Agenda Item No 9(b)

North East Derbyshire District Council

Council

15 February 2016

Medium Term Financial Plan 2016/17 to 2018/19

Report No PRK/26/15-16/BM of Councillor P R Kerry, Portfolio Holder with Responsibility for Economy, Finance and Regeneration

This report is public

PLEASE NOTE:

Attached is the report that will be considered by Cabinet on 10 February 2016. A copy of the recommendations from Cabinet in respect of this item will be sent to you prior to this Council meeting.

Agenda Item No 9

North East Derbyshire District Council

Cabinet

10 February 2016

Medium Term Financial Plan 2016/17 to 2018/19

Report No PRK/23/15-16/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 2016/17 as part of a consideration of the Council's Medium Term Financial Plan covering the years 2016/17 to 2018/19.
- 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

1.1 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 15th February 2016 in order to secure agreement to the Council's budget in respect of the 2016/17 financial year. It should be noted that the report has previously been considered by the Audit and Corporate Governance Scrutiny Committee at its meeting on 4th February 2016.

1.2 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.

1.3 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 incorporating both service plans together with the range of related Council strategies and policies. This framework helps ensure that the available resources are targeted at securing agreed Council priorities.

1.4 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>2015/16 Estimated Outturn Position</u>
  This is the current year budget revised to reflect changes which have taken place or which are anticipated during the remainder of this financial year. It therefore provides a more accurate indication of the outturn position than the original budget.

- <u>2016/17 Original Budget</u>
  This is the proposed budget for the next financial year commencing 1st April 2016 which Council will need to consider for approval at its meeting on 15th February 2016.

- <u>2017/18 and 2018/19 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

1.5 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.

1.6 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 (2014/15) and to date in the current financial year as at the end of September 2015. The views of cost centre managers concerning the level of expenditure which will be incurred during the remainder of the 2015/16 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 2015. This process has enabled a robust Estimated Outturn to be prepared in respect of the current financial year (2015/16), which has formed the basis for the 2016/17 Budget and the financial forecasts in respect of 2017/18 and 2018/19.

- 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 with the agreement of cost centre managers 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 reduced capacity 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

2.1 This report presents a budget for consideration by Cabinet and Council. 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 27th January 2016.
- 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 include meetings with local groups and associations together with a performance management framework which actively considers customer comments and complaints helping ensure the Council remains responsive to local residents. These meetings help to inform the Council's understanding of the expectations of our local communities. In addition the budget process has sought to ensure that the knowledge of Members in their role as Community Champions informs the service development process.
- It should 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 – as set out in the Organisational Review Policy - concerning the specific proposal under consideration. The outcome of these consultation processes are reported back to Cabinet or Council for consideration as part of the decision making process.
- In terms of internal consultation on the budget a draft version of this report was considered by the Audit and Corporate Governance Scrutiny Committee on the 4th February 2016. 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

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

General Fund

- Estimated Outturn 2015/16:
  The Council set its original budget for 2015/16 on the basis that it was necessary to secure £0.500m of savings. On the basis of current estimates the Council will both achieve these savings and secure a surplus of £0.414m. This represents a net improvement of £0.914m which has been achieved by a combination of reduced expenditure across all services, Business Rate Growth and reduced interest charges. The Revised Budget agreed by Cabinet in November allocated of £0.214m of this projected surplus to Invest to Save Reserve, with £0.2m allocated to General Fund balances. An outturn in line with these projections will be a significant achievement, securing both underlying reductions in the level of expenditure, together with improved balances. This strong financial performance puts the Council in a better position to achieve the financial savings which will be required over the next three financial years.

- **Original Budget 2016/17:**
  The budget in respect of 2016/17 currently shows a shortfall of £0.395m. 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 £1.945m which are anticipated to be required by 2018/19. Given the Council’s performance over previous five financial years achieving a savings target of £0.395m while challenging should be achievable. The relatively limited scale of the shortfall next year 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 essential to secure the necessary level of financial savings whilst minimising the impact on services to local residents. As part of the strategy for addressing the Council’s financial position over the period of the current parliament it is recommended that the Council agrees to an increase in Council Tax of 1.95%, which will provide a contribution of £102k towards balancing next year’s budget.

- **Budgets 2017/18 and 2018/19**
  With the Autumn Statement and subsequent information concerning the local government settlement provided during December 2015 the Council has updated figures both in terms of anticipated expenditure and Government Funding over the period of the MTFP. It does, however, need to be recognised that under the localism agenda the Council’s budget is more dependent upon Non Domestic Rates and other income which fluctuate depending upon wider economic circumstances.

Furthermore, there are significant changes proposed in respect of both New Homes Bonus and Non Domestic Rates which together currently account for 40% of the Council's funding. On the basis of the information to date we are anticipating an additional shortfall of £1.156m in 2017/18 followed by a further shortfall of £0.394m in 2018/19. 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. 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 securing efficiencies thereby minimising the impact upon local residents.

Housing Revenue Account (HRA)

The key issue for the HRA over the period of this Medium Term Financial Plan is the Government's announcement made as part of the Budget Statement in July 2015 that rent levels would be reduced by 1% p.a. for a period of four years starting in April 2016. Given that the HRA Business Plan together with the transfer of £127m of debt to North East Derbyshire District Council were based on rent increases in line with inflation as Council house rents moved towards target rent the estimated loss of rent income for North East Derbyshire District Council is one of £0.6m in 2016/17, rising to one of £2.5m in 2019/2020 on the basis of current low inflation rates. Over the four year period the Council sees a cumulative loss of rental income of £6m, and given that rental levels in April 2020 will be £2.5m below planned levels this loss of rental income will cost in the order of £75m over the period of the 30 Year Business Plan.

The key objective for the Government is to secure savings on the welfare budgets and given that nationally 60% of Council Tenants receive housing benefit those savings amount to £2.4bn of the Government £12bn target for welfare savings.

While the reduced rent levels may well be welcomed by tenants and may be viewed as preferable to alternatives for saving against the welfare budget, they undermine the ability of the Council's Housing Revenue Account to provide homes which meet the Decent Homes Standard and services which meet the expectations of our tenants. In order to continue to provide expected levels of services and to fund the capital work necessary to maintain our stock at the Decent Homes standard Officers will need to operate within a range of more challenging budgets and secure significant efficiency savings. In addition it will be necessary to manage the HRA Capital Programme carefully to operate within the context of a rental stream which has the capacity to support up to £10m of capital upgrades per annum. While the stock condition survey indicates that the Council can continue to maintain its stock at a good standard on the basis of this level of contribution it will be necessary to phase the timing of work in line with the level of resources available. In addition there will be a reduction in our capacity to build new homes for local people. Given that a large proportion of the Council' stock is non traditional properties this reduction in the capacity to build new homes has a more significant impact upon

North East Derbyshire than many other Council's, and will reduce the financial capacity to undertake large scale regeneration projects.

