COUNCIL CABINET
13 June 2018

ITEM 11

Derby City Council

Report of the Interim Strategic Director of Corporate Resources

Final Accounts – 2017/18 Outturn Report for General Fund, Capital Programme, Treasury Management, Housing Revenue Account, Dedicated Schools Grant and Collection Fund.

SUMMARY

1.1 This report summarises the overall Council's final outturn position, subject to external audit opinion, for the 2017/18 financial year. It describes the main variances against the Revised Budget for 2017/18 and sets out a number of issues requiring decisions. In summary the year outturn was as follows:

1.2 **Revenue Budget**
The General Fund revenue outturn position is a balanced position when compared to the Revenue Budget for 2017/18. This position was achieved by not having to use as much Medium Term Financial Plan Specific reserve compared to the amount forecasted within the original budget. The actual use of Reserves was £2.423m which is £2.845m less than forecast and this variance is within the Council's target of being between 0% and -2% of net budget variance each year, as detailed in section 4.4.

1.3 The General Fund revenue balanced outturn position is achieved after the requested transfers/use of reserves of £4.728m, as detailed in section 4.4.

1.4 89.5% of the Council's £14.016m savings target for 2017/18 was delivered as planned. The remaining 10.5% was mitigated through 'one-off' savings contained within the outturn. Further details are provided in table 4.6 and section 5.

1.5 **Capital Budget**
The following capital programme matters require approval by Council Cabinet:

- The delivery of 88.4% of the latest approved £73,394,285 capital programme.
- Details of the capital outturn for 2017/18 totalling £64,884,490 for work completed by 31 March 2018.
- Analysis of the £8,509,795 (variance) against the final approved capital programme. Variance details above £200,000 are detailed in section 4.7 to 4.7.9.
- The inclusion of additional expenditure and funding of £1,183,998.

1.6 **Treasury Management**

This report reviews how the Council conducted its borrowing and investments during 2017/18 and reports on the prudential indicator activity for 2017/18 which the Council is required to report under the Local Government Act 2003. The report includes the following:

- A summary of the financial markets 2017/18
- Treasury Management investment activity 2017/18
- Treasury Management borrowing activity and position 2017/18
- Prudential Code Indicators, limits and compliance.

1.7 **Housing Revenue Account**

The HRA revenue outturn position shows a net surplus of £2.465m compared to a budgeted net surplus of £2.158m there is a favourable variance of £307,000 for the year. The surplus increases overall HRA balances to £54.012m at 31 March 2018, as detailed in section 9.

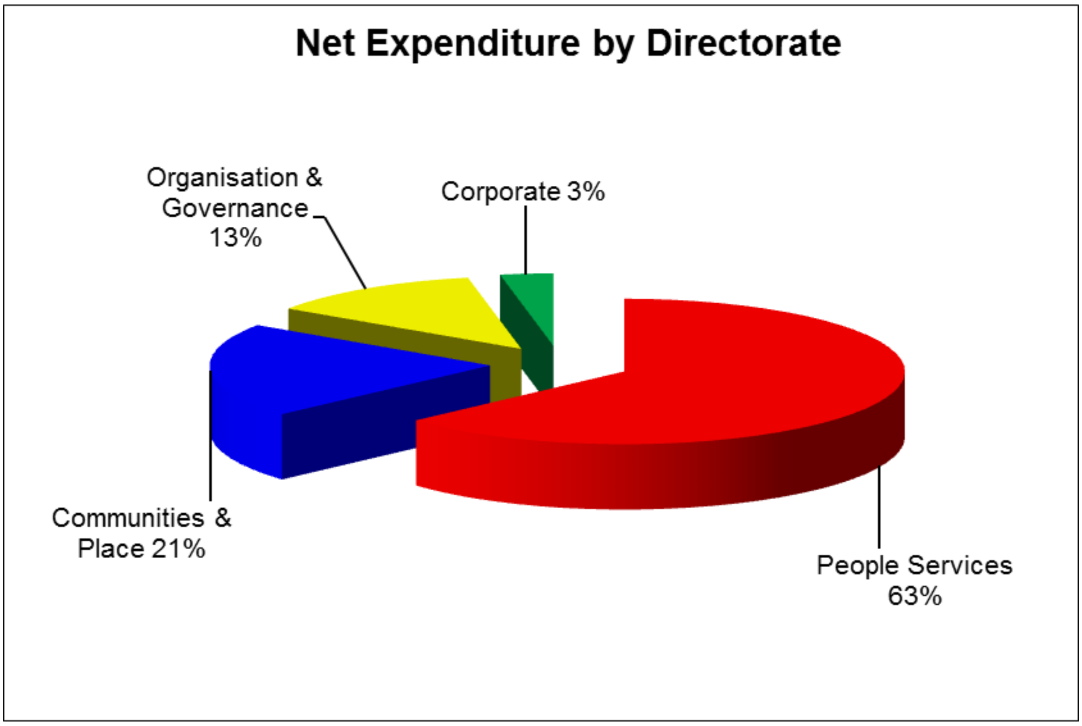
1.8 **Dedicated Schools Grant**

The Dedicated Schools Grant closed with a surplus of £700,000 on the central non-delegated items and individual school balances are £10.788m compared to £10.525m at 31 March 2017 as detailed in section 10.

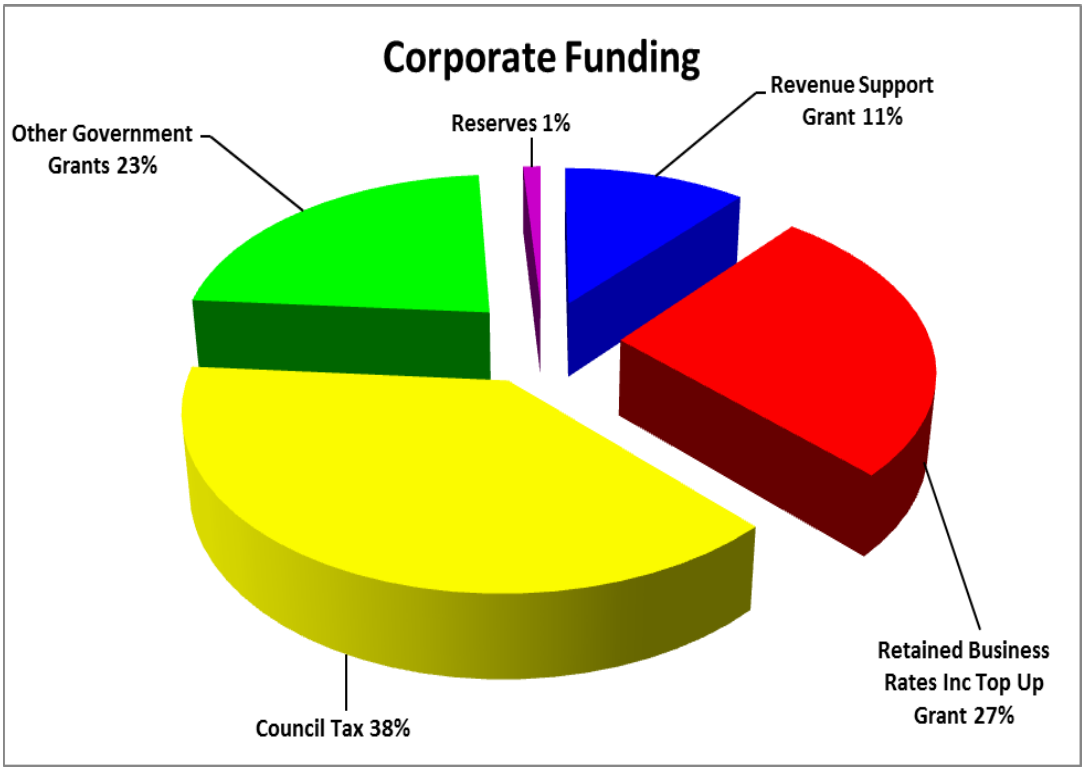
1.9 **Collection Fund**

The Council's share of the Collection Fund outturn is a deficit of £1.853m as detailed in section 11.

1.10 During the year the City Council manages and controls spending on services through its General Fund. A summary of the net cost of running each main service area is shown below:


Net Expenditure by Directorate
Organisation & Governance 13%
Corporate 3%
Communities & Place 21%
People Services 63%

1.11 This spending is corporately financed from Council Tax, Business Rates and Government Grants as shown below.



RECOMMENDATION

2.1 To note the overall General Fund revenue budget outturn position for 2017/18 (subject to external audit) and budget variances at 31 March 2018 as set out in section 4.

2.2 To approve final required movements in reserves set out in paragraph 4.4

2.3 To note the savings achieved in 2017/18 as summarised in section 4.6.

2.4 To approve the write off of historic debits on creditor control accounts of £97,584 outlined in section 5, with details at Appendix 4.

2.5 To note the Capital outturn and the Capital expenditure incurred during the year as summarised in section 7.

2.6 To approve the addition of the £11.344m slippage to the 2018/19 capital programme as detailed in Appendix 5.

2.7 To approve the additional Capital spend backed by funding outlined in section 7 of £1.184m.

2.8 To approve the addition of all Capital programmes' underspends to the Highways and Transport programme outlined in section 7.

2.9 To approve the Annual Report in respect of Treasury Management activity for 2017/18 outlined in section 8.

2.10 To note the compliant prudential indicators in respect of the Treasury Management outturn, as outlined in the report, outlined in section 8.

2.11 To approve the HRA outturn net surplus of £2.465m as set out in section 9 and Appendix 6.

2.12 To note the overall Dedicated Schools Budget position for 2017/18 as set out in section 10.

2.13 To note the Council's share of the Collection Fund is a deficit of £1.853m as set out in section 11.

2.14 To authorise the Section 151 Officer to adjust the Council's Reserves in the event that the Council or its Auditors (Ernst Young) require any adjustments to the Final Accounts for 2017/18 that alter the overall Council's position.

