minimum balance of £1m.
New Build Reserve	Accumulated Capital Receipts pending expenditure on building new properties. The financial model assumes that these are drawn down each year to finance New Build ahead of any further borrowing. Therefore, the carrying balance from year-to-year remains low.
Debt Repayment Reserve	Sums set-aside to repay the initial "self-financing" debt; contributions to the Reserve are due to start from 2017/18 in accordance with the debt repayment profile.

Key Variables and Assumptions in the Financial Projection

5.11 The key variables on which the financial plan is based are summarised in the following table.

Cost inflation	2.5% per year. This is higher than the current rates of inflation and that projected nationally over the next 5 years. However, this recognises that prices for materials in the building industry tend to rise quicker than average inflation. With current uncertainty in the general economy, prices may not increase at the projected level of 2.5%.
Annual rent increases	A 1% reduction per year (2016/17 to 2019/20) in accordance with the Welfare Reform and Work Act 2016. Thereafter, CPI + 1% giving 2.5% increases in 2020/21 and 2021/22 and 3% per year thereafter. (*Note: as approved by the Committee in February, rents for Sheltered Accommodation were frozen in 2016/17*)
Council house sales – "Right to Buys"	18 sales in 2016/17 falling incrementally to 10 per year by 2023. The estimate of 18 in 2016/17 is in line with sales over the past 2 to 3 years. However, it is anticipated that the number of sales will decline in future years in accordance with current forecasts.

Interest Rates	The HRA debt is predominantly at fixed rates. £10m of the £57m outstanding is at variable rate, based on current short-term interest rates. The projection estimates this rate at 1.5% in 2016/17, rising to 2.5% in 2017/18 and to 3% in 2018/19 until maturity in 2021/22. Currently, the rate is 0.7% in 2016/17. Therefore, the cost could be lower over the next 5-years unless there is a sudden rise in interest rates. It is considered that this is unlikely given that rates have recently fallen and are expected to do so again during 2017/18. Every 1% below the estimated rate would reduce the cost of the variable debt by approximately £100,000 per year, so it could have a material (positive) effect on the longer-term financial projection.
New Debt	£1.9m over 2016/17 and 2017/18 to finance Phase 2 New Build. Assumption is that this debt is borrowed at a fixed rate of 3.5% for 10 years. In accordance with the Council's Treasury Management Strategy, this borrowing will not be undertaken if additional capital receipts are generated. Due to the amount of cash reserves, internal borrowing between the General Fund and HRA could be used at a lower cost. This will be kept under review in the Treasury Management Strategy.

Financial Risks

5.12 As previously reported, the financial position of the HRA is now much tighter. Based on the current projection, 2017/18 is a critical year as a deficit is forecast and this is the first year where amounts need to be set-aside to repay debt. This doesn't leave much headroom above the minimum reserve balance of £1m.

Housing Rents

5.13 The biggest risk in the Financial Plan is considered to be future rent levels. The rent level from 2016/17 to 2019/20 has been set in accordance with statutory requirements i.e. a 1% reduction for each of those years. Beyond this, it has been assumed that rents will again be allowed to rise.

5.14 The Government indicated earlier in the year that they have only suspended the previous rent policy for the next 4-years until Universal Credit (UC) is fully implemented. The Housing Minister, at that time, also stated that future rent increases would return to an inflation linked formula.

5.15 However, this is not guaranteed and it is now uncertain how a further delay in the full implementation of UC to 2021/22 will impact. Clearly, the HRA is wholly dependent on rent income (currently £12m per year) for its resources. Even small variations in rent changes (e.g. 0.5%) can have significant implications in monetary terms for the Financial Plan over the longer-term.

Right to Buy Sales

5.16 A moderate decrease in current properties from sales continues to be built into the Financial Plan and this reflects the current level of sales. Therefore, the HRA will continue to generate resources for further New Build and capital works in the future, although on-going rent income is lost.