Officers will continue to monitor the position in respect of the HRA by maintaining an up to date 30 year Business Plan. While officers are of the view that the changes to rent setting arrangements can be managed without impacting on its long term sustainability, other factors such as increasing numbers of Right to Buy given the more generous discount rates, the potential forced sale of vacant high value properties and the risk that the rent reductions will go on beyond 2020 do threaten to make ensuring the financial viability of the HRA more challenging.

- **Estimated Outturn 2015/16**
  The Estimated Outturn figures shown within this report are in line with those previous reported to Cabinet on 25th November 2015. With respect to the variation from the Original budget there has been an increase in rental income of £0.292m largely arising from a reduction in the level of void properties. This is partially offset by a reduction in contributions to expenditure of £0.123m as a result of new contractual service payments agreed with Derbyshire County Council for Supporting People services. This is an ongoing reduction reflected in future years budgets. With respect to expenditure whilst the management fee is unchanged a provision of £0.5m has been made by the Council to fund restructuring costs which will be incurred as a result of a restructure of the Independent Living Team. This restructure reflects the changes to the contractual arrangements with DCC in respect of Supporting People, with the provision to be paid to Rykneld Homes as the costs are incurred. An expenditure reduction of £0.1m has been achieved from the HRA services retained by the Council. In overall terms the HRA is currently forecast to deliver a surplus in the current financial year of £0.019m. Given that a provision of £0.5m has been established in year to cover restructuring costs this is a good financial performance.

- **Original Budget 2016/17**
  The key issues for 2016/17 as set out above are that an average rent reduction of 1% is required to comply with Government rent regulations for social housing. That has the impact of reducing the average rent for a council house from £85.62 per week (on a 48 week basis) to one of £84.76 per week. While the Council is conscious that even these reduced rent levels are a significant burden on many of our tenants rental income is the only source of funding to deliver a housing service which meets tenants expectations. 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.

  The HRA is also detrimentally affected by changes in the Supporting People Programme operated by Derbyshire County Council. It is estimated that there will be a further reduction of support in the region of £0.097m in 2016/17, which given that this funding supported services in the Sheltered Housing schemes will constitute a charge against the HRA.

- **Forecasts 2017/18 and 2018/19**
  The forecast position for the latter two years of the proposed MTFP effectively projects or rolls forward the figures in respect of 2016/17. These figures demonstrate that despite the recent changes to the HRA it remains financially sustainable. This position is supported by the HRA Business Plan which covers a 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. At this stage the major impact is upon the ability to invest in new homes.

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. The Government funded Decent Homes Programme ended in 2014/15 and the requirement is now largely to undertake expenditure which maintains homes at that Decent Homes standard. The financial provision to fund the ongoing programme of housing refurbishment work is planned to continue at a level of £9m to £10m p.a, over the period the current MTFP. The major programmes in respect of the Tarran schemes and External Wall Insulation are planned to be completed by the end of the current financial year. The report includes a recommendation that a scheme to build new homes at North Wingfield is included in the Programme for future years. Given the more limited funding available streams now available it may become more difficult to progress such schemes in the future.

- 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 £1.014m (over 3 years) to replace street scene vehicles. Given that the vehicles concerned are now at the end of their operational life this expenditure is required to maintain statutory services to the public. 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. During 2015/16 the work in respect of the Mill Lane buildings, together with the final phase of land remediation at the adjacent site have been concluded. The Council is currently in the process of working with other agencies in order to progress the development of the land at Mill Lane and secure a capital receipt from the sale of the Council's land holdings.

Risk Issues

- A Financial Risk Register has been developed in respect of each of the main accounts and is provided at **Appendix 1 Table 4**, **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 2016. This report together with the associated budget timetable has been prepared in order to comply with our legal obligations. The recommended budget in respect of the Council's three main accounts complies with the Council's legal obligation to agree a balanced budget.

- 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 15th February 2016.

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 2015/16 to 2018/19 are robust and that the level of financial reserves whilst at minimum levels are adequate, be accepted.

b) That officers report back to Cabinet and to the Audit and Corporate Governance Scrutiny Committee on 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 secure a balanced budget for the 2016/17 financial year, together with progress on actions to ensure the longer term financial sustainability of the Council.

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

GENERAL FUND

a) A Council Tax increase of 1.95% as part of a range of measures necessary to offset the continued reduction in the level of central government funding.

b) That in the light of the Government's financial settlement the grant subsidy given to Town and Parish Council's in respect of the Local Council Tax scheme be phased out by March 2020.

c) The Medium Term Financial Plan in respect of the General Fund as set out in **Appendix 1 Table 1** of this report be approved as the Estimated Outturn Budget in respect of 2015/16 , as the Original Budget in respect of 2016/17, and the financial projection in respect of 2017/18 and 2018/19.

d) Officers continue to progress the implementation of measures designed to secure the forecast surplus in respect of 2015/16 and the agreed savings targets in respect of 2016/17 with progress to be reported back to Cabinet and Audit and Corporate Governance Scrutiny Committee on a quarterly basis.

e) That any underspend in 2015/16 – above that necessary to increase General Fund balances to £2m - is transferred to the Invest to Save / Planning Reserve, with capital receipts being used at the year end to minimise the use of Invest to Save balances to fund capital expenditure.

f) That delegated powers be granted to the Assistant Director Planning and Environmental Health in consultation with the Leader of the Council to agree the Council's response to the Government Consultation Paper "New Homes Bonus – Sharpening the Incentives".

g) That delegated powers be granted to the Chief Financial Officer in consultation with the portfolio Member to agree whether or not the Council should accept the offer of a four year financial settlement from central government.

HOUSING REVENUE ACCOUNT

a) That Council sets its rent levels in line with Government regulations reducing rent levels by an amount of 1% to apply from 1st April 2016.

b) That the rent in respect of Homeless Units be reduced by 1% in line with government regulations, while charges for garages and related services are increased by 5% from 1st April 2016.

c) The Medium Term Financial Plan in respect of the Housing Revenue Account as set out in **Appendix 2 Table 1** be approved as the Estimated Outturn Budget in respect of 2015/16, as the Original Budget in respect of 2016/17, and the financial projection in respect of 2017/18 and 2018/19.