REASONS FOR RECOMMENDATION

3.1 Under the Local Government Act 2003, the Council has a legal obligation to achieve an annual balanced budget position.

3.2 The Medium Term Financial Plan (MTFP) sets the funding for the Council for the financial year and the use of those funds is then monitored throughout the year to ensure delivery of Council priorities. The Outturn report indicates how the Council's resources have been used to support the delivery of budgetary decisions.

3.3 Approval is required under Financial Procedure Rules for amendments to the capital programme.

3.4 In accordance with CIPFA Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code"), members should approve the annual report for Treasury Management activity in 2017/18.

3.5 Under CIPFA's Prudential Code for Capital Finance in Local Authorities, members have a statutory duty to adopt a set of annual indicators relating to capital expenditure and Treasury Management.

3.6 The HRA Business Plan 2017 to 2047 sets out the forecasted funding and the use of those funds is then monitored throughout the year to ensure delivery of HRA priorities.

The outturn report indicates how the resources have been used to support the delivery of budgetary decisions.

SUPPORTING INFORMATION

4. Introduction and General Fund Summary

4.1 This report outlines the actual outturn, subject to external audit opinion, compared with the Revenue Budget for the 2017/18 financial year, and the subsequent effect on the Council's level of reserves.

4.2 The report is structured into sections:

- Section 4 – Introduction and General Fund Summary
- Section 5 – Directorate Outturn and Savings Analysis
- Section 6 – Analysis of Reserves, including School Balances
- Section 7 – Capital Expenditure Outturn
- Section 8 – Treasury Management Outturn Report
- Section 9 – Housing Revenue Account
- Section 10 – Dedicated Schools Grant
- Section 11 – Collection Fund

4.3 The overall general fund revenue position at 31 March 2018 is a balanced position. The 2017/18 Medium Term Financial Plan included proposed use of reserves of £5.268m, however actual use of the Medium Term Financial Plan Specific reserve was £2.423m. This is summarised with supporting explanations for the main variances in section 5. The £2.845m positive variance from not having to use as much reserves as forecasted within the original budget is within the Council's target of between 0% and -2% net budget variance.

4.4 In establishing the Council's final outturn position a number of movements in reserves require approval. Approval is therefore requested for the movements in reserves as set out in below:

Reserves Transfers that require Cabinet approval is shown below

Directorate	£	Reserve	Description
People Services - Adults	(60,861)	Better Care Fund	Transfer unspent balance to support ongoing projects within Safeguarding
People Services - Adults	(478,000)	Public Health	Transfer unspent Funding due to underspend in staffing and demand to fund Livewell Scheme in 18/19.
People Services - Children's	223,115	Send	Use of reserve for Educational Healthcare plans including conversions
People Services - Children's	187,441	Getting to Good	Use of reserve for staffing costs for Ofsted inspections
Communities & Place	470,000	Trading Standards	Use of reserve for security barriers at the Assembly Rooms and Chapel St Car Parks. Revenue contribution to capital
Communities & Place	33,075	Cultural Change	Use of reserves to fund the 2017 and 2018 St George's Day Celebrations
Communities & Place	62,406	Cultural Change	Use of reserve to contribute towards the reduced cost of the Hannells Darley Park Concert
Communities & Place	13,000	Cultural Change	Use of reserve to fund licences for planned events
Communities & Place	84,417	Business Brokerage	Use of reserve to support the Business Brokerage Project
Communities & Place	79,366	Budget Risk	Use of reserves for construction of the new Waste Treatment Facility to fund the City's share of the works.
Communities & Place	40,000	Budget Risk	Use of reserves to support the Council's financial contribution to the presentation of Weeping Window sculpture at The Silk Mill
Communities & Place	163,000	Budget Risk	Use of reserves to fund Ihub pressure loan repayments and income pressure due to delays in becoming fully let.
Organisation & Governance	30,343	Budget Risk	Use of reserves to fund costs relating to historic asbestosis claims
Organisation & Governance	(531,259)	Budget Risk	Transfer to reserves for removal of historic transport pension provision no longer required
Corporate	(2,985,434)	Budget Risk	Transfer to reserves additional one off Corporate funding received in year .

Corporate	(2,844,495)	Budget Risk	Transfer to reserves of unused Medium Term Financial Plan specific reserve
TOTAL	**(5,513,886)**		

4.5 The summary revenue budget variance is shown below.

Directorate	**Original Budget** **£000's**	**In Year Movements** **£000's**	**Current Budget** **£000's**	**2017/18 Spend** **£000's**	**2017/18 Final Outturn Variance** **£000's**
Peoples Services	139,325	(3,135)	136,190	141,452	5,261
Communities and Place	38,608	6,626	45,234	46,828	1,594
Organisation & Governance	24,845	2,887	27,732	27,943	211
Corporate	17,468	(2,570)	14,898	6,266	(8,631)
Sub Total	**220,246**	**3,808**	**224,054**	**222,489**	**(1,565)**
MTFP Specific Reserve	(5,268)				2,845
New Improved Better Care Fund Reserve					(1,280)
TOTAL	**214,978**				**0**

4.6 The Council's Revenue budget for 2017/18 included savings targets for each directorate in order to support a balanced budget position. The achievement of these savings has been included within the overall budget outturn position.

Directorate	Budget Savings Targets 2017/18 £'000s	Full year effect of savings delivered £'000s	Year End Variance £'000s	% Achieved
Peoples Services	7,232	6,707	525	92.74%
Communities and Place	3,555	2,615	940	73.56%
Organisation & Governance	1,360	1,360	0	100%
Corporate	1,869	1,869	0	100%
Total	**14,016**	**12,551**	**1,465**	**89.50%**

5. Directorate Outturn and Savings Analysis

5.1 Significant variances for each directorate are highlighted below. The outturn includes the achievement of £12.551m savings against a target of £14.016m.

5.2 **Peoples Services Directorate**
The total year end variance for the Directorate is an overspend of £5.261m although there are some significant variances contained within that.

5.3 Adults Services have reported a year end overspend of £1.280m prior to the use of the Improved Better Care Fund. The principle reason for this overspend is increased demand in both Residential and Nursing packages £528,000 together with increased demand for community based packages of homecare and direct payments £1.702m. This demand has been partially offset by one-off underspends in Housing Related Support (£195,000) together with unanticipated external contributions (£755,000) from reclaimed Direct Payments.

5.4 Public Health have reported a year end underspend of £478,000, however, this will be transferred to Public Health reserves to help continued funding of the Livewell programme during 2018/19. The underspend is due to staffing savings of £200,000 and £133,000 underspend from demand led drugs and alcohol treatment. A further £145,000 savings was achieved from underspends on demand led contracts across sexual health, smoking cessation and children's oral health.

5.5 The Directorate continues to manage the demands on Adult Social Care through some key strategies; integration with Health, supported hospital discharges, community based support and self directed support through increased direct payments.

5.6 The £1.28m overspend within Adult Services will be met from the Improved Better Care Fund.

5.7 Children's Services have reported a £3.981m overspend. Significant pressures on children social care continue. The total budget aligned to the placement of looked after children excluding school placements is £22.800m and the final outturn position for these placements was an overspend of £1.770m. The numbers of looked after children and the complexities of their need has resulted in budget pressures during the year. The Directorate is managing these pressures by ensuring that all placements are appropriate to need and are approved at the most appropriate management levels.

5.8 Other significant pressures within the service are in relation to the use of agency social workers which are required to fill temporary vacancies within the social care teams in order that case loads are manageable. An overspend of £1.200m is continued to be addressed through recruitment and retention initiatives and regional agreements around the use and fee levels of agency social work.

5.9 Further overspends of £1.011m within the Directorate are in relation to additional demands on safeguarding especially in relation to a significant increase of children on child protection plans which in turn leads to increases in costs as legal fees and interpreting for non English speaking families or families where English is their second language.

5.10 The People's directorate have achieved permanent savings of £6.707m, against a saving target of £7.232m. £525,000 of this savings target has not been delivered in 2017/18 and is attributable to Education Services Grant saving of £400,000 due to schools not transferring to academy status and hence service reductions not being made in line with the funding reductions and increased commercial activity for sold services to schools. Whilst generally sold services have been maintained they have not been significantly increased to meet the savings target £125,000.

5.11 **Communities and Place Directorate**

The Communities and Place outturn position is an overspend of £1.594m. There are multiple reasons for the variances across the Directorate including unachieved and overachievement of income budgets, unachieved planned savings and efficiencies and additional unplanned expenditure.

5.12 The Directorate’s budget assumes that income will be generated by some divisions. Parking Services from new and existing enforcement have exceeded their income target (£192,000). Bereavement Services performed a greater number of services resulting in increased income (£138,000) and circa (£600,000) reduced payment to contractor as part of the contractual arrangements in place for planned electricity generation for the waste disposal plant. Leisure Centres did not attract the levels of income to meet its budgeted position which resulted in a pressure of £583,000 this was partially due to closures for repairs and maintenance works. The Connect buildings income pressure due in part to voids and under achievement of income in relation to the Broadband connectivity, resulting in a overspend of £214,000.

5.13 Pressures in the Directorate include £585,000 across Building Repairs and Maintenance where revenue expenditure exceeded budget due to a combination of an overspend against centralised budgets and core revenue and maintenance budgets overspends. There is a £457,000 overspend on closed and vacant markets being the Cattle and Wholesale Markets, due to on-going running costs pending disposal. There was a £199,000 pressure resulting from the delay in the refinancing of the Marble Hall loan. Finally the increase in 'gold card' price per journey, charges relating to the current 5-yearly card renewal scheme and the implementation of a new back office card administration system for concessionary fares has resulted in a pressure of £384,000.