5.17 The main risk relates to a sudden surge in sales; although this will generate capital, the loss in on-going rental income could have a much more adverse impact on the HRA. However, it is not expected that current projections for the future number of sales will be exceeded.

Supporting People Contribution

5.18 This is paid by the County Council at £240,000 per year and besides rent income, is a significant amount in the HRA as a contribution to its supporting people costs. The Financial Plan assumes that this continues (cash limited) over the 10-year period. This will be subject to spending decisions at the County Council. There have been informal indications that this could be reviewed, although no formal notification has been received.

Depreciation and Impairment

5.19 These are accounting adjustments which recognise the changes in the value of the HRA‘s property base. In principle, depreciation is charged to the HRA but is not a final cost as it is reversed out of the Accounts in accordance with accounting regulations. This is because the Council spends a greater amount on capital works and/or sets-aside amounts to repay its debt.

5.20 If capital expenditure and/or debt repayments were less than depreciation, then the difference would need to be charged to the HRA. Impairment is currently treated differently and is an accounting adjustment that reflects a sudden reduction in the value of an asset.

5.21 An asset becomes impaired where a one-off event (e.g. fire, vandalism, etc.) causes significant damage or there is a significant change in market conditions, which reduces the value of the asset.

5.22 In accordance with accounting regulations, provision has to be made in an entity’s accounts for the loss in an asset’s value through impairment. However, this is purely an accounting exercise for local authorities. Impairment charges are reversed out of revenue accounts to ensure that it does not affect the “bottom line” and Council Tax or Rent (in the HRA’s case) payable by Council Tenants.

5.23 The Government are currently reviewing this accounting treatment to bring local authorities into line with other organisations in accordance with International Reporting Standards. This is being challenged by the relevant professional bodies.

5.24 An impairment charge can only arise where it affects the wider asset base. For example, damage to one property would not affect the overall value of the Council's stock, which is currently valued at £90m in total.

5.25 Clearly however, if there was a wider event affecting many properties, this would lead to an impairment charge. This sometimes occurs where there is a sudden fall in property values as this affects the overall valuation of the property base. The potential for impairment charges could have serious implications for all housing authorities and this is why it is being challenged.

Welfare Reform and Universal Credit (UC)

5.26 The latest indication for UC is that full implementation has been delayed to 2021/22. The Council is currently dealing with a small number of cases as UC has been implemented for certain groups. This is set to be extended shortly.

5.27 Currently, housing benefit is applied directly to rent accounts internally at the Council so that a tenants rent is paid. There has been some concern that UC could increase rent arrears as the one "all-encompassing benefit" will be paid directly to housing tenants.

6.0 Earmarked Reserves

6.1 In addition to General Reserves, the Council maintains Earmarked Reserves that are held for specific purposes. In order to strengthen transparency, the Council has been advised by its internal auditors, to adopt a Protocol for managing these reserves. This is a practice recommended by accounting bodies.

6.2 The Council does report these reserves on an on-going basis and clearly shows how these reserves are funded and utilised. The proposed Reserves Protocol (detailed in **Appendix 3**) shows how these reserves are funded, managed and controlled, together with specifying a review date.

6.3 The current level of these reserves and how they planned to be utilised over the MTFP is detailed in **Appendix 4**. The Protocol is a narrative statement. This is designed to ensure that resources are not under-utilised, held unnecessarily and are regularly reviewed.

7.0 Corporate and Community Implications

7.1 The aim of Medium-Term Financial Planning is to maintain "*financial health*" - a key outcome in the Corporate Plan. This is backed-up by actions to achieve a balanced General Fund Budget by 2018/19 and for the General Fund Reserve to be a minimum of £1m by 2021.

