Purbeck District Council

2018 - 2023 Financial Strategy

1. Introduction

Background

1.1 The Financial Strategy sets out the financial planning framework for the Council for the period from 2018 to 2023. It shows how national and local issues are taken into account in planning the resources available for investment in the Council's services. That investment may be from revenue or capital resources.

1.2 Financial planning is essential to turn the Council's vision and policy objectives into action within the communities of Purbeck. The policy objectives are set out in the Council's Corporate Strategy for 2016 to 2021. The Financial Strategy also informs the Council's capital strategy, treasury management strategy and the preparation of annual budgets. These financial plans support the Corporate Strategy in defining the background to the service plans for each of the Council's services and the objectives for all members of staff.

1.3 The Financial Strategy draws on the strength of the Council's corporate governance and control environment as set out in the latest Annual Governance Statement. This provides assurance that the Council's governance and financial arrangements can be relied upon to achieve its plans and policies.

Corporate Priorities

1.4 The Council recognises that Purbeck is a very special place and its long term vision for Purbeck is: "thriving communities in balance with the natural environment".

1.5 The Council's Corporate Priorities link the work of the District Council with the priorities identified with our partners and aim to address the issues that matter most to the District:

1. Protecting and enhancing the natural environment.
2. Meeting the housing needs of local people.
3. Improving the local economy and infrastructure.
4. Enhancing local communities and involvement.
5. Being an efficient and effective Council.

Value for Money

1.6 The Council has a successful track record in achieving savings, efficiency targets and improving value for money. It has introduced a Value for Money Tool Kit and has used "lean systems" techniques to review services.

1.7 The Council's commitment to improving value for money is demonstrated by its net budget reducing by £2.0m from 2010/11 to 2018/19, in real terms, which equates to 30%. The budgeted savings have been achieved each year and they have been achieved whilst largely protecting front line services.

The Council as a Commissioner

1.8 Traditionally, the Council's approach to service delivery has been to finance services but not be overly concerned with which organisation provides them. The Council is more concerned to ensure the services provided are of the appropriate quality, effectiveness and efficiency. Consequently, the Council is prepared to commission services from the private sector, the voluntary sector, in-house and other parts of the public sector, based on objective criteria.

1.9 This provides useful background for the development of joint working via partnerships and collaborations with other local authorities and other parts of the public sector. The Council has entered into a multitude of partnerships, most notably for the delivery of revenues and benefits, waste and cleansing services. The Council will work in partnership for the provision of services where it is in the best interests of the Council, its customers and taxpayers.

1.10 The Council will continually review the delivery arrangements for services and change them where those arrangements are not considered to represent good value for money. This has resulted in the internalisation of services such as housing and legal services, as well as the formation of partnerships. At a time of austerity, internalisation can improve flexibility over a service.

Financing Services

1.11 The Council's belief in a mixed economy for the delivery of services also applies to the financing of services. The Council accepts there are services which it must provide but it does not accept that all of these services must be financed by the taxpayer. Indeed the concept of customers paying for certain services is now widely accepted across local government. The Council believes those local services which should be financed by the taxpayer are those which:

- Represent the Council's community leadership role, through community planning underpinned by research, including effective consultation;
- Benefit the community as a whole;
- Benefit the most vulnerable members of local communities.

1.12 Services that benefit individuals, including individual organisations, should be financed, as far as possible, by fees and charges that the Council is able to levy. This policy had resulted in the income from fees and charges rising, however austerity has reduced income levels in recent years.

1.13 This approach implies that fees and charges should be designed, where appropriate, to achieve break-even for the affected services, provided the services represent good value for money. Periodically, the income and expenditure of these services is reviewed to ensure they continue to provide good value for money and recover the appropriate costs.

2. Financing Local Government

2.1 The international financial crisis of 2008 continues to have a major impact on the world economy, the UK economy and public finances. Effective action by governments across the world rescued most banks during 2008 and 2009 and many banks rebuilt their balance sheets to improve their liquidity as a response to banking regulation. This has improved their ability to withstand future banking crises.

2.2 Since 2010, financial institutions have been concerned by the debt of developed countries. Their credit ratings were downgraded because of fears they would struggle to meet their financial obligations. The only credible response of many such countries was to reduce their national deficits, by increasing taxes and/or reducing public expenditure, both of which affect economic growth.