5.14 Other variances results in a minor net overspend of £102,000.

5.15 Of the £3.555m total savings target for the directorate, £2.615m have been achieved either directly or alternatively. The unachieved elements of £940,000 have either been resolved or progress continues into 2018/19 and will be monitored and reported to Cabinet during 2018/19. These include:

- Strategic review of libraries service £336,000;
- Income and savings from Leisure Centre's £104,000;
- Diversion of garden waste from black bin change in policy £100,000;
- Acquisition of new investment property stock to generate additional rental income £400,000.

5.16 **Organisation and Governance Directorate**
The Organisation and Governance total year end variance is an overspend of £211,000, although there are some significant variances within this amount.

5.17 The principle areas of overspend were Counsel and Legal costs of £373,000 due to increased need of external advice, increased contributions to the Council's Insurance provision of £608,000 to bring the provision up to levels recommended in the review of the Council's Insurance arrangements , reduced income from Land Charges £113,000 due to lower take up of search fees as a result of a slowing housing market, Coroners fees of £158,000 due to additional inquests ordered by the Coroner and other net variances of £49,000.These overspends were partially offset by one-off savings within Digital Services of (£499,000) as a result of delays to implementing projects together with underspends in Revenue and Benefits of (£591,000) due to adjustments to the calculation of the provision for bad debts.

5.18 All of the savings relating Organisation and Governance totalling £3.229m have been achieved.

5.19 **Corporate**
Corporate budgets have reported a year end underspend of (£8.631m). This is due, primarily to savings in the treasury management budget of (£6.462m) which is as a result of backdating changes to the minimum revenue provision (MRP) policy, reviewing debt charges to the HRA and removing interest costs on assumed new borrowing which did not take place. In addition one off savings to Corporate budgets of (£2.169m) have arisen partly due to the removal of previously identified pressures, write off of uncashed cheques and clearance of historic control accounts (£1.238m of the corporate underspends are to be removed in 18/19 as part of the Medium Term Financial Plan).

5.20 All of the savings relating to Corporate totalling £1.869m have been achieved.

5.21 **Contingencies**
The Council has a policy that any unused contingency budgets are transferred to earmarked reserves at the end of the financial year. The contingency budgets transferred to reserves are detailed in Appendix 3.

5.22 **Write off**
Following a review of Accounts Payable historic Credit Notes, approval is sought to write-off £97,583.50 relating to credit notes prior to 31/3/2012 where the Council no longer has an ongoing relationship with the suppliers and therefore will need to be written off. This also includes any credit notes older than 6 years that are lower in value than £30.

6. Analysis of Reserves, including School Balances and Dedicated Schools Grant

6.1 The Council's main revenue reserve for general purposes is the General Fund Balance. This is set aside to support the management of risks in the Revenue Budget and could be used for any purpose if required. The General Fund Balance represents the minimum level of reserves that the Council should hold.

6.2 In March 2017, the Council calculated its target range for the General Fund Balance as being between £7.126m and £10.179m. This target level was set by the previous Interim Strategic Director of Finance after consideration of the Council's strategic and operational risks. At 31 March 2018 the General Fund Balance stands at £10.933m - this was updated as outlined in January 2018 Budget Report and it is marginally above the recommended target range for the previous year.

6.3 The Council also holds a number of revenue earmarked reserves to fund specific projects included within the Council's budget and priorities, such as the Council's regeneration fund programme and waste strategy. As at 31 March 2018 revenue earmarked reserves held by the Council total £99.106m. A review of all revenue earmarked reserves is carried out on an annual basis as part of the Medium Term Financial Strategy planning process. This aims to identify any earmarked reserves which could be redistributed to better support the Council's budget plans. Further details of the Council's revenue earmarked reserves are provided at Appendix 2.

6.4 Included within corporate earmarked reserves is a budget risk reserve of £33.865m at 31 March 2018. The Budget Risk Reserve is held to support future budget planning risks and general unforeseen in-year budget pressures. Given the uncertain financial position going forward, it is prudent to have a level of reserve sufficient to help address future risks. This will be reviewed as part of the emerging 2019/2020 MTFP.

6.5 Each individual Council-controlled school in Derby has its own financial reserve, collectively known as 'School Balance'. School balances are delegated directly to schools and are not available to the Council for general use. The use of any surplus balances is defined within the local Scheme for Funding Schools.

6.6 School balances as at 31 March 2018 are £10.8m compared to £10.5m in 2016/17. This includes Schools Imprest Cash balances.

6.7 Non delegated DSG balances are currently £7m, of which £3m has been earmarked for supporting schools as agreed by Schools' Forum, the remaining £4m is to be retained and used for the purposes defined within the Schools funding regulations, with approval from the Schools.

7 Capital

7.1 The final capital expenditure outturn for 2017/18 was £64.884m, £40.051m below the original approved budget of £104.935m. During the year, the capital programme was revised to reflect delays in key projects including the waste management plant,

Regeneration schemes, housing and flood defence resulting in a planned level of
Capital expenditure of £73.394m.

7.2 The table 1 below analyses the main variances by service against the original budget and revised programme:

Table 1 Final Outturn

2017/18 Capital Programme by Service Area	Original Approved Capital Budget	Actual Spend	(Under)/ Overspend on Original budget		Final Adjusted Approved Original Capital Programme	Actual Spend	Outturn variance Actual to Adjusted
	£000's	**£000's**	**£000's**		**£000's**	**£000's**	**£000's**
Schools	11,238	8,392	(2,846)		9,207	8,392	(815)
Housing General Fund	3,233	1,710	(1,532)		2,503	1,710	(793)
Property Improvement	7,061	7,574	513		7,878	7,574	(304)
Flood Defence	13,952	5,763	(8,189)		8,678	5,763	(2,915)
Highways & Transport	14,345	14,432	87		16,113	14,432	(1,681)
Vehicles Plant & Equipment	25,564	609	(24,955)		807	609	(198)
Regeneration	13,100	12,034	(1,066)		12,893	12,034	(859)
Information and Communication Technologies (ICT)	2,747	1,762	(985)		2,297	1,762	(535)
Housing Revenue Account (HRA)	13,695	12,608	(1,087)		13,018	12,608	(410)
Total	**104,935**	**64,884**	**(40,051)**		**73,394**	**64,884**	**(8,510)**

7.3 The net variance against the final adjusted approved capital programme takes into account the addition of the 16/17 outturn slippage of £4.217m plus further changes reported and approved at Cabinet throughout the year. The net programme variance is detailed in Table 2:

Table 2 Explanation of Programme Variance	
Reason for Variance	**Amount £000**
Slippage	(11,344)
Net underspends	(173)
Additional Spend Backed by Funding	1,184
Spend Brought Forward	1,823
Total Programme Variance	**(8,510)**

7.4 **Slippage**

The programme variance includes slippage of (£11,344m). Approval is sought to add this slippage to the 2018/19 capital programme. Details of slippage requests are listed in Appendix 5. Progress in 2018/19 will be reported as part of the planned monitoring to Council Cabinet.

7.5 **Net Scheme Underspends**

The net scheme cost variations of (£173,000) underspend was predominantly due to underspends within the property and highways programmes.

Main areas include:

- Property improvements underspend (£186,000)
- HRA overspend of £197,000
- Highways and Transport underspend (£110,000)
- Regeneration underspend (£72,000)
- Other (£2,000)

Funding not utilised on the 2017/18 schemes will be added back into the 2018/19 programme for future use in the Highways and Transport capital programme subject to delegations within Highways and Transport.

7.6 **Additional Spend**

£1.184m additional spend supported by associated funding has arisen due to late

changes to the programme which were not included in the February Cabinet report. This additional spend is mainly due to:

7.6.1 **Schools £586,000**

The addition of capitalised maintenance for individual schools from their delegated budget. Although included within the Schools capital programme the level of expenditure is not controlled or influenced by the Council.

7.6.2 **Property Improvement £235,000**

- £166,000 addition for the compensation payments made to enable the sale of the cattle market to aid facilitation of the capital receipt which funded this expenditure.
- £68,000 addition for the Council House ground floor reconfiguration which was necessary due to the acceleration of works to allow Department for Works and Pensions to relocate in a timely manner. This was funded from external contributions.

7.6.3 **Housing General Fund £229,000**

The addition of £229,000 for the Compulsory Purchase Order of a property on Belper Road. The dispossessed proprietor is entitled to compensation to draw down any receipt arising from compulsory purchase of his long term empty property. This is funded from the receipt arising from our onward sale of the property into new ownership. The Property is now fully refurbished and owner occupied by a family.

7.6.4 **Highways and Transport £133,000**
The addition of the street lighting Private Finance Initiative lifecycle costs not budgeted in the capital programme, but budgeted in revenue and funded from revenue contributions.

7.6.5 **Spend Brought Forward**
£1.823m spend brought forward from 2018/19 has been necessary mainly due to schemes originally programmed for 2017/18 within the Property and Regeneration programmes delivered earlier than anticipated. Main areas include:

- £942,000 for the Property Improvement programme
- £610,000 for the Regeneration programme
- £146,000 for the Schools programme
- £83,000 for Highways and Transport programme
- £42,000 for the HRA programme.

7.6.6 A list of all schemes necessitating spend brought forward is detailed in Appendix 5.

7.7 **Explanation of the Main Outturn Variances**
The main variances between actual capital expenditure and the final adjusted approved budget are as follows:

7.7.1 **Schools**
The schools' net outturn variance is (£815,000) underspend. Significant variances over £200,000 are detailed below:

- (£931,000) slippage on the Bemrose School Secondary expansion. A payment made to the Department For Education for work not yet undertaken has meant accounting adjustments required for a payment in advance have impacted on the proposed outturn spend.
- £469,000 net additional spend for capital works delivered by schools / devolved formula capital. This is expenditure incurred and paid for by individual schools. Although included within the schools' capital programme the level of expenditure is not controlled or influenced by the Council.