8.0 Background Papers

8.1 "*Self-sufficient Local Government: 100% Business Rates Retention*"
https://www.gov.uk/government/consultations/self-sufficient-local-government-100-business-rates-retention

APPENDIX 1

GENERAL FUND MEDIUM TERM FINANCIAL PROJECTION (October2016)

	Budget 2016/17 £	Projection 2017/18 £	Projection 2018/19 £	Projection 2019/20 £	Projection 2020/21 £	Projection 2021/22 £
BASE BUDGET - Net Service Expenditure	10,892,575	11,075,119	11,301,008	11,530,887	11,845,821	12,168,170
Reverse out Depreciation	-718,739	-718,739	-718,739	-718,739	-718,739	-718,739
Minimum Revenue Provision (MRP)	223,470	214,531	205,950	197,712	189,803	181,932
Voluntary Revenue Provision (VRP - Green bins for Recycling and Grove Project)	131,226	131,226	131,226	131,226	131,226	75,891
Known / Anticipated Changes to the Base Budget						
External Facilitator - Pay and Grading Review	25,000	20,000	0	0	0	0
Pay and Grading - on-going support costs	0	35,000	0	0	0	0
Pay and Grading Costs	68,684	120,083	172,388	127,421	127,421	127,421
Provision for Employer's NIC on "off-payroll" payments		27,000	27,000	27,000	27,000	27,000
Restructure of Legal & Democratic Services	1,856	3,971	4,574	8,002	8,920	9,883
Direct Services Restructure	0	-44,946	-44,946	-44,946	-44,946	-44,946
Etwall County Contribution Deduction	0	6,820	19,840	19,840	19,840	19,840
Incremental Salary Increases	0	17,000	17,000	17,000	17,000	17,000
Phased implementation of the National Living Wage	0	5,990	10,604	14,099	14,099	14,099
Provision for Auto Enrolment (October 2017)	0	37,720	75,440	75,440	75,440	75,440
Reduction in Leisure Management Contract Fee	-32,240	-39,680	-39,680	-39,680	-39,680	-39,680
Increase in Planning Fee Income	0	-150,000	0	0	0	0
Contingent Sum - Inflation	182,544	186,463	229,879	314,933	322,350	329,943
Contingent Sum - Growth	100,000	100,000	100,000	100,000	100,000	100,000
Payment to Parish Councils - Share of Council Tax Support Grant	43,627	43,627	43,627	43,627	43,627	43,627
Midway Community Facility	28,889	16,875	13,572	0	0	0
District Election May 2019	0	0	0	125,000	0	0
TOTAL ESTIMATED SPENDING - CURRENT BASE BUDGET	**10,946,893**	**11,088,061**	**11,548,744**	**11,928,823**	**12,119,182**	**12,386,881**

Add Provisions

Apprenticeship Levy (April 2017)	0	27,500	27,500	27,500	27,500	27,500
Waste Collection and Recycling	100,000	100,000	100,000	100,000	100,000	100,000
On-going Reduction in DWP Benefits Administration Grant	0	65,024	89,322	104,688	110,000	110,000
TOTAL PROJECTED SPENDING	**11,046,893**	**11,280,584**	**11,765,565**	**12,161,011**	**12,356,682**	**12,624,381**

	Budget 2016/17 £	Projection 2017/18 £	Projection 2018/19 £	Projection 2019/20 £	Projection 2020/21 £	Projection 2021/22 £
Revenue Support Grant	-1,199,194	-668,239	-338,367	0	0	0
Transitional Grant	-3,244	-3,230	0	0	0	0
Business Rates Retention	-3,170,000	-3,010,000	-3,099,000	-3,199,000	-3,199,000	-3,199,000
New Homes Bonus	-2,855,000	-2,417,000	-1,834,000	-1,716,000	-1,716,000	-1,716,000
Council Tax Income	-4,747,044	-4,902,078	-5,061,354	-5,224,977	-5,393,057	-5,565,705
Core Spending Power	**-11,974,482**	**-11,000,547**	**-10,332,721**	**-10,139,977**	**-10,308,057**	**-10,480,705**
Add Estimated Collection Fund Surplus - Council Tax	-20,000	-20,000	-20,000	-20,000	-20,000	-20,000
TOTAL FINANCING	**-11,994,482**	**-11,020,547**	**-10,352,721**	**-10,159,977**	**-10,328,057**	**-10,500,705**
General Fund - Yearly Surplus (-) / Deficit	**-947,590**	**260,037**	**1,412,845**	**2,001,034**	**2,028,625**	**2,123,676**