2.3 The UK government decided to reduce the deficit in public expenditure. Cuts in public expenditure reduced employment in the sector buteconomic growth allowed the private sector to create sufficient new jobs to replace those lost in the public sector. Cuts in public expenditure are expected to extend beyond the end of the current Parliament in 2020.

2.4 The UK referendum result to leave the European Union has led to some uncertainty in the economy and the Chancellor of the Exchequer has moved away from some of the deficit reduction targets, whilst continuing to acknowledge the need to balance public finances.

2.5 The Government intends to withdraw Revenue Support Grant (RSG) over the life of the Parliament. It also intends for local government to retain all business rates, subject to it taking responsibility for extra services. However, there will be some pooling mechanism for business rates so that Council's with high levels of business rates continue to subsidise those with low levels and non-billing authorities, such as county councils.

2.6 For many years local government has complained that annual financial settlements make medium term financial planning very difficult. To overcome this, the 2016/17 financial settlement provided projections of the RSG and the business rates baseline assessment for every council. These projections indicate that Purbeck District Council (together with many other district councils) will not receive any RSG after 2017/18. Consequently, the speed with which RSG is being withdrawn is faster than most councils expected.

2.7 Government projections show that once RSG has been fully lost, further cuts in Government support will occur. These additional cuts will take the form of a business rates tariff or top-up adjustment but no council will be affected by this before 2019/20. In the 2018/19 financial settlement the Secretary of State has pledged to review the possibility of negative RSG and plans to consult on proposals later in 2018.

2.8 The Government implemented transitional arrangements for those councils who suffer the steepest reductions in funding in 2016/17 and 2017/18. The Council benefitted from these arrangements.

2.9 As part of the 2016/17 settlement, councils were given the opportunity to secure a four year settlement, provided they submitted an efficieny plan to the Government. Most councils took advantage of this opportunity. Whilst this provides certainty over RSG and business rates, it does not guarantee all of the funding sources used by local government. For example, the rules for new homes bonus (NHB) were subsequently changed to the detriment of planning authorities and there remains uncertainty over the future rules.

Council Tax

2.10 Under the Localism Act, the Government removed centrally imposed council tax capping. Instead, council taxes can rise but a rise in excess of a Government threshold requires a local referendum. The threshold for a local referendum had always been the same for all principal authorities, until from 2016/17 social care authorities were able to increase their council tax by 2% more than other councils, provided the additional tax yield is used to meet the costs of social care. For 2017/18 and 2018/19, they were given the ability to increase the social care precept by 3% each year provided in the three years to 2019/20 the total precept is no more than 6%.

2.11 From 2016/17, the government moved away from a policy which disincentivised increases in council tax to one which accepts they will occur and applies cuts to government grants on the assumption that council tax will rise in line with the referenda thresholds.

2.12 In 2013/14 the Government made changes to the council tax system to allow councils more flexibility in determining discounts for second homes, empty properties and repossessed properties. Councils have taken advantage of these discretions by reducing discounts, to improve the availability of local housing and increase the tax base. These changes were implemented at the same time as the Government localised council tax benefits, whilst reducing its expenditure by 10%. Local schemes must protect pensioners and vulnerable people, support the Universal Credit regime and incentivise work by ensuring it is always worthwhile for people to work or increase their earnings.

2.13 Localised council tax support is a discount scheme which reduces the tax base. The Government provided an extra grant in 2013/14 to enable billing authorities to protect local parish councils from the reduction in their tax base. This was subsequently rolled into general funding and was cut, with other reductions in RSG, and has now disappeared.

New Homes Bonus

2.14 The NHB scheme started in 2011/12 using new funding but after 2012/13 the funding was top-sliced revenue support grant. NHB is an incentive based scheme, by which councils originally received the additional council tax raised for new homes and empty properties brought back into use for six years. In two tier areas the funding is split 80:20 between the billing authority and the county council.

2.15 The Government has changed the new homes bonus from 2017/18. The Government wants to sharpen the incentive by reducing the number of years for which the bonus is paid to four; and by setting a baseline level of new homes, below which no bonus is received. The money saved as a result of these changes is being used to provide additional funding to upper tier councils, to help meet the costs of social care.

