This is the report that will be considered by Cabinet at its meeting on 18 February 2015 concerning budget proposals for 2015/16. The resolutions from Cabinet will be recommended to Council for approval. A copy of the relevant minute extract from Cabinet containing the recommendations from the meeting on 18 February will be prepared and sent to all members for this Council meeting.

Agenda Item No 10(b)

North East Derbyshire District Council

Council

23 February 2015

Medium Term Financial Plan 2015/16 to 2017/18

Report No PRK/11/15/BM of Councillor P R Kerry Portfolio Holder with Responsibility for Economy, Finance and Regeneration

This report is public

Purpose of the Report

- To secure the approval of Council to the proposed budget in respect of 2015/16 as part of a consideration of the Council's Medium Term Financial Plan covering the years 2015/16 to 2017/18.
- To provide Elected Members with an overview of the Council's financial position in order to inform the decision making process.

1 Report Details

Introduction

1. This report presents the following budgets and financial plans for Cabinet to consider:

   - General Fund Revenue account which is attached as **Appendix 1** to this report.
   - Housing Revenue Account (HRA) account which is attached as **Appendix 2** to this report.
   - Capital Programme which is attached as **Appendix 3** to this report.

   Once Cabinet has considered the position as set out within this report and the associated appendices then any recommendations made by Cabinet will be referred to the Council meeting of 23rd February 2015 in order to secure agreement to the Council's budget in respect of the 2015/16 financial year. It should be noted that the report has previously been considered by the Audit Committee at its meeting on 5th February 2015.

2. While all of the above accounts are detailed separately within the report it is important that Cabinet gives appropriate consideration to the Council's overall financial position which encompasses the three separate accounts as outlined within this report and to the range of services that it is planned to deliver to local residents. In addition to the consideration of the above three reports Council at its meeting of 23rd February 2015 will also be requested to consider the Council's proposed Treasury Management Strategy which links the above three accounts into the Borrowing and Investment strategy. This link helps to ensure that the Council's financial plans are affordable, prudent and sustainable.

3. While this report is predominantly concerned with financial issues it needs to be recognised that the Council's financial plans are part of a wider service planning framework which incorporates both service plans together with the range of related Council strategies and policies. This helps ensure that the available resources are targeted at agreed Council priorities.

4. Within the reports which follow in respect of each of the Council's main accounts there are a number of common features. In particular financial projections are provided with regard to the following:

- <u>2014/15 Estimated Outturn Position</u>
  This is the current year budget revised to reflect changes which have taken place or which it is anticipated will take place during the remainder of this financial year. It will therefore provide a more accurate indication of the likely outturn position than the original budget in respect of the current financial year.

- <u>2015/16 Original Budget</u>
  This is the proposed budget for the next financial year commencing 1st April 2015 which Council will need to consider for approval at its meeting on 23rd February 2015.

- <u>2016/17 and 2017/18 Financial Plan</u>
  In accordance with good practice the Council agrees its annual budgets within the context of a Medium Term Financial Plan (MTFP) which includes financial projections in respect of the next three financial years. This approach provides the Council with a longer planning horizon over which to develop service plans and to ensure that its underlying level of expenditure remains in line with its underlying level of resources. Effective multi-year planning is particularly important in the current climate given that the Comprehensive Spending Review and other Central Government announcements are based upon plans which incorporate significant year on year expenditure reductions for local government.

Robustness of the Estimates

5. Under the provisions of the Local Government Act 2003 the Council's Section 151 Officer is required to comment on the robustness of the estimates made and also on the adequacy of the proposed financial reserves. The Council’s S151 Officer (the Executive Director Operations) is satisfied that the methodology adopted to calculate the estimates is robust, and provides Members with reliable information on which to base their decisions. Likewise, the S151 Officer is satisfied that the proposed level of reserves, which although at a relatively low level, are adequate to cover the issues and potential risks which face the Council. The adequacy of the current level of reserves is considered in Appendix 1 in relation to the General Fund, in Appendix 2 in relation to the HRA, and in Appendix 3 in relation to the Capital Programme.

6. In arriving at the assessment that the methodology adopted is robust the Chief Financial Officer is satisfied that the policies upon which the estimates are based are reasonable, and that these policies have been applied consistently across the Council’s activities. The approach that has been adopted has taken account of the following:

- The Council's actual expenditure and income both in the previous financial year (2013/14) and to date in the current financial year as at the end of September 2014. The views of cost centre managers concerning the level of expenditure which will be incurred during the remainder of the 2014/15 financial year have also been taken into account. Where necessary these figures have been validated by considering the incidence of income and expenditure up to the end of December 2014. This process has enabled a robust Estimated Outturn to be prepared in respect of the current financial year (2014/15), which has formed the basis for the 2015/16 Budget and the financial forecasts in respect of 2016/17 and 2017/18.

- With regard to estimates included within this report these have been developed with and agreed by the responsible cost centre managers who have the primary responsibility for managing them during the course of the financial year. This process has helped to ensure that agreed service developments, potential cost increases and changes in the level of demand for services, etc. have been taken into account. While the Chief Financial Officer is satisfied that the budgets which have been agreed are robust it does need to be recognised that non-employee related expenditure heads have been minimised and will need to be carefully managed if the Council is to operate within its approved budgets. This approach reflects the fact that a policy decision has been taken to minimise all non employee budgets. This increases the risk of an overspend developing during the year as there is now little room to manage unforeseen items of expenditure. This increased level of financial risk is taken into account in the Financial Risk Register in respect of each of the three main accounts of the Council.

- The Accountancy Section have co-ordinated the preparation of the budget, and have ensured that all estimates are reasonable and have been developed in a consistent fashion. While the budgets that have been agreed are challenging and will need to be reviewed in the light of changing circumstances and priorities over the three year period of the Medium Term Financial Plan the Chief Financial Officer is satisfied that they constitute a firm foundation on which to base the Council's financial management.

2 Conclusions and Reasons for Recommendations

This report presents a budget for consideration by Cabinet. It seeks to ensure approval to budgets in respect of the General Fund, the Housing Revenue Account and the Capital Programme which are fully funded within the year and therefore meet the Council's legal obligation to agree a balanced budget.

3 Consultation and Equality Impact

Consultation

- Given that this budget report is based on the assumption that in overall terms existing levels of service will continue to be delivered by the current staffing establishment then there is not a requirement for an extensive consultation process to be undertaken. A specific meeting to consult on the impact of the proposed budget on the local business and commercial sector was held on the 3rd February 2015.
- The Council is required to consult with stakeholders on the proposed budget. This consultation which is part of the Council's service planning framework has effectively been taking place throughout the financial year. These mechanisms which include a range of meetings with local groups and associations and a performance management framework which actively considers customer comments and complaints helps ensure that the Council remains responsive to local residents. These meetings help to inform the Council's understanding of what is expected of it by our local communities. In addition the budget process has also sought to ensure that the knowledge of Members in their role as Community Champions has been used to inform the service development process.
- It should also be noted that the budget process itself does not propose any significant change or amendment in the level of services provided to local residents, to staffing structures or ways of working. Where significant change is planned this is subject to an appropriate consultation process concerning the proposal under consideration. The outcome of these consultation processes are reported back to Cabinet for consideration as part of the decision making process. In particular, the Council has in place a Policy covering Organisational Review which details consultation procedures with staff affected, etc.
- In terms of internal consultation on the budget process consideration of a draft version of this report has been undertaken by the Audit and Corporate Governance Scrutiny Committee on the 5th February. The main themes of the report have also been discussed at the monthly meetings between trade union representatives and management.

Equality Impact

- Equalities issues are covered in the Service Plans which are linked to the resources allocated by the budgets recommended for approval within the Medium Term Financial Plan.

4 Alternative Options and Reasons for Rejection

4.1 Alternative options are considered throughout the report.

5 Implications

5.1 Finance and Risk Implications

These are covered through the report and associated Appendicies but may be summarised as follows:

General Fund

- Estimated Outturn 2014/15:
  The Council set its original budget for 2014/15 on the basis that it was necessary to secure some £0.371m of savings. In addition to having secured this savings target the Council is planning to partially offset a projected reduction in the Invest to Save reserve by an in year contribution in the current financial year. To secure this outcome the Council has in effect secured overall savings and efficiencies of some £0.518m, giving a projected saving in the year of some £0.148m. While this surplus has been based upon minimising all budgets and therefore some upward drift of costs is likely such cost presses are highly unlikely to eliminate the forecast surplus. This is a significant achievement for the Council and provides the Council with a firm basis to address the Council's forecast financial position over the period of the Medium Term Financial Plan.

- **Original Budget 2015/16:**
  The budget in respect of 2015/16 currently shows a shortfall of some £0.5m. While the Council's first priority will need to be to balance next year's budget given the scale of the challenge that faces the Council in future years it is important to ensure these savings are secured by underlying reductions in expenditure or increases in income. In particular the Council needs to maintain the momentum on the growth and transformation agenda to put itself in a better position to secure the projected financial savings of some £2.2m which are anticipated to be required over 2016/17 and 2017/18. Given the Council's performance over the previous five financial years achieving a savings target of £0.5m while challenging should be achievable. While the projection of a shortfall of £0.5m in respect of next year partly reflects the fact that this was never planned by central government to be a year for major spending reductions, it also reflects the work that the Council has continued to undertake in order to secure efficiencies and to take advantage of the

opportunities offered by the growth agenda in previous years. A continuation of that approach is an essential part of a strategy to secure the necessary level of financial savings whilst minimising the impact on local residents.