CAPITAL PROGRAMME

a) The Medium Term Financial Plan in respect of the Capital Programme as set out in **Appendix 3 Table 1** be approved as the Estimated Outturn in respect of 2015/16, and as the Original Programme in respect of 2016/17 to 2018/19.

b) That Council approve the financial provision for the proposed regeneration scheme at North Wingfield including the associated prudential borrowing of £3.173m, on the basis that a further report setting out the final details of the proposals be agreed by Cabinet.

c) The Asset Management Group be requested to continue with its work of identifying suitable assets for disposal or redevelopment in order to fund the Council's Capital

Programme, reduce revenue costs and support the wider regeneration of the District.

d) That Council reaffirms its previous decision to utilise the £1.1m of capital receipts arising from the sale of the Saltergate to repay a corresponding amount of the £3m of Prudential Borrowing incurred to fund the asset rationalisation scheme, with a further £0.4m of capital receipts used to fund work on Mill Lane reclamation rather than utilising Invest to Save funding.

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	General Fund Revenue Account
1 Table 1	Estimated Outturn Budget 2015/16
1 Table 2	General Fund Detail
1 Table 3	Town and Parish Council Precept
1 Table 4	Risk Register
2	Housing Revenue Account
2 Table 1	Estimated Outturn Budget 2015/16
2 Table 2	Risk Register
3	Capital Programme
3 Table 1	Estimated Outturn Budget 2015/16
3 Table 2	Risk Register

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)

Accountancy Budget Working Papers

Report Author	Contact Number
Executive Director – Operations	(01246) 217154

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 provisional budgets for both 2015/16 (Current Budget) and 2016/17 (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 2017/18 and 2018/19, with Table 2 providing details at cost centre level.

2015/16 Estimated Outturn

3. In February 2015 Members agreed a budget in respect of the current financial year 2015/16. 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. As the budget has been under a process of ongoing revision the Revised Budget (the latest version considered by Cabinet at its meeting on 25th November 2015) has evolved from the Original Budget approved in February 2015. For the purposes of this report, the comparison in Table 1 shows the movement between the Original Budget the Current Budget and the Estimated Outturn position. Given the extent of the work which has been undertaken during the year there is relatively little change between the Current Budget and Estimated Outturn position. As part of the budget process it is recommended that Members formally approve the Estimated Outturn 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 are now reflected in service expenditure, while increased funding from reserves and S106 funding etc has been recognised in the budget. These amendments arise from changes in the approved budget at cost centre level and have been subject to appropriate Member approval.

4. The key feature that has driven the Council's financial position during 2015/16 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 2016/17 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 2016/17 and future years would have been significantly greater.

5. 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 2015/16 budget, whilst partially replenishing the Invest to Save reserve which has been used during 2015/16 to progress agreed Council projects. 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 and to be able to fund the Council's 'one off' priorities. As part of the requirement to ensure that the Council has an adequate level of Invest to Save funding available to support the Transformation Programme it is recommended that capital receipts be utilised in order to fund expenditure within the Approved Capital Programme which was originally agreed on the principle that it would be funded from Invest to Save reserves.

Original Budget 2016/17

6. 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 2016. The provisional budget which is recommended for consideration by Members is detailed in Table 1 and Table 2 of this Appendix.

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

- Financial support from Government including Revenue Support Grant, Specific Grants, New Homes Bonus and National Non Domestic rates.
- Expenditure, income levels and efficiencies
- Options for the level of Council Tax in respect of 2016/17
- The need to maintain an appropriate level of financial reserves to protect service delivery, organisational sustainability, manage risk and maintain financial resilience.
- 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 considered in greater detail in the sections below:

Level of Government Grant

8. The current financial year 2015/16 is the final year of funding covered by the Comprehensive Spending Review of October 2010. Following on from the General Election of May 2015 the Government detailed its expenditure plans for the period of the current parliament in the Autumn Statement of November 2015, with details at authority level becoming available during December 2015. Members should 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 – especially beyond 2016/17 - concerning Government funding than was previously the case. The key issues affecting North East Derbyshire District Council are as follows.

Revenue Support Grant

9. With respect to Revenue Support Grant the settlement has confirmed the previous policy that it will be phased out. The announcement detailed the amounts to be paid to North East Derbyshire District Council as follows, £1.295m in 2016/17, £0.706m in 2017/18 and £0.341m in 2018/19. The Settlement confirmed that there will be no payment of RSG beyond 2018/19.

New Homes Bonus

10. Next year's budget has benefitted from a significant increase in the level of New Homes Bonus, with the grant providing an additional £0.524m of funding in 2016/17. That increase was the biggest proportionate growth of new homes bonus across England and reflected a number of factors which came together to provide a highly advantageous settlement for next year. Without that growth in New Homes Bonus – which is at least £0.3m above trend – the Council's financial position next year would have required difficult decision to have been made. Over the period of the current MTFP and into future years the Council's financial sustainability will be dependent upon maintaining an annual level of New Homes Bonus in excess of £1m in order to ensure that we remain in a position to continue to provide statutory services. Given that there are limited opportunities for growing NNDR New Homes Bonus assumes an additional importance for North East Derbyshire.

It is against this background that the Council needs to consider its response to the Consultation Paper in respect of New Homes Bonus (see section11 below).

11. The consultation in respect of the future operation of New Homes Bonus was announced as part of the Autumn Statement. Government has indicated that it wishes to consider a reduction from 6 to 4 years for the payment, together with a review of the incentives that the grant provides for allowing new homes. While the scheme remains unchanged in respect of next financial year (2016/17) it is relatively clear that with effect from 2017/18 a revised scheme will be introduced. Given that the national expenditure totals for funding the grant are consistent with a reduction to a four year payment our assumptions regarding New Homes Budget has been amended accordingly in respect of 2017/18 and 2018/19.This change results in a reduction of resources of £0.2m. This reduction to a four year payment with effect from 2017/18 allows our forward financial planning to reflect the likely impact of the consultation process, however, it needs to be recognised that there are a number of options set out in the Consultation process each option potentially having a different financial impact on North East Derbyshire District Council.

12. Alongside reducing the period of years for which New Homes Bonus is payable the Government is also seeking to sharpen incentives to help ensure that the grant rewards those authorities who are performing well in promoting housing growth. The Consultation process seeks views on the following options, with the proposed start date being 2017/18 with the financial savings being recirculated within the local government finance settlement to support those authorities with pressures on the adult social care budget:

    - Withholding the Bonus from areas where an authority does not have a Local Plan in place. Under the Government’s preferred option previous year allocations (prior to 2017/18) would not be lost, but future allocations would. The Consultation paper is not clear as to what criteria would be used to determine whether a Local Plan is in place. Given the desirability of having a Local Plan in place at the earliest opportunity together with the associated financial advantages Officers will continue to progress work on the Local Plan at the earliest opportunity.
    - Abating the Bonus in circumstances where planning permission has only been granted on appeal. Under this option the Government would reduce new in year allocations payments to authorities where residential development is allowed on appeal.
    - Only making payments for delivery above a baseline reflecting an estimate of deadweight (homes that would be built anyway).

