

<b>REPORT TO:</b>	<b>FINANCE &amp; MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>12<sup>th</sup> OCTOBER 2017</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF FINANCE and CORPORATE SERVICES</b>	<b>OPEN</b>
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<b>SUBJECT:</b>	<b>UPDATE on the COUNCIL'S MEDIUM TERM FINANCIAL POSITION</b>	<b>REF:</b>
<b>WARD (S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM 08</b>

## **1.0 Recommendations**

- 1.1 That the updated financial projections on the General Fund to 2023 and the Housing Revenue Account to 2028 as detailed in the report, are approved.
- 1.2 That additional income from the New Homes Bonus over that projected in the base budget is set-aside in the annual Growth Provision in the MTFP as detailed in the report.
- 1.3 That the Council undertakes a review of the impact of residential growth on service delivery to ascertain the potential cost implications over the financial planning period.
- 1.4 That further budget savings are pursued to alleviate the projected General Fund deficit in the medium-term.
- 1.5 That the financial projections provide the basis for planning purposes and for setting the General Fund and Housing Revenue Account's Base Budgets for 2018/19.
- 1.6 That the Policy on Earmarked Reserves as detailed in Appendix 3 is reviewed and approved.
- 1.7 That the Council supports a business case to become a pilot authority, as part of the Derbyshire Business Rates Pool, to trial 100% Business Rates Retention in 2018/19.
- 1.8 That subject to the outcome of the business case, the Council submits an application to the Government alongside other Pool authorities for a Derbyshire-wide pilot in 2018/19.
- 1.9 That an update on progress of the pilot is provided to the Committee at its next meeting on 30<sup>th</sup> November 2017.

## **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 2016/17, together with known and potential changes since the 2017/18 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 as part of the "Value for Money conclusion".
- 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 arise 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, Government policy and local spending/financing plans, etc.
- 2.7 Assumptions and variables are regularly updated to take account of previous spending changes and their effects over the medium term. The projection aims to show a prudent but realistic position over the planning periods.

### **Purpose of this Review**

- 2.8 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.

2.9 Since the current MTFP was approved in February 2017, there have not been any significant changes nationally that may immediately affect the Council's financial position. However, the Government released a technical consultation paper in September 2017, outlining proposals for the 2018/19 Local Government Financial Settlement.

2.10 In particular, as far as the Council is concerned, this sets out some revised proposals for allocating the New Homes Bonus in 2018/19. This is considered later in the report, together with an update regarding the retention of 100% Business Rates and a possible county-wide application to become a pilot area in 2018/19 to trial its implementation in Derbyshire.

2.11 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 2023
- Appendix 2 – Housing Revenue Account Projection to 2028
- Appendix 3 – Earmarked Reserves Policy
- Appendix 4 – List of Earmarked Reserves

### **3.0 General Fund – Detailed Analysis**

3.1 Following the budget round for 2017/18, the medium term financial position was projected as shown in the following table.

#### ***General Fund: Medium-Term Projection as at February 2017***

Year	Budget Deficit / Surplus (-) £	Earmarked Sums £	Balance of General Reserve £
Approved Budget 2017/18	-482,058	103,769	-7,984,444
Projection 2018/19	852,749	-9,706	-7,141,401
Projection 2019/20	1,586,881	249,559	-5,304,961
Projection 2020/21	1,630,297	248,421	-3,426,242
Projection 2021/22	2,068,661	247,261	-1,110,320

#### **Position Entering this Review**

3.2 The position at this time highlighted a budget surplus for 2017/18 based on current budgets. A deficit was then forecast from 2018/19, as Revenue Support Grant reduced and proposed reductions in the New Homes Bonus took effect as part of the national funding formula.

- 3.3 The current level of the General Reserve was healthy compared to the minimum level of £1m and was forecast to remain above the minimum level throughout the period to 2021/22. However, it was noted in February that projected deficits in future years were being financed by drawing down General Reserves.
- 3.4 It was considered that this was a high risk strategy. The deficits in future years were projected to be significant. If no action were taken to reduce future deficits, it could quickly de-stabilise the financial position given that any action to achieve budget savings may take time to fully implement.
- 3.5 Provision for certain cost pressures and potential risks were included in the MTFP, including additional income being set-aside to meet potential demand on services arising from residential development. It was considered that a balanced approach needed to be undertaken by utilising reserves, identifying some budget savings and at the same time providing for additional costs associated with Growth.
- 3.6 Consequently, it was approved that the Council should take action during 2017/18 to alleviate the projected budget deficit of £850,000 in 2018/19. This was intended to ease the pressure in future years and help to maintain a sustainable financial position. A review of service expenditure was recommended.
- 3.7 As reported to the Committee in August, budget savings to-date have totalled £400,000. This was generated from the transfer of Corporate Services back to the Council in February 2017.

### **Financial Strengths**

- 3.8 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
  - Provisions in the Base Budget to mitigate inflation and growth
  - Budget for a full employee establishment – no vacancy rate is assumed
  - Earmarked reserves for capital replacements for IT, vehicles and plant
  - Separate provision made for bad debts, appeals and pensions
  - Earmarked reserves to sustain project and capital works
  - Steady growth in the Tax Base
  - Capital expenditure not heavily reliant on revenue funding or borrowing
- 3.9 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**

3.10 There are many variables that are included in the projection that carry a risk, in which realised, could have a significant effect on the overall financial position. The main risks identified in the financial register when the Budget was approved in February 2017 were:

- **Higher risks**

- Further changes to the national funding system and in particular the allocation of the New Homes Bonus
- A reduction in Business Rates income due to appeals
- Additional pressure on service costs due to growth

- **Lower risks**

- A budget overspend
- Economic conditions
- Impact of Welfare Reform

3.11 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.

## **Updating the MTFP**

3.12 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.

3.13 This review has focused on the Council's funding as there has been very little change to base budget expenditure and the underlying assumptions in future years.

## **Core Funding**

3.14 The Council's core funding is an aggregate of:

- Business Rates
- New Homes Bonus
- Revenue Support Grant
- Council Tax Income

## **Business Rates and the Proposal for 100% Retention**

3.15 As previously reported, the Government were intending to implement a new funding framework for local government, including the retention of 100% Business Rates receipts locally. This was expected to be implemented in 2019/20.

- 3.16 Following the outcome of the Parliamentary election in June, the proposal appears to have been delayed in the legislative timetable. However, the 5 areas who had previously been selected to trial (as “pilots”) 100% retention are progressing. These came into effect in April 2017.
- 3.17 In the meantime, the Government has also introduced various additional rate relief schemes to support businesses. These are subject to a separate report elsewhere on this Committee’s Agenda. These reliefs are currently funded by the Government.

### **Pilot Areas**

- 3.18 Although there is some uncertainty regarding 100% retention, there does seem some appetite by the Government to move towards this framework.
- 3.19 Besides continuing with the current pilots, they have asked for applications from other interested authorities to become a pilot in 2018/19. In particular, they are asking for interest from two-tier areas which may be operating a pooled arrangement, as currently exists in Derbyshire. In addition, they are interested in receiving applications from rural areas as the existing pilots are predominantly in large urban based city areas.
- 3.20 Clearly, there are implications of becoming a trial area, as the risks associated with retaining 100% Business Rates (full cost of appeals and falling receipts, etc.) are borne in full locally. However, the Government would guarantee that any authority within a pilot would not be worse-off financially compared to their position if they continued within the current funding mechanism as normal. This would be covered in a “*no detriment*” clause.
- 3.21 Therefore, they would receive at least the same level of any central funding (*excluding New Homes Bonus and Council Tax which are funded separately*).
- 3.22 This would mean that if South Derbyshire was to be part of a pilot, it would forego its Revenue Support Grant but, it would share in all Business Rates generated in Derbyshire with all growth being retained in the County and shared locally. There would be no levy and in principle a greater level of resources county-wide.
- 3.23 There are currently 5 pilots which are running alongside agreed devolution deals in those areas. As part of those deals, additional responsibilities have been transferred from central to local government, although there is no indication that this will be the case in new pilots.