- **Budgets 2016/17 and 2017/18**
  While the Council has relatively robust figures in terms of anticipated expenditure over the period of the MTFP the figures on Government funding are based upon the limited information that has been provided in respect of future public expenditure plans. While there are national elections in May 2015 that will clearly influence the shape of the Autumn statement in the November of 2015 it is not considered likely that there will be any move away from the on going reductions in the level of funding provided by central to local government. The position is complicated by the reality that there may also be changes in the distribution of that funding between different services and tiers within local government itself. On the basis of the information to date we are anticipating a further shortfall of some £1.3m in 2016/17 followed by a further shortfall of £0.9m in 2017/18. If we are to secure these savings then it is crucial that the Council follows its current strategy of progressing savings at the earliest opportunity.
- Given the Government's spending plans it is clear that further reductions will be required in future financial years and it is therefore important that the Council maintains its momentum in achieving ongoing financial savings. While clearly these ongoing expenditure reductions will continue to have an impact on services it should be noted that the Council's current approach if continued will enable changes to budgets and service plans to be appropriately considered, planned and managed. This gradual ongoing planned approach is considered to be the most appropriate method for minimising the impact upon local residents.

Housing Revenue Account (HRA)

- **Estimated Outturn 2014/15**
  The Estimated Outturn figures shown within this report are in line with those previous reported to Cabinet on 19th November 2014. With respect to the variation from the Original budget there has been a reduction in rental income of some £0.3m largely arising from increased costs associated with void properties, offset by a reduction in expenditure across various heads of some £0.1m. These variations are offset by a reduced contribution to the New Build Reserve of Some £0.210m leaving a small surplus of some £10k in line with the original budget, with a projected closing HRA balance of some £2.427m.

- **Original Budget 2015/16**
  The key issues for 2015/16 are that the average rent increase required to comply with Government rent guidelines for social housing is one of 2.2% which results in the average rent for a Council house increasing from £83.78per week (on a 48 week basis) to one of £85.62 per week. In addition to being required by Government Guidance (although such guidance is not compulsory) it needs to be recognised that rent increases in line with inflation are necessary if the Council is to be able to maintain its houses to a good

standard in line with the expectations of our tenants. It should also be recognised that rental levels for Council housing are and will continue to be significantly below those in the private rented sector. This 2.2% increase is also proposed in respect of non dwelling rents such as garages and hard standing.

- **Forecasts 2016/17 and 2017/18**
  The forecast position for the latter two years of the proposed MTFP effectively project or roll forward the figures in respect of 2015/16. These figures demonstrate that despite the range of recent changes to the HRA which have reduced the future rental stream and made the loss of stock under Right to Buy more likely that the HRA remains financially sustainable. This position is supported by the HRA Business Plan which covers a full 30 year period. Recent changes have, however, substantially impacted on the financial model which underpinned the localism of the HRA under which North East Derbyshire District Council was allocated a debt of £127m to repay. These changes which all serve to reduce the longer term rental income of the HRA will add a further impetus to the ongoing work to secure efficiencies and improvements in the delivery of the Housing service.

Capital Programme

- Finally, with respect to the capital programme the majority of expenditure will continue to be in respect of the HRA Programme which is funded by capital resources ring fenced to the Council's HRA. Given that the Council is now at the end of the three period during which the Government provided funding of some £60m in order to enable Rykneld Homes to bring Council Housing up to Decent Homes standard on behalf of the authority, the size of the HRA capital programme will now reduce considerably given that all funding now needs to be generated from revenues arising within the local HRA. Although Government funding has now ceased the Council needs to generate sufficient funding to ensure that all of the Council's 8,000 homes remain at the Decent Homes standard.

- With respect to next financial year expenditure of some £12.5m is projected, which reduces to a figure of some £10m in 2016/17 and £7m in 2017/18. The 2017/18 figure of £7m reflects the underlying level of funding that can be resourced internally from the revenue income generated within the HRA, although such expenditure could be supplemented by additional prudential borrowing with the HRA borrowing ceiling set by national government. The scale of the Programme in 2015/16 will also be reduced from that within the current financial year as a result of the fact the Tarran Replacement Programme at Eckington and Killamarsh together with the work at Grassmoor are anticipated to be completed by the end of the current financial year.

- There is a report elsewhere on this Cabinet Agenda concerning proposals for expenditure of some £5.318m on External Wall Insulation off which some £1.020m will be funded by Energy Company Obligation (ECO) grant. In order to provide Cabinet and Council will the most up to date forecast available this report has been amended to incorporate these figures. Should the scheme not approve then they will be removed from the Approved Programme set out in Appendix 3 to this report.

- With regard to the General Fund the main expenditure will continue to be on vehicle replacement funded by prudential borrowing. The proposed programme seeks to secure investment of some £2m largely to secure the replace of the Council's Refuse Vehicle Fleet. Given that the vehicles concerned are now at the end of their operational life this expenditure is necessary in order to maintain statutory services to the public. The work at the Mill Lane site will also be largely concluded by March 2015, although the second phase remedial work at a cost of some £0.275m as approved by Council at its meeting of 5th January 2015 will be commencing in the early part of the new financial year. Finally, there will be the ongoing requirements for work in respect of private sector housing grants and asset refurbishment across the range of Council assets.

Risk Issues

- A Financial Risk Register has been developed in respect of each of the main accounts and is provided at **Appendix 1 Table 3**, **Appendix 2 Table 2**, and **Appendix 3 Table 2**.

5.2 Legal Implications including Data Protection

- The Council is legally obliged to approve a budget prior to the commencement of the new financial year in April 2015. This report together with the associated budget timetable has been prepared in order to comply with our legal obligations.

- There are no Data Protection issues arising directly from this report.

5.3 Human Resources Implications

- These are covered in the main report and supporting Appendices where appropriate.

6 Recommendations

That all recommendations below are referred to the meeting of full Council on the 23rd February 2015.

The following overall recommendations to Council are made:

a) That the view of the Chief Financial Officer that the estimates included in the Medium Term Financial Plan 2014/15 to 2017/18 are robust and that the level of financial reserves whilst at minimum levels are adequate, be accepted.

b) That officers be required to report back to Cabinet and to the Audit and Corporate Governance Scrutiny Committee on at least a quarterly basis regarding the overall position in respect of the Council's budgets, these reports to include updates on progress in achieving the agreed range of savings and efficiencies necessary to achieve the agreed savings target for the 2015/16 financial year.

In addition to the above the following recommendations are made in respect of each of the main accounts of the Council.

GENERAL FUND

a) No Council Tax increase is levied for the financial year 2015/16 and the Council accept the proposed Government grant compensation arrangements and this recommendation is submitted for approval by the Council at its meeting on 2nd March 2015.

b) The Cabinet recommends to Council (at its meeting on 23rd February 2015) the Medium Term Financial Plan in respect of the General Fund as set out in **Appendix 1** of this report and agrees the Estimated Outturn Budget 2014/15 with a spending requirement of £14,171,936 together with the original budget for 2014/15 with a spending requirement of £13,900,613 as detailed in **Appendix 1 Table 1.**

c) Officers continue to progress the implementation of measures designed to secure the forecast position in respect of 2014/15 and the agreed savings targets in respect of 2015/16 with progress to be reported back to both Cabinet and Audit and Governance Committee on a quarterly basis.

d) That Cabinet agrees to recommend that the initial £0.060m of any surplus generated in the financial year 2014/15 is used to increase the General Fund balances to a position of £1.600m with the remainder being allocated to the Invest to Save reserve.

HOUSING REVENUE ACCOUNT

a) That Council sets its rent increases in line with Government policy increasing rent levels by the increase in Consumer Price Inflation plus 1% which in respect of 2015/16 gives a rent increase of 2.2% which it is recommended to apply from 1st April 2015.

b) That the rent in respect of Homeless Units and Non Dwelling Rents be increased by 2.2% which it is recommended to apply from 1st April 2015.

c) That the Housing Revenue Account as set out in **Appendix 2 Table 1** be approved as the Estimated Outturn Budget in respect of 2014/15 , as the

Original Budget in respect of 2015/16, and the financial projection in respect of 2016/17 and 2017/18.

CAPITAL PROGRAMME

(a) That the Capital Programme for 2014/15 to 2017/18 as set out in **Appendix 3 Table 1** be approved.

(b) That the use of any unapplied capital receipts at the year end be used to repay part of the £3m prudential borrowing undertaken to progress the Mill Lane, Wingerworth regeneration scheme.

(c) That the Asset Management Group be requested to identify suitable assets for disposal in order to fund the Council's Capital Programme, reduce revenue costs and support the wider regeneration of the District.

7 Decision Information

Is the decision a Key Decision? (A Key Decision is one which results in income or expenditure to the Council of £50,000 or more or which has a significant impact on two or more District wards)	Yes
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	**RELEVANT CORPORATE AIMS** STRATEGIC ORGANISATIONAL DEVELOPMENT – to continually improve the efficiency and effectiveness of all Council Services by maximising the potential use of Council resources. **TARGETS** The operation of policy led budgeting will help to inform future spending plans and ensure that resources are efficiently utilised in the promotion of Council priorities. **VALUE FOR MONEY** The budget process enables existing expenditure patterns to be challenged and where necessary redirected to ensure that resources are used

	effectively and directed towards the delivery of the Corporate Aims.