Localisation of Business Rates

2.16 Traditionally billing authorities collected business rates for the Government, which redistributed the funds back to billing and other major precepting authorities through the formula grant mechanism. In April 2013, the Government localised aspects of business rates. Decisions about the amount of the rates payable are retained by the Government so that business ratepayers do not see any changes to the system.

2.17 Under the new regime, the Government assessed the starting position, or Baseline Funding Assessment, for all councils. Councils were divided between tariff and top-up authorities. Many district councils are tariff authorities because they are billing authorities collecting more in business rates than their baseline funding assessment would allow them to keep. The starting position will be maintained until 2020 although the tariff increases each year in line with the inflator for business rates bills. In two-tier areas, county councils are top-up authorities because they do not collect any business rates in their own right.

2.18 In two-tier areas, growth in business rates is shared with 50% being the Government's share, 40% retained by the billing authority, 9% for the county council and 1% for the fire and rescue authority. However, council shares of the increased rates are scaled back by the payment of an additional levy to the Government equal to 50% of the growth. Those councils whose business rates fall will see their income fall, albeit with a safety net preventing a fall of more than 7.5% below the Baseline Funding Assessment. The safety net is financed from the levy.

2.19 From April 2017 the Dorset Innovation Park became an Enterprise Zone. In Enterprise Zones, the billing authority is allowed to retain all growth in business rates, including the central share, provided the growth is handed over to the Local Enterprise Zone for reinvestment in the Enterprise Zone.

2.20 Government is redesigning the arrangements for the retention of business rates in consultation with the LGA, as part of the preparations for 100% of business rates to be retained by local government. At this stage, there is no clarity about these revised arrangements.

Community Infrastructure Levy

2.21 The Community Infrastructure Levy (CIL) allows local authorities to place a charge on new developments in their area. The money can be used to support development by funding infrastructure that the council, local community and neighbourhoods believe is necessary to support development but not remedy existing deficiencies.

Rural Delivery Grant

2.22 In 2013/14 the Government increased the weighting given to sparsity of population in the funding formula. The resultant additional funding amounted to £130m but very little of the extra funding survived the "damping" arrangements. Consequently, the Government provided a small additional specific grant. From 2016/17, this additional grant was increased to £65m nationally. In 2018/19, following significant lobbying the Government increased the grant to £81m.

3. **Funding Purbeck Services**

Council tax

3.1 The localisation of council tax support and the technical changes to council tax discounts for second and empty homes were implemented in April 2013. The combined effect of these changes reduced the council tax base by about 9%.

3.2 The Council's tax base usually grows by about 0.5% per annum, as new properties are built but the growth in 2016/17 and 2017/18 was higher than normal. It has returned to just above previous levels in 2018/19. The table below shows the change in the tax base over the next five years and its impact on the council tax, based on a return to the normal growth rate and assuming an increase in growth to 1% following the agreement of a revised local plan.

Table 1: Council tax projections with no increase in the council tax

	2018/19	2019/20	2020/21	2021/22	2022/23
Tax Base	19,182	19,278	19,375	19,472	19,569
Band D	£182.41	£182.41	£182.41	£182.41	£182.41
Council Tax Yield	£3.50m	£3.52m	£3.53m	£3.55m	£3.57m
Enhanced Tax Base	19,182	19,278	19,471	19,666	19,863
Council Tax Yield	£3.50m	£3.52m	£3.55m	£3.59m	£3.62m

3.3 The increase in growth in the tax base to 1% per annum in each of the last three years of the strategy increases the proceeds from council tax by £0.11m over the three years.

3.4 The localisation of council tax support has transferred the risks associated with changes in the number of households claiming support, from the Government to the Council. Any increase in the cost of council tax support has a negative effect on the council tax base. In the light of the increasingly aged population of the district, an increase in the costs of council tax support is possible although the impact is likely to be negligible and such growth has not been seen since the scheme was introduced.

3.5 The Localism Act allows the Secretary of State to determine the threshold for increases in council tax without a referendum. For several years the threshold was 2% but it became more complex in 2016/17. Over the remainder of this Parliament, social care authorities can increase the council tax by a further 6%, with a maximum of an extra 3% in any year year, provided the additional funding is spent on social care. In 2017/18 districts councils could increase it by the greater of £5 or 2% and this has been increased in 2018/19 and 2019/20 to the greater of £5 or 3%.