GENERAL FUND RESERVE BALANCE

Balance b/f	-6,988,499	-7,339,878	-6,997,841	-5,564,996	-3,293,962	-995,337
General Fund - Yearly Surplus (-) / Deficit (as above)	-947,590	260,037	1,412,845	2,001,034	2,028,625	2,123,676
General Fund Capital Bids Remaining	316,211	62,000	0	0	0	0
Purchase of Town Centre Land	47,000	0	0	0	0	0
Melbourne Sporting Partnership (Section 106 Funding)	213,000	0	0	0	0	0
Contribution to Vehicle Replacement Fund	20,000	20,000	20,000	20,000	20,000	20,000
Provision for Capital Funding / Replacement Fund Contributions	0	0	0	250,000	250,000	250,000
Balance c/f	**-7,339,878**	**-6,997,841**	**-5,564,996**	**-3,293,962**	**-995,337**	**1,398,339**

APPENDIX 2

HOUSING REVENUE ACCOUNT FINANCIAL PROJECTION (as at October 2016)

	2016.17 Approved Budget £'000	2017.18 Forecast £'000	2018.19 Forecast £'000	2019.20 Forecast £'000	2020.21 Forecast £'000	2021.22 Forecast £'000	2022.23 Forecast £'000	2023.24 Forecast £'000	2024.25 Forecast £'000	2025.26 Forecast £'000	2026.27 Forecast £'000
INCOME											
Rental Income	-12,457	-12,384	-12,270	-12,095	-12,342	-12,832	-12,924	-13,263	-13,615	-13,976	-14,346
Non-Dwelling Income	-111	-110	-109	-108	-110	-113	-116	-119	-122	-126	-129
Supporting People Grant	-240	-240	-240	-240	-240	-240	-240	-240	-240	-240	-240
Other Income	-181	-181	-181	-181	-181	-181	-181	-182	-182	-182	-183
Total Income	**-12,989**	**-12,915**	**-12,800**	**-12,624**	**-12,873**	**-13,366**	**-13,461**	**-13,804**	**-14,159**	**-14,524**	**-14,898**
EXPENDITURE											
General Management	1,788	1,814	1,844	1,864	1,888	1,912	1,936	1,961	1,986	2,012	2,038
Supporting People	802	810	822	835	849	863	878	893	909	926	944
Responsive	1,247	1,262	1,283	1,304	1,325	1,347	1,369	1,392	1,415	1,439	1,463
Planned Maintenance	1,984	2,058	2,113	2,158	2,203	2,249	2,296	2,346	2,395	2,446	2,498
Bad Debt Provision	44	43	43	42	43	45	45	46	48	49	50
Interest Payable & Receivable	1,690	1,808	1,874	1,875	1,875	1,875	1,575	1,576	1,306	1,306	1,306
Pension interest and expected return	0	0	0	0	0	0	0	0	0	0	0
Depreciation	2,985	3,042	3,015	3,005	2,995	2,985	2,976	2,969	2,962	2,955	2,947
Net Operating Income	**-2,449**	**-2,077**	**-1,805**	**-1,542**	**-1,695**	**-2,090**	**-2,385**	**-2,622**	**-3,138**	**-3,391**	**-3,652**
Reversal of Depreciation	-2,985	-3,042	-3,015	-3,005	-2,995	-2,985	-2,976	-2,969	-2,962	-2,955	-2,947
Capital Expenditure	2,795	1,800	1,843	1,888	1,935	1,983	1,692	1,733	1,777	1,816	1,847
Debt Repayment	0	3,529	1,459	1,117	1,060	1,002	1,284	1,236	1,185	1,139	1,100
New Build Contribution	1,000	0	0	0	0	0	0	0	0	0	0
Potential Restructure Costs	27	41	60	72	73	74	75	75	76	77	78