### **A Proposed Pilot Scheme for Derbyshire**

- 3.24 Effectively, a pilot would be an extension of the current pooling arrangement to test the financial aspects of 100% retention. However, the Government’s intention is to see practical experience of how authorities from across a wider geographical/economic area can work together to encourage growth. As part of this, the Government would expect some growth receipts being directly invested back into the pilot area.

- 3.25 It is considered that an application from Derbyshire would be welcomed by the Government. There is already a well-established pooling arrangement in place, the County area has rural aspects and all authorities including the County Council are part of the Derbyshire Pool in a two-tier area.
- 3.26 Therefore, the Derbyshire Financial Officer's Association has commissioned some work to provide a business case and application to the Government. This will include analysis of the effect on each individual authority, how receipts will be shared, together with examples of how additional receipts from growth could be invested.
- 3.27 The deadline for applications is 27<sup>th</sup> October. It is recommended that if the outcome of the business case is to proceed, the Council supports an application alongside all other Derbyshire authorities. It is a requirement that the application must be supported by all authorities in the Pool.
- 3.28 It is considered that the Council cannot be any worse-off financially under the "no detriment" clause. Although there may be some teething problems, the Council would obtain an early insight into how the new financial system will work and along with other authorities, influence the final model. In the meantime, there may be a benefit from additional receipts, although this will be determined in the business case.
- 3.29 If the proposed application is approved and proceeds, an update report will be provided at the next meeting of the Committee on 30<sup>th</sup> November. If an application is submitted and approved by the Government, they will announce the new pilots in December alongside the Local Government Financial Settlement for 2018/19. The financial implications will then be calculated during the budget setting process in January and February 2018.
- 3.30 Pilots will be supported by Government resources for administration and to work through technical details. Initially, the pilot will only be for 1 year. There is no guarantee beyond 2018/19 what may happen to the pilot, or indeed the wider work on financing local government beyond 2019/20.
- 3.31 However, the current pilots, which commenced in 2017/18, have already been notified that they will continue for a second year in 2018/19. It is considered likely at this stage that the move towards 100% retention will continue, albeit at a slower rate than previously planned. Therefore, if the opportunity arises, it may be beneficial for the Council to be part of any transitional arrangements.

### **New Homes Bonus (NHB)**

- 3.32 As reported during the budget round for 2017/18, some significant changes were made to the allocation of the NHB. These changes were made to shift resources to fund Social Care.
- 3.33 The main changes included reducing the allocation awarded in one-year, from a rolling 6-year period to a 4-year rolling period, together with top-slicing the first 0.4% of annual growth. The implications for the Council were included in

the approved MTFP in February 2017. Given the levels of growth in the District, these changes had a detrimental impact on the MTFP.

- 3.34 The basis of the NHB is annual growth in the number of new residential properties built (both public and private) together with, to a lesser extent, the number of empty properties brought back into use over the preceding 12 months. There is also an added bonus for increasing the number of affordable units.
- 3.35 As a growth area, this funding is an important part of the Council's finances. Each annual allocation is fixed for 4-years. In addition to this, the MTFP forecasts future bonus payments based on projected growth in residential development.
- 3.36 This is based on average growth over the preceding 4 years. When setting the budget for 2017/18, it was noted that future projections could be prudent. This was in lieu of additional growth expected to arise from the Local Plan.
- 3.37 The growth projections have been reviewed and revised based on more recent data of new build over the last 12 months.

### **Updated Projections for the NHB**

- 3.38 The MTFP approved in February, forecast growth in residential development of just over 500 properties based on average growth over the previous 4 years, on which the NHB is paid. This was considered to be a prudent estimate.
- 3.39 Actual growth in 2016/17 was higher at 755 and is currently projected to be 650 in 2017/18. This is summarised in the following table.

**Growth in Properties for NHB**

2013/14 Actual	291
2014/15 Actual	515
2015/16 Actual	469
2016/17 Actual	755
2017/18 Estimate	650
<b>4-year Average</b>	<b>597</b>

- 3.40 The 4-year average is based on the years 2014/15 to 2017/18 inclusive. The previous 4-year average was based on 2013/14 to 2016/17 inclusive. With the actual growth in 2016/17 and 2017/18 in excess of the current average, the MTFP has been updated based on an average of just below 600 properties.

3.41 This has increased resources in the MTFP by the following amounts, per year.

**Increase in Projected Resources (NHB)**  
*(Figures in £'000)*

2018/19	172
2019/20	293
2020/21	411
2021/22	528
<b>Total Resources</b>	<b>1,404</b>

### **The Local Plan**

3.42 The above figures are still considered to be prudent and are based on actual numbers coming onto the Council Tax Register. Residential growth is likely to be much higher in future years as proposed development in the adopted Local Plan emerges. A consequent increase in the number of properties projected in the Local Plan in future years **has not** been included in the current MTFP at this stage.

3.43 Latest planning figures, based on planning approvals and sites with outline planning permission, estimate the potential growth figures as shown in the following table.

***Estimated Number of Properties***

2017/18	891
2018/19	1,372
2019/20	1,611
2020/21	1,529
2021/22	1,448
2022/23	1,167

3.44 These estimates do not include the major sites identified in the Local Plan and it would not be prudent to include these numbers in any projections until they are at least nearing planning approval.

3.45 When compared to the updated projections in the MTFP, the latest Planning estimates, as shown in the above table, are much higher. The MTFP projections will be kept under review and the NHB allocations updated accordingly.

### **Cost of Growth**

3.46 A high financial risk identified in the MTFP, as highlighted earlier in the report, is the additional pressure on service costs due to growth. For several years, the MTFP has included an on-going amount to mitigate this risk. This is held as a separate provision aside from the mainstream base budget.

- 3.47 This provision was increased from £100,000 to £200,000 per year in setting the Budget for 2017/18. It is not earmarked for any specific item at this stage. Prior to 2016/17, any unused provision in a year (which was generally all of the provision) was transferred back to the General Reserve.
- 3.48 However, from 2016/17 the Committee approved to set up a separate “District Growth Reserve”. This will be funded from any unused growth or inflation allocations each year. Following the budget out-turn for 2016/17, £300,000 was transferred to this Reserve. There is also a separate provision of £100,000 per year earmarked for Waste and Recycling.
- 3.49 Therefore, the MTFP is allowing for both revenue and capital costs which are likely to arise from growth. However, at this stage, there does not appear to be a clear view on how growth is currently or will impact on the Council’s service costs.
- 3.50 Although an on-going provision of £200,000 and a capital reserve of £300,000 may seem fairly significant, the cost of an additional refuse collection round or street cleansing team, for example, may be greater.
- 3.51 *Therefore, it would be prudent that any additional receipts projected from the New Homes Bonus are added into the annual growth provision pending a more detailed review of potential cost pressures. This has been reflected in the updated MTFP.*

### **Further Changes to the NHB Allocation**

- 3.52 As part of the Government’s technical consultation on the Financial Settlement for 2018/19, they are consulting on proposals to amend the NHB allocation in future years. Firstly, they are reviewing the baseline of 0.4%.
- 3.53 This is the figure below which growth is not paid, i.e. the first 0.4% of the total increase in the number of dwellings each year, does not attract any Bonus. It is likely that if this baseline changes, it will be upwards which would further reduce allocations.