3.6 From 2016/17 the Government assumes council taxes will rise when deciding on the level of cuts local government will have to accommodate. The table below shows the effect of a £5 and a 2.99% increase in band D council tax on the Council's available resources.

Table 2: Impact of increasing council tax by £5 and 2.99% each year

	2018/19	2019/20	2020/21	2021/22	2022/23
Tax Base	19,182	19,278	19,375	19,472	19,569
Band D at £5 p.a.	£187.41	£192.41	£197.41	£201.41	£207.41
Council Tax Yield	£3.59m	£3.71m	£3.82m	£3.92m	£4.06m
Maximum Band D 2.99% p.a.	£187.86	£193.48	£199.26	£205.22	£211.36
Council Tax Yield	£3.60m	£3.73m	£3.86m	£4.00m	£4.14m
Enhanced Tax Base	19,182	19,278	19,471	19,666	19,863
Yield with £5 p.a.	£3.59m	£3.71m	£3.84m	£3.96m	£4.12m
Maximum Band D 2.99% p.a.	£3.60m	£3.73m	£3.88m	£4.04m	£4.20m

3.7 The table shows that an increase in the band D of £5 each year will increase the tax yield by nearly £0.49m per annum after 5 years when compared to table 1, whereas a 2.99% annual increase will increase the annual yield by £0.57m. Over the five year period a £5 increase will generate nearly £1.45m additional revenue from council tax and a 2.99% increase will generate more than £1.68m more.

3.8 Applying a 2.99% increase in the council tax each year to the enhanced tax base which would be achieved by a 1% increase each year from 2020/21, would generate a further £0.20m in council tax receipts over the following three years.

New Homes Bonus

3.9 In 2011/12 the Council qualified for £97,000 New Homes Bonus, which will total £582,000 over the 6 year period of the grant. The amount received in respect of each year since the grant was initiated is shown below:

Table 3: New Homes Bonus Receipts

NHB	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Annual Grant
	£m	£m	£m	£m	£m	£m	£m	£m	£m
2011/12	0.097								0.097
2012/13	0.097	0.065							0.162
2013/14	0.097	0.065	0.102						0.264
2014/15	0.097	0.065	0.102	0.085					0.349
2015/16	0.097	0.065	0.102	0.085	0.077				0.426
2016/17	0.097	0.065	0.102	0.085	0.077	0.155			0.581
2017/18			0.102	0.085	0.077	0.155	0.037		0.456
2018/19					0.077	0.155	0.037	0.025	0.294

3.10 The Council anticipates receiving new homes bonus every year, based on the housing development numbers included in the existing local plan, as shown in table 3. The bonus shown is based on the revised scheme introduced in 2017/18. This includes bonus being paid for four years in respect of each year's housing growth, with nothing being paid for the first 0.4% of housing growth in a year.

Table 4: New homes bonus (NHB) based on revised scheme and existing local plan

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Existing Local Plan	0.64	0.69	0.73	0.77	0.82
Less NHB expired	(0.35)	(0.43)	(0.58)	(0.62)	(0.64)
NHB Receipt	0.29	0.26	0.15	0.15	0.18

3.11 The Council is currently reviewing the local plan. The latest economic projections and the Government's consultation on housing numbers both envisage an increase in the housing numbers to 170 units per annum. This would increase the growth in council tax to about 1% per annum. The table below also shows the impact on new homes bonus of an increase of 50 units each year being included achieved.

Table 5: New homes bonus including increased housing numbers

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Enhanced Local Plan	0.64	0.69	0.79	0.89	1.00
Less NHB expired	(0.35)	(0.43)	(0.58)	(0.62)	(0.64)
NHB Receipt	0.29	0.26	0.21	0.27	0.36

3.12 The table above shows an increase in the housing numbers of 50 each year as a result of a new plan would generate £0.36m in additional new homes bonus in the last three years of this strategy. Thereafter new homes bonus would continue to be £0.24m per annum higher than it would be if the housing numbers remain static.

Localisation of Business Rates

3.13 The localisation of business rates came into effect on 1 April 2013. The scheme rewards growth in business rates by allowing local government to retain up to half of the growth but they also carry the risk of reductions in business rates. There is also significant risk to the Council of outstanding appeals against the rateable value of business premises because the Government has refused to indemnify councils against the effect of such appeals. Following a couple of years of good growth in business rates, the Council has been hit by substantial successful appeals, totalling in excess of £8m.