7.7.2 **Housing General Fund**
The Housing General Fund net outturn variance is (£793,000) underspend. The significant variance over £200,000 is mainly due to:

- (£820,000) slippage on Disabled Facilities Grants. This is due to updating the Disabled Facilities Grant (DFG) contractor list which prolonged the procurement of DFG contractors. Also the necessity to get the contractors Construction Design and Management (CDM) compliant meant that there was a shortage of DFG contractors to undertake the larger DFG projects (around 40 – 50% of the budget). In addition to this staffing resource for the programme management of the scheme also impacted on the delivery of the schemes.

7.7.3 **Property Development**

The Property Improvement net outturn variance is (£304,000) underspend and there were no significant variances over £200,000.

7.7.4 **Flood Defence**

The Flood Defence net outturn variance is (£2.915m) underspend. Significant variances over £200,000 are detailed below:

Further slippage of (£2.300m) on the Our City Our River scheme due to the following:

- Delay in the demolition and construction works related to development sites.
- The need to procure a contractor to deliver the above works. This will require a stand-alone procurement process in order to award a contract.
- Gallifordtry Black and Veatch JV Ltd. reconciliations are unresolved which mean the target contract cost cannot be uplifted at this time. This prevents further payments to them (at this point £600,000 is outstanding).

7.7.5 **Highways and Transport**

The Highways and Transport net outturn variance is (£1.681m) underspent. Significant variances over £200,000 are detailed below:

- (£180,000) slippage on Structure Maintenance. A total of 6 schemes in the Structures Maintenance strategy area required a slippage request. These include Markeaton Lane Retaining Wall (£56,000), where additional drainage problems have been identified since the scheme costs were received, which resulted in the scheme having to be reviewed and re-scoped before construction could commence. Also, Mansfield Road Bridge (£69,000), here identifying and securing a specialist contractor was problematic and resulted in a delay to procurement formalities being concluded. The scheme at Derwent Street Underpass (£24,000) has had to be partially deferred due to extensive negotiations with the design and build contractor to ensure delivery of the best value scheme possible
- (£393,000) slippage on highways maintenance including replacement of barriers on the A52 and the decision not to progress the scheme on Portland Street due to network management concerns.
- (£191,000) slippage on Local Traffic Management. The majority of the slippage request (£123,000) relates to the Parking Restrictions scheme which is implementing waiting restrictions in some quite contentious locations/circumstances. At two locations, objections to the proposals were received, and dealing with these requires a further lengthy legal process. At a third location, works have been delayed by essential gas works from the carriageway into an adjacent property, which mean the

scheme cannot be implemented this financial year due to the need to wait until the gas works have been completed. Finally, the element to introduce a pay by phone facility has had to be deferred to allow the above schemes to be implemented. A further £59,000 slippage request relates to third party works at the Royal Derby Hospital, where delays on client side resulting in re-designs and client's internal decision making process took longer than anticipated. Weather has also caused resourcing issues on the Council side with winter maintenance taking precedence. This scheme is wholly funded by the hospital.

- (£246,000) slippage on Active Travel Cycle Derby. The slippage is required for a number of schemes within the strategy area. The main reason for this included deferral of a scheme due to a no fly zone around a model airplane club which meant the whole route had to be realigned through currently water-logged land.
- (£297,000) slippage on the street lighting LED replacement scheme. This is due to the late addition of the funding to the programme and the incorrect profiling of spend when added to the programme.

7.7.6 **Vehicles Plant and Equipment**

The vehicles plant and equipment net outturn variance is (£198,000). There were no significant variances over £200,000.

7.7.7 **Regeneration**

The regeneration programme net outturn variance is (£859,000) underspent. Significant variances over £200,000 are detailed below:

- £215,000 overspends on the Derby City Vibrant Place making scheme. An underspend was forecast earlier in the year due to a later start to works on St Peters Street and a longer period of closure over the Christmas period, the budget was re-profiled to reflect the change to the delivery programme. However the contractor has been able to deliver more works in Quarter 4 than had been forecast and funding has been brought forward from 2018/19.
- (£200,000) slippage on the Darley Abbey Mills scheme. The allocation in 2017/18 was to provide a grant contribution to support the renovation of Darley Abbey Mills. The procurement exercise took longer than expected by the applicant and works did not commence on site until April 2018.
- (£402,000) slippage on the Derby Enterprise Growth Fund recycled scheme. DEGF is a demand led, recycled grant and loan fund. The forecast spend this year has been impacted by two major projects that were expected to draw down loan funding but have been delayed in contracting. There is a £233,000 overspend on the Victory Road scheme. The realignment of Victory Road is a £8.6m project delivered in partnership with Rolls Royce. The project is on track to be complete by June 2018. A number of potential delivery risks relating to ground

conditions, land contamination and poor weather were identified in Quarter 3 and the project budget was adjusted accordingly. However the impact of these issues was not as significant as forecast and £234,000 more of expenditure was achieved in Quarter 4.

- (£440,000) slippage on the Market Hall high level glazing scheme. Works have been delayed due to the complex nature of the project which requires detailed engineering designs and there has been a delay while this expertise has been procured. There has been a longer lead in to install the scaffolding which has led to less spend in February and March than was originally profiled.

7.7.8 **ICT**

The ICT net outturn variance is (£535,000) underspent. Significant variances over £200,000 are detailed below:

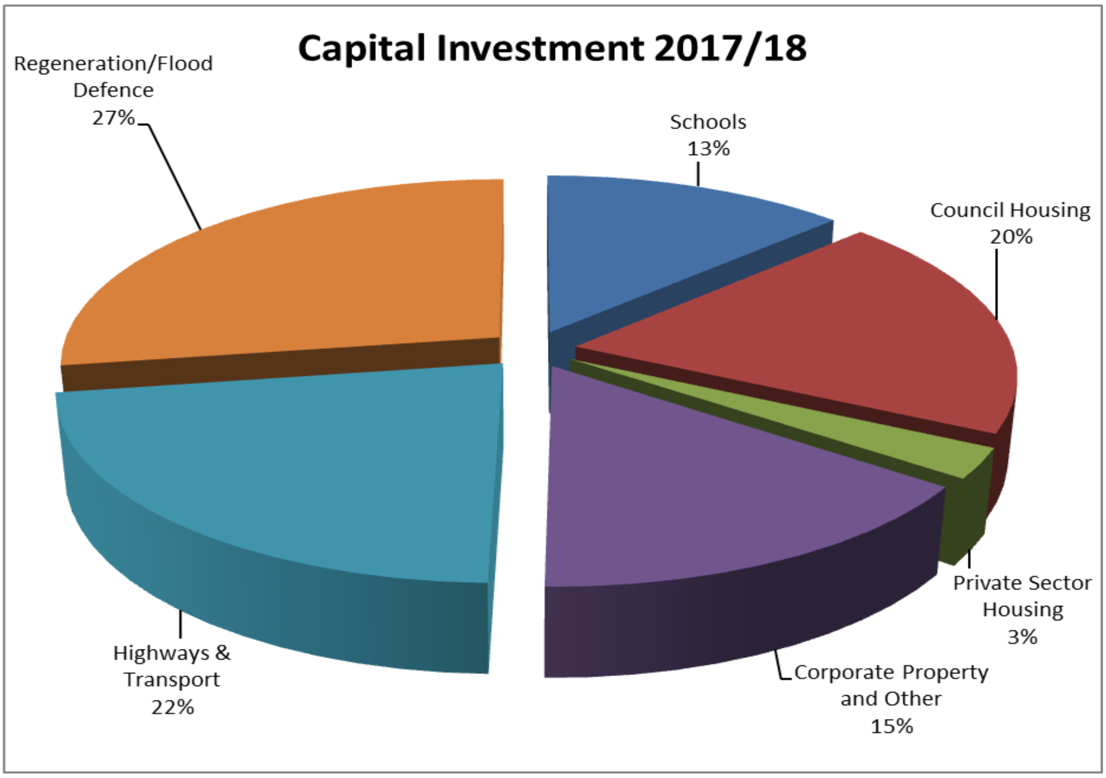
- (£311,000) slippage on the ICT stabilisation scheme as work was unable to start on the Windows 10 project due to other higher priority work being identified.