8 Document Information

Appendix No	**Title**
1 2 3	General Fund Revenue Account Housing Revenue Account Capital Programme
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	

Report Author	**Contact Number**
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AGIN 10(b) (0223) Medium Term Financial Plan 2015/16 – 2017/18 / AH

APPENDIX 1

General Fund Revenue Account

Introduction

1. This report considers the element of the Medium Term Financial Plan relating to the Council's General Fund Revenue Account budgets. As such it covers all of the Council's revenue expenditure other than those elements which relate to the provision of Council Housing which are accounted for within the Housing Revenue Account (HRA).

2. The General Fund Budget report will form part of the Council's Medium Term Financial Plan.

3. The main areas covered by this report are as follows:

Item	
2014/15 Estimated Outturn	
2015/16 Original Budget	
• Level of Government Grant	
• Expenditure, income Levels and efficiencies	
Medium Term Financial Plan 2016/17 to 2017/18	
Options for Council Tax Levels	
Financial Reserves	
Risk Register	
Recommendations	
General Fund Summary	Table 1
General Fund Risk Detail	Table 2
General Fund Risk Register	Table 3

4. The provisional budgets for both 2014/15 (Current Budget) and 2015/16 (Original Budget) are shown in Table 1 to this report. Table 1 also details the projected position – on the basis of current patterns of income and expenditure – for both 2016/17 and 2017/18, with Table 2 providing details at cost centre level.

2014/15 Estimated Outturn

5. In February 2014 Members agreed a budget in respect of the current financial year 2014/15. Given that the Council was faced with achieving significant savings it has been necessary to actively manage budgets throughout the year and to remove savings from the budget once they have been agreed. Given that the budget has been under a process of ongoing revision the Revised Budget (the latest version considered by Cabinet at its meeting of 19th November 2014) has evolved from the Original Budget which was approved in February 2014. For the purposes of

this report, the comparison in Table 1 shows the movement between the Original Budget the Revised Budget and the Current Budget position. Given the extent of the work which has been undertaken during the year there is relatively little change between the Revised Budget and Current Budget position. As part of the budget process it is recommended that Members formally approve the Current Budget position as set out within Table 1. The main reason for the variation between the Original Budget and the current position is that the savings made to balance the budget have now been recognised in service expenditure, while increased funding from reserves and S106 funding etc has been recognised in the budget. These amendments are reflected in changes in the approved budget at cost centre level and have been subject to appropriate Member approval.

6. The key feature that has driven the Council's financial position during 2014/15 continues to be the ongoing reduction in the level of Central Government grant arising from the Government's Comprehensive Spending Review of Autumn 2010. The majority of the measures that have secured savings in previous and the current financial year will continue to provide ongoing savings for the Council into 2015/16 and beyond. As such they have made an important contribution to the financial sustainability of the Council. If these savings had not been secured then the financial challenge which would have faced the Council during 2015/16 and future years would have been significantly greater.

7. While budgets have been adjusted to minimal levels in order to maximise the level of financial savings secured officers have continued to operate a policy of restricting expenditure wherever possible. While this management action may be offset by upward cost pressures, officers are currently of the view that it should be possible to achieve an outturn position which secures all of the savings necessary to balance the 2014/15 budget, whilst in part offsetting the significant contribution from the Invest to Save reserve in the current financial year so that the overall level of that Reserve is partially protected. Given the financial pressures which will continue to impact upon the Council in future financial years it is crucial that the Council continues to maintain a reasonable level of Invest to Save reserves in order to be able to fund the measures that are necessary in order to reduce the Council's underlying level of expenditure.

Original Budget 2015/16

8. One of the key purposes of this report is for the Council to agree its detailed income and spending proposals in respect of the next financial year commencing 1st April 2015. The provisional budget which is recommended for consideration by Members is detailed in Table 1 and Table 2 of this Appendix.

9. In developing the proposed budget the main elements which have been taken into account are as follows:

- Grants from Government
- Expenditure, income levels and efficiencies
- Options for the level of Council Tax in respect of 2015/16

- Use / Enhancement of Reserves to assist in the management of the Council's financial position ensuring that the level of reserves remains adequate in the light of the risks facing the organisation.
- The need to ensure that the Council is taking appropriate steps to ensure that its underlying level of expenditure remains in line with the forecast level of resources that will be available to the Council in the light of the ongoing reductions in the level of government grant.

Each of the above themes is now considered in greater detail in the sections below:

Level of Government Grant

10. On 18th December 2013 the Government provided details concerning the level of Grant that would be available to local authorities for the two year period covering the 2014/15 and the 2015/16 financial years. This announcement was updated in late December 2014 and the figures in respect of next year have been included on the basis of that announcement which showed a small improvement (£50k) from the original position. The 2016/17 figure is a projection based upon the general principle that the Government will cease to provide Revenue Support Grant to District Council's after the 2017/18 financial year. While no detail concerning grant has been provided beyond next year Members should also note that – in part arising from the philosophy of localism – there is now less certainty regarding the future level of financial resources. In particular Non Domestic Rating Income, Localisation of Council Tax Benefit and New Homes Bonus all bring significant uncertainties into the financial planning process. While the details concerning the level of grant are sufficiently firm to provide a robust base for the Council's budget it does need to be appreciated that there remains a considerably greater degree of uncertainty concerning Government grant and related resources than was previously the case.

11. Details of the Government Grant settlement are incorporated into Table 1 of this Appendix. In terms of the financial support provided by Central Government National Non Domestic rates has become more significant than Revenue Support Grant. Council will be aware that the nature of Non Domestic Rates has evolved in that the Government now provides local authorities an incentive to grow NNDR locally given that they currently retain 20% of the growth in NNDR levels against the baseline figure. Whilst all local authorities are provided with an incentive in that they will retain a proportion of any growth in Business Rates there is a safety net which will protect those local authorities which suffer from a reduction in their local Non Domestic Rating Base. There is accordingly a direct financial incentive for local authorities to promote economic growth in their area, although local authorities would take the view that they have already been active in promoting such growth in order to protect and enhance local employment levels. While North East Derbyshire in common with other local authorities will continue to work to attract new businesses into the area there is a clear risk that any increase arising from new economic activity may be offset by a decline in other sectors of the economy, or by the impact of revaluation. Council should also note that the ability to attract companies into the District may be adversely affected by the close

proximity of the Enterprise Zone at Junction 29A. More generally whilst local authorities can facilitate and promote growth it does need to be recognised that there are other factors outside the influence of local authorities which are arguably of greater significance in promoting economic growth (the national economic position, geographical location, land availability). The localisation of business rates is, however, clearly intended to provide local authorities with an incentive to promote local economic development. In the next financial year, the Council is assuming additional income of £0.600m above the baseline determined by the government.

12. Cabinet will be aware that in respect of 2015/16 that a 'pool' of authorities across Derbyshire has been established in respect of Non Domestic Rate Income. Membership of a Derbyshire Wide pool was agreed by Council at its meeting on 27th October 2014 in recognition of the fact that those authorities which are members of a pool are able in most cases to benefit from retaining a higher level of locally generated non domestic rating income. Within the budget we have assumed that this Council will benefit by some £0.2m in respect of the 2015/16 financial year. Given the uncertainty concerning the availability of such income in respect of 2016/17 or future years no assumptions have been made regarding additional income in respect of those years. While it is reasonable to assume that the income of £0.2m will be secured in respect of 2015/16 it does need to be recognised that there may be a requirement to contribute to the Derbyshire Combined Authorities or other regional growth initiatives which may require a call on this funding.

13. With regard to the New Homes Bonus this is included in the 2015/16 base budget at £0.690m. Every new home built, or empty property brought back into use (offset by demolitions and those properties falling out of use) will provide the local authority with an increased income of £1,000 p.a. for 6 years for a Band A property. This reward, which is top sliced from the overall Government Grant pot – is intended to reward those authorities who allow and facilitate additional housing in their areas. With effect from 2017/18 the first year of New Homes Bonus (2011/12) will no longer be counted because at that stage it will have been paid for the full six years for which it was due to be paid. While the Council will at that time be receiving approximately £0.9m p.a from the six years of New Homes Bonus to maintain the income at that level the Council will need to secure an additional 150 homes p.a. The majority of these additional homes will need to come from new build properties.

Expenditure, income levels and efficiencies

14. A key element of the Government's approach to local government is that it should seek to secure local sources of funding rather than remaining heavily dependent upon central funding. In part the Government see this objective being realised by local authorities maximising their local development potential by way of Non Domestic Rates (growing the level of business activity) or by way of New Homes Bonus (increasing housing numbers). In addition authorities have been encouraged to look at raising other local sources of income. Over the past two years the Council has taken a number of steps to improve the level of income that

it receives from a range of services and in particular Leisure. While Officers will seek to continue to secure further incremental improvements it does perhaps need to be recognised that the majority of gains that are readily achievable have already been secured and are incorporated within the budget proposed in this report.

15. While the Council will continue with efforts to identify and secure additional income with which to support services it is clear that both locally and nationally the key opportunity for the Council to balance its budget arises in respect of managing expenditure levels and securing efficiencies.