- While the Government's preferred option is to reduce payments to a period of four years as part of the consultation process it is considering whether to reduce payments to 3 or 2 years.

The closing date for responses to "New Homes Bonus : sharpening the Incentive : technical consultation" is 10th March 2016. Given the potential impact on the Council and the opportunity to influence the options it is recommended that delegated powers by granted to the Assistant Director Planning and Environmental Health in consultation with the Leader of the Council to agree a response on behalf of the Council.

National Non Domestic Rates (NNDR)

13. The Government also announced that a review of NNDR will take place with the intention that by the end of this Parliament all NNDR will be retained locally. Currently North East Derbyshire District Council collects £16m of NNDR, of which £8m is paid to central government. Any reform will, however, be aimed at securing 'fiscal neutrality' ie it will not benefit either central or local government financially, therefore to the extent to which a Council makes a 'profit' from the switch to a fully localised NNDR it will be required to accept additional financial responsibilities. This proposal amounts to a significant reform of local government finance and may have a disproportionate impact upon individual authorities even if in overall terms it is fiscally neutral. It does, therefore, introduce a further element of uncertainty into our forward financial planning.

14. While a further review of NNDR is now underway this comes against the background of a system which has already changed significantly over the last few years. In particular the Government now provides local authorities an incentive to grow NNDR locally given that they currently retain 50% 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 promote local employment. For North East Derbyshire there are currently very few developments identified which will enhance the Non Domestic Rate Base over the next two to three years. It is likely that this limited growth will be offset by decline in other sectors of the local economy, or by the impact of revaluation. There is a full revaluation of all properties scheduled for 2017 which brings further uncertainty to the position. More generally whilst local authorities can facilitate and promote growth it does need to be recognised that there are other factors of greater significance in promoting economic growth (the

national economic position, geographical location, land availability). 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. The localisation of business rates is, however, clearly intended to provide local authorities with an incentive to promote local economic development. With respect to the next three financial years the budget has assumed the Council will not secure any additional benefit from NNDR growth. Given that the Council has not identified any significant areas of business growth this is the only realistic assumption to make, especially in the light of the fact that NNDR income may be eroded by revaluation appeals and existing business closing or relocating.

15. Cabinet will be aware that in respect of 2015/16 that a 'pool' of all authorities across Derbyshire was established for Non Domestic Rate Income. Membership of a Derbyshire Wide pool was agreed by Council at a meeting 27th October 2014 in recognition of the fact that authorities which are members of a pool generally benefit from retaining a higher level of locally generated NNDR income. Within the budget we have assumed that this Council will continue to benefit from membership of the Derbyshire Wide Pool, with an assumed level of income of £150k for 2016/17. Given the uncertainty concerning the availability of such income in respect of 2017/18 or future years no assumptions have been made regarding additional income beyond next year.

Four Year Settlement

16. As part of the Autumn Statement the Government has committed itself to providing Council's with an option of accepting a four year financial Settlement in order to remove of the uncertainties over longer term financial planning. Details of that settlement have not yet provided, other than that those Council's which accept will need to submit an Efficiency Plan to central government. While details of the four year settlement are anticipated shortly there is no timescale provided for a response. Officers are anticipating that it will be possible to report any proposed settlement to Committee, but to ensure that the Council is in a position to respond within the required timescales it is recommended that authority is delegated to the Executive Director Operations to accept – or reject – a four year settlement in consultation with the portfolio member.

Council Tax

17. Over the period of the previous parliament the Coalition government made it clear that it was opposed to any increase in Council Tax and provided grant support to those Council's following the policy of not increasing Council Tax. That policy was linked with the objective of keeping inflation low. In the Autumn Statement of 2015 there was a distinct change of emphasis in that

in addition to the existing flexibility which allows authorities to raise Council Tax by up to 2%, those authorities which provide Adult Social Care will be able to increase Council Tax by an additional 2% ie up to 4% overall. While North East Derbyshire – like other District Councils – will be 'capped' at 2%, the additional revenue raising powers to fund Adult Social Care indicates that the Government is now of the view that modest increases in Council Tax may be necessary to protect basic service levels, within the context of the policy objective of reducing the national deficit.

18. In addition to giving consideration to Council Tax as a means of raising revenue to avoid reductions to basic services, it is also appropriate that Members give consideration to the operation of the Local Council tax scheme. The scheme in respect of next financial year (2016/17) was agreed by Council at its meeting of 4th January 2016, however, given the financial shortfalls which the Council is facing over the period 2017/18 and 2018/19 it is appropriate that further consideration is given to the affordability of the current scheme. Council will recall that when the previous Government introduced the Local Council Tax scheme in April 2013 it provided within Revenue Support Grant an amount of £400,000 in order to protect Town and Parish Councils from the financial impact of the new regime whereby 10% of the costs were passed from Central Government to local authorities. The general approach adopted by District Councils has been to reduce the grant by 25% a year over a period of 4 years, whereas North East Derbyshire District Council adopted a more gradual approach of reducing grant support by 10% a year. Under North East Derbyshire's current approach the scheme of subsidies would end in March 2023, whereas most District Councils will end these subsidies in 2016/17.

19. In the light of the latest financial settlement it is questionable whether the current approach remains an affordable one for North East Derbyshire District Council to maintain. The grant is currently costing the Council £280k per annum, and it is recommended that consideration is given reducing this grant by 33% a year from the year after next (2017/18), which would give this Council a financial benefit of £30k in 2017/18 and £60k in 2018/19. This would make a significant contribution towards easing the financial pressures on this Council, and given that RSG will have ended by 2019/20 it seems appropriate that consideration should be given to removing a subsidy which is no longer funded by National Government. The overall saving to this Council would be as follows:

	2017/18	2018/19	2019/20
	£000's	£000's	£000's
Saving based on March 2023 end date (current policy)	(40)	(80)	(120)
Saving based on March 2020 end date (option)	(80)	(160)	(240)
Additional Saving Secured	(40)	(80)	(120)

The impact of this proposal on individual Town and Parish Councils is set out in the table in Appendix 1 Table 4. This decision is brought to Council for consideration at this stage in order to be able to notify Parish Council's of the proposed change at the earliest opportunity, giving them an appropriate timescale to agree their 2017/18 budgets. While Members will be aware that this passes the burden from the District onto the Parish Councils it should be noted that for the Parish Councils the increased loss in grant amounts to approximately 2% of the precept, which is a significantly lower expenditure reduction than those faced by the District Council. Where new houses have been built within particular parishes then the growth in the Tax Base is likely to reduce the requirement for any increase in precept in order to maintain existing service and expenditure patterns. The phasing out of the current grant arrangements on a shorter timescale would also have the significant advantage of reducing the complexity of the current arrangements.