Accumulated Absence reversal	0	0	0	0	0	0	0	0	0	0	0
Pension Reserve adjustments	0	0	0	0	0	0	0	0	0	0	0
Potential Redundancy Cost	80	0	0	0	0	0	0	0	0	0	0
Orchard upgrade	0	0	83	0	0	0	0	0	0	0	0
Delays on New Build	33	0	0	0	0	0	0	0	0	0	0
Job Evaluation Protection	0	0	0	0	0	0	0	0	0	0	0
Job Evaluation On-going Support Costs	0	10	0	0	0	0	0	0	0	0	0
Incremental Salary Increases	6	6	6	6	6	6	6	6	6	7	7
HRA (Surplus) / Deficit	**-1,494**	**266**	**-1,370**	**-1,463**	**-1,616**	**-2,010**	**-2,305**	**-2,540**	**-3,056**	**-3,307**	**-3,568**

HRA Reserve B/fwd	-1,426	-1,633	-1,116	-1,186	-1,199	-1,215	-1,125	-1,330	-1,370	-1,926	-1,933
(Surplus) / Deficit for year	-1,494	266	-1,370	-1,463	-1,616	-2,010	-2,305	-2,540	-3,056	-3,307	-3,568
Earmarked non-traditional properties	0	0	100	200	100	100	100	0	0	0	0
Transfer to Debt Repayment Reserve	1,287	250	1,200	1,250	1,500	2,000	2,000	2,500	2,500	3,300	1,000
HRA Reserve C/fwd	**-1,633**	**-1,116**	**-1,186**	**-1,199**	**-1,215**	**-1,125**	**-1,330**	**-1,370**	**-1,926**	**-1,933**	**-4,501**

	2016.17 Approved Budget £'000	**2017.18 Forecast £'000**	**2018.19 Forecast £'000**	**2019.20 Forecast £'000**	**2020.21 Forecast £'000**	**2021.22 Forecast £'000**	**2022.23 Forecast £'000**	**2023.24 Forecast £'000**	**2024.25 Forecast £'000**	**2025.26 Forecast £'000**	**2026.27 Forecast £'000**
Debt Repayment Reserve											
Balance B/fwd	-1,703	-2,990	-6,769	-9,528	-12,095	-14,755	-7,857	-11,241	-4,977	-8,662	-13,101
Depreciation balance	0	-3,529	-1,459	-1,117	-1,060	-1,002	-1,284	-1,236	-1,185	-1,139	-1,100
Transfers to reserve	-1,287	-250	-1,200	-1,250	-1,500	-2,000	-2,000	-2,500	-2,500	-3,300	-1,000
Earmarked non-traditional properties	0	0	-100	-200	-100	-100	-100	0	0	0	0
Repayment of loan	0	0	0	0	0	10,000	0	10,000	0	0	11,450
Reserve C/fwd	**-2,990**	**-6,769**	**-9,528**	**-12,095**	**-14,755**	**-7,857**	**-11,241**	**-4,977**	**-8,662**	**-13,101**	**-3,751**