3.14 The Government has put in place a safety net to prevent councils losing too much of their business rates income in one year. The safety net prevents their income dropping by more than 7.5% of their Baseline Funding Assessment for the year. The Council's business rates income has been in line with the safety net since 2014/15. In 2018/19, the Council is likely to come off the safety net, which has generated an extra £0.2m. Business rate accounting is complex and it takes two years for actual surpluses and deficits to work through the system. As the Council has been so far into the safety net some deficits are still working through the system. This may mean the Council returns to the safety net at the end of 2018/19. Councils on the safety net still receive the full value of additional business rates associated with renewable energy.

3.15 The baseline for business rates is due to be reset in 2020/21 and it is assumed that funding will return to the baseline at the time of the reset. In the meantime, 100% retention by local government will be introduced.

3.16 The revaluation in 2017/18 has been neutral as far as local government is concerned because the Government has adjusted the tariffs and top-ups used within the system.

3.17 Similarly, 100% retention will be accompanied by additional duties and responsibilities so that the new system is fiscally neutral and tariffs and top-ups will be retained.

Table 6: Baseline Business Rates

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Baseline Funding	1.11	1.13	1.15	1.18	1.20
Renewables	0.12	0.12	0.13	0.13	0.13
Total business rates	1.23	1.25	1.28	1.31	1.33
Safety Net	1.03	1.05	1.07	1.00	1.11

Government Grants

3.18 From 2010/11 to 2017/18 the funding received by the Council has reduced from £3.7m to £1.1m, including redistributed business rates under the old finance regime. Although the regime has changed, it is possible to make a direct comparison between the funding received. The funding in future years is shown below, assuming a return to the baseline 2020/21. The table also shows the funding position if the Council continues to be on the safety net:

Table 7: Projected revenue support grant

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Revenue Support Grant	0	0	0	0	0
Business Rates	1.33	1.13	1.15	1.18	1.20
Tariff Adjustment		(0.26)	(0.26)	(0.26)	(0.26)
Total	1.33	0.87	0.89	0.92	0.94

Community Infrastructure Levy

3.19 The Community Infrastructure Levy (CIL) has been in place for some time. The Council has produced a charging schedule which sets out the levies. These rates are supported by evidence from viability testing of new development and the area's infrastructure needs. It has become apparent that there is unlikely to be significant sums available through CIL for anything other than environmental mitigation and the rail reconnection to Swanage.

Net Cost of Services

3.20 Since the Government's policy of reducing public expenditure has been in place the Council has managed to balance its budgets without major cuts in services by a combination of partnership working, reducing costs of overheads and increasing income. However, this may not always be possible, in the light of the scale of the cuts proposed by the Government to the end of the decade. The Council carries approximately £0.39m in its balances to assist in the smoothing of cuts in its resources. So far, the Council has not had to resort to this smoothing mechanism

Funding Shortfall

3.21 The table below shows the expected budget position over the next five years assuming the cuts continue into the future and a 2.99% increase year on year for the council tax. It also assumes an increase in housing in the district as a result of the partial review, that the new regime for new homes bonus continues and that business rates are reset in 2020/21.

Table 8: Revenue Resources

	2018/19	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	£m	**£m**	**£m**	**£m**	**£m**
Council tax	3.60	3.73	3.88	4.04	4.20
Revenue support grant	0	(0.26)	(0.26)	(0.26)	(0.26)
Business rates	1.33	1.25	1.28	1.31	1.33
New homes bonus	0.29	0.26	0.21	0.27	0.36
Total Resources	**5.22**	**4.98**	**5.11**	**5.36**	**5.63**
Budget requirement	5.22	5.34	5.45	5.57	5.68
Less savings achieved	0.00	0.00	0.12	0.21	0.21
Use of reserves	0.00	0.24	0.13	0.00	0.00
Revised budget	5.22	5.10	5.20	5.36	5.47
Savings target	**0.00**	**0.12**	**0.09**	**0.00**	**(0.16)**

3.22 The above table shows the Council will need to save a further £0.21m to balance the budget over the next five years, due to changes in the new homes bonus regime introduced for 2017/18; and the imposition of negative RSG.