Expenditure, income levels and efficiencies

20. In developing the financial projections covering the period 2016/17 to 2018/19 which are included within Appendix 1 to this report, officers have made a number of assumptions. The main assumptions which have been made are as follows:

- Pay increases of 1% in respect of all financial years across the period of the Plan.
- No changes to employer superannuation contributions or to the lump sum deficit recovery.
- No allowance has been made in respect of the Apprentice Levy of 1% of payroll costs which is currently open for consultation. On the basis that the Government's current proposals are accepted then this will cost an additional £125k p.a. Officers anticipate that it should be possible to offset at least part of these costs through the employment of apprentices, however, the potential cost pressure does need to be recognised.

- No allowance has been made in respect of general inflation although specific budget heads such as energy costs and business rates have been amended to reflect anticipated price changes.
- New Homes Bonus to be payable for 4 years (reduced from the current 6 years) with effect from 2017/18, with no further losses arising from the Government initiatives to introduce incentives around Planning matters
- Given the increasing scrutiny that is in place concerning local authority performance in respect of planning, together with the high current levels of planning applications it is recommended that an amount of £0.1m from any underspend in the current financial year is allocated to help manage workload and meet Government performance targets within the Planning Service.
- Fees and Charges – service specific increases as agreed by Members.

21. The Government's approach is that local government should seek to secure local sources of funding rather than continuing to be heavily dependent upon central government funding. In part the Government see this objective as 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 three 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 where the level of subsidy has been reduced across all three leisure centres as a result of initiatives which has successfully raised the level of income secured. With respect to property occupation levels at all of the commercial estate have improved to the point where they are largely fully occupied other than for an allowance in respect of turnover of tenancies. The Council has now completed the sale of the Saltergate site and continues to benefit from rental income during 2016/17 at Mill Lane. While Officers will seek to continue to secure further incremental improvements the majority of gains that are readily achievable have already been secured and are incorporated within the budget proposed in this report.

22. While efforts to identify and secure additional income will continue it may now be a case of consolidating income to date, with the key opportunity for the Council to balance its budget arising in respect of managing expenditure levels and securing efficiencies.

23. In respect to the savings of £0.395m which need to be achieved in 2016/17 a number of potential options have been identified which subject to the agreement of Members will be progressed by Officers:

- Vacancy Management £50,000.
  All vacancies – including maternity leave, requests for additional annual leave, etc - will continue to be subject to review by the Strategic Alliance Management Team 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. It is crucial that the Council does not allow posts to be filled in 2016/17 which are unlikely to be a high priority in future financial years. While the target of £0.050m 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 delivery. Given the pressure on services it is considered likely that these savings will need to be secure from 'vacancy lag' with any actual reduction in employee numbers being managed through the transformation agenda.

- Transformation, Secondments and Joint Working £150,000
  The Council has a well established Transformation Agenda and it is recommended that Cabinet approve a savings target of £150,000 in respect of 2016/17. Further secondments and joint working arrangements with Bolsover District Council through the Strategic Alliance will continue to be targeted to secure savings. In order to fund the Transformation Agenda over the period of the current MTFP Officers will seek to maximise the level of Invest to Save reserves at the year end.

- Property Rationalisation Savings - Nil
  While the Council has made significant financial savings during previous financial years from more efficient use of property assets the main savings from this area of work have been secured. The Council has now completed the sale of the Saltergate site securing the savings from operating one administrative building. Likewise we have secured the majority of the gains that are achievable from maximising the level of property rental. While significant savings are not considered to be likely during 2016/17 given the extent of the financial pressures facing the Council the Asset Management Group has been requested to identify options for disposing of assets that could help support the Council's financial position. With respect to the purchase of the Mill Lane site there will remain an amount of prudential borrowing of £1m outstanding at the start of 2016/17. Given that the sale of the land at Mill Lane is unlikely within the next three years the Capital Asset Group will be seeking to identify other potential options for securing capital receipts to repay that prudential borrowing.

- Repayment of Prudential Borrowing Debt £100,000.
  Having successfully disposed of the Saltergate site in January 2016 the resultant capital receipt of £1.1m will be utilised in order to repay the

associated prudential borrowing. This will secure a revenue savings with effect from next financial year.

- National Non Domestic Rate Growth – Nil.
  Work in respect of the future levels of income to be secured from NNDR have suggested that any limited growth which is secured will be more than offset by revaluations or by businesses ceasing to operate. Whilst the Council is working to promote industrial sites at Callywhite Lane and the Avenue these projects are unlikely to deliver any business growth in the next few years.

24. The table below summarises the savings options that are proposed in order to address the 2016/17 position together with their impact on 2017/18 and 2018/19:

Summary of Proposed Savings

	2016/17 £000's	2017/18 £000's	2018/19 £000's
Efficiency Target / Budget Shortfall	**395**	**1,551**	**1,945**
Savings Proposals			
NNDR Growth Target	0	0	0
Vacancy Management	(50)	(50)	(50)
Transformation, Secondments &Joint Working	(150)	(300)	(450)
Property Rationalisation Savings	0	0	0
Repayment of Debt – Saltergate	(100)	(100)	(100)
Repayment of Debt from £1m asset sale			(100)
Accelerate Reduction in Local Council Tax Support Scheme to Town and Parish Council's	0	(40)	(80)
1.95% Council Tax Increase (2016/17)	(102)	(102)	(102)
1.95% Council Tax Increase (2017/18)		(104)	(104)
1.95% Council Tax Increase (2018/19)			(106)
Total Savings Proposals	**(402)**	**(696)**	**(1092)**
Unidentified Savings Target	7	(855)	(853)
Call on General Fund Balances	**0**	**0**	**0**

25. While the position in respect of next financial year is a reasonable one, it is equally clear that we see a deterioration over the following two financial years even on the basis that identified savings opportunities can be secured. In broad terms even allowing for good progress on the identified opportunities there remains an underlying shortfall in the Council's level of resources in the order of £0.8m from 2017/18 onwards. It is important that good progress is

made in addressing that shortfall at the earliest opportunity. Against this background Officers are of the view that Council needs to consider very carefully the option of increasing the level of Council Tax over the period of the current Medium Term Financial Plan. On the basis of the details given above the impact of reducing levels of government support is that by 2018/19 it is likely that the Council will be facing decisions agreeing significant reductions in service standards or ceasing to provide non – statutory services. 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.

Options for Council Tax Levels

26. Members will recall that other than in 2013/14 the Council has decided against increasing Council tax allowing it to take advantage of successive Government schemes which provided grant to partially compensate for the income lost as a result of a decision to freeze council tax. There will not be a similar scheme in respect of 2016/17.