16. With respect to the next financial year the Council needs to identify financial savings level of financial balances, of some £0.500m in order to secure a balanced budget. The provisional forecasts included within the MTFP indicate a further savings requirement of some £2.2m in respect of the years 2016/17 and 2017/18. In the face of these significant financial shortfalls the Council needs to continue with its established policy of securing financial savings at the earliest opportunity in order to minimise the detrimental impact of funding cuts on local residents. Early intervention will allow the Council to adopt a more gradual and considered approach to securing cost reductions. In respect to the savings of £0.5m which need to be achieved a number of potential options have been identified which will be pursued by Officers:

- Vacancy Management £75,000.
  All vacancies – including maternity leave, requests for additional annual leave, etc - will continue to be subject to review by Strategic Alliance Management Team and will be controlled in order to secure financial savings. Where appropriate reports will be brought forward for Members to consider the disestablishment of posts which it is not considered appropriate to fill. While the target of £0.075m is in line with savings achieved in the current and previous financial years it does need to be recognised that the reductions in staffing numbers over recent years make these savings increasingly hard to achieve given the requirement to maintain service levels. It is, however, crucial that the Council does not allow posts to be filled in 2015/16 which are unlikely to be a high priority in future financial years.

- Transformation, Secondments and Joint Working £195,000
  As part of the decision made in the autumn of 2013 to progress the Strategic Alliance as a vehicle for securing further savings Council accepted a recommendation that officers progress a transformation agenda. As part of this Transformation Agenda it is recommended that Cabinet approve a savings target of some £195,000 in respect of 2015/16. While there is a limited amount of Invest to Save reserve to cover any associated costs it needs to be recognised that the costs associated with restructuring may make this saving difficult to achieve in full in the financial year. It is crucial that the Council seeks to cover the costs of restructuring or investment to secure improved working within the financial year in which they are implemented. Further secondments and joint working arrangements with Bolsover District Council will continue to be targeted to secure savings to North East Derbyshire. Given that these measures generally arise as a result

of natural wastage they tend to involve minimal costs in terms of redundancy, etc whilst minimising the impact on the workforce of the requirement to shrink the size of the organisation.

- Property Rationalisation Savings £25,000
  While the Council has made significant progress during 2014/15 in securing its relocation from Saltergate to the Mill Lane site it is necessary to complete the sale of Saltergate and the relocation at the earliest opportunity in order to secure the associated savings. Likewise it is important that progress is made in the disposal of land and in the securing of the dowry that will be received from the HCA for accepting responsibility for the maintenance of the land at the Avenue once the HCA's remediation contract has ended.

- Early Repayment of Debt £105,000
  As has been previously reported to Members the Council has sold its Saltergate site subject to contract. It is currently anticipated that completion of the sale will take place in the June of 2015 at which stage the Council will receive the capital receipt or financial payment in respect of the sale. As previously agreed by Council that capital receipt will be utilised in order to commence the repayment of the £3m of prudential borrowing that has been incurred in order to fund the Mill Lane purchase and remediation. Currently the Council has in reserves in excess of £1m of capital receipts which have arisen from a variety of asset sales. Rather than carry forward these as a capital receipt reserve at the end of the current financial year it is proposed that they will be utilised to repay debt at the end of this year. That will reduce the Council's interest and principal repayment costs for the next financial year by some £105,000. The capital receipts from the sale of Saltergate will then be utilised to replace the capital receipts used to repay debt in order to fund capital expenditure planned during 2015/16. Officers will continue to provide to Council detailed reports concerning the progress in the repayment of £3m of prudential borrowing.

- National Non Domestic Rate Growth £100,000.
  Finally, the work undertaken in order to complete the NNDR1 government return at the end of January has indicated that it is reasonable to assume that an additional £100,000 of NNDR income will be secured during the 2015/16 financial year. In addition – although no assumptions have been made in the budget - the completion of the NNDR forms by all of the Derbyshire authorities - have indicated that the level of retained NNDR income should be significantly above the £200,000 assumed within the 2015/16 budget.

17. The table below summarises the savings options that are proposed in order to address the 2015/16 position together with their impact on 2016/17 and 2017/18:

Summary of Proposed Savings

	2015/16 £000's	2016/17 £000's	2017/18 £000's
Efficiency Target / Budget Shortfall	**500**	**1,849**	**2,699**
Savings Proposals			
NNDR Growth Target 2015/16	(100)	(100)	(100)
NNDR Growth Target 2016/17		(100)	(100)
NNDR Growth Target 2017/18			(100)
Vacancy Management	(75)	(75)	(75)
Transformation, Secondments &Joint Working	(195)	(195)	(195)
Property Rationalisation Savings	(25)	(25)	(25)
Repayment of Debt	(105)	(105)	(105)
Total Savings Proposals	**(500)**	**(600)**	**(700)**
Unidentified Savings Target 2016/17	0	(1,249)	(1,249)
Unidentified Savings Target 2017/18	0	0	(750)
Call on General Fund Balances	**0**	**0**	**0**

Given the importance of securing the above savings to the financial stability of the Council, progress will be reported on a regular basis to Cabinet. It should also be noted that it is proposed that the Council should approve that actual budgets are amended to take account of identified savings as soon as those savings are formally approved. This will help to ensure that cost centre managers are fully aware of the budgets that they are working to, and that those savings which are identified are fully achieved during the initial year. Such amendments will be reported as part of the budget monitoring process.

Medium Term Financial Plan 2016/17 to 2017/18

18. While the main focus of this report is on the Revised Outturn position in respect of the current financial year (2014/15) and upon securing approval for the original Budget in respect of 2015/16, it is important that decisions are taken in the context of the financial position of the Council over the period of its Medium Term Financial Plan which covers the 3 year period up to the end of March 2018. The key feature of the Council's financial position over this period of time is the requirement to make ongoing revenue savings. The level of financial savings previously achieved and projected as being required – both on an annual basis and cumulative - are as follows:

Summary of Required Level of Financial Savings

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Annual Savings / Efficiencies Required	371	500	1,348	851
Cumulative Savings to be achieved	-	500	1,848	2,699

19. While the level of savings required is based upon a number of assumptions - which are outlined below – it is clear that under any scenario the Council faces a significant reduction in its spending power. This is consistent with the plans set out within the Government's Comprehensive Spending Reviews of Autumn 2010 and 2013. Given the scale of the financial savings which are required over the period of the current Medium Term Financial Plan it is crucial that the Council acts to manage its financial position effectively, and in particular that it manages the financial position in such a way as to protect the level of services which are provided to local residents.

20. Provided that the Council can meet and possibly exceed the recommended Efficiency / Savings Target of some £0.500m in respect of next financial year (2015/16), officers are of the view that the Council will be in a relatively good financial position given the extent of the reductions in Government grant which have been experienced. The Council's financial position reflects the fact that it has put in plans over previous financial years which have led to longer term savings rather than only addressing the in year financial position. Given the ongoing nature of the expenditure reductions which the Council is facing; in particular the projected shortfall of a further £2.7m (£2.2m after 2015/16 savings) in respect of 2016/17 it would seem to be appropriate to continue this policy which has both secured the necessary savings while minimising the impact on local residents.

21. In developing the financial projections in respect of 2015/16 to 2017/18 which are included within Appendix 1 to this report, officers have made a number of assumptions. The major assumptions which have been made are as follows:

- Pay increases of 2% in respect of 2015/16, with 1.5% in respect of both 2016/17 and 2017/18.
- No changes to employer superannuation contributions or to the lump sum deficit recovery.
- No allowance has been made in respect of general inflation although specific budget heads such as energy costs and business rates have been adjusted to reflect anticipated price changes. Cabinet should note that a significant allowance has been made within the draft budget for an increase in recycling costs which reflects the fact that payments for recycled materials have significantly reduced.
- A Council Tax increase of 1% or Council Tax Freeze Grant at 1% in respect of 2015/16, 2016/17 and 2017/18.

- Government Grant reductions (Revenue Support Grant) of £0.971m in 2016/17 and £0.500m in 2017/18. (It is anticipated that the level of government grant and other funding will be established for both 2016/17 and 2017/18 by the Chancellors Autumn Statement towards the end of the 2015 calendar year). In the absence of any information the contrary it is assumed that both the Non Domestic rating system and the New Homes Bonus funding will continue to operate along existing lines.
- Fees and Charges – service specific increases as agreed by Members.

Options for Council Tax Levels

22. Members will recall that other than in respect of 2013/14 the Council has decided to accept successive Government schemes which provided grant to partially compensate for the income lost as a result of a decision to freeze council tax. These compensatory grant payments to those Councils who did not increase Council Tax are, however, generally limited in the period in which they are receivable and unlike Council Tax increases do not result in an increase in the underlying revenue base of the Council. Council may wish to note that had the Council increased Council Tax in the region of 2% each year that its underlying financial position would have improved by a figure in the region of £0.25m, which would flow from increased Council Tax income.

23. Central Government has continued to make strong requests to local authorities not to increase Council Tax in respect of the 2015/16 financial year. The settlement details that were released in December 2014 have indicated that those Council's which do not increase Council Tax will benefit from a 'freeze grant' funded from the national exchequer which the case of North East Derbyshire amounts to £0.058m. For those Council's who take the view that an increase in Council Tax is appropriate in order to minimise the impact of expenditure cuts then an increase of up to 2% will be allowed before the Government requires that a referendum is held. It is assumed that the freeze grant will only apply for a period of one year. Given that the Council could raise Council Tax by 2% - without the additional cost and logistical burden of a referendum – there could be a financial benefit to the Council of some £0.044m in the next financial year. The additional income from the increase in Council Tax of £0.102m would continue to be available to the Council in future financial years. Overall if the Council chooses to accept the additional Government Grant then it will not benefit from the positive impact to its Tax base in future years that would have been secured by a Council Tax increase in 2015/16. This will require that in future years expenditure will need to be £0.102m below what it otherwise would have been, or higher council tax rises will be necessary in subsequent years.