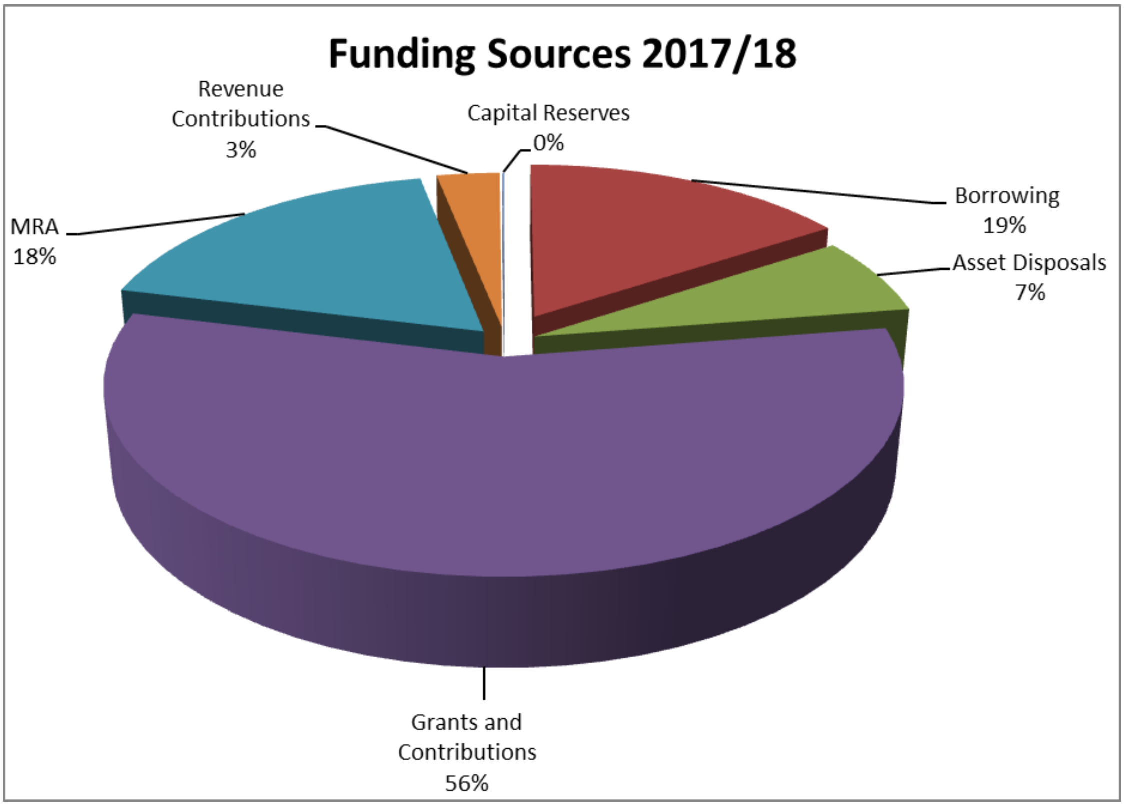
7.7.9 **HRA**

The HRA net outturn variance is (£410,000) underspent. Significant variances over £200,000 are detailed below:

- (£225,000) underspend on the Ashlea new build scheme as the scheme was delivered under budget.

7.8 The following graphs summarise where the £64.884m capital was invested and how it was funded:





8. Treasury Management Final Outturn 2017/18

8.1 The Treasury Management outturn shows a net underspend for 2017/18 of £6.462m. This compares to the forecast underspend of £6.472m previously reported at quarter 3. The £10,000 reduction in underspend since quarter 3 was due additional interest payable being made to service areas. The overall underspend for 2017/18 was mainly achieved following backdating changes to the Council's minimum revenue provision (MRP) policy, the backdating means there is an overprovision in previous years and future years charges can be reduced by this over provision. The underspend was also contributed to by reviewing debt charges to the Council's Housing Revenue Account (HRA) and removing forecasted interest costs on assumed new borrowing which did not take place. This accounting adjustment has been agreed by Ernest Young, our external auditors.

8.2 The Council continues to have a prudent approach to Treasury Management in that it does not borrow more than it needs, due to the cost of carry where interest rates on loans is significantly higher than the return the Council would receive on cash investments. It only lends to approve financial institutions, and this discipline is enforced by reviewing the approved list of counterparties, which is regularly updated in consultation with the Council's treasury advisors - Arlingclose.

8.3 Treasury Management advice to the Council was provided by TradeRisks up to July 2017, after which Arlingclose were appointed as Treasury Management Advisers. The service provided includes economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy and credit ratings and technical assistance on other matters as and when required.

8.4 For 2017/18 all prudential indicators and limits in line with Chartered Institute of Public Finance and Accountancy (CIPFA) guidance have been adhered to.

8.5 **The Financial Markets During 2017/18**
The information relating to the overall global position of the UK financial markets in 2017/18 was provided by Arlingclose, our treasury advisors, who continue to update the Council with on-going market activity and interest rates.

8.6 The Bank of England's Monetary Policy Committee (MPC) increased the Bank Rate by 0.25% to 0.50% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the European Union referendum result. The MPC members agree that any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent, the market expectation is of a possible increase in bank rate in August 2018. The interest rate will continue to be monitored and members will be updated on the proposed interest rate forecasts in the Treasury Management mid-year report for 2018/19.

8.7 The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month ‘London Inter Bank Bid Rate’ (LIBID) rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively.

8.8 Public Works Loan Board (PWLB) rates available to the Council are currently based on gilts plus 0.80%. Gilt yields displayed significant volatility over the twelve-month period with the change in sentiment in the Bank of England’s outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June 2017 rose to 1.65% by the end of March 2018. 10-year gilt yields also rose from their lows of 0.93% in June 2017 to 1.65% by mid-February 2018 before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June 2017, and highs of 2.03% in February 2018, only to plummet back down to 1.70% by the end of the financial year.

8.9 **Local Authority Regulatory Changes**

MiFID II: As a result of the second Markets in Financial Instruments Directive (MiFID II), from 3rd January 2018 local authorities were automatically treated as retail clients but could “opt up” to professional client status, providing certain criteria was met which includes having an investment balance of at least £10m and the person(s) authorised to make investment decisions on behalf of the Council have at least a year’s relevant professional experience. In addition, the regulated financial services firms to whom this directive applies have had to assess that that person(s) have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Council has met the conditions to opt up to professional status and has done so in order to maintain its MiFID II status prior to January 2018. The Council will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

8.10 **Revised CIPFA Codes**: CIPFA published revised editions of the Treasury Management and Prudential Codes in December 2017. The required changes from the 2011 Code are being incorporated into Treasury Management Strategies and monitoring reports.

8.11 **Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance and Minimum Revenue Provision (MRP):** In February 2018 the MHCLG published revised Guidance on Local Government and Investments and Statutory Guidance on Minimum Revenue Provision (MRP).

8.12 **Local Context**

On 31st March 2018, the Council had net borrowing of £263.964m arising from its revenue and capital income and expenditure, a decrease on 31 March 2017 of £30.101m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31/03/17 Actual £m	**2017/18 Movement £m**	**31/03/18 Actual £m**
General Fund CFR	407.527	(3.074)	404.453
HRA CFR	**230.869**	**0.504**	**231.372**
Total CFR	**638.396**	**(2.570)**	**635.825**
Less: Other debt liabilities *	(102.046)	6.257	(95.789)
Borrowing CFR	**536.350**	**3.687**	**540.036**
Less: Usable reserves	(202.133)	(36.826)	(238.959)
Less: Working capital	(40.152)	3.039	(37.114)
Net borrowing	**294.065**	**(30.101)**	**263.964**

*finance leases, PFI liabilities and transferred debt that form part of the Council's total debt

8.13 Net borrowing has decreased due to a rise in the borrowing CFR as new capital expenditure was higher than the financing applied including minimum revenue provision; offset by an increase in usable reserves, due to increases in capital receipts and grants reserves; and a fall in working capital due to the timing of receipts and payments.

8.14 The Council's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31st March 2018 and the year-on-year change is shown in table 2 below.

Table 2: Treasury Management Summary

	31/03/17 Balance £m	2017/18 Movement £m	31/03/18 Balance £m
Long-term borrowing	361.857	(10.235)	351.622
Short-term borrowing	1.904	9.678	11.582
Total borrowing	**363.761**	**0.557**	**363.204**
Long-term investments	0.000	0.000	0.000
Short-term investments	36.000	(2.000)	34.000
Cash and cash equivalents	33.696	31.544	65.240
Total investments	**69.696**	**29.544**	**99.240**
Net borrowing	**294.065**	**(30.101)**	**263.964**

Note: the figures in the table are from the balance sheet in the Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

8.15 The decrease in net borrowing in table 1 has translated into a rise in investment balances. This is due to the maturity profile of the Council's existing debt portfolio and the high costs of repaying debt early. As at 31 March 2018 more investments were made for periods of less than three months meaning the investments are defined as cash equivalents, this was due to favourable rates being offered for shorter period over the financial year end. The movement in the borrowing split is due to two loans becoming due for repayment in 2018/19 meaning they are defined as short-term borrowing.

8.16 **Investment Activity**
The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2017/18, the Council's investment balance ranged between £75.709m and £112.224m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 3 below.

Table 3: Treasury Investment Summary

Counterparty	31/03/17 Balance £m	2017/18 Movement £m	31/03/18 Balance £m
Banks & building societies (unsecured)	1.377	(0.488)	0.889
Local authorities	49.000	1.000	50.000
Money Market Funds	19.319	25.032	48.351
Total investments	**69.696**	**29.544**	**99.240**

8.17 The investment activity in 2017/18 together with a comparison for the previous year is summarised in table 4 below:

Table 4: Treasury Investment Activity

	2016/17	**2017/18**
Number of fixed-term deposits made	33	35
Number of instant access and money market accounts used	15	15
Number of deposits/withdrawals from money market funds/ call accounts	104	89
Value of deposits/ investments held at 31 March	£69.696m	£99.240m
Average size of deposit/ investment portfolio	£88.105m	£94.023m
Average size of Lloyds Balance (operational)	£8.908m	£8.904m
Total interest earned on deposits/ investments (including Lloyds)	£0.370m	£0.343m
Average Return on deposits/ investment portfolio	0.38%	0.33%

8.18 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

8.19 In furtherance of these objectives, and given the increasing risk and low returns from short-term unsecured bank investments, the Council has continued to keep the use of these to a minimum. It has continued to use fixed term deposits with other Local Authorities as these are more secure as they are not subject to bail-in, and there is an insignificant risk of insolvency. All fixed term deposits were at a favourable rate higher than instant access accounts. The interest rates for Money Market Funds (MMF) improved during the year so higher balances have been held in MMF.

8.20 The credit risk and return metrics for the Council investments extracted from Arlingclose's quarterly investment benchmarking is shown in table 5.