### **The Impact on the Council**

- 3.54 For example, based on the estimated growth in properties in 2017/18 of 650, the Council will not receive bonus on around 200 properties. This has already been built into the MTFP and reduces the allocation by £1/4m per year.
- 3.55 Every 0.1% increase in the baseline reduces the Council’s allocation by a further £60,000 per year. This could have more significant implications for the MTFP.

### **NHB and Effective Planning**

- 3.56 Under the current scheme, councils receive the same reward for new homes granted by the authority as they do for development granted on appeal by the Planning Inspectorate. The Government have previously indicated that they

would penalise councils that did not grant permission, which was subsequently overturned, by reducing the equivalent NHB allocation. This is still under consideration by the Government.

- 3.57 However, in the meantime they are consulting on an alternative approach which is based on the overall quality of decision-making by the planning authority. The Government's preferred method is to link NHB allocations to the ratio of successful appeals to all residential planning decisions over an annual period. The Government state that this would offer a more general approach rather than tracking individual developments and units involved.
- 3.58 The number of appeals would not be a factor, only the ones that were successful. For example, if the planning authority dealt with 100 planning applications in the year, of which 3 were allowed on appeal having subsequently been turned down, the NHB allocation for that year would be reduced by 3% (i.e. 3 / 100).
- 3.59 This would still have a negative impact on the Council's allocation. For example, in 2017/18, the Council's NHB was £733,000. Based on this, every 1% reduction would cost £7,300 per year for 4-years.
- 3.60 The Government are due to announce their decision on these proposed amendments alongside the Financial Settlement in January 2018.

### **Revenue Support Grant (RSG)**

- 3.61 The MTFP includes an amount of £338,367 in 2018/19 previously indicated by the Government. From 2019/20, the Council will no longer be eligible for RSG and this is reflected in the approved MTFP.
- 3.62 The amount for 2018/19 is not guaranteed and the Council's allocation will be confirmed as part of the Financial Settlement in January 2018. If the move towards a pilot for 100% retention of business rates is approved by the Committee and subsequently accepted by the Government, this amount will be withdrawn in any case, as detailed earlier in the report.

### **Council Tax**

- 3.63 The MTFP includes an annual increase in the rate of Council Tax of 1.95%, 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.
- 3.64 However, as a shire district, the Council currently has the option of increasing its Council Tax rate up to an amount of £5 at Band D, without it being subject to a local referendum. The Band D Tax for 2017/18 is £156.17
- 3.65 The 1.95% increase in the MTFP would raise Band D to £159.22 in 2018/19, an increase of just over £3 per year. This would be adjusted across other bands accordingly.

- 3.66 An increase of £5 would equate to £161.17, i.e. an increase of 3.2%. This would increase resources in the MTFP by an additional £65,000 per year, or £325,000 over the 5-year planning period.
- 3.67 Any changes to current principles governing Council Tax rises will also be confirmed in the Financial Settlement for 2018/19.

### **The Council Tax Base**

- 3.68 The projections for Council Tax income have also been amended to reflect the actual and estimated increase in properties as detailed earlier in the report. The increase in receipts compared to that budgeted, is not as great as the NHB funding. However, this still allows a further £150,000 at an increase of £1.95% to be built into the MTFP.
- 3.69 The proposed Tax Base for 2018/19 will be considered as part of the forthcoming budget round.
- 3.70 In addition, the effects of the increase in the Tax Base over that estimated, increases the surplus on the Collection Fund in-year. The Council's share is approximately 11%.
- 3.71 An amount of £20,000 per year is included in the MTFP for planning purposes. An amount of £55,000 was approved and is being paid to the General Fund in 2017/18. Based on the performance of the Collection Fund to-date in 2017/18, a further amount of £55,000 has been included in the MTFP for 2018/19.
- 3.72 This will be subject to final review and approval by the Committee in January 2018, alongside consideration of the Tax Base.

### **Base Budget Expenditure**

- 3.73 Besides building in the savings from the transfer of Corporate Services, there have been no significant changes to base budget expenditure in 2017/18. A proportion of the corporate savings (approximately £50,000) has been transferred across to the HRA to reflect its share of central costs.
- 3.74 Base budget spending will be reviewed as part of the forthcoming budget round for 2018/19. In the meantime, the main assumptions and provisions within the MTFP are detailed below.

### **Pay**

- 3.75 The MTFP continues to include an increase in pay of 1.5% in 2018/19 and 2% per year thereafter. The Government has recently lifted the annual pay cap of 1% for some parts of the public sector.
- 3.76 Currently, it has been assumed that the pay cap of 1% will continue for local government workers. Therefore, at this stage, the MTFP includes sufficient provision, although this will be kept under review.

3.77 The total pay bill in the General Fund for 2017/18 is approximately £8.2m. A 1% increase in pay equates to £82,000 per year.

### **Overall Base Budget Spending**

3.78 Current base budget spending is projected to rise over the MTFP. Provision is made for Pay (as detailed above) and other expenditure items. This includes the estimated impact of inflation.

3.79 For planning purposes, an inflation index is not universally applied to all expenditure items in the Base Budget and provision is only made where it is considered unavoidable. In addition to Pay, this mainly applies to items such as fuel, insurance, energy/utility costs and contracted services.

3.80 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.

3.81 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.

3.82 Increases range from 1% for Business Rates to 3% for insurances. Other cost heads such as utilities and contracts have increases for planning purposes of 2%. Although inflation rates are currently high than this, it is in accordance with more general inflation forecasts over the medium-term.

3.83 A separate amount of £100,000 per year is also provided in the MTFP to cover potential increases in the Bad and Doubtful Debts provision regarding sundry debtors and housing benefit overpayments. Any unused balance on this provision is added to the Growth Reserve at the year end.

### **Known Variations**

3.84 The MTFP identifies specific items in future years to reflect known and costed changes to base budget expenditure. These include:

- Additional pension contributions (*financed from an Earmarked Reserve*)
- Incremental salary increases for staff on progressive grades
- Withdrawal of external funding at Etwell Leisure Centre
- Phased implementation of the National Living Wage to 2020 (*see below*)

3.85 The MTFP also highlights the on-going effect of approved restructures, together with previous changes in income and expenditure until they are built into the base budget in future years.

### **National Living Wage (NLW)**

3.86 The implementation of the NLW continues to be an inherent risk. Although the phased increase, from the current rate of £7.50 per hour in 2017/18 to £9 per

hour in 2019/20, has been built into the MTFP, there is growing concern that this will undermine “differentials” further up the pay scales in 2019/20.

3.87 A national review is currently being undertaken by the National Employers in conjunction with employee representatives. When the outcomes of this review are known, consideration will be given to any impact on the MTFP.

### Provisions

3.88 Besides growth and inflation, etc. the MTFP continues to include provisions for the following items:

Cost of organising and administering the District Election in May 2019	£125,000
Off Payroll Payments (per year)	£10,000
Additional costs of Waste Collection and Recycling (per year)	£100,000
Job Evaluation – External Facilitator and Support Costs (spread over 5-years )	£55,000

### 4.0 Updated General Fund Position

4.1 The previous Section analysed in detail the main variables and risks included in the General Fund’s MTFP. Based on this, a revised medium-term projection is detailed in **Appendix 1**.