24. In reaching a decision regarding the appropriate level of Council Tax in respect of 2015/16 Members need therefore to give consideration to the Council's financial position in respect of both 2015/16 and in respect of the remainder of the period covered by this MTFP. In summary officers are currently forecasting that over the period April 2015 to March 2018 expenditure reductions (or increased income) of £2.699m will be necessary.

25. While there are significant financial reasons for opting to increase the level of Council Tax in 2015/16 in order to strengthen the Council's underlying financial position and to reduce the reliance on expenditure reductions as a means of balancing the budget, this needs to be balanced against the detrimental impact which the current economic situation and the level of inflation are having on local residents. It may be considered that the Council needs to take all appropriate steps in order to minimise the burden on local residents, and that to secure an – albeit smaller – increase in funding from national resources rather than local residents is the appropriate action at this point in time. This is the approach that has been taken by Cabinet in its consideration of the budget proposals in respect of 2015/16 and accordingly is the position recommended in this report.

Financial Reserves

26. The Council's main uncommitted Financial Reserves which relate to its General Fund are the General Fund Balance of £1.540m together with the Invest to Save Reserve of some £0.6m. Given the growing level of uncertainty surrounding local authority income and the fact that the Council itself has reduced all budgets to a minimal level thus reducing its financial resilience it is important that the Council continues to review what it would consider to be an acceptable level of General Fund balances. Given that the Council has continued to effectively achieve the in year savings targets and has an Invest to Save reserve an amount of £1.540m in the General Fund Balance would appear to be a reasonable minimum level of balances going forward. This position is supported by the General Fund Risk Register as set out in Appendix 1 Table 3 which details the financial risks currently faced by the Council which indicates notional financial risks with a total value of £1.570m broadly in line with the current level of General Fund Balance. However, given the increasing level of financial and associated risks facing the Council under the localism agenda, the Chief Financial Officer believes it would be appropriate if possible to increase the General Fund Balance to a level of £1.600m in order to help protect services from future cutbacks. Cabinet is well aware of the importance of managing expenditure reductions in a planned fashion in order to protect the quality of services to local residents, and an increase in the target level of balances which will secure improved financial resilience is an important element of protecting service delivery to local people.

27. The Invest to Save Reserve is a key element in the Council's financial strategy in that it can be used to finance the following categories of expenditure :

- Service improvements
- Transformation work
- Restructuring
- Any unanticipated Asset Refurbishment Costs
- To address any performance issues where they arise in Council Services

During the 2014/15 financial year there is a significant level of commitment against the Invest to Save reserve and it is crucial in enabling an appropriate approach to both the Mill Lane project and to the work that is taking place at Dronfield Sports Centre. On the basis of current commitments it could be significantly reduced during the course of 2014/15, however, officers anticipate that it may be possible to refresh the reserve as part of the 2014/15 outturn report with savings which are partially secured during the current financial year.

Risk Register

28. A financial Risk Assessment is set out in Table 3, which outlines the risks, the mitigation which is in place, the potential impact and the probability of the event occurring in order to arrive at a notional calculation concerning the potential financial impact of the risks which the Council is currently facing. This indicates that the identified risks which the Council is currently facing amount to £1.570m. This is broadly in line with the current General Fund balances of £1.540m. The other main General Fund Balance the Invest to Save reserve is also likely to be reduced significantly from the opening balance. It is therefore important to ensure that any underspends in the current financial year are maximised in order to enable the Invest to Save balance in particular to be replenished, in order to allow effective financial management of the Council over a period of ongoing reductions in the level of Government resources.

29. The assessment concerning the level of risk is essentially used for two purposes. In the first place an understanding of the risks which the Council faces is crucial in agreeing an appropriate level of financial reserves. Secondly, the identification of the risks is the first stage in the process of more effectively managing, or of mitigating those risks. By identifying the risks it is possible to avoid them, to insure against them, to transfer the risk, or most likely, actions can be taken to reduce or to mitigate the risk. The Council's Financial Risk Register is closely linked to both the Strategic and Operational Risk Registers. The Council has in place a comprehensive approach to Risk Management which is reported on a regular basis to Executive, and this process will continue to be utilised in order to manage the key financial risks.

30. RECOMMENDATIONS

The recommendations arising from this Appendix which are set out in the covering report are as follows:

a) No Council Tax increase is levied for the financial year 2015/16 and the Council accept the proposed Government grant compensation arrangements and this recommendation is submitted for approval by the Council at its meeting on 23rd February 2015.

b) The Cabinet recommends to Council (at its meeting on 23 February 2015) the Medium Term Financial Plan in respect of the General Fund as set out in **Appendix 1** of this report and agrees the Estimated Outturn Budget 2014/15 with a spending requirement of £14,171,936 together with the original budget for 2015/16 with a spending requirement of £13,900,613 as detailed in **Appendix 1 Table 1.**

c) Officers continue to progress the implementation of measures designed to secure the forecast position in respect of 2014/15 and the agreed savings targets in respect of 2015/16 with progress to be reported back to both Cabinet and Audit and Governance Committee on a quarterly basis.

d) That Cabinet agrees to recommend that the initial £0.060m of any surplus generated in the financial year 2014/15 is used to increase the General Fund balances to a position of £1.600m with the remainder being allocated to the Invest to Save reserve.

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Appendix 1 : Table 3

NORTH EAST DERBYSHIRE DISTRICT COUNCIL: GENERAL FUND RISK REGISTER

Risk and Mitigation in Place	Gross Value of Risk £000's	Probability	Potential Impact £000's
1. Overspend on challenging revenue budgets. • The financial information system and budget monitoring arrangements are robust. The Council has a good record of managing spending against budgets. • Regular monitoring reports will be taken to Cabinet, Council and Audit Committee. • Elected Members have a good awareness of the Council's financial position. • The development of the current budgets has been based upon the active engagement of cost centre managers.	1,000	30%	300
2. Reduction in Government Grant/NNDR/ New Homes Bonus or loss of other income above the budgeted level incorporated within the MTFP • Income Budgets have been established on a prudent basis. • The position on income levels will be monitored as part of the Council's routine budget procedures.	1,500	30%	450
3. Inability to achieve assumed level of efficiencies. • Regular reports will be taken to Cabinet, Council and Audit Committee. • Most of the necessary savings for 2014/15 have been consolidated within the Estimated Outturn position. • The Council has a good record of achieving savings over previous financial years	500	25%	125

Risk and Mitigation in Place	Gross Value of Risk £'s	Probability	Potential Impact £'s
4 Overspend on Capital Programme or underachievement of capital receipts leads to a charge against the Revenue Position • The revenue framework outlined above will also govern the position in respect of the Capital Programme. • The Council has agreed a general principle of not entering into capital commitments unless the resource required to finance those commitments has been secured.	1,000	25%	250
5. A major Business Continuity Issue arises. • The Council has in place Business Continuity Plans and Insurance Arrangements which are intended to address these risks. • Previously in exceptional circumstances Central Government has provided financial support to authorities in these circumstances.	2,000	10%	200
6. Increased cost of Council Tax Benefit as a result of increasing costs not being fully covered by additional government grant, or from the proposed reforms of the service. • Budgets have been established on a prudent basis, however, part of the risk of cost increase is now upon local authorities.	500	25%	125
7. An increase in employee costs associated with a national pay award, requirement to retain key staff or with changes in local terms and conditions. • While the Council has made budget provision for all known changes there remain risks around the fact that key personnel could leave for better remunerated posts elsewhere, or that a challenge is made in respect of existing terms and conditions.	300	40%	120
Notional Potential Financial Impact of Identified Risks			**1,570**

APPENDIX 2

Housing Revenue Account

Introduction

1. This report considers the elements of the Medium Term Financial Plan relating to the Council's Housing Revenue Account (HRA) budgets. As such it covers the Council's revenue expenditure relating to the provision of Council Housing. This financial and service planning framework has a direct impact upon the quality of the housing service provided by the Council to our tenants.

2. The Housing Revenue Account appendix forms part of the Council's Medium Term Financial Plan.

3. The main areas covered by this report are as follows:

Item	
2014/15 Estimated Outturn Budget	
Level of Council House Rents	
Housing Revenue Account Budget 2015/16	
Planning Budgets 2016/17 to 2017/18	
Fees and Charges	
Level of HRA Balances	
Recommendations	
HRA Risk Register	
Housing Revenue Account Budget	Table 1
Housing Revenue Account – Risk Register	Table 2

4. The proposed budgets for both 2014/15 (Estimated Outturn) and 2015/16 (Original Budget) are detailed in Appendix 1 to this report. The Appendix also details the projected position, on the basis of current patterns of income and expenditure, for both 2016/17 and 2017/18.

2014/15 Estimated Outturn Budget

5. In February of 2014 Members agreed a budget in respect of the current financial year 2014/15. That original budget is detailed in Table 1 of this Appendix, where it can be compared against the Current Budget for 2014/15. The position on the HRA has been monitored during the course of the year with Current budgets for the HRA having only minor changes to the Revised Budget figures reported to and approved by Cabinet on 19th November 2014.