Table 5: Investment Benchmarking

	Credit Score*	Credit Rating	Bail-in Exposure	WAM** (days)	Rate of Return
30.09.2017	3.89	AA-	29%	44	0.28%
31.12.2017	4.12	AA-	36%	43	0.38%
31.03.2018	4.15	AA-	48%	26	0.49%
Similar Las	4.24	AA-	61%	68	1.40%
All LAs	4.24	AA-	55%	35	1.08%

*The lower the credit score the lower risk
** Weighted Average Maturity

This shows the Council is pursuing security/low risk demonstrated by a lower credit score and lower bail in exposure that other Local Authorities (LA's).

8.21 **Borrowing Activity 2017/18**
As at the 31 March 2018 the total external debt portfolio of the Council (including HRA debt and other long- term liabilities) was £458.540m, this is a result of the strategy for funding previous years' capital programme. The analysis of external debt outstanding at 31 March 2018 is shown in the table 6 below:

Table 6: External Debt at 31 March 2017 and 2018

	£m	**£m**
	As at 31 March 2017	**As at 31 March 2018**
External Borrowing:		
- Fixed Rate PWLB	305.897	304.347
- Fixed Rate Market (LOBO)	20.000	20.000
- Other Local Authorities	35.000	35.000
- Local Enterprise Partnership (LEP)	1.997	1.710
- SALIX Energy Efficiency	0.000	1.347
University of Derby	0.867	0.800
Total External Borrowing as at 31 March	**363.761**	**363.204**
Other Long-term Liabilities:		
- Transferred Debt from other Local Authorities	2.931	0.453
- PFI Financing	98.441	94.883
Total Gross External Debt at 31 March	**465.133**	**458.540**

8.22 During 2017/18 the only new loans taken out were £1.347m from SALIX Energy Efficiency Loans programme. The loans were taken out as part of a street lighting efficiency project and are at 0% interest. Because of this very favorable zero interest rate charge, the loans were taken although the Council did not have a need to borrow as they will help maintain our cash levels available for investment whilst having no cost to the Council. A further SALIX loan of £280,000 is expected to be taken in August 2018. Acceptance of the loans was approved by Council Cabinet on the 6 December 2017.

8.23 During 2017/18 the remaining transferred debt was settled with Derbyshire County Council. This results in a reduction in the transferred debt liability shown in Table 6 of £2.424m. Derbyshire County Council also settled their transferred debt held by us, the net impact is included in the treasury management outturn position reported in paragraph 4.1.

8.24 The Council continues to hold £20m of Lender's Option Borrower's Option (LOBO) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The options on the LOBO loans were not due to be exercised during 2017/18, the next dates the lenders can exercise their option are in 2020/21.

8.25 For the majority of the year the "cost of carry" analysis performed by the Council's treasury management advisor Arlingclose did not indicate value in borrowing in advance for future years' planned expenditure and therefore none was taken.

8.26 **Compliance Report**

All treasury management activities undertaken during 2017/18 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy Compliance with specific investment limits are demonstrated in table 7 below.

Table 7: Investment Limits

	2017/18 Maximum	31/03/18 Actual	2017/18 Limit	Complied
The Councils Banking Provider – Lloyds	£15m	£15m	£15m	✓
Any single organisation, except the UK Central Government (excluding the operational bank)	£12m	£10m	£12m	✓
Any group of pooled funds under the same management	£10.774m	£10.774m	£12m	✓
Money Market Funds (MMF)	£8m	£8m	£8m	✓

8.27 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 8: Debt Limits

	2017/18 Maximum £m	31/03/18 Actual £m	2017/18 Operational Boundary £m	2017/18 Authorised Limit £m	Complied
Borrowing	363.8	363.2	585.6	690.5	✓
PFI & finance leases	102.0	95.8	102.0	102.0	✓
Total debt	**465.8**	**459.0**	**687.6**	**792.5**	✓

8.28 **Treasury Management Indicators**
The Authority measures and manages its exposures to treasury management risks using the following indicators.

8.29 Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

8.30 Local Authorities are unrated, therefore fixed term deposits with Local Authorities have to be assigned a score. The score assigned is AAA=1, this means the investments are of the highest credit quality. This is due to Local Authorities not being subject to bail-in and having an insignificant risk of insolvency.

8.31 Table 9 shows the target for the portfolio average credit score and the actual for 2017/18:

Table 9: Security Indicator - Portfolio average credit score

	Target	Actual
Portfolio average credit score	3.00	1.04

8.32 The actual credit score is below the target showing the exposure to credit risk in the year to date achieved has been lower than the target set this is due to higher credit quality investment being used over lower credit quality investment. This is due to the using fixed term deposits with Local Authorities and high credit quality MMF's.

8.33 **Interest rate exposure indicator**
The other locally-set prudential indicator relates to interest rate exposure which allows the Council to manage the extent to which it is exposed to changes in interest rates. It shows the split of borrowing and investments between fixed and variable rates, and the maturity profile of long term loans. Fixed investments and borrowings are those where the rate of interest is fixed for the whole financial year or from the transaction date if later. Instruments that mature during the following financial year are classed as variable rate.

The split in respect of borrowing and investments as at 31 March 2018, and the comparative figures for the previous year, are shown in Table 10 below:

Table 10: Interest Rate Exposure

	2016/17	**2017/18**
	%	%
Upper Limit on fixed interest rate Exposure	100	100
Actual	95.26	87.11
Upper Limit on variable interest rate exposure	20	20
Actual	4.74	12.89

8.34 These figures show that the Council has not exceeded any limits for the fixed and variable rate borrowing. The increase in variable interest rate exposure in 2017/18 is due to two loans being due to be repaid in 2018/19 and an increase in investments held in MMF.

8.35 **Maturity Structure of Borrowing -** The actual maturity structure of borrowing as at 31 March 2018 has been compared to the loan maturity limit profile that was approved in the Treasury Management Strategy 2017. Table 11 below shows that this indicator has been met as follows:

Table 11: Maturity Structure of Borrowing

Number of Years to Maturity	**Borrowing Profile Set per the 2017/18 Strategy**	**Actual Profile of Borrowing at 31 March 2018**
	%	**%**
Up to 1 year	15	3.19
Up to 2 years	20	8.93
Up to 5 years	30	10.95
Up to 10 years	50	14.30
Up to 20 years	70	33.12
Up to 30 years	80	39.48
Up to 40 years	90	86.35
Up to 50 years	100	100.00

8.36 The final Treasury Management indicator required relates to the limit at any one time on investments with a period to maturity of no greater than 365 days. Investments made in 2017/18 were in accordance with this criteria and no investment made was greater than 365 days.

9 Housing Revenue Account

9.1 The summary Housing Revenue Account budget variance is shown below:

Directorate position Outturn 2017/18	**Original Budget £000's**	**In year Movements £000's**	**Current Budget £000's**	**Actual Spend £000's**	**% of Current Budget**	**Outturn Variance to Current Budget £000's**
Housing Revenue Account	(2,158)	0	(2,158)	(2,465)	114%	(307)

9.2 The Housing Revenue Account includes only income and expenditure relating to the City's council 12,932 housing stock. It does not include Local Authority expenditure on other Housing services e.g. support for Registered Social Landlords or Housing Benefit Payments. The purpose of the HRA is to separately identify the services that council tenants pay for through their rents as opposed to their Council Tax. It includes expenditure on Management and Maintenance of Council Housing and how these costs are met by Rents, Charges, Grants and other income

9.3 The HRA shows an outturn surplus of £2.465m against a planned surplus of £2.158m, this is a positive variance of 14% £307,000 against budget and represents 0.5% of the total income generated of circa £60m across the HRA. It results in an increase to HRA balances, including the Major Repairs Reserve, from £51.547m to £54.012m for 2017/18.

9.4 The main reasons for the variance include overachievement of income against dwelling rents and other income, alongside gains on sale of HRA non-current assets (e.g. Housing Stock) which were netted down for depreciation and impairments (deteriation of an asset) of non-current assets. A summary and supporting explanation of the key variances are provided at Appendix 6. The reserve is managed annually as part of the 30 year HRA Business Plan.

10. Dedicated Schools Grant – DSG

10.1 In 2017/18 Derby City Council received a DSG allocation of £216.681m. This grant is a ring fenced grant used specifically for school related and educational services which are clearly defined by the Schools Funding Regulations. £194m was delegated to schools and other early years providers with the remainder used to support other educational expenditure particularly special educational needs places not in the maintained sector and special educational needs support services.

10.2 The £22.681m non-delegated element of the DSG shows a net underspend of £700,000, resulting from a combination of significant underspends and pressures.

10.3 There was a one-off saving of £1.1m within the Schools' High Needs block due to finalisation of funding deducted from the Council's grant for places funded directly by the Education Funding Agency. Other savings in year resulted from staffing vacancies and a healthy achievement of sold services income.

10.4 Significant pressures resulted in an overspend of £1.4m was reported as a result of the need to use provision not maintained by the City Council Authority for complex educational needs.

10.5 DSG balances are currently £7m, £3.4m is committed to school projects and balancing the 18-19 budget as agreed by Schools' Forum with £3.6m remaining uncommitted. The balance of the reserves is held to provide a contingency against the DSG in current and future years and is kept at a prudent 1.5%.

10.6 Any net savings or pressures within the Individual Schools Budget delegated directly to schools are carried forward to the next financial year by the individual school. In line with the Local Management of Schools, the net outturn variance on Individual School Budgets have been transferred to School balances which has a year end balance of £10.8m including Schools Imprest Cash balances.

11. Collection Fund

11.1 The Collection Fund is a separate account that the Council has a statutory duty to maintain outside of the General Fund. The Collection Fund Statement shows the transactions of the billing authority in relation to collection of Council Tax and Non Domestic Rates and the redistribution to its preceptors.