27. Any decision concerning Council Tax Levels needs to be taken against the background of the Council's financial position over the period of the Medium Term Financial Plan which can be summarised as follows:

	2016/17 £000's	**2017/18 £000's**	**2018/19 £000's**
Efficiency Target / Budget Shortfall	**(395)**	**(1,551)**	**(1,945)**

In summary officers are currently forecasting that over the period April 2016 to March 2019 expenditure reductions (or increased income) of £1.9m will be necessary. It should be noted that it is highly likely that a ceiling of 2% a year will be placed on Council Tax increases over the period of this parliament. Therefore if the Council is of the view that it may have difficulties in securing a balanced budget over this period then it needs to give careful consideration to increasing levels of Council Tax for 2016/17. In respect of the Council's financial position the Table of Proposed Savings given at section 24(above) sets out the currently identified areas that could be targeted for securing savings. The indicative figures suggest that on the basis of existing information there is a cumulative shortfall over the period of the current MTFP in the order of £1.9m which is only partially addressed by the savings opportunities identified. Given that Council Tax increases of

1.95% over that period would secure additional income of £0.312m, they provide a significant financial benefit.

28 While there are clear financial advantages for opting to increase the level of Council Tax in 2016/17 in order to strengthen the Council's underlying financial position and to reduce the reliance on reductions to expenditure and services as a means of balancing the budget, this needs to be balanced against the detrimental impact which the current economic situation and increasing costs are having on local residents. The impact of a decision to increase Council Tax levels by a figure of 1.95% at the various Council Tax Bands is as follows:

Band	A (£'s)	B (£'s)	C (£'s)	D (£'s)	E (£'s)	F (£'s)	G (£'s)	H (£'s)
2015/16 Charge	116.24	135.62	154.99	174.37	213.12	251.87	290.61	348.74
1.95% Increase	118.51	138.27	158.01	177.77	215.27	256.78	296.28	355.54
Annual Increase	2.27	2.64	3.02	3.40	4.16	4.91	5.67	6.80
Total Cost per week	2.28	2.66	3.04	3.42	4.18	4.94	5.70	6.84

Members need to consider the option of an increase in Council Tax both in respect of the benefits that would flow from protecting the level and quality of services to local residents, against the detrimental impact of an additional financial burden on local residents.

Financial Reserves

29. The Council's main uncommitted Financial Reserves which relate to its General Fund are the General Fund Balance of £2m together with the Invest to Save Reserve of £1m. On the basis of the measures outlined in this report the Invest to Save Reserve will be some £1.8m at the end of the current financial year. 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 achieve the in year savings targets and has an Invest to Save reserve an amount of £2m in the General Fund Balance would appear to be a reasonable level of balances going forward. This position is supported by the General Fund Risk Register as set out in Appendix 1 Table 4 which

details the financial risks currently faced by the Council which indicates notional financial risks with a total value of £1.820m broadly in line with the current level of General Fund Balance. 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 ensuring an appropriate level of balances which provides financial resilience.

30. 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

Over the past five years the Invest to Save reserve has been critical in securing financial savings, in transforming services and in progressing 'one off' member priorities. At the end of the current financial year we will have an estimated balance of £1.8m. Officers are currently working on proposals – which subject to Member approval – would see the majority of this reserve utilised during 2016/17 in order to secure ongoing revenue savings. As outlined elsewhere in this report it is intended to replace Invest to Save funding with capital receipts in respect of £0.4 of approved expenditure in order to move the Invest to Save reserve to a figure of £1.8m at the year end.

Risk Register

31. 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 £1.820m. This is broadly in line with the current General Fund balances of £2m. The other main General Fund Balance the Invest to Save reserve is likely to be significantly reduced during 2016/17 as a result of the requirement to fund Invest to Save projects. 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, which will allow effective financial management of the Council over a period of ongoing reductions in the level of Government resources.

32. 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 quarterly basis and this process will continue to be utilised in order to manage the key financial risks.

33. **RECOMMENDATIONS**

The recommendations arising from this Appendix are set out in section 6 of the covering report.

Appendix 1 : Table 4

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 and Corporate Governance Scrutiny Committee. • Elected Members have a good awareness of the Council's financial position. • The development of budgets is 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. • The Government has outlined details of the financial settlement over the next 3 years.	1,500	30%	450
3. Inability to achieve assumed level of efficiencies. • Regular reports will be taken to Cabinet, Council and Audit and Corporate Governance Scrutiny Committee. • The Council has a good record of achieving savings over previous financial years	1,500	25%	375

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			**1,820**

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. The 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 proposed budgets for both 2015/16 (Estimated Outturn) and 2016/17 (Original Budget) are detailed in Table 1 of this Appendix. The Table also details the projected position, on the basis of current patterns of income and expenditure, for both 2017/18 and 2018/19.

2015/16 Estimated Outturn Budget

3. In February of 2015 Members agreed a budget in respect of the current financial year 2015/16. That original budget is detailed in Table 1 of this Appendix, where it can be compared against the Estimated Outturn for 2015/16. The position on the HRA has been monitored during the course of the year with the Estimated Outturn for the HRA showing only minor changes to the Revised Budget figures reported to and approved by Cabinet on 25th November 2015.

4. The key points variances identified in arriving at the Estimated Outturn position are outlined below:

- Rental income is £0.292m higher than the original budget which is mainly due to the level of void properties being lower than anticipated. This reflects the fact that the growth in the level of void properties has been effectively addressed by Rykneld Homes he Council's ALMO.
- There is a reduction in the Contributions to Expenditure of £0.123m which arises from reduced contractual service payments agreed with Derbyshire County Council arising from changes in Supporting People funding agreements. This reduction in contribution is an ongoing reduction which is reflected in forecast levels of income in future financial years.
- The majority of HRA expenditure is paid as Management Fee paid to Rykneld Homes which for 2015/16 amounted to £9.902m. 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 £0.1m, with savings in interest charges of £0.228m providing a further benefit to the HRA. During the course of 2015/16 the Council has,

however, agreed to set aside a provision of £0.5m to fund restructuring costs which will be incurred by Rykneld Homes arising from a restructure within Neighbourhood Services which includes the Independent Living Team. This restructure is in response to the reductions in the contractual payments for Supporting People provided by Derbyshire County Council. The provision will be paid to Rykneld Homes as the costs are incurred.

- The impact of the proposed budget changes detailed above is that the HRA is now forecast to deliver a surplus in the current financial year of £0.019m which is a marginal improvement on the figure agreed in the original budget of £0.009m. Given that the estimated outturn allows for the establishment of a provision of £0.500m to cover restructuring costs this represents a good financial performance.