6. The key points of change in arriving at the Current Budget position are listed below:

- Rental income is £0.312m (less than 1%) below the original budget which is mainly due to the level of void properties being higher than anticipated. The loss of income arising from void properties is related to the fact that a number of the properties which have become vacant need bringing up to the Decent Homes standard. Whilst undertaking this work minimises the long term cost and disruption to the tenant it does result in properties being empty for a longer period of time than would otherwise be the case.
- In addition there has been a reductions in service charge and non dwelling rent of some £0.079m. These adverse variances are partially offset by a temporary increase in contributions towards expenditure which has arisen as a result of new contractual service payments agreed with Derbyshire County Council for the provision of Supporting People services.
- The majority of HRA expenditure is incurred by way of the Management Fee paid to Rykneld Homes which for 2014/15 amounted to some £9.708m. Rykneld Homes budget monitoring has not identified any issues for the company which cannot be managed within the existing agreed fee. With regard the retained element of the HRA which continues to be managed by the Council Officers are currently anticipating a minor reduction in expenditure of £0.075m, which is offset by increased interest costs of £0.023m.
- The impact of these movements in income and expenditure is a deterioration of £0.207m against the original budgeted position. In order to balance the position Cabinet at its meeting of 19th November agreed that the contribution to the New Build reserve would be reduced by £0.210m. On that basis it is anticipated that the HRA will deliver a surplus in the current financial year of 0.010m which is marginally above the position set out in the Original budget (£0.007m).

7. The overall outcome of the recommended amendments to the Budget as outlined in section 6 above is that the HRA general balance increases by £0.010m resulting in a projected balance at the year end of some £2.427m.

8. Although the HRA has been through a period of significant reform it should be noted that the impact upon the Council's tenants has been minimal. This was always the intended outcome although it needs to be recognised that there is now a significantly greater level of responsibility which needs to be exercised locally. While local authorities have considerably more freedom to operate the HRA on a local basis it needs to be recognised that this greater freedom needs to be exercised within the context of the financial settlement of March 2012 which was intended to ensure that local authorities had sufficient funding to operate the localised HRA provided they continue to manage the service in an effective fashion including raising appropriate levels of income from rents and other charges.

9. While the new arrangements should prove to be affordable and sustainable the revised financial governance framework does place significantly more responsibility upon individual local authorities. In particular it will be necessary to

ensure adequate financial provision to maintain and refurbish the stock to an appropriate standard and to meet the service expectations of our tenants whilst covering the debt charges arising from the 2012 settlement. During the course of the 2014/15 financial year the Council continued to update its HRA Business Plan, to ensure that the HRA remains sustainable. To date the Council has utilised the freedom and flexibilities offered by the new HRA regime to replace existing non traditional stock with new homes where appropriate. Under the reformed HRA arrangements one of the key issues will be the ability of local authorities to ensure that their housing stock remains sustainable and continues to meet a decent homes standard. Poor housing management, not securing value for money, and failure to raise rents in line with that of other social housing providers – as required by the Governments rent policy – will result in the Council not having sufficient funding to maintain the homes of our tenants at an acceptable standard which over the 30 year period of the business plan would result in the stock becoming increasingly unsustainable.

Level of Council House Rents

10. In the period since 2002/03 successive national Governments have operated a rents convergence policy which sought to establish aligned rents across social housing tenures (Housing Association and Council Housing) by 2012. That policy was based upon a maximum increase for individual tenants of Retail Price Inflation RPI) plus 0.5% and £2 a week. As part of the 2013 Spending Round the Government announced that from 2015-16 social rents will rise by Consumer Price Index (CPI) plus 1 per cent each year for 10 years. Effectively this policy announcement has brought to an end the rent convergence policy which has operated since 2002/03. In the case of those authorities – including North East Derbyshire - where target rents have not been reached there will be a significant reduction in the growth of rental income with resultant financial pressures.

11. Any decision regarding rents needs to be taken in the context of the fact that as part of the Localisation of Council North East Derbyshire District Council was required to take on additional debt of some £127m. That sum was calculated on the ability of the Council to afford the repayment costs, with the income stream used in the financial model being based on the continuation of the rent convergence policy. The new arrangements introduced by the Government are clearly less generous than the previous arrangements.

12. The Government's new approach does not include an allowance for rent convergence within the formula for calculating rent increases and also incorporates the CPI measure of inflation which is substantially lower than the traditional RPI measure. Given that the majority of council houses in North East Derbyshire have not reached their target, the impact of the revised rent calculations on the HRA in 2015/16 is an estimated loss of income in that year of some £0.9m rising to a loss of £2.5m for 2019/20. While the Government has

justified the ending of the rent convergence policy on the basis that a majority of Council's have already reached target rents this is not the case in North East Derbyshire where as a Council we started at a lower level of rent than many other authorities.

13. With respect to the change in the basis of setting rental levels this will have a significant impact of the financial sustainability of the local HRA. This in turn could result in poorer services to Council tenants, a reduction in spend on maintenance costs, while potentially new build Council properties would become unaffordable for the Council. To mitigate the impact of these changes upon both current and future tenants the Council will clearly need to go for the annual increase consistent with the Government's rent setting policy. In addition Council has already agreed that when houses fall vacant and are occupied by a new tenant that the new tenant be charged at the target rent level rather than at the current historical level. While rental income will rise more slowly to target rents than the previous convergence policy would have allowed, tenants will be aware of the increased rental level before accepting the property, while the HRA will over time benefit from income which will enable the sustainability of the current HRA as a viable tenancy option.

Housing Revenue Account Budget 2015/16

14. The proposed HRA budget in respect of 2015/16 is presented in Table 1 to this report. The forecast net position for the HRA in the 2015/16 year is that a small surplus of £0.009m will be generated. It is recommended that this surplus be utilised to increase the level of HRA General Reserves which will take them to an estimated level of £2.436m at the end of March 2016. It is also envisaged that any underspend against the Estimated Outturn position achieved at the end of the 2014/15 financial year would be taken to the HRA general reserve.

15. As part of the setting of the HRA budget the Council now also needs to give active consideration to the level of HRA capital expenditure which it is able to fund. Under the previous HRA arrangements the level of capital investment was determined by the Government setting the Major Repairs Allowance, providing additional funding such as grant or borrowing approvals, or by the Council agreeing additional contributions from the HRA revenue account. In recent years this Council has benefitted significantly from an investment of £60m from national government to enable the Council's housing stock to be brought up to Decent Homes standard. Under the new regime the Council is able to determine the level of capital expenditure, but this is restricted by the affordability to the revenue position of making capital contributions and by the Government's HRA debt ceiling which controls the amount of borrowing that may be undertaken. The budget for 2015/16 proposes a contribution from the HRA to the Major Repairs account of £8.909m. This is an increase in allocation over the current year of some £0.54m. Details concerning the capital expenditure plans of the HRA are outlined within the capital programme section of this report.

16. The measures outlined within this report enable the funding of HRA expenditure budgets for 2015/16 which are essentially a roll forward budget. Under the current proposals it is planned that tenants will see a continuation of existing levels of service over the period of the current Medium Term Financial Plan. One of the major changes in respect of the HRA from 2015/16 onwards is that Government grant for the Decent Homes Programme has now ended. Given that this funding provided a significant source of income to Rykneld Homes to support the operation of the HRA there will of necessity be an impact on the HRA. Most noticeable is the fact that the report on the Rykneld Homes Management Fee which will be considered by the March meeting of Cabinet will be recommending a 2% increase in the management fee. Secondly, during the period of the Decent Homes Programme the company was able to reduce its management fee for capital works from the standard fee of 12% to one of 10%. Given the reduction in the scale of the Programme and the loss of economies of scale that fee will now need to be returned to one of 12% from the April of 2015. Over the period of the 30 year Business Plan the recommended budget also helps put the Council in a position where Council Housing remains a sustainable form of tenure offering good quality housing with robust tenant rights at a rental level significantly below that available in the private rented sector.

<u>Planning Budgets 2016/17 to 2017/18</u>

17. In line with established good practice the MTFP sets out the Council's projected financial position over a 3 year period. The forecasts in respect of the latter two years are largely based upon a roll forward of the budgets in respect of next financial year. The one exception to this policy concerns the grants received from DCC for the delivery of our Supporting People Service. There is currently no certainty as to who will deliver this service beyond 2015/16 and consequently whether monies will continue to be paid in full to NEDDC. Grants for Supporting People are currently worth £0.5m pa and as a precaution are reduced by 50% in the Planning budgets for 2016/17 and 2017/18. With respect to debt repayments these will be maintained at the at the £4.3m level which will repay the Government loan over the 30 year period of the original Business Plan. The policy of planning to repay debt at this stage of the Business Plan is crucial, both to reducing borrowing costs in the long term and building up the funding necessary to finance an accelerated programme of renovation work which will be necessary in the later years of the 30 Year Business Plan. If debt is not carefully managed at this stage then the funding will not be available to replace bathrooms, kitchens, roofs, doors and windows as these major investments become necessary. The budget allows for a contribution of £1.770m to the New Build Reserve in 2015/16 with £1.060m in 2016/17.

18. Within the budgets in respect of these latter two years the key assumptions that are made are as follows :

- The Council continues with the agreed rent setting policy as outlined within this report which adheres to the Government's recommendation that rents in the social housing sector rise by inflation (as measured by the Consumer Price Index) plus 1% per annum.

- Fees and charges service specific increases as agreed by Members.

- Interest rates remain low and stable with a rise in Bank Rate – which determines short term borrowing and investment costs – in the region of 1%.

- That salary costs rise by 2% in respect of 2015/16 with a 1.5% increase in both 2016/17 and 2017/18.