11.2 The Collection Fund is intended to break-even but is dependent largely on the robustness of the estimates and recovery levels of the amount of Council Tax and Non Domestic Rates collected. It involves forecasting the income due from all properties including the effect of exemptions and discounts across the City. Surpluses and deficits declared on the collection fund are apportioned to the relevant precepting bodies in subsequent years.

11.3 **Council Tax**

The actual deficit on Council Tax at 31 March 2018 was £222,000. This was due to the deficit brought forward from the previous year of £471,000 which was partially offset by an in year surplus of (£249,000). The in year surplus was a result of significantly reduced write offs applied to the bad debt provision. Since the Budget and Council Tax for 2018/19 is now set, the balance will be included in the 2019/20 budget process. An estimate of the Collection Fund balance as at 31 March 2018 will be revised in the light of this deficit and all other circumstances just prior to setting the Council Tax and budget for the next financial year. Any estimated variation at that time will then be recovered during 2018/19 financial year.

11.4 The City Council administers the collection of Council Tax on behalf of the preceptors, Derbyshire Police and Crime Commissioner and Derbyshire Fire and Rescue Service and therefore any surplus or deficit is shared with them. The apportionment of the current deficit is as follows:

Derby City Council	£0.186m	83.8%
Derbyshire Police and Crime Commissioner	£0.026m	11.7%
Derbyshire Fire and Rescue	£0.010m	4.5%
	£0.222m	

11.5 **Non Domestic Rates**

The Council collects Non Domestic Rates - NDR - for its local area. NDR is based on the individual rateable value, set by the Government's Valuation Office Agency multiplied by a national multiplier set by Central Government.

11.6 The actual deficit on NDR at the end of 2017/18 financial year was £3.402m. This was due to the deficit brought forward from the previous year of £5.372m offset by an in year surplus during 17/18 of (£1.970m). The in year surplus was as a result of significantly reduced appeals provision following work undertaken by an external company to review the level of provision required.

11.7 The City Council administers the collection of NDR on behalf of the preceptors, being Central Government and Derbyshire Fire and Rescue Service and therefore any surplus or deficit is shared with them. The apportionment of the current deficit is as follows:

Derby City Council	£1.667m	49.0%
Central Government	£1.701m	50.0%
Derbyshire Fire and Rescue	£0.034m	1.0%
	£3.402m	

11.8 The total deficit of the two collection funds was £1.853m (£1.667m NDR + £186,000 Council Tax) that relates to the City Council will be transferred from the collection fund from 2018/19 and planned into future financial forecasts accordingly.

OTHER OPTIONS CONSIDERED

10.1 No other options considered as the Council has a statutory obligation to achieve a balanced budget position.

This report has been approved by the following officers:

Legal officer	Not Applicable
Financial officer	Toni Nash - Head of Corporate Finance – Toni.nash@derby.gov.uk
Human Resources officer	Not Applicable
Estates/Property officer	Not Applicable
Service Director(s)	Not Applicable
Other(s)	Not Applicable

For more information contact:	Elly Tomlinson – Principal Accountant elly.tomlinson@derby.gov.uk
Background papers: **List of appendices:**	Appendix 1 – Implications Appendix 2 – Statement of Reserves Appendix 3 – Contingency Budgets Appendix 4 – Write Off's Appendix 5 – Capital programme slippage/spend brought forward requests Appendix 6 – Housing Revenue Account – Outturn Analysis

Appendix 1

IMPLICATIONS

Financial and Value for Money

1.1 As detailed in the report.

Legal

2.1 Under Section 28 of the Local Government Act 2003 the Council must review its performance against budget.

Personnel

3.1 None directly arising.

IT

4.1 None directly arising.

Equalities Impact

5.1 None directly arising.

Health and Safety

6.1 None directly arising.

Environmental Sustainability

7.1 None directly arising.

Property and Asset Management

8.1 None directly arising.

Risk Management

9.1 None directly arising.

Corporate objectives and priorities for change

10.1 None directly arising.

Appendix 2

Statement of Reserves

Statement of Reserves	Opening Balance as at 01/04/2017 (Restated) £000's	Net Movement in 2017/18 £000's	Closing Balance as at 31/03/2018 £000's
General Fund			
Unallocated General Fund Balance	(8,764)	(2,169)	(10,933)
Balances Held By Schools	(10,525)	(263)	(10,788)
TOTAL	**(19,289)**	**(2,432)**	**(21,721)**
Revenue Earmarked Reserves			
Budget Risk Reserve	(34,680)	(838)	(35,518)
MTFP Specific Reserve	(5,981)	2,422	(3,559)
Reserve For Asbestos	(1,200)	1,200	0
Central Schools Budget Reserve	(6,347)	1,424	(4,923)
General Insurance Reserve	(890)	(1,160)	(2,050)
Trading Services Reserve	(1,135)	599	(536)
Year end grants with restrictions	(2,346)	(2,384)	(4,730)
DEGF Interest Reserve	(1,718)	1,718	0
Regeneration Fund Reserve	(3,138)	882	(2,256)
Assembly Rooms Insurance Settlement	(3,408)	1,905	(1,503)
Delivering Change Reserve	(5,361)	1,654	(3,707)
PFI Reserves	(23,856)	(2,190)	(26,046)
Better Care Fund Reserve	(762)	(4,018)	(4,780)
Other Service Reserves	(5,047)	(2,315)	(7,362)
Earmarked Reserves to support the capital programme	(2,141)	5	(2,136)
TOTAL	**(98,010)**	**(1,096)**	**(99,106)**
Housing Revenue Account (Ringfenced)			
Housing Revenue Account (Ringfenced)	(44,584)	(2,464)	(47,049)
Major Repairs Reserve	(3,146)	(3,134)	(6,280)
Other Earmarked HRA Reserves	(683)	0	(683)
TOTAL	**(48,413)**	**(5,598)**	**(54,012)**

Appendix 3

Transfer of unused contingencies to Reserve

Cross Directorate Contingencies	**Transferred to Reserves £**	**Reserve**
Exit Cost Contingency	760,672	Budget Risk Reserve
Job Evaluation Contingency	410,620	Budget Risk Reserve
New Burdens	116,045	Budget Risk Reserve
TOTAL	**1,287,337**	

Appendix 4

Write offs

The table below details the Debits on Creditor Control Account that Cabinet are recommended to be written off. All the debts are historic.

Reason	Date	Reason for Write Off	Outstanding Total £
Credit Notes Older than 6 years	Credit notes dated prior to 31.03.12	Older than 6 years.	96,179
Credit notes value less than £30	Credit notes	Invoices raised for less than £30.	1,405
TOTAL			**97,584**

Appendix 5

Capital Programme slippage/spend brought forward requests

Capital Programme Slippage 2017/18 to 2018/19			
Strategy area	**Scheme**	**Amount £**	**Funded By £**
Schools	Devolved Formula Cap	151,431	SCE C
Schools	Adaptions For Foster Carers	12,280	SCE C
Schools	Noel Baker BSF Scheme - agreed PFI contribution	16,000	SCE C
Schools	School Access Initiative Projects	3,000	SCE C
Schools	Design works	31,855	SCE C
Schools	Ash Croft Primary School internal remodelling and additional temporary classroom	7,673	SCE C
Schools	Brackensdale Infant School additional temporary classrooms	6,346	SCE C
Schools	Universal Infant free school meals	2,293	SCE C
Schools	Rosehill infant school extension and remodelling works	5,575	SCE C
Schools	Chellaston Junior School - Hall extension	54,833	SCE C
Schools	Murray Park Community School - Phase 2 Fire Risk Assessment (FRA) and condition works	3,479	SCE C
Schools	Bemrose School - Secondary expansion	931,075	SCE C
Schools	Brackensdale Infant and Junior – Expansion Design	3,855	SCE C
Schools	Alvaston Infants School - 30 hours Early Years Childcare Grant for 3-4 year old provision	81,508	SCE C
Schools	Murray Park - Various FRA Works - Phase 3	674	SCE C
Schools	Silverhill Primary - FRA - Fire compartmentation and kitchen shutter	2,000	SCE C
Schools	Bemrose School (Secondary) - FRA - Kitchen fire detection, fire breaks and emergency	750	SCE C
Schools	Firs Estate Primary School - 2017 FRA - Phase1 Fire evacuation route improvement	868	SCE C
Schools	Ridgeway Infant School - FRA - Server room fire compartmentation	3,000	SCE C

Schools	Derby Moor – 170 Place School Expansion	35,210	SCE C
Schools	West Park - 150 Place School Expansion	23,729	SCE C
Schools	Springfield Primary School - 2017 Additional classroom accommodation	4,964	SCE C
Schools	Ash Croft Primary - Additional Classrooms Purchase	85,000	SCE C
Schools	Specialist Enhanced Resources Unit design 2017	4,000	SCE C
Schools	Primary Phase Specialist Enhanced Resources Unit Alterations	5,000	SCE C
Schools	Portway Junior School	10,000	SCE C
Schools	Brackensdale Infant School – Temp Classroom Purchase	61,000	SCE C
H&T	Asset Management - Highways Maintenance	393,000	SCE C
H&T	Asset Management - Structures Maintenance	180,000	SCE C
H&T	Asset Management - ITS Network Management Maintenance	45,000	SCE C
H&T	Network Management - Strategic Network Management	244,045	SCE C
H&T	Network Management - Local Traffic Management	191,348	SCE C
H&T	Active Travel - Smarter Choices	180,609	SCE C
H&T	Active Travel - Cycle Derby	246,203	SCE C
H&T	Public Transport - Public Transport	11,000	SCE C
H&T	Street Lighting LED Replacement	296,513	External Borrowing
Property Improvement	Connecting Derby/Integrated Transport including maintenance	29,710	SR
Property Improvement	Parks – Various	7,400	S106
Property Improvement	Fire Risk Assessment Works Various sites	4,345	SCE C/UBC
Property Improvement	Preliminary Design - Structural and Buildings at risk	46,080	SCE C/UBC
Property Improvement	Queensferry Gardens Children's Centre- Refurbishment	171,000	SCE C/UBC
Property Improvement	Alvaston Park BMX Track	1,482	S106