4.2 The updated position showing all changes is shown in the following table.

#### Projected General Fund Reserve Balance - Updated as at October 2017

	<b>£'000</b>
Projected Balance as at 2022 (as reported in February 2017)	-1,110
Budget Savings from Corporate Services - General Fund share	-1,729
Budget out-turn 2016/17	-583
Increase in Council Tax income	-153
Changes and Adjustments to Assumptions in Base Budget	6
Reduction in Business Rates funding	84
<b>Projected Balance as at 2022 (revised)</b>	<b>-3,485</b>
Add: Projected Deficit 2022/23 and use of General Reserve	1,869
<b>Projected Balance as at 2023</b>	<b><u>-1,616</u></b>

*Note – all figures are cumulative over 5-years*

4.3 To maintain a rolling 5-year projection, the forecast position for 2022/23 has been added into the MTFP.

4.4 The projected position (now to 2023) overall, has improved compared to that reported in February 2017 as shown in the above table. The General Fund Reserve balance is still projected to be approximately £1.6m by 2023, which is above the minimum level £1m.

- 4.5 The improved position, as shown in the above table, is mainly due to the budget savings in Corporate Services, together with the better out-turn position in 2016/17.
- 4.6 As detailed earlier in the report, additional funding now projected from the NHB, compared to that previously estimated of approximately £1.4m (see *paragraph 3.41*) has been set-aside in the MTFP as a safeguard against a potential increase in costs.
- 4.7 There is still a projected budget deficit in 2018/19 and this increases sharply over the following years as the reduction in overall core funding takes effect.
- 4.8 A summary of the yearly position in the updated projection is shown in the following table.

**General Fund: Medium-Term Projection as at October 2017**

Year	Budget Deficit / Surplus (-) £	Earmarked Sums £	Balance of General Reserve £
Approved Budget 2017/18	-864,352	236,029	-9,061,743
Projection 2018/19	512,558	102,294	-8,446,891
Projection 2019/20	1,247,664	249,559	-6,949,668
Projection 2020/21	1,278,588	248,421	-5,422,658
Projection 2021/22	1,690,767	247,261	-3,484,630
Projection 2022/23	1,622,504	246,077	-1,616,049

- 4.9 In principle, the overall scenario for the General Fund has not changed. The current level of the General Fund Reserve remains healthy and is projected to remain so over the planning period.
- 4.10 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.
- 4.11 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 and Uncertainties**

- 4.12 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.

- 4.13 This has enabled a healthy reserves position to become established. However, this trend cannot be guaranteed in future years.
- 4.14 The biggest risk is considered to be further changes to the NHB allocation and the associated cost of growth. Although it is recommended that additional resources from NHB allocations are set-aside separately in the MTFP, a review of services needs to be undertaken to more accurately assess future costs. This would enable a more accurate reflection and enable better planning to meet these financial pressures.

### **Core Spending Power (CSP)**

- 4.15 The Council's RSG will reduce to zero by 2019/20. Consequently, the Council will have to rely on Retained Business Rates, NHB and Council Tax income.
- 4.16 Although these income streams are projected to increase over the same period, the overall reduction in core funding is forecast to reduce from £11.9m in 2017/18 to £11.3m by 2022/23.
- 4.17 It is possible that income could rise further as highlighted earlier in the report, but this is not certain and there are risks associated with the funding from Business Rates and in particular appeals.
- 4.18 The move towards 100% Rates Retention and consideration of becoming part of a Derbyshire-wide pilot may help to understand the potential impact of the future funding system at an earlier stage.
- 4.19 It is considered that there is still sufficient time for planned remedial action to be taken. The Council did approve to formulate a plan to achieve future budget savings when setting the Budget for 2017/18.
- 4.20 To-date, approximately ½ of the budget savings approved in the Corporate Plan of £850,000 have been made.
- 4.21 As usual, all budgets will be carefully reviewed during the forthcoming budget round for 2018/19.

## **5.0 Housing Revenue Account**

- 5.1 As at 31<sup>st</sup> March 2017, the Council's Housing Stock numbered 3,015 units. This increased in 2016/17 by 65 units due to property acquisitions (20 units) and 45 new build units. This offset the number of properties lost over the last 3 years (2014/15 to 2016/17 inclusive) of 58 units through Right to Buy.
- 5.2 The HRA budget for 2017/18, together with an updated financial plan to 2027, was approved by the Committee in February 2017. In summary, based on the associated projections, the financial plan showed a sustainable position with the HRA's minimum reserve remaining above £1m in the medium-term, with resources being set-aside to meet future debt repayments.
- 5.3 The main risks identified were the ability to raise rent levels beyond 2019/20 following the Government's current rent policy of a 1% reduction per year ending, together with the continuing reduction in Supporting People Grant.
- 5.4 The updated projection is detailed in **Appendix 2**. This has been updated to include:
- The positive effects of the 2016/17 budget out-turn.
  - The approved restructure (in July 2017) of Housing Services.
  - Additional planned maintenance expenditure to support Housing's new Safety Policy approved in April 2017.
  - An on-going reduction in Supporting People Grant
- 5.5 Further details are provided later in this section. In addition, some analysis has been undertaken to understand the implications of future levels not being linked to an inflation increase beyond 2019/20.

### **The HRA's Financial Model**

- 5.6 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 and capital expenditure 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.
- 5.7 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.
- 5.8 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 capital investment.

## HRA Reserves

5.9 The HRA has 4 separate reserves as shown in the following table.

<b>Working Balance or General Reserve</b>	Held as a contingency with a minimum balance of £1m.
<b>Major Repairs Reserve</b>	A balance held over from the previous financing system. It is increased each year from the HRA for future capital expenditure and is drawn down accordingly.
<b>New Build Reserve</b>	Accumulated Capital Receipts pending expenditure on building or acquiring new properties.
<b>Debt Repayment Reserve</b>	Sums set-aside to repay debt in accordance with the repayment profile.

## Updated Financial Projection

5.10 The HRA is projected to achieve an annual surplus. This surplus is transferred to the Debt Repayment and Major Repairs Reserves.

5.11 The overall position has improved compared to that reported in February 2017. This is summarised in the following table.

	<b>£'000</b>
Budget savings from approved restructure (July 2017)	-1,584
Favourable Budget Out-turn 2016/17 (as reported in June 2017)	-817
Reduction in HRA Recharges from the General Fund	-542
Other Changes (mainly additional income from Tele Care Service)	-261
Estimated Reduction in Supporting People Grant	400
<b>Net Increase in Resources in HRA</b>	<b>-2,804</b>
Less: Transfer of resources to Major Repairs Reserve	2,493
<b>Increase in HRA General Reserve</b>	<b><u>-311</u></b>

**Note – all figures are cumulative over 10-years**

5.12 The table shows that there has been an increase in projected resources. As the HRA's General Reserve has remained well in excess of £1m, this has allowed a transfer of resources to the Major Repairs Reserve.

5.13 Based on the current base budget and updated projections, the HRA will remain sustainable and allows some contingency to meet the key risks and additional investment in the Stock that may be required.

## Key Variables and Assumptions in the Financial Projection

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

<b>Cost inflation</b>	An average of 2.5% per year. This is generally in line with current projections nationally, although current inflation indices are slightly above 2.5%. The impact of price inflation in the building industry in recent years has been contained within the financial plan. However, this cannot be guaranteed in the future and the current provision will be kept under review.
<b>Annual rent increases</b>	A 1% reduction per year until 2019/20 in accordance with the Welfare Reform and Work Act 2016. Thereafter, CPI + 1% giving 2.5% increases in 2020/21, 2021/22 and 3% per year thereafter. This is based on the assumption that annual rent increases will again be allowed to rise following the ending of the current rent reduction policy. The Government did indicate that this was their intention but this is not guaranteed. Therefore, further analysis has been undertaken to ascertain the effects of lower increases on the financial plan. This is detailed below.
<b>Council house sales – “Right to Buys”</b>	An estimated 15 units in 2017/18 falling incrementally to 10 per year by 2023/24. The estimate of 15 in 2017/18 is in line with sales over the past year. However, it is anticipated that the number of sales will decline in future years in accordance with current forecasts.
<b>Interest Rates</b>	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 2.5% in 2017/18, rising to 3% in 2018/19 until maturity in 2021/22. Currently, the rate is 0.45% in 2017/18. Therefore, the cost could be lower over the remaining years unless there is a sudden rise in interest rates. 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.