- That Employer Pension costs remain unchanged for the period 1 April 2015 to 31 March 2018.

- No allowance has been made in respect of general inflation but allowance has been made for specific items where that is considered to be appropriate.

Fees, Charges and Rents for Homeless Units

19. While the main source of income for the HRA arises from property rents the HRA is also dependent for its financial sustainability upon a range of other charges including Supporting People services, garages and heating. The proposal with respect to HRA charges for 2015/16 is that an increase of 2.2% be applied in respect of Homeless Units and Non Dwellings rents including garages and hard standing.

20. In addition to managing the Council's housing stock Rykneld Homes also provide support in delivering the Council's Homelessness service. Currently there are four furnished HRA properties reserved for this purpose, two with three bedrooms and two with one bedroom. It is proposed to increase the rent for these properties by 2.2% in line with Council rents. The revised rent for the three bedroom properties will increase to £194.18 and the one bedroom properties to £153.30. Subject to Council approval the higher rents will be charged from 01st April 2015.

Level of HRA Balances

21. Given the greater level of uncertainty associated with a localised HRA Council has previously accepted that a minimum level of balances of some £2m is necessary to provide an appropriate level of financial resilience to the account. The financial projections given in Appendix 1 (summarised below) show that the level of HRA balances is projected to continue to remain at some £2.4m over the

period of the current MTFP. At this level of HRA balances there is effectively a reserve of some £300 per property.

Actual / Projected HRA Balances

31/03/13	31/03/14	31/03/15	31/03/16	31/03/17	31/03/17
£m's	£m's	£m's	£m's	£m's	£m's
3.324	2.417	2.427	2.436	2.445	2.455

In addition to the HRA General Reserve it should be noted that there are capital reserves in respect of the Major Repairs Reserve and the New Build Reserve. While these will remain at significant levels over the period of the current MTFP it should be noted that they are essentially contractually committed to support Approved schemes within the Council's HRA capital programme.

22. In the light of the HRA Risk Register which is provided as Table 3 to this Appendix (which indicates a potential level of risk of some £1.6m), a level of working balances in the region of £2.4m would appear to be adequate and provide a sound base for the medium term financial management of the HRA. While the level of HRA balances remains a reasonable one Members should note that on the basis of the figures provided in Appendix 4 that the HRA capital reserves (MRA and Development Fund) are projected to be reduced to a level of some £0.4m at the end of the 2015/16 financial year. These would be placed under pressure should approved schemes overspend or more likely if it is necessary to add new programmes of work to the currently approved programme. Once the capital reserves had been utilised such costs would need to be met from Prudential Borrowing or from the use of HRA revenue reserves. To mitigate against this risk officers work to increase the level of HRA capital reserves at the earliest opportunity.

<u>HRA Risk Register</u>

23. A financial Risk Assessment is set out in Table 3, which outlines the risks, the mitigation which is in place, the potential impact and the probability of the event occurring in order to arrive at a notional calculation concerning the potential financial impact of the risks which the Council is currently facing. This indicates that the identified risks which the Council's HRA is currently managing amount to some £1.6m. This report recommends that during the course of this MTFP that the HRA continues to operate a policy of maintaining a general balance of £2.4m which is some 50% above the level of identified risk.

24. The assessment concerning the level of risk is essentially used for two purposes. In the first place an understanding of the risks which the Council faces is crucial in agreeing an appropriate level of financial reserves which are required. Secondly, the identification of the risks is the first stage in the process of more effectively managing, or of mitigating those risks. By identifying the risks it is possible to avoid them, to insure against them, to transfer the risk, or most

likely actions can be taken to reduce or to mitigate the risk. The Council's Financial Risk Register is closely linked to both the Strategic and Operational Risk Registers. The Council has in place a comprehensive approach to Risk Management which is reported on a regular basis to Executive, and this process will continue to be utilised in order to manage the key financial risks.

25. Given that the reformed or localised HRA is now in place and operational there has been a change in the nature of the strategic risks facing the HRA. While the HRA should benefit from greater financial certainty as a result of the ending of annual financial settlements from central government, this will only lead to greater financial stability overall if the Council is able to maintain and deliver a robust 30 year Business Plan. The HRA Business Plan and Treasury Management Strategy are both crucial elements in mitigating the risk of financial instability or un-sustainability for our local HRA housing stock. Both our tenants and the Council have a greater degree of influence under the new system but this increased level of local influence operates within the context of a framework where rent levels will continue to be set nationally, where the housing stock is required, at a minimum, to meet the Decent Homes standard, and where a continued good level of service needs to be delivered to local tenants.

26. It should also be noted that during the three year period 2012/13 to 2014/15 that the Council was receiving significant levels of funding in respect of Decent Homes Grant from central government amounting to some £20m p.a. This funding helped support the activities of Rykneld Homes and addressing the fact that some of the Council's homes did not meet all aspects of the Decent Homes standard. Whilst The Council and Rykneld Homes have utilised this funding to bring the stock up top Decent Homes standard and thus the need for this funding has effectively been removed it does need to be remembered that the Decent Homes funding provided an element of flexibility in the management of the HRA that will no longer be available.

27. While much has been made of the difficulties experienced by local authority housing operations under the previous system as a result of the fact that financial resources are only made available on an annual basis, it needs to be recognised that the previous system also had some important flexibilities built into it. In particular the annual settlement acknowledged issues such as reductions in the level of stock arising from demolition, transfer and right to buy, while it also took account of changes in the costs of operating a housing service. These risks were effectively those of central government and the national housing pool. With the introduction of HRA reform these risks now need to be managed locally, and they emphasise the importance of robust local planning and financial control in the effective management of our Housing stock.

RECOMMENDATIONS

a) That Council sets its rent increases in line with Government policy increasing rent levels by the increase in Consumer Price Inflation plus 1%

which in respect of 2015/16 gives a rent increase of 2.2% which it is recommended to apply from 1st April 2015.

b) That the rent in respect of Homeless Units and Non Dwelling Rents be increased by 2.2% which it is recommended to apply 1st April 2015.

c) That the Housing Revenue Account as set out in **Appendix 2 Table 1** be approved as the Estimated Outturn Budget in respect of 2014/15 , as the Original Budget in respect of 2015/16, and the financial projection in respect of 2016/17 and 2017/18.

APPENDIX 2 - TABLE 1

Please see back of report for this

APPENDIX 2 Table 2

HOUSING REVENUE ACCOUNT: RISK REGISTER

Risk and Mitigation in Place	Gross Value of Risk £’s	Probability	Potential Impact £’s
1. With effect from April 2012 the Government introduced a new financial regime to manage the HRA. This reform effectively transferred a number of risks from the national HRA pool to individual local authorities. These include reduction in property numbers from RTB, demolition, failure to increase rents in line with Government policy, etc. • While the new system brings with it uncertainty and associated risks the flexibility incorporated within the system means that risks are more likely to materialise in respect of the longer term sustainability of the HRA. The indicative figures provided cover the initial year impact only. • While the Council will monitor the impact of trends in respect of the HRA through its budgets and the Business Plan it needs to be recognised that many of the risks arise from situations beyond the Council’s direct control such as the loss of stock through Right to Buy, or through elements of the housing stock not being economically sustainable.	£2,000,000	25%	£500,000
2. Rental collections fall as a result of the wider economic position and major changes being introduced to the welfare system. • Assumed income levels have been calculated on the basis of previous experience and are based on prudent assumptions with appropriate bad debt provisions in place. • The Council will work with tenants to maximise benefits eligibility and to ensure rent payments are kept up to date. • The Council has appropriate procedures for	£500,000	30%	£150,000

Risk and Mitigation in Place	Gross Value of Risk £'s	Probability	Potential Impact £'s
the recovery of arrears and has established appropriate financial provisions should write offs be required.			
3. The level of void property is above the budgeted allowance. • Void levels have fluctuated quite significantly as major works and plans are undertaken. A void allowance is built into the main rental budgets to minimise this variance.	£500,000	30%	£150,000
4. There are unanticipated pressures on demand led budgets such as repairs and maintenance, or costs or income fall (eg Supporting People funding) outside of the budgeted position. • All budgets are based on previous experience of expenditure / income and should be sufficiently robust to cope with the expected range of fluctuation.	£1,000,000	30%	£300,000
5. A significant Business Continuity issue arises. • The Council have developing Business Continuity Plans which should reduce these risks. • Appropriate insurance arrangements are in place. • In exceptional circumstances Central Government has provided an element of financial support.	£2,000,000	10%	£200,000
6. Capital Expenditure • Any significant overspend on the capital programme may require an additional contribution from the HRA to finance. • Regular contract management and capital budget monitoring meetings will manage the HRA capital programme.	£1,000,000	30%	£300,000
Calculated Potential Financial Impact of Identified Risks			**£1,600,000**

APPENDIX 3

Capital Programme

Introduction

1. This Appendix considers the Medium Term Financial Plan as it relates to the Council's capital programme.

2. The main areas covered by this report are as follows:

   Item

   Capital Programme - Revised Programme 2014/15
   Capital Programme – Original Programme 2015/16
   Risk Assessment
   Recommendations
   Table 1 – Detailed Capital Programme
   Table 2 – Capital Programme Risk Assessment

3. The provisional capital budgets for both 2014/15 (Revised Programme) and 2015/16 (Original Programme) are shown in Table 1 to this Appendix. The table also details the forecast investment planned for both 2016/17 and 2017/18.