Property Improvement	Arboretum Park Heart of the Park Building refurbishment	91,310	SCE C/UBC
Property Improvement	Dale Road Spondon Improvements	160	SCE C/UBC
Property Improvement	Audley Centre Bridge - traffic control measures and steel reinforcements to bar	56,000	SCE C/UBC
Property Improvement	Arkle Green	1,479	SCE C/UBC
Property Improvement	Allestree Park Footpath	636	SCE C/UBC
Property Improvement	Mickleover Community Centre - Window Replacement	15,664	SCE C/UBC
Property Improvement	Derwent Youth Centre - Window Replacement	10,884	SCE C/UBC
Property Improvement	Littleover Parks - Improvements	782	S106
Property Improvement	Ground Floor Reconfiguration Project	845,490	SCE C/UBC
Property Improvement	Libraries Refurbishment	12,439	SCE C/UBC
VPE	Grounds Plant & Equipment	127,433	UBCSF
VPE	New Vehicle Fleet	10,535	UBCSF
VPE	Cemetery Vehicle	50,000	UBCSF
Flood Defence	Cotton Brook Flood Alleviation Scheme	56,732	GG/UBC
Flood Defence	Markeaton Lane Flood Alleviation Scheme Phase 1 & 2	6,159	GG/UBC
Flood Defence	Green Lane Alvaston	6,147	GG/UBC
Flood Defence	Burley Brook Flood Alleviation Scheme	172,269	GG/UBC
Flood Defence	Wilmore Road Rain Gardens	172,862	GG/UBC
Flood Defence	Markeaton Brook Dredging	206,530	GG/UBC
Flood Defence	Our City Our River	2,299,526	GG/UBC/EC
Regeneration	Building Frontage Enhancement Scheme	29,339	GG
Regeneration	Marble Hall	4,907	GG
Regeneration	Climate Change European Regional Development Fund	52,195	GG
Regeneration	Alvaston District Centre Improvement	35,000	SCE C/UBC
Regeneration	Queens Street shopfronts	17,717	GG
Regeneration	Friar Gate Bridge	66,692	UBC
Regeneration	T12 Phase 2	1,705	GG
Regeneration	Darley Abbey Mills	200,000	SCE C

Regeneration	Creative Pathways	20,595	S106
Regeneration	Derby Enterprise Growth Fund – Recycled	402,127	CR
Regeneration	Mackworth War Memorial	7,705	S106
Regeneration	D2EGF Growth & Innovation	19,264	GG
Regeneration	Infinity Park Derby (IPD) Wayfinding	50,000	UBC
Regeneration	Market Hall Refurbishments	50,000	GG
Regeneration	Market Hall high level glazing	439,582	UBC
HGF	Housing Intelligence for the East Midlands	13,928	GG
HGF	Disabled Facilities Grant 96 Act	820,390	GG
HGF	Healthy Housing Assistance	10,236	EC
HGF	Empty Property Assistance	7,404	EC
HGF	Community Energy Savings Project	160,073	EC
HGF	London Road refurbishment works	13,170	CR
HRA	Estates Pride - General	117,084	MRA
HRA	The Knoll New Build	70,024	MRA/CR
HRA	Britannia Court	11,322	MRA/CR
HRA	Mill Hill Flats	115,633	MRA/CR
HRA	Gerard Street	90,577	MRA/CR
HRA	Bracknell	23,567	MRA/CR
HRA	Hatfield Road	93,950	MRA/CR
HRA	Underhill Close	31,292	MRA/CR
HRA	Flood Wall Britannia Court	100,000	MRA/CR
ICT	Customer/service delivery GIS	100,000	SCE C
ICT	ICT Stabilisation - Hardware Renewal	310,561	SCE C
ICT	Replacement/ Retender Council Tax System	34,436	SCE C
ICT	Online Portal	89,057	SCE C
	Total slippage	**11,343,983**	

Spend Brought Forward from 2018/19			
Strategy area	**Scheme**	**Amount £**	**Funded By £**
Schools	Markeaton Primary Capital Programme Scheme	(93)	SCE C
Schools	Buildings at Risk urgent condition and suitability schemes	(76,703)	SCE C
Schools	Littleover Community School Basic Needs Phase Two	(2,574)	SCE C
Schools	Fire Risk Assessment Works (FRA)	(20,590)	SCE C
Schools	Ashgate Primary School- Final Phase Refurbishment	(8,418)	SCE C
Schools	Bemrose Primary Expansion Phase 2	(9,000)	SCE C
Schools	Dale Primary - Various FRA Works	(1,000)	SCE C
Schools	Gayton Junior - Various FRA Works	(1,000)	SCE C
Schools	Peartree Infant - Reroofing programme - Phase 2 - School Capital Programme	(1,000)	SCE C
Schools	St Clare's - Structural Maintenance	(2,000)	SCE C
Schools	St Giles - Car Park Improvements	(1,000)	SCE C
Schools	Murray Park – 550 place school expansion	(22,149)	SCE C
Schools	Stonehill Nursey - FRA - external fire evacuation route protection	(500)	SCE C
H&T	A52 Strategic Transport Scheme	(82,698)	GG
Property Improvement	Ground Floor Reconfiguration Project	(713,000)	UBCSF/EC
Property Improvement	BMX Tack improvements - Onslow Rd & Chaddesden Park	(115)	S106
Property Improvement	Stores Road Tram Shed Demolition	(21,249)	SCE C/UBC
Property Improvement	Wholesale Market Demolition	(19,624)	SCE C/UBC
Property Improvement	Swimming Pool New Build	(186,604)	UBC/CR
Property Improvement	Normanton Park Improvements	(1,477)	S106
Regeneration	Becket Well	(100,029)	GG
Regeneration	IPD – Initial Infrastructure	(6,185)	SCE C

Regeneration	Townscape Heritage Initiative	(8,917)	HLF
Regeneration	Access Osmaston	(18,503)	GG
Regeneration	Derby Vibrant City Place making	(215,572)	Cap Res
Regeneration	Victory Road Re-alignment	(233,692)	GG
Regeneration	iHub plot preparation	(17,450)	GG
Regeneration	Brook realignment	(9,764)	GG
HRA	Perth Street New Build	(9,962)	MRA/CR
HRA	Richmond Road	(32,283)	MRA/CR
HRA	Carson Street	(3,722)	MRA/CR
	Spend Brought Forward	**1,823,151**	

Key to Funding Sources	
SCE C	Supported Capital Expenditure – Capital (Single Capital Pot)
UBC	Unsupported Borrowing Corporate
UBCSF	Unsupported Borrowing Service Financed
GG	Government Grants
Cap Res	Capital Reserves
EC	External Contributions
HLF	Heritage Lottery Fund
CR	Capital Receipts
S106	Section 106 contributions
MRA	Major Repairs Allowance

Appendix 6

Housing Revenue Account – Outturn Analysis

The outturn position for 2017/2018 shows cumulative resources of £54.012m, an increase of £2.465m on the previous year's position. The table below shows the variations at outturn.

	£000
Estimated Outturn in 2017/2018	(2,158)
Variations at outturn:	
Increase in rents and service charges	(2,008)
Reduced Repairs and Maintenance	(535)
Reduced Supervision and Management	(502)
Reduced provision for bad debts	(343)
Increase depreciation/impairment charge	3,074
Increased capital financing charges	364
Gains on sale of non-current assets	(1,736)
Other minor variances	216
NET SURPLUS 2017/2018	(3,629)
Net Movement in HRA reserves	1,164
Total increase in HRA resources	(2,465)
Total reserves B/fwd. from 2016/2017	(51,547)
Total Reserves 31 March 2018	**(54,012)**
Of which:	
Major Repairs reserve	(6,280)
HRA Earmarked reserves	(683)
General reserves including contingency	(47,049)
Total Reserves 31 March 2018	**(54,012)**

The Housing Revenue Account (HRA) shows an outturn surplus of £3.629m which together with net movement in other reserves of £1.164m increases overall HRA balances by £2.465m to £54.012m for the year.

General Balances £47.049m

The general balance on the HRA at 31 March 2018 was £47.049m. In addition to this there are £6.963m of earmarked reserves giving total HRA resources of £54.012m. The increase in general balances was mainly due to increased rental and service charge income and gains from sale of non-current assets reduced by higher than expected depreciation and impairment charge.

Rents and Service Charges (£2.008m)

Rents and Service charges are higher than anticipated due to better performance on void levels and properties moving to target rent after being re-let following a void period.

Repairs and Maintenance (£535,000)

Lower than anticipated expenditure on the Repairs and Maintenance, majority of which was an underspend on Estates Pride budgets (£343,000) mainly as a result of reclassification of spend from revenue to capital.

Supervision and Management (£502,000)

Lower than anticipated expenditure on the Supervision and Management.

Provision for bad debts (£343,000)

Better performance on rent collection and delayed implementation of Universal Credit to July 2018 has resulted in a lower than anticipated bad debt provision.

Depreciation/Impairment charges £3.074m

Higher than anticipated charges for depreciation and impairment of non-current assets to the HRA.

Capital financing costs £364,000

Higher than anticipated borrowing costs to the HRA.

Gains on sale of non current assets (£1.736m)

Higher than anticipated gains on disposal of non current assets.

Other minor variances £216,000

Other minor variances net to a non material cost to the HRA.