## Housing Rents

5.15 The biggest risk in the financial plan is considered to be future rent levels. The Government’s current rent policy was implemented in 2016/17 for 4 years to 2019/20 inclusive. This has required housing authorities to reduce their rents for individual tenants by 1% in each of these years. Beyond this, it has been assumed that rents will again be allowed to rise.

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

- 5.17 However, this is not guaranteed and there is some uncertainty amongst the representative bodies and how Universal Credit will impact on future policy. There have been some indications that the Government may allow flexibility to increase future rents, although this would be linked to performance or the delivery of new homes.
- 5.18 The Secretary of State did recently indicate that the Government would be setting out their proposals “very soon”.
- 5.19 The HRA is almost entirely dependent on rental income (currently £12.4m 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.
- 5.20 For example, if rents are not increased beyond 2019/20, the effect on the financial plan is that the HRA’s Reserve Balance would fall into deficit by 2023.
- 5.21 This could be addressed to a point by reducing the contributions to the Major Repairs and Debt Repayment Reserves. However, that could have long-term implications for future stock investment and on the Council’s Treasury Management Strategy.
- 5.22 This will be kept under review pending any announcement on the Government’s proposals.

### **Right to Buy Sales**

- 5.23 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 should continue to generate some resources for further New Build in the future, although on-going rent income is lost.
- 5.24 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 fluctuate significantly over the current financial plan.

### **Future New Build and Property Acquisitions**

- 5.25 At this stage, the financial plan does not include any additional units. A new build and property acquisition programme was completed in 2016/17 and all 65 units are now let. Income and expenditure is built into the financial plan.
- 5.26 A further scheme at Lullington Road in Linton is currently being developed in conjunction with the Homes and Communities Agency. Further opportunities are being kept under review and specific schemes will be subject to separate approval based on a fully costed basis.

## **Supporting People Grant**

5.27 This is paid by the County Council. The annual amount in the financial plan is now cash limited at £200,000 per year. This reflects the reduced amount in 2016/17 of £210,000. The grant was previously £240,000 per year and is usually subject to annual review.

## **Stock Condition Survey**

5.28 An updated survey is likely to be commissioned during 2018. This could change the spending profile and planned expenditure for repairs and maintenance, together with future capital investment. This will be kept under review and the outcomes will be reported separately at the relevant time.

## **Depreciation and Impairment**

5.29 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.

5.30 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.

5.31 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.

5.32 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.

5.33 The Government have kept under review this accounting treatment to bring local authorities into line with other organisations in accordance with International Reporting Standards.

5.34 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 was valued at £121.6m as at 31<sup>st</sup> March 2017.

5.35 However, if there was a wider event affecting many properties, this would lead to an impairment charge. The potential for impairment charges could have serious implications for all housing authorities.

## **Universal Credit (UC)**

- 5.36 UC is likely to be fully implemented in South Derbyshire in August 2018. The Council is currently dealing with a small number of cases as UC has been implemented for specific claimant groups.
- 5.37 Currently, housing benefit is applied directly to rent accounts internally at the Council so that a tenant's 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.
- 5.38 Reports from elsewhere across the Country suggests that this is creating an increase in rent arrears. The cost to the HRA will be in the form of an increase in its Bad Debts Provision if rent due is not paid and becomes irrecoverable. This will be kept under review ahead of the implementation date in August 2018.

## **Summary Position for the HRA**

- 5.39 The HRA remains sustainable based on current budgets and future year projections. Resources have been set-aside for further new build, additional capital investment and debt repayment.
- 5.40 However, as the report highlights, there are risks to this position, in particular future rent policy and the impact of Universal Credit. These risks will be kept under review.

## **6.0 Earmarked Reserves**

- 6.1 In addition to General Reserves, the Council maintains Earmarked Reserves that are held for specific purposes. The Council's approved Policy for managing these reserves is detailed in **Appendix 3**.
- 6.2 Appendix 3 itemises each of the approved reserves and shows how they are funded, managed and controlled, together with specifying a review date. The amount in each Reserve, together with the estimated balance at 31<sup>st</sup> March 2018, is detailed in **Appendix 4**.
- 6.3 The Policy and the amount in these reserves are presented for review by the Committee.

## **General Capital Receipts**

- 6.4 The updated position is shown in the following table.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Balance b/fwd	-268	-83	-1,153	-1,378	-1,603	-1,778
Drawdown to finance Capital Schemes	1,899	310			50	
Sale of Land at William Nadin Way (received)	-1,000					
Overage - Chestnut Avenue Development	-739					
Sale of Current Depot Site		-655				
Future Land Sales being Developed		-750	-250	-250	-250	
Provision for Professional Fees (Site plans, etc.)	25	25	25	25	25	25
<b>Balance c/fwd</b>	<b>-83</b>	<b>-1,153</b>	<b>-1,378</b>	<b>-1,603</b>	<b>-1,778</b>	<b>-1,753</b>

6.5 The balance of capital receipts for General Fund Schemes was planned to be fully utilised following the project to relocate the current Depot, together with other smaller schemes being completed in 2017/18. The cost of the depot relocation is being met from the sale of land at William Nadin Way, the final receipt being received in April 2017 as shown in the above table.

6.6 The drawdown of £1.899m in the current financial year, mainly relates to the refurbishment costs of the new depot site. The purchase and financing of the new units was completed and accounted for in 2016/17.

6.7 The sale of the existing depot site (£655k) is now unlikely to be received until 2018/19. This will be subject to a separate report to the Committee. Although the sale is still likely to take place with the current developers, its timing could cause some cash flow issues. If in the meantime, the overage receipt is committed and spent, this would leave the Reserve in deficit and this would need to be supplemented from the General Fund Reserve.

6.8 The drawdown includes some provision for planned maintenance on public buildings, together with contributions to the vehicle replacement fund in 2018/19 and strategic housing surveys, which are a statutory requirement every 5 years.

6.9 The balance on General Receipts ultimately is estimated at £1.75m. This is due to the overage received for the development at Chestnut Avenue, Midway. In addition, there are potential land sales being developed.

6.10 It should be noted that these receipts (estimated at £1.5m) are not guaranteed. They are subject to on-going option appraisals; details of any proposals will be reported for separate consideration at future Committees.

## **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. The purpose of the MTFP is to ensure that the financial position remains sustainable and that sufficient resources are maintained to deliver current and future service levels.