5. The overall outcome of the recommended amendments to the Budget as outlined in section 4 above is that the HRA general balance increases by £0.019m resulting in a projected balance at the year end of £2.817m.

6. With respect to the period up to March 2016 the implementation of the April 2012 localisation of the HRA has resulted in minimal impact upon tenants. This was always the intended outcome. Underpinning the reforms of 2012 was a core principle that each local authority became a standalone landlord managing what amounted to a commercial HRA, with a considerable level of local autonomy. A key factor in the successful transition was that the initial settlement was a reasonable one which protected existing levels of income and effectively insulated the HRA from the austerity which applied to other areas of the public sector. Underlying the HRA localisation was a Government calculation concerning the financial viability of each individual Council’s HRA which was used as the basis for allocating debt. In the case of North East Derbyshire District Council the debt transfer amounted to £127m which costs approaching £10m p.a in debt repayment or 30% of the rental income.

7. Under HRA Localisation Local Authorities became responsible for managing HRA income to repay debt, to ensure adequate financial provision to maintain and refurbish the stock, whilst meeting the service expectations of our tenants. Subsequent to the initial debt settlement which was based upon affordability as calculated by a financial model, the Government has introduced a range of significant changes to the assumptions upon which the debt calculation was based. These include changed regulations improving Right to Buy incentives, together with changes to the policy for setting council house rents. Both of these – which are outlined in more detail below – have served to reduce the rental stream against a background of essentially fixed costs such as debt repayment, services to tenants and investment in homes. The combined impact of these changes has been to undermine what was a reasonable settlement,

with the extension of the public sector austerity agenda into the Housing Revenue Account.

8. In terms of quantifying the impact of these changes amendments to the Right to Buy legislation, together with the improving economic position has resulted in the number of Right to Buy's rising from the 12 per annum assumed within the HRA Debt Allocation model, to a position where approximately 50 sales will be completed during the current financial year. For the HRA this represents a significant loss of income and the additional homes sold in the current year alone will reduce the Council's rental stream by £150,000 every year, or £4.5m over the period of the Business Plan. Legislation is also being proposed to require Councils to dispose of their 10% of most valuable properties. While initial indications are that this will largely impact on properties in the South (given the relatively low value of houses in areas such as North East Derbyshire), if the sales were to be required on a local basis then there will be a further impact which it is not possibly to quantify at this stage.

Level of Council House Rents

9. In addition to providing further incentives for tenants to exercise the Right to Buy, the Government has also reduced the income stream to the HRA by adjusting national rent policy so that rent increases are lower than allowed for in the HRA localisation model. National Rent policy was first amended as part of the 2013 Spending Round when the Government removed rent convergence from the formula, and switched the calculation of inflation from RPI to CPI. Taken together and given that North East Derbyshire was not at 'target rent' these changes resulted in a loss of income to the HRA is on average of £1.5m p.a.

10. While the revised rent policy was intended to last for the 10 years from April 2015, the incoming Government changed that policy in the budget of July 2015. For next financial year the Government is requiring local authorities in common with all other providers of social housing to reduce rental levels by 1% per annum. This policy has been set to cover the four years from April 2016 to April 2019 and nationally will contribute £2.4bn towards the Government target of securing £12bn of savings from the welfare system. For North East Derbyshire District Council on the basis of a continuation of the current low level of inflation this reduces rental income by £0.6m for 2016/17 when compared to original forecasts, with the loss of rental income rising to an estimated £2.5m p.a. by 2019/20. Over the period of the 30 year HRA Business Plan the loss of rental income is likely to amount to £75m.The actual rental loss is, however, dependent upon the level of inflation and the higher the level of inflation over this period the greater the loss of rental income will be.

11. Given that the HRA needs to be financially self sufficient the reduction in income will need to be accompanied by corresponding expenditure reductions. On the basis of current information that is likely to be managed by a reduced capacity to operate a new build programme which given the extent of non traditional properties within the Council's stock will clearly make it more difficult to deliver an effective strategy for implementing regeneration programmes. Likewise, over the period of the HRA Business Plan it will now be necessary to rephase certain elements within the HRA capital programme in order to ensure that it remains affordable within the context of a reduced revenue stream. Over the period of the current MTFP against a background of a limited level of inflation in the wider economy the main expenditure budgets (Repairs and Maintenance and Supervision and Management) will need to be marginally reduced. Officers are currently of the view that the position can be managed with only a limited impact on tenants, however, that depends upon the adoption of more efficient ways of working and changed working practices. If inflation rates were to increase during the later years of the current four year settlement then that would increase pressure on service delivery accordingly. In particular it needs to be recognised that if more realistic rent increases in line with inflation are not agreed from April 2020 then given the debt burden and other fixed costs on the HRA the position will become increasingly difficult to manage.

12. In addition to the impact arising from changes in rent setting policy, the HRA will be detrimentally affected by changes in the Supporting People Programme operated by Derbyshire County Council. These changes to funding of non statutory services have been introduced in order to offset the impact of central government reductions in grant support. While negotiations are ongoing with respect to Supporting People funding on the basis of current information there will be a reduction of grant in the region of £0.097m in 2016/17. Given that this funds supported services to our tenants to help support independent living is anticipated to result in a position where fewer tenants will be able to receive these services without a charge.

Housing Revenue Account Budget 2016/17

13. The proposed HRA budget in respect of 2016/17 is presented in Table 1 to this report. The forecast net position for the HRA in the 2016/17 year is that a surplus of £0.074m 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 £2.890m at the end of March 2017. It is also envisaged that any underspend against the Estimated Outturn position achieved at the end of the 2015/16 financial year would be taken to the HRA general reserve.

14. 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 localised HRA 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 2016/17 proposes a contribution from the HRA to the Capital Programme of £9.239m. This contribution is funded from the financial provision set aside for depreciation and for a contribution to the major repairs reserve. This is an increase in allocation over the current year of £0.33m, which is offset by a reduction in the contribution to the Development Reserve of £0.710m. The Development Reserve is utilised to support the Council's new build programme. Details concerning the capital expenditure plans of the HRA are outlined within the capital programme section of this report.

15. The measures outlined within this report enable the funding of HRA expenditure budgets for 2016/17 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. Following on from the agreement to the budgets set out within this report there will be a report to the Cabinet meeting on March 9th 2016 which will agree a management fee for Rykneld Homes in respect of next financial year (2016/17).

Planning Budgets 2017/18 to 2018/19

16. 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. Negotiations are ongoing regarding the delivery of this service, but a grant reduction of £0.123m in respect of the 2015/16 Estimated Outturn is currently forecast. The budget projections for 2016/17 are currently showing a further grant reduction of £0.097m which is estimated on the basis of information currently available. This will impact on the HRA and Rykneld Homes are addressing this issue by reviewing their structures in anticipation

of further reductions. Should the grant be removed in its entirety however then further remedial measure will need to be considered to reduce the long term impact on the HRA.