New Build Reserve

Capital Receipts B/fwd	-768	-69	0	-475	-844	-1,210	-1,522	-1,831	-2,033	-2,232	-2,432
New Build Expenditure - phase 1	1,180	0	0	0	0	0	0	0	0	0	0
Contribution to Reserve	-1,000	0	0	0	0	0	0	0	0	0	0
Repton Easement	0	0	0	0	0	0	0	0	0	0	0
Feasibility / Other costs	13	0	0	0	0	0	0	0	0	0	0
Acquisitions - Alexander Road	219	0	0	0	0	0	0	0	0	0	0
Proposed Lullington Rd	583	0	0	0	0	0	0	0	0	0	0
Proposed Yard Close	975	1,000	0	0	0	0	0	0	0	0	0
Proposed Acquisition - Fire Service	910	0	0	0	0	0	0	0	0	0	0
HCA grant	-95	0	0	0	0	0	0	0	0	0	0
RTB Receipts in year	-636	-478	-475	-369	-366	-312	-309	-202	-199	-199	-199
Borrowing in year	-1,450	-453	0	0	0	0	0	0	0	0	0
Balance c/fwd	**-69**	**0**	**-475**	**-844**	**-1,210**	**-1,522**	**-1,831**	**-2,033**	**-2,232**	**-2,432**	**-2,631**

APPENDIX 3: RESERVES PROTOCOL

In addition to general reserves, the Council maintains earmarked reserves that are held for specific purposes. They are provided:

- To pay for known commitments outside of normal operational expenditure
- To pay for one-off items of expenditure
- To spread expenditure over a number of financial years to smooth out peaks and troughs in the profile of actual expenditure
- To set-aside external financing received in advance of expenditure
- To hold sums in trust to meet a legal or contractual commitment at some future date

Although this is considered to be a prudent way of safeguarding the Council's financial position, it is important to review earmarked reserves regularly. This ensures that resources are not under-utilised or held unnecessarily and that they are in accordance with the Corporate Plan and accounting practice.

Once established by the Finance and Management Committee, earmarked reserves can only be used for that specific purpose.

Classifying Earmarked Reserves

Earmarked reserves are classified into three distinct areas.

- ***Council funds***, i.e. those that are funded directly by the Council where the Council has total discretion over the reserve, subject to proper control and approval.
- ***Specific grants and contributions*****,** i.e. those that are funded from external contributions / grant funding for specifically defined purposes, including those delivered in partnership with other agencies and organisations. The Council does have some discretion over the use of grant funded reserves where additional costs are not being or are no longer being incurred. The Council can opt to use these reserves in other ways or return them to general reserves, subject to Committee approval.
- ***Section 106 funds*****,** i.e. those funds secured under Section 106 agreements. The Council effectively holds the funds in trust as the Planning Authority, pending it being transfererd to other agencies in accordance with a planning agreement.

COUNCIL FUNDS

Reserve	Use	How Funded	Delegated Responsibility / Control / Approvals	Review Period
Vehicle and Plant (Asset) Replacement	To finance the capital purchase of new vehicles and plant.	Annual contributions from the General Fund and Capital Account	Asset Replacement Programme, Procurement Team – all requests signed off by the Director of Finance	On-going – this is an operational reserve.
Factory Site – Capital Works	To meet obligations under a lease agreement.	Capital fund lodged by the tenant	Corporate Asset Manager	Yearly, until the end of the next lease review date in 2021. This reserve will be drawn down in the meantime to meet capital works.
ICT / Telecommunications	To finance capital developments and upgrades to the Council's ICT platform and infrastructure.	Unused budgetary provision in the ICT annual budget	ICT strategy and work programme - budget controlled by the Director of Finance	On-going - this is an operational reserve.
Pensions	To finance any unexpected increases in the Council's contributions to the Derbyshire Pension Fund.	Funding set-aside in 2013 to mitigate risk identified in the MTFP	Director of Finance recommendation to Finance and Management Committee	January 2017 following results of the triennial valuation of the Pension Fund.
Local Plan	To meet the one-off costs of developing, consulting and adopting the Local Plan.	Additional income from Planning Fees	Planning Services Manager	March 2017 following adoption of the Local Plan in 2016/17. It is likely that this reserve will be fully utilised in 2016/17.
Repton Parish	To contribute to new or improved	Residual value of sale	Ring-fenced subject to a	Non-specified,