## 8.0 Background Papers

None

## GENERAL FUND MEDIUM TERM FINANCIAL PLAN

BUDGET &amp; PROJECTION as at OCTOBER 2017

	Approved Budget £ 2017.18	Projection £ 2018.19	Projection £ 2019.20	Projection £ 2020.21	Projection £ 2021.22	Projection £ 2022.23
<b>BASE BUDGET</b>						
Environmental & Development	4,005,133	4,317,245	4,381,413	4,464,073	4,548,544	4,634,866
Housing & Community	2,199,646	2,365,690	2,399,772	2,442,039	2,621,203	2,665,309
Finance & Management	5,186,851	5,253,038	5,322,099	5,392,374	5,458,896	5,526,935
<b>Net Service Expenditure</b>	<b>11,391,630</b>	<b>11,935,972</b>	<b>12,103,284</b>	<b>12,298,486</b>	<b>12,628,643</b>	<b>12,827,109</b>
<b>Accounting Adjustments</b>						
Reverse out Depreciation	-783,025	-783,025	-783,025	-783,025	-783,025	-783,025
Minimum Revenue Provision (MRP)	214,202	205,634	197,409	189,512	181,932	174,654
Voluntary Revenue Provision (VRP - Recycling Bins & Grove Active Zone)	131,226	131,226	131,226	131,226	75,891	20,556
	<b>10,954,034</b>	<b>11,489,808</b>	<b>11,648,894</b>	<b>11,836,200</b>	<b>12,103,441</b>	<b>12,239,294</b>
<b>Add: Known Variations</b>						
External Facilitator - Pay and Grading Review	10,000	10,000	0	0	0	0
Pay and Grading - On-going Costs	0	0	8,750	8,750	8,750	8,750
Restructure of Land Charges	3,694	3,749	3,824	3,901	3,901	3,901
Restructure of Housing	-5,388	-9,475	-9,475	-9,475	-9,475	-9,475
Grants to Voluntary Bodies	-3,207	-3,207	-3,207	-3,207	-3,207	-3,207
Concurrent Functions	3,329	3,362	3,396	3,430	3,464	3,499
Savings from Shared Services Contract	-400,000	-400,000	-400,000	-400,000	-400,000	-400,000
Reduction to HRA recharges	54,161	54,161	54,161	54,161	54,161	54,161
Pension Deficit	0	29,706	20,441	21,579	22,739	23,923

Incremental Salary Increases	0	22,130	11,065	11,065	11,065	11,065
Provision for Employer's NIC on "off-payroll" payments	10,000	10,000	10,000	10,000	10,000	10,000
County Withdrawal of Contribution To Etwall Leisure Centre	0	22,682	22,682	22,682	22,682	22,682
Phased Implementation of National Living Wage	5,990	10,604	14,099	14,099	14,099	14,099
Provision for Auto Enrolment (October 2017)	0	57,920	59,079	60,260	61,465	62,695
Contingent Sum - Growth	200,000	372,000	492,569	610,353	727,802	665,568
Contribution to Bad Debt Provision	100,000	100,000	100,000	100,000	100,000	100,000
District Election May 2019	0	0	125,000	0	0	0
<b>TOTAL ESTIMATED SPENDING</b>	<b>10,932,613</b>	<b>11,773,441</b>	<b>12,161,277</b>	<b>12,343,797</b>	<b>12,730,888</b>	<b>12,806,955</b>

#### Provisions

Apprenticeship Levy (April 2017)	23,695	23,931	24,290	24,776	25,272	25,777
Waste and Recycling	100,000	100,000	100,000	100,000	100,000	100,000
<b>TOTAL PROJECTED SPENDING</b>	<b>11,056,308</b>	<b>11,897,373</b>	<b>12,285,568</b>	<b>12,468,574</b>	<b>12,856,159</b>	<b>12,932,732</b>

Approved Budget	Projection	Projection	Projection	Projection	Projection
£	£	£	£	£	£
2017.18	2018.19	2019.20	2020.21	2021.22	2022.23

#### FINANCING

Revenue Support Grant	-668,239	-338,367	0	0	0	0
Transitional Grant	-3,230	0	0	0	0	0
Business Rates Retention	-3,093,222	-3,103,510	-3,095,347	-3,113,500	-3,130,509	-3,146,306
Discretionary Business Rate Relief Scheme	-100,832	-49,000	-20,000	-3,000	0	0
Section 31 Grants	-456,133	-371,133	-301,133	-301,133	-301,133	-301,133
New Homes Bonus	-2,601,787	-2,343,398	-2,300,884	-2,270,758	-2,046,056	-1,983,822
Council Tax Income	-4,942,217	-5,124,406	-5,300,540	-5,481,594	-5,667,694	-5,858,968
<b>Core Spending Power</b>	<b>-11,865,660</b>	<b>-11,329,814</b>	<b>-11,017,904</b>	<b>-11,169,986</b>	<b>-11,145,392</b>	<b>-11,290,229</b>
Add Estimated Collection Fund Surplus - Council Tax	-55,000	-55,000	-20,000	-20,000	-20,000	-20,000

**TOTAL FINANCING**

<b>-11,920,660</b>	<b>-11,384,814</b>	<b>-11,037,904</b>	<b>-11,189,986</b>	<b>-11,165,392</b>	<b>-11,310,229</b>
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**General Fund yearly Surplus (-) / Deficit**

<b>-864,352</b>	<b>512,558</b>	<b>1,247,664</b>	<b>1,278,588</b>	<b>1,690,767</b>	<b>1,622,504</b>
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**GENERAL FUND RESERVE BALANCE**

Balance b/fwd	-8,433,420	-9,061,743	-8,446,891	-6,949,668	-5,422,658	-3,484,630
General Fund Yearly Surplus (-) / Deficit (as above)	-864,352	512,558	1,247,664	1,278,588	1,690,767	1,622,504
Purchase of Town Centre Land	44,335	0	0	0	0	0
General Fund Capital Bids Remaining	214,925	112,000	0	0	0	0
Pension Earmarked Reserve Drawdown	-43,231	-29,706	-20,441	-21,579	-22,739	-23,923
Contribution to Vehicle Replacement Fund	20,000	20,000	270,000	270,000	270,000	270,000
<b>Balance c/fwd</b>	<b>-9,061,743</b>	<b>-8,446,891</b>	<b>-6,949,668</b>	<b>-5,422,658</b>	<b>-3,484,630</b>	<b>-1,616,049</b>

## HOUSING REVENUE ACCOUNT FINANCIAL PROJECTION

	2016.17	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27
	Approved Budget £'000	Approved Budget £'000	Forecast £'000								
<b>INCOME</b>											
Rental Income	-12,524	-12,381	-12,286	-12,340	-12,358	-12,614	-12,940	-13,279	-13,631	-14,259	-14,363
Non-Dwelling Income	-173	-111	-110	-108	-111	-114	-117	-121	-125	-128	-132
Supporting People Grant	-216	-200	-200	-200	-200	-200	-200	-200	-200	-200	-200
Other Income	-200	-176	-176	-176	-176	-176	-176	-176	-176	-176	-176
<b>Total Income</b>	<b>-13,113</b>	<b>-12,868</b>	<b>-12,772</b>	<b>-12,824</b>	<b>-12,845</b>	<b>-13,104</b>	<b>-13,433</b>	<b>-13,776</b>	<b>-14,132</b>	<b>-14,763</b>	<b>-14,871</b>
<b>EXPENDITURE</b>											
General Management	1,881	1,790	1,816	1,846	1,877	1,908	1,940	1,973	2,006	2,040	2,075
Supporting People	807	833	849	868	887	906	927	949	971	994	1,019
Responsive	0	1,281	1,306	1,334	1,362	1,392	1,422	1,452	1,484	1,516	1,549
Planned Maintenance	2,935	1,971	2,014	2,060	2,107	2,155	2,204	2,254	2,306	2,358	2,412
Bad Debt Provision	59	44	43	43	43	44	45	46	48	50	50
Interest Payable & Receivable	1,556	1,762	1,813	1,813	1,813	1,813	1,514	1,514	1,244	1,244	1,245
Depreciation	3,449	3,417	3,180	3,170	3,160	3,151	3,142	3,135	3,128	3,121	3,114
<b>Net Operating Income</b>	<b>-2,426</b>	<b>-1,770</b>	<b>-1,751</b>	<b>-1,690</b>	<b>-1,596</b>	<b>-1,735</b>	<b>-2,239</b>	<b>-2,453</b>	<b>-2,945</b>	<b>-3,440</b>	<b>-3,407</b>
Reversal of Depreciation	-3,449	-3,417	-3,180	-3,170	-3,160	-3,151	-3,142	-3,135	-3,128	-3,121	-3,114
Capital Expenditure	1,663	1,500	1,543	1,588	1,635	1,683	1,392	1,433	1,477	1,516	1,547
Disabled Adaptations	281	300	300	300	300	300	300	300	300	300	300
Asbestos and Health & Safety Surveys	0	100	100	100	100	100	100	100	100	100	100
Debt Repayment	0	1,517	1,237	1,182	1,125	1,068	1,350	1,302	1,251	1,205	1,167
Major Repairs Reserve		600	600	600	600	600	600	300	600	600	600