4. It should be noted that there will be a separate report to Council concerning the Council's Treasury Management Strategy. That report includes consideration of issues concerning leasing and borrowing which constitute the capital financing to enable the proposed capital budgets outlined within this report to proceed. Given its links with the budget process the Treasury Management Strategy will be considered by the budget setting Council on 23rd February 2015. A particular issue for the HRA is that its capital investment strategy will need to be shaped by the requirement to undertake replacement of items such as bathrooms and kitchens once they are due for replacement at the end of their effective life. This results in investment needs being concentrated into certain periods rather than being spread evenly over the 30 year life of the Business Plan. Accordingly at certain points in time the HRA needs to have adequate financial balances to fund the investment required to maintain decent homes. A clear consequence of poor financial planning will be deterioration in the quality of the homes currently enjoyed by our tenants.

5. An overview of the scale of the current approved and proposed capital programme is provided in the table below:

	2014/15 Current £,000	2014/15 Revised £,000	2015/16 Original £,000	2016/17 Original £,000	2017/18 Original £,000
General Fund Schemes	4,125	5,258	3,023	722	843
HRA Schemes	26,613	28,440	17,818	10,000	7,050
Total	30,738	33,698	20,841	10,722	7,893

The above figures incorporate an amount of some £5.318m in respect of HRA External Wall Insulation which is the subject of a report elsewhere on this agenda.

Capital Programme – Estimated Outturn 2014/15

6. The Estimated Outturn in respect of the current financial year, which is detailed in Appendix 3 Table 1, shows a net increase of some £2.960m over the Current Programme. This increase in expenditure is accounted for by a £2.081m increase in the Decent Homes Programme and by the introduction of the remedial work in respect of Dronfield Leisure Centre amounting to some £0.530m. These increases are partially offset by reductions on other schemes within the Programme.

General Fund Programme 2015/16 and future years

7. Within the General Fund table are the capital expenditure plans for 2015/16 and future years. The following are the key schemes.

- While the majority of the expenditure in respect of the Mill Lane regeneration scheme has been completed Council at its meeting of 5th January 2015 did agree to a Phase 2 remediation scheme in respect of the work on the land at Mill Lane (former CPL site). This will be funded from capital receipts achieved from the sale of the Saltergate site.
- An Asset Refurbishment sum of £150,000p.a. which enables the Council to address issues which arise during the course of the year. The issues concerned have generally been previously identified within the Council's Asset Management Plan.
- Replacement of Vehicles: On a periodic basis the Council is required to replace its vehicles which are funded by prudential borrowing rather than by operating leases. Both Prudential Borrowing and Operating Leases would need to be disclosed as external borrowing on the Council's balance sheet and for a number of reasons including low PWLB rates, greater flexibility over the operational lives of the vehicles borrowing is the more cost effective option. The expenditure and borrowing outlined within the Capital Programme in respect of the vehicle fleet was approved by Council as part of last years MTFP and Treasury Management Strategy and the process of procuring the vehicles concerned has already commenced. In the next financial year it is necessary to

replace the refuse collection fleet so there is a significant provision of some £2.025m in order to fund this.

- ICT infrastructure – The overall cost of this work over the period of the current MTFP (April 2015 onwards) is one of £0.230m which will be funded from capital receipts thus removing these costs from having to be charged against revenue budgets.
- Disabled Facilities Grants – £0.393m. Over the last few years the capital budget sum proposed for DFG's has been in line with the anticipated grant to be received. It is proposed that the continuation of this arrangement should be assumed within the capital programme for the future years of the MTFP. Council should, however, note that the arrangements around the funding of DFG's are changing and this may result in a greater level of need being identified, or a reduction in the level of external funding. The DFG expenditure and associated grant funding arrangements will be monitored carefully with any changes from the approved programme being reported back to Members.

The sections above have outlined the main elements of the Programme and how they should be financed. For those scheme where no specific funding has been identified the work will need to be funded by Capital Receipts. As at April 2015 it is anticipated that there will be sufficient unutilised capital receipts remaining which will cover the funding of General Fund schemes over the period of the current MTFP. In order to ensure the continued funding of the capital programme it is recommended that the Asset Management Group continue to develop options in terms of asset sales with which to fund the capital programme in respect of future years. It should be noted that asset sales of unutilised or underutilised assets generally also secure both revenue savings for the Council whilst encouraging investment from the purchaser of the asset concerned. This makes an important contribution to delivering the Council's growth agenda.

With respect to 2014/15 outturn it is proposed to apply unutilised general fund capital receipts to repay debt as at 31st March 2015. This will reduce the revenue costs faced by the Council in 2015/16. It is proposed to repay a sum of a minimum of £1m which will be used to reduce the £3m of prudential borrowing incurred to fund the Mill Lane Regeneration scheme. The initial receipt from the Mill Lane Scheme – that in respect of Saltergate – would then need to be utilised to fund capital expenditure in 2015/16 replacing the receipts that had previously been applied. If other receipts materialise as planned in 2015/16 then it may be possible in addition to apply the receipt from Saltergate against the £3m, thus securing a further advance payment.

HRA Capital Expenditure 2014/15

8. The larger element of the Council's Capital Programme is that which relates to work on council dwellings. The Council's capital programme for 2014/15 in respect of its Housing Assets amounts to some £12.500m. This is significantly reduced from the current and previous financial years which reflects the fact that the Government's Decent Homes funded programme ends in March 2015. With the ending of the Decent

Homes Grant funding from central government the Council's capital investment is now determined by the arrangements put into place by the HRA self financing arrangements. These require local authorities to fund the capital necessary to maintain their houses in line with the decent homes standard either from the revenue generated by the HRA, or by borrowing up to the level of the housing debt cap which has been set by the Government (£178.153m in the case of NEDDC). One of the purposes of developing a 30 year Business Plan is so that local authorities can ensure that they are in a position to maintain their property, and that the necessary level of capital expenditure on the properties can be afforded.

9. Expenditure at a level of £12.5m can only be funded during 2015/16 on the basis that it has been carried forward into 2015/16 from previous financial years. The underlying expenditure that can be funded through the MRA is in the region of £7m and by 2017/18 it will be necessary to reduce the level of expenditure down to that level. To the extent to which the Stock Condition survey indicates that additional work will be necessary then such work will need to be funded from prudential borrowing. It is also proposed to increase the Programme in respect of 2015/16 by an amount of £5.3m in respect of an External Wall Insulation and related works programme which will address issues arising from the non traditional construction of some 323 Council properties extending their projected life by a period of some 30 years. This will be funded by a contribution from the energy companies to a value of £1m. The Council will fund its share from Development Reserve £2.3m and Major Repairs Reserve £2m.

Capital Programme Risk Assessment – 2015/16

10. A full Risk Assessment is set out in **Table 2**, which outlines the risks, the mitigation which is in place, the potential impact and the probability in order to arrive at a notional calculation concerning the potential financial impact of the risks which the Council is facing with regard to the proposed 2015/16 capital programme. This indicates that the identified risks which the Council is facing in respect of its 2015/16 Capital Programme amount to some £1.25m. Should any of these risks arise then all possible financing options will be explored, however, if all these risks materialise then it may be necessary ultimately to charge these costs against General Fund or HRA balances.

11. As is the case in respect of both the General Fund and the HRA the assessment concerning the level of risk is essentially used for two purposes. In the first place an understanding of the risks which the Council faces is crucial in agreeing an appropriate level of financial reserves which are required. Secondly, the identification of the risks is the first stage in the process of more effectively managing, or of mitigating those risks. By identifying the risks it is possible to avoid them, to insure against them, to transfer the risk, or most likely actions can be taken to reduce or to mitigate the risk. The Council has in place a comprehensive approach to Risk Management which is reported on a quarterly basis to Cabinet, and this process will be utilised in order to manage the key financial risks.

Recommendations:

12. It is recommended:-

(a) That the Capital Programme for 2014/15 to 2017/18 as set out in **Appendix 3 Table 1** be approved.

(b) That the use of any unapplied capital receipts at the year end be used to repay part of the £3m prudential borrowing undertaken to progress the Mill Lane, Wingerworth regeneration scheme.

(c) That the Asset Management Group be requested to identify suitable assets for disposal in order to fund the Council's Capital Programme, reduce revenue costs and support the wider regeneration of the District.

APPENDIX 3, Table 1

CAPITAL PROGRAMME

Please see back of report for this

CAPITAL PROGRAMME RISK REGISTER – 2015/16 APPENDIX 3, TABLE 2

Risk and Mitigation in Place	Gross Value of Risk £'s	Probability	Potential Impact £'s
1. Cost Overruns on Approved Projects • Financial monitoring including formal reports to Members is undertaken on a regular basis which should enable mitigating action to be taken. • The Council have robust management arrangements in place. • The Financial Risk Registers in respect of both General Fund and HRA include the risk of an unfunded overspend arising on the Capital Programme.	£2,000,000	25%	£500,000
2. Reduction in the forecast level of capital resources. • The assumptions that have been made in respect of 2015/16 are realistic and prudent. • Should any issues be identified which casts doubt upon the level of resources included in the Programme then Officers will take any necessary actions to reduce the level of expenditure commitments.	£500,000	20%	£100,000
3. An unanticipated capital requirement arises which requires funding as a matter of urgency. • Existing approved projects may need to be reprofiled into future years • Additional capital resources may need to be identified • A charge against revenue balances may need to be considered.	£500,000	20%	£100,000
Calculated Potential Financial Impact of Identified Risks			**£700,000**