	recreational facilities in the Parish of Repton.	proceeds of a former Council depot	legal agreement which stipulates how the funding is used	subject to requests from the Parish Council.
Corporate Services Innovation fund	To fund developments in back-office processes and systems.	20% of procurement and business improvement savings	Business Improvement Board	Quarterly at Board meetings.
Rosliston Forestry Centre	Set-aside to fund capital works (if required) in the café and to contribute to capital works with the National Forest Company.	Share of annual turnover from current café proprietor	Rosliston Forestry Centre Executive Board	Annually with the final accounts process.
Planning Services Department	To fund staffing and support costs to meet peaks in the volume of planning applications.	Additional income from Planning Fees	Planning Services Manager, subject to confirmation of HR implications and necessary Committee approval	Annually with the final accounts process. It is likely that this reserve will be fully utilised in 2017/18.
Facilities Development	To fund external support to draw up a plan for securing developer (S106) funds for new recreational facilities	Additional income from Planning Fees	Specific approval from Committee in place	March 2017 when project completed.
Civic Offices	To fund additional maintenance required for the main administrative building.	Savings made in operational budgets	Public Buildings Officer and Maintenance Plan	Annually with the final accounts process.
Leisure Maintenance	To contribute to one-off works.	Savings made in operational budgets	Cultural Services Manager	March 2017 when works completed.
Corporate Training	To fund the current Leadership and Management Development Programme.	Financing carried over to meet costs over a 3-year period	Corporate Management Team	March 2017 after completion of programme.

Specific Grants and Contributions

Reserve	Use	How Funded	Delegated Responsibility / Control / Approvals	Review Period
Public Open Space	To fund on-going costs associated with maintaining new open space.	Developer (Section 106) contributions	Housing and Community Services Committee	Annual budget round to ensure sufficient resources are drawn down to meet commitments.
Community and Cultural Services • *Youth Engagement* • *School Sports* • *Community Safety/Crime Reduction* • *Culture/Arts Development* • *Get Active in the Forest* • *Environmental Education*	Several partnership reserves which are held by the Council as the Accountable Body to fund project work in these specific areas.	External contributions and grants	Housing and Community Services Committee	Annual budget round or where approval is required for a new iniative.
Rosliston Forestry Centre • *Business Units* • *The Glade Development*	To fund outstanding contractual payments.	Money held over from capital grants	Housing and Community Services Committee	*It is now likely that these sums will not be required. Therefore, they will be reviewed in the 2017/18 budget round.*
Tetron Point Storm Water Basin	To fund specific works on regeneration land.	Developer (Section 106) one-off contribution	Environmental and Development Services Committee	***This is currently being reviewed.***
Swadlincote Woodlands	To fund on-going costs associated with maintaining this area.	Developer (Section 106) one-off contribution	Housing and Community Services Committee	Annual budget round to ensure sufficient resources are drawn down to meet commitments. Potentially, this reserve may be fully

				utilised over the period of the MTFP; financing the residual expenditure has been identified as a risk in the financial register.
Play Equipment	To fund the replacement of play equipment and to provide safety surfacing.	Various grant monies not applied to historic projects	Housing and Community Services Committee	*It is now likely that the residual amount will not be required. Therefore, they it will be reviewed in the 2017/18 budget round.*
South Derbyshire Partnership Reserve	To fund one-off iniatives and grants in accordance with the Community Strategy.	External grants and contributions	South Derbyshire Partnership Board	Quarterly at Board meetings.
Homelessness Prevention	To fund iniatives and projects to prevent homelessness.	Government grant	Director of Housing and Environmental services	Annual budget round to ensure sufficient resources are drawn down to meet commitments. It is anticipated that this reserve will be fully utilised over the term of the MTFP to 2021.
Welfare Reform, Fraud and Compliance	To fund system improvements and to streamline processes to prevent and detect fraud, together with implementing local changes from welfare reform.	Government grants under the New Burdens Doctrine	Director of Finance and Corporate Services	Annual budget round to ensure sufficient resources are drawn down to meet commitments. It is anticipated that this reserve will be fully utilised over the term of the MTFP to 2021.