New Build Contribution	1,000	0	0	0	0	0	0	0	0	0	0
Drawdown of MRR to fund Capital	-436	0	0	0	0	0	0	0	0	0	0
Apprenticeship Levy	0	5	5	5	5	5	5	5	5	5	5
Reduction in GF recharges	0	-54	-54	-54	-54	-54	-54	-54	-54	-54	-54
Restructure Costs/(Savings)	0	47	-102	-102	-102	-102	-102	-102	-102	-102	-102
Pension Deficit	0	11	13	10	11	11	11	12	12	12	13
Accumulated Absence reversal	1	0	0	0	0	0	0	0	0	0	0
Pension Reserve adjustments	-198	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 (income deferred)	0	0	0	0	0	0	0	0	0	0	0
Job Evaluation On-going Support Costs	0	5	0	0	0	0	0	0	0	0	0
Incremental Salary Increases	0	6	6	6	6	6	6	6	6	6	7
<b>HRA (Surplus) / Deficit</b>	<b>-3,564</b>	<b>-1,150</b>	<b>-1,201</b>	<b>-1,225</b>	<b>-1,130</b>	<b>-1,268</b>	<b>-1,773</b>	<b>-2,286</b>	<b>-2,478</b>	<b>-2,972</b>	<b>-2,939</b>
HRA Reserve B/fwd	-1,426	-3,703	-4,603	-4,504	-4,278	-4,058	-3,977	-3,650	-3,136	-3,113	-2,785
(Surplus) / Deficit for year	-3,564	-1,150	-1,201	-1,225	-1,130	-1,268	-1,773	-2,286	-2,478	-2,972	-2,939
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	1,250	1,250	2,000	2,800	2,500	3,300	1,000
<b>HRA Reserve C/fwd</b>	<b>-3,703</b>	<b>-4,603</b>	<b>-4,504</b>	<b>-4,278</b>	<b>-4,058</b>	<b>-3,977</b>	<b>-3,650</b>	<b>-3,136</b>	<b>-3,113</b>	<b>-2,785</b>	<b>-4,724</b>
<b>Debt Repayment Reserve</b>											
Balance B/fwd	-1,703	-1,287	-3,054	-5,491	-7,923	-10,298	-2,616	-5,966	-68	-3,819	-8,324
Depreciation balance	0	-1,517	-1,237	-1,182	-1,125	-1,068	-1,350	-1,302	-1,251	-1,205	-1,167
Transfers to reserve	-1,287	-250	-1,200	-1,250	-1,250	-1,250	-2,000	-2,800	-2,500	-3,300	-1,000
Drawdown for Capital Expenditure	436	0	0	0	0	0	0	0	0	0	0
Repayment of loan	0	0	0	0	0	10,000	0	10,000	0	0	10,000
<b>Reserve C/fwd</b>	<b>-2,554</b>	<b>-3,054</b>	<b>-5,491</b>	<b>-7,923</b>	<b>-10,298</b>	<b>-2,616</b>	<b>-5,966</b>	<b>-68</b>	<b>-3,819</b>	<b>-8,324</b>	<b>-491</b>

**Major Repairs Reserve**

Balance B/fwd	-1,267	-1,867	-2,567	-3,367	-4,067	-4,767	-5,467	-5,767	-6,367	-6,967
Transfers to reserve	-600	-600	-600	-600	-600	-600	-300	-600	-600	-600
Earmarked non-traditional properties	0	-100	-200	-100	-100	-100	0	0	0	0
Reserve Drawdown	0	0	0	0	0	0	0	0	0	0
<b>Reserve C/fwd</b>	<b>-1,867</b>	<b>-2,567</b>	<b>-3,367</b>	<b>-4,067</b>	<b>-4,767</b>	<b>-5,467</b>	<b>-5,767</b>	<b>-6,367</b>	<b>-6,967</b>	<b>-7,567</b>

**New Build Reserve**

Capital Receipts B/fwd	-768	-393	-352	-827	-1,196	-1,563	-1,874	-2,183	-2,385	-2,584	-2,784
New Build Expenditure - phase 1	787	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
Easements	0	0	0	0	0	0	0	0	0	0	0
Feasibility / Other costs	1	0	0	0	0	0	0	0	0	0	0
Acquisitions - Alexander Road	303	0	0	0	0	0	0	0	0	0	0
Proposed Lullington Rd	0	699	0	0	0	0	0	0	0	0	0
Acquisitions - Rowley Court	1,442	0	0	0	0	0	0	0	0	0	0
HCA grant	-95	-180	0	0	0	0	0	0	0	0	0
RTB Receipts in year	-1,063	-478	-475	-369	-366	-312	-309	-202	-199	-199	-199
Borrowing in year	0	0	0	0	0	0	0	0	0	0	0
<b>Balance c/fwd</b>	<b>-393</b>	<b>-352</b>	<b>-827</b>	<b>-1,196</b>	<b>-1,563</b>	<b>-1,874</b>	<b>-2,183</b>	<b>-2,385</b>	<b>-2,584</b>	<b>-2,784</b>	<b>-2,983</b>

### POLICY ON EARMARKED RESERVES

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 hold the funds as the Planning Authority, pending it being transferred to other agencies in accordance with a planning agreement.

## COUNCIL FUNDS

Reserve	Use	How Funded	Delegated Responsibility / Control / Approvals	Review Period / Projected End Date
<b>Vehicle and Plant (Asset) Replacement</b>	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.
<b>Factory Site – Capital Works</b>	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.
<b>ICT / Telecommunications</b>	To finance capital developments and upgrades to the Council's ICT platform and infrastructure. Detailed spending plan to 2020 outlined in new IT and Digital Strategy. Expenditure to be undertaken in 2018/19.	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.
<b>Infinity Garden Village Reserve</b>	To finance work to secure infrastructure improvements. Expenditure programme approved by EDS Committee on 28 <sup>th</sup> September 2017.	Central Government	Director of Community and Planning Services	Progress subject to separate reports. Expenditure to be undertaken in 2017/18 and 2018/19.
<b>Pensions Reserve</b>	To finance increases in the	Funding set-aside in	Director of Finance	To be drawn down

	Council's contributions to the Derbyshire Pension Fund.	2013 to mitigate risk identified in the MTFP.	recommendation to Finance and Management Committee.	over the period of the MTFP subject to the next valuation of the Pension Fund in 2019.
<b>Committed Expenditure Reserve (Local Plan and Planning)</b>	To meet one-off costs of developing, consulting and adopting the Local Plan, together with upgrading Planning systems.	Additional income from Planning Fees.	Director of Community and Planning Services	March 2019
<b>Repton Parish</b>	To contribute to a new or improved recreational facilities in the Parish of Repton.	Residual value of sale proceeds of a former Council depot.	Ring-fenced subject to a legal agreement which stipulates how the funding is used.	Subject to requests from the Parish Council. The Parish are currently compiling a bid for funding to build a new Village Hall.
<b>Corporate Services Innovation Fund</b>	This will supplement the ICT Reserve, subject to funding arrangements being approved by the Committee.	A proportion of procurement and business improvement savings accumulated from the Corporate Services Partnership.	ICT strategy and work programme - budget controlled by the Director of Finance.	Depending on separate approval, this Fund will be utilised by March 2019.
<b>Rosliston Forestry Centre – General Reserve and Repairs Reserve</b>	The Committee have approved these reserves to be committed towards capital investment at the Site in conjunction with the new Management Contract which is due to be implemented from April 2018.	Share of annual turnover from current café proprietor and underspend on repairs budget in 2016/17.	Rosliston Forestry Centre Executive Board	Depending on capital investment plans submitted by the new Management Contractor, these reserves will be utilised in 2018/19.