3.23 Initial projections indicated that additional savings of £0.36m would have been required in 2019/20, which would be difficult to achieve. Consequently, the table above assumes £0.24m and £0.13m of balances and an unallocated savings target could be used in 2019/20 and 2020/21 respectively, to provide some smoothing of the savings over the five years of the strategy. Over £0.50m of excess funds have been retained in the balance for the last three years to mitigate the impact of large savings targets in any specific year but they have not yet been needed.

4. Capital Expenditure and Financing

Background

4.1 The Council continues to carry out a maintenance programme so that, as far as possible, the future useful lives of its fixed assets are maintained. To this end the Council has an Asset Management Group of officers, who are responsible for the development of the Council's Asset Management Plan and Maintenance Strategy, both of which are approved by the Management Team before approval by the Council.

4.2 The Council's capital budget is in the form of a capital programme which covers a period of five years. The programme comprises two parts: the approved and unapproved programmes. The approved programme contains schemes which have received Council approval and authority to incur expenditure. The unapproved programme contains schemes which have Council approval in principle but not authority to incur expenditure, other than minor preliminary expenses in developing final proposals for consideration by Policy Group and Council.

4.3 For a scheme to secure approved status it must be submitted to Policy Group before consideration by Council if it involves a change in Council policy, otherwise a report is submitted to Council for approval detailing:

- the objectives of the proposal;
- a financial appraisal of the scheme;
- its detailed revenue consequences and their impact on the council tax;
- any risk management issues; and
- the necessary financing arrangements, which must be in place, including all necessary approvals obtained from Government.

Capital Finance

4.4 The capital programme can be financed in the following ways:

- Capital grants and contributions from the Government and other bodies which are used to finance specific schemes.
- Capital receipts, which are the proceeds from the sale of fixed assets. These also include a share of the income from the sale of former council houses, known as preserved right to buy receipts.
- Reserves, which are normally funded from contributions from revenue or Government grant.

- Borrowing, this could be funded from the Council's own resources including cash flows or externally from either the Public Works Loans Board or the money markets. The borrowing would be repaid over the estimated life of the asset by way of a charge to revenue.
- Leasing, the cost would be paid over the estimated life of the asset.

4.5 The general priority for use of funding sources is: capital grants (where applicable), capital receipts; reserves; borrowing; or leasing, although officers will utilise the available resources in the best interests of the Council.

4.6 The current plan for financing the capital programme is summarised within the capital programme and set out in more detail below:

Table 8: Financing Capital Expenditure

Capital expenditure	**Estimate**					
£m	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Capital Expenditure	**3.44**	**1.01**	**0.28**	**0.11**	**0.10**	**0.21**
Financed by:						
Capital Receipts	1.88	0.06	0.17	0.11	0.10	0.06
General Reserve	0.09	0.27	0.00	0.00	0.03	0.15
Earmarked Reserves	0.18	0.26	0.00	0.00	0.00	0.00
Government Grants	0.01	0.05	0.04	0.00	0.00	0.00
Partnership Funding	1.28	0.00	0.05	0.00	0.00	0.00
Total Funding	3.44	0.64	0.26	0.11	0.13	0.21
Internal Borrowing	**0.00**	**0.00**	**0.00**	**0.00**	**0.03**	**0.00**

4.7 Prudential guidelines allow councils to borrow to the extent that they are able to service the resultant debt. In assessing how much the Council is able to service, it has to use a variety of benchmarks and performance indicators on its financial strength.

4.8 Following the transfer of the housing stock in 2004 the Council repaid all of its external debt and set aside funding equal to its internal debt to achieve "debt-free" status with a nil capital financing requirement and the Council has remained debt free. However, the Council has an ambitious capital programme focused on economic development, with all of the schemes generating future income streams for the Council.

Capital Receipts

4.9 The Council receives capital income from two main sources. These are the sale of fixed assets and from preserved right to buy receipts from the Aster Housing Group.

4.10 All of the capital receipts are used for general capital purposes, with the exception of £0.4m which was specifically earmarked for housing purposes.

4.11 As capital receipts can only be used to fund capital, they are the first funding option, when considering the source of funding for the capital programme.

4.12 The table below shows the projected total value of capital receipts having allowed for the capital funding needs as identified in the capital programme. The capital programmed does not include specific capital schemes for housing and so the annual balance of capital receipts includes £0.4m earmarked for housing.