Localism Act Funding • *Community Right to Bid* • *Community Right to Challenge* • *Data Sharing*	To fund administrative costs of implementing the legislative requirements locally.	Government grants under the New Burdens Doctrine	Director of Finance and Corporate Services	*Any costs have been absorbed in current budgets and it is not anticipated that any significant costs will now be incurred. Therefore, the total amount will be reviewed in the 2017/18 budget round.*
Heritage Grants	To fund contributions to renovate shops and business premises.	The Heritage Lottery	Heritage Grants Sub-Committee	At Committee meetings.
Electoral Registration	To fund system improvements to implement Individual Electoral Registration.	Government grant under the New Burdens Doctrine	Chief Executive Officer	Annual budget round to ensure sufficient resources are drawn down to meet commitments. It is anticipated that this reserve will be fully utilised over the term of the MTFP to 2021.

APPENDIX 4

ANALYSIS OF EARMARKED RESERVES

	Balance b/fwd 1/4/16 £	Estimated Movement 2016/17 £	Estimated Balance c/fwd 31/3/17 £
Specific / Earmarked Reserves - Council Funds			
Vehicle and Plant Replacement Fund	981,494	270,000	1,251,494
Dilapidation Works - Factory Site per Lease Agreement	102,777	0	102,777
IT Reserve	100,526	75,000	175,526
Pensions Reserve	182,000	0	182,000
Local Plan - Consultation and Implementation	50,941	-39,066	11,875
Repton Parish (Former Depot proceeds)	33,049		33,049
Corporate Services Innovation Fund	81,666		81,666
Rosliston Forestry Centre / Café	56,929	10,000	66,929
Planning - Staffing and Support Costs	130,576	-106,319	24,257
Facilities Development Fund	30,000	-15,000	15,000
Civic Offices - Maintenance	32,000	0	32,000
Leisure Maintenance	5,000	-5,000	0
Corporate Training and Development Programme	19,775	-10,000	9,775
Total - Specific / Earmarked Reserves - Council Funds	**1,806,733**	**179,615**	**1,986,348**

	Balance b/fwd 1/4/16 £	Estimated Movement 2016/17 £	Estimated Balance c/fwd 31/3/17 £
Specific Grants and Contributions			
Public Open Space - Commuted Sums	1,295,583	-93,141	1,202,442
Youth Engagement Partnership	555,145	-166,630	388,515
Schools Sport Partnership Project	185,298	-62,572	122,726
Community Safety & Crime Reduction	342,392	-66,154	276,238
Young People's Cultural Partnership / Arts Development	2,674	-1,778	896
Rosliston Business Units	10,719	0	10,719
Get Active in the Forest Partnership	43,315	-27,797	15,518
Environmental Education	20,783	-8,165	12,618
Tetron Point Storm Water Basin - S106 UK Coal	53,012	0	53,012
Swadlincote Woodlands - Section 106	50,774	0	50,774
Rosliston Forestry Centre - The Glade	35,892	0	35,892
New Play Equipment and Safety Surfacing	26,007	0	26,007
Maurice Lea Park NHLF Grant	23,012	-23,012	0
South Derbyshire Partnership Reserve	27,528	-15,000	12,528
Homelessness Prevention	150,794	-25,000	125,794
Welfare Reform, Fraud and Compliance	159,000	-50,000	109,000
Community Right to Bid	20,728	0	20,728
Community Right to Challenge	16,547	0	16,547
Property Records - Data sharing	7,131	0	7,131
Electoral Registration	38,401	-15,000	23,401
Total - Specific Grants and Contributions	**3,064,734**	**-554,249**	**2,510,485**

Section 106 - Earmarked Funds	**2,869,000**	**-350,000**	**2,519,000**
TOTAL EARMARKED RESERVES	**7,740,467**	**-724,634**	**7,015,833**