<b>Planning Services Department</b>	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 2018/19.
<b>Facilities Development</b>	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 2018 when project completed.
<b>Civic Offices</b>	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.
<b>Leisure Maintenance</b>	To contribute to one-off works.	Savings made in operational budgets.	Cultural Services Manager	Residual balance remaining only.
<b>Corporate Training</b>	To fund the current Leadership and Management Development Programme.	Financing carried over to meet costs over a 3-year period	Corporate Management Team	March 2018 after completion of programme.

## Specific Grants and Contributions

Reserve	Use	How Funded	Delegated Responsibility / Control / Approvals	Review Period / Projected End Date
<b>Public Open Space – Commuted Sums</b>	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.
<b>Community and Cultural Services</b> <ul style="list-style-type: none"> <li>• <i>Youth Engagement</i></li> <li>• <i>School Sports</i></li> <li>• <i>Community Safety/Crime Reduction</i></li> <li>• <i>Culture/Arts Development</i></li> <li>• <i>Get Active in the Forest</i></li> <li>• <i>Environmental Education</i></li> </ul>	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 initiative.
<b>Rosliston Forestry Centre</b> <ul style="list-style-type: none"> <li>• <i>Business Units</i></li> <li>• <i>The Glade Development</i></li> </ul>	<p>Monies specifically held for the Glade Development have been transferred to Rosliston’s General Reserve as previously approved.</p> <p>A residual sum is being held for the previous development of the Business Units due to an outstanding contract claim.</p>	Money held over from grants	Housing and Community Services Committee	June 2018 following the budget out-turn for 2017/18.
<b>Tetron Point Storm Water Basin</b>	To fund specific works on regeneration land.	Developer (Section 106) one-off contribution	Environmental and Development Services Committee	<b><i>Currently under review.</i></b>
<b>Swadlincote Woodlands</b>	To fund on-going costs associated	Developer (Section	Housing and Community	Annual budget round

	with maintaining this area.	106) one-off contribution received several years ago. The original amount was approximately £1/2m, but this has been drawn down to finance on-going management and maintenance costs.	Services Committee	to ensure sufficient resources are drawn down to meet management and maintenance costs. The existing balance of £50k has remained static for 3 to 4 years as existing costs are contained in the Council's mainstream budget.
<b>Play Equipment</b>	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	Residual amount to be used in 2017/18.
<b>South Derbyshire Partnership Reserve</b>	To fund one-off initiatives and grants in accordance with the Community Strategy.	External grants and contributions	South Derbyshire Partnership Board	<b><i>No commitments currently identified – can be reviewed.</i></b>
<b>Homelessness Prevention</b>	To fund initiatives 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.
<b>Welfare Reform, Fraud and Compliance</b>	To fund system improvements and to streamline processes to	Government grants under the New	Director of Finance and Corporate Services	Annual budget round to ensure sufficient

	prevent and detect fraud, together with implementing local changes from welfare reform. It can also be used to support developments in Information Governance.	Burdens Doctrine		resources are drawn down to meet commitments. It is anticipated that this reserve will be fully utilised over the term of the MTFP.
<b>Localism Act Funding</b> <ul style="list-style-type: none"> <li>• <i>Community Right to Bid</i></li> <li>• <i>Community Right to Challenge</i></li> <li>• <i>Data Sharing</i></li> </ul>	To fund administrative costs of implementing the legislative requirements locally.	Government grants under the New Burdens Doctrine	Director of Finance and Corporate Services	<i>Any costs have been absorbed in current budgets and it is not anticipated that any significant costs will now be incurred.</i> <i>Therefore, the use of the funds (£45k) can be reviewed as part of the forthcoming budget-round.</i>
<b>Heritage Grants</b>	To fund contributions to renovate shops and business premises.	The Heritage Lottery	Environmental and Development Services / Heritage Grants Sub-Committee	At Committee meetings.
<b>Electoral Registration</b>	To support improvements to implement Individual Electoral Registration.	Government grant under the New Burdens Doctrine	Chief Executive Officer	The Reserve is currently funding temporary staff until May 2018.

APPENDIX 4

**ANALYSIS OF EARMARKED RESERVES**

**Actual  
Balance  
b/fwd  
1/4/17  
£'000**

**Estimated  
Movement  
2017/18  
£'000**

**Estimated  
Balance  
c/fwd  
31/3/18  
£'000**

**Specific / Earmarked Reserves - Council Funds**

Vehicle and Plant Replacement Fund	1,251	-619	632
Dilapidation Works - Factory Site per Lease Agreement	78	-50	28
IT Reserve	141	0	141
District Growth	300	200	500
Infinity Garden Village Reserve	214	-45	169
Pensions Reserve	182	-43	139
Committed Expenditure Reserve (Local Plan and Planning)	109	-50	59
Repton Parish (Former Depot proceeds)	33	0	33
Corporate Services Innovation Fund	82	0	82
Rosliston Forestry Centre Reserve	68	0	68
Rosliston Repairs Reserve	23	0	23
Planning - Staffing and Support Costs	62	-42	20
Facilities Development Fund	30	-30	0
Civic Offices - Maintenance	21	0	21
Leisure Maintenance	1	-1	0
Corporate Training and Development Programme	41	0	41
<b>Total - Specific / Earmarked Reserves - Council Funds</b>	<b>2,636</b>	<b>-680</b>	<b>1,956</b>

**Specific Grants and Contributions**

Public Open Space - Commuted Sums	1,296	-35	1,261
Youth Engagement Partnership	580	-84	496
Schools Sport Partnership Project	204	-95	109
Community Safety & Crime Reduction	332	-68	264
Young People's Cultural Partnership / Arts Development	9	-9	0
Rosliston Business Units	11	0	11
Get Active in the Forest Partnership	44	-15	29
Environmental Education	37	-12	25
Tetron Point Storm Water Basin - S106 UK Coal	53	0	53
Swadlincote Woodlands - Section 106	51	0	51
Rosliston Forestry Centre - The Glade	36	0	36
New Play Equipment and Safety Surfacing	4	-4	0
Maurice Lea Park NHLF Grant	23	-23	0
South Derbyshire Partnership Reserve	20	0	20
Homelessness Prevention	89	-35	54
Welfare Reform, Fraud and Compliance	247	-36	211
Heritage Grants	32	-32	0
New Town Centre Grant - Non-Heritage	26	-26	0
Community Right to Bid	21	0	21
Community Right to Challenge	17	0	17

Property Records - Data sharing	7	0	7
Electoral Registration	30	-27	3
<b>Total - Specific Grants and Contributions</b>	<b>3,169</b>	<b>-501</b>	<b>2,668</b>
<b>Section 106 - Earmarked Funds</b>	<b>5,062</b>	<b>-367</b>	<b>4,695</b>
<b>TOTAL EARMARKED RESERVES</b>	<b>10,867</b>	<b>-1,548</b>	<b>9,319</b>