Table 9: Capital Receipts

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m	£M
Capital Receipts						
Opening Balance	1.75	0.01	0.02	0.19	0.94	1.39
Receipts	0.14	0.07	0.34	0.86	0.55	0.06
Used	(1.88)	(0.06)	(0.17)	(0.11)	(0.10)	(0.06)
Closing Balance	0.01	0.02	0.19	0.94	1.39	1.39

4.13 In addition to the above, the Council has £2.6m of capital receipts previously set aside to meet the repayment of internal finance which enabled the Council to be debt free thereby avoiding a “minimum revenue provision” to the General Fund.

4.14 The closing balances in the table above include the £0.4m earmarked for housing schemes. The table shows that the capital receipts available for all other purposes are forecast to be negligible in 2017/18 and 2018/19. This position gradually improves thereafter helped by the anticipated receipts from land sales at Dorset Innovation Park from 2020/21.

5. Balances

The General Fund Balance

5.1 The working balance for the General Fund is normally recommended to be between 1% and 5% of General Fund gross revenue expenditure, i.e. £22m in 2018/19. The Council assesses the required scale of its balance using a risk assessment process as shown below for 2018/19.

- Size of the authority – Smaller councils, such as Purbeck, have a lower asset and resource base to be able to withstand budgetary problems and so the starting point for the risk assessment is a minimum balance of 1% of gross expenditure, including capital expenditure i.e. £0.22m;
- Volatility of expenditure – The Council’s expenditure budgets are relatively stable and so 1% of expenditure, excluding benefits and capital is added to reflect the risk that some of the expected savings might not be achieved in full, i.e. £0.09m.
- Risks around income streams – The localisation of business rates and, to a lesser extent, council tax support, increase the risks to income. 2% of gross income excluding benefits and capital (i.e. £0.08m) is added to cover these risks.

- Business rates – In the past the Council has included the difference between the business rates used in the budget and the safety net, multiplied by two. This would allow the Council at least a year to adjust budgets if the Council were to need the safety net because of a reduction in business rates. This would equate to an allowance of £0.16m based on the extent to which the expected business rates are in excess of the safety net in 2019/20.

5.2 The risk assessment therefore shows that the minimum balance held by the Council should be £0.55m. However, the balance is £0.94m, which is in line with the risk assessment for the minimum balance in 2016/17. The difference of £0.39m is available to smooth the reduction in net expenditure over the next few years. It is currently expected that an unallocated savings target of £0.07m could be reintroduced and up to £0.37m may be used from the balance over the next five years.

Contributions to Reserves

5.3 The Council makes an annual contribution to reserves, which is increased £10k each year. In 2018/19 this figure is £0.12m.

5.4 The expected balances on the General Reserve are shown below:

Table 10: Reserves

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m	£M
General Reserve						
Opening Balance	1.95	1.82	1.54	1.59	1.65	1.71
Receipts	0.08	0.09	0.11	0.12	0.13	0.13
Used	(0.21)	(0.37)	(0.06)	(0.06)	(0.06)	(0.21)
Closing Balance	1.82	1.54	1.59	1.65	1.71	1.63

Earmarked Reserves

5.5 The Council has various earmarked reserves, which have been built up over time for specific purposes as set out below:

- Building Control Reserve – to ensure that the service broadly breaks-even over a rolling three year period.
- Community Housing Fund Reserve – Funding support for community led housing projects.
- Sports Centre Artificial Pitch - to meet the cost of re-carpeting in accordance with Sport England grant agreement.
- Risk Management – To meet costs to reduce or mitigate risks faced by the Council.
- Business Centre Reserves – Operated in accordance with partnership agreements for the individual business centres.
- Purbeck Sports Centre – to smooth Repairs and Renewals over the life of the lease.

5.6 The amount in the earmarked reserves varies from time to time. As at I April 2017, they totalled £0.40m.

6. Treasury Management

6.1 The Council complies with the current treasury management regulations and guidelines. An annual Strategy is produced and scrutinised by the Audit and Governance Committee prior to approval by Council with the annual budget in February each year. Quarterly updates on performance including a formal half year report are presented to the Audit and Governance Committee for consideration.

6.2 The treasury management service manages the Council's cash flows to ensure that adequate cash is available to fund the Council's activities. This could include borrowing but the Council is currently debt free and so these activities focus on investment of surplus cash flows.

6.3 The Council's investment policy is to be risk averse with security, liquidity and yield being the priorities, in that order.