17. As outlined above in the context of a reducing level of income all budgets are at standstill, with the major change being a reduction in the order of £1.5m in the contributions to the Development Reserve. As previously identified that will impact on the ability of the Council to construct new Council houses. With respect to debt repayments these will be maintained at £4.3m which will repay the Government loan over the 30 year period of the original Business Plan. The repayment of debt 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.

18. As outlined above the funding for the HRA Capital Programme is now provided directly from the rental income generated by the HRA. On the basis of the detail provided in the current MTFP the Council will be able to provide funding of £10m in 2016/17, £9.5m in 2017/18 and £9.0m in 2017/18 for the major works programme. On the basis of the 30 year HRA Business Plan officers are of the view that a level of funding of between £9 and £10m can be afforded over the period of the Business Plan. The Stock Condition survey undertaken by Rykneld Homes indicates that this level of investment should be able to maintain the housing stock at a Decent Homes standard over the period of the Business Plan. This level of investment will not, however, be able to provide for any significant amount of new build. Given the level of non traditional properties and the need to adapt the stock to changing tenant needs and preferences it will be necessary to implement a number of regeneration schemes over the coming years. These type of schemes are now likely to be increasingly reliant upon external grant, land values and section 106 receipts in order to be financially viable.

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

    - The Council applies the Government's regulations that rents in the social housing sector are reduced by 1% a year for a period of 4 years starting in April 2016.

    - 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 1% per annum across the period of the current MTFP.

- No allowance has been made in respect of the Apprentice Levy of 1% of payroll costs which is currently out for consultation. This will potentially impact on the annual management fee.

- That Employer Pension costs remain unchanged for the period 1 April 2016 to 31 March 2019.

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

Fees, Charges and Rents for Homeless Units

20. 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 2016/17 is that an increase of 5% be applied in respect of Non Dwellings rents including garages and hard standing.

21. 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 apply government rent policy and to apply a 1% reduction to these properties from 1st April 2016.

Level of HRA Balances

22. Given the greater level of uncertainty associated with a localised HRA Council has previously accepted that a robust level of balances 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 increase to one of £3m over the period of the current MTFP. At this level of HRA balances there is effectively a reserve of £375 per property.

Actual / Projected HRA Balances

03/13	31/03/14	31/03/15	31/03/16	31/03/17	31/03/17	31/03/18
£m's	£m's	£m's	£m's	£m's	£m's	£m's
3.324	2.417	2.797	2.816	2.890	3.00	3.00

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. Given that they decline over the period of the current MTFP and are mostly contractually committed to support Approved schemes within the Council's HRA capital programme they could only provide limited support to general HRA expenditure.

23. In the light of the HRA Risk Register which is provided as Table 2 to this Appendix (which indicates a notional level of risk of £2.3m), a level of working balances in the region of £3m would appear to be adequate and provide a sound base for the medium term financial management of the HRA.

HRA Risk Register

24. 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 £2.3m. This report recommends that during the course of this MTFP that the HRA continues to operate a policy of maintaining a minimum general balance of £2.8m which is broadly in line with the level of identified risk.

25. 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 Council, and this process will continue to be utilised in order to manage the key financial risks.

26. 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 non 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.

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 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

28. The recommendations arising from this Appendix are set out in section 6 of the covering report.

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, including Universal Credit. • 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.	£10,000,000	10%	£1,000,000
Calculated Potential Financial Impact of Identified Risks			**£2,300,000**

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 Approved Capital Programme for both 2015/16 (Estimated Outturn) and Capital Programme for 2016/17 to 2018/19 are detailed in Table 1 to this Appendix.

3. 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 15th February 2016. 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 central heating boilers, bathrooms and kitchens as 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.

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

	2015/16 Current £,000	**2015/16 Est Outturn £,000**	**2016/17 Original £,000**	**2017/18 Original £,000**	**2018/19 Original £,000**
General Fund Schemes	3,767	3,648	992	729	1,191
HRA Schemes	21,680	22,205	12,535	11,592	9,275
Total	25,447	25,853	13,527	12,321	10,466

Capital Programme – Estimated Outturn 2015/16

5. The Estimated Outturn in respect of the current financial year, which is detailed in Appendix 3 Table 1, shows a net increase of £0.406m over the Current Programme. This increase in expenditure is accounted for by an increase in the cost of the Tarran

Replacement scheme which are offset by a corresponding increase in the level of HCA grant. Within the General Fund schemes there has been an increase of costs of £0.1m on the Private Sector Adaptations grants, which reflects rising demands for statutory works. While these costs will be funded by increased use of capital receipts in 2015/16 there is a clear risk that the increased level of demand on this element of the Programme will continue into future financial years, requiring additional funding from the Council. Elsewhere on the Programme costs increases will be funded by reduced expenditure in future years, or by reductions on other schemes in the Programme.

General Fund Programme 2016/17 and future years

6. Within the General Fund table are the capital expenditure plans for 2016/17 and future years. The following are the key schemes.

- The major scheme comprising of office refurbishment and land remediation at Mill Lane has now been complete. The remediated land has been turned over to a depth of 1 metre and the Council has received warranties from the contractor which will help secure the onward sale of the land as a clean development site. Further work is continuing to develop options in respect of access into the site in order to maximise the level of capital receipt which can be secured from its sale
- An Asset Refurbishment sum of £150,000 p.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 which is considered to be the most cost effective means for funding these purchases. 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 acquiring the vehicles concerned is largely complete. In the current financial year the Council is in the process of replacing its refuse collection fleet, with the Programme over the next three years being allocated to the replacement of Streetscene vehicles.
- ICT infrastructure – The overall cost of this work over the period of the current MTFP (April 2016 onwards) is one of £0.269m 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. In respect of the current financial year it has, however, proved necessary to increase the Programme to one of £0.493m with the additional costs being funded by capital receipts. Given that the service is a statutory one it is

effectively ‘demand led’ with the Council being required to meet any gap between expenditure and the level of grant available. Within the Programme for next year we have assumed a grant level of £0.393m, however, the level of grant which will be available remains subject to confirmation.

7. The sections above have outlined the main elements of the Programme and the proposed financing. For those scheme where no specific funding has been identified the work will need to be funded by Capital Receipts. As at April 2016 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.

HRA Capital Expenditure

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 2016/17 onwards in respect of its Major Works Programme amounts to an average of £9.5m. This is significantly reduced from the current and previous financial years which reflects the fact that the Government’s Decent Homes funded programme ended 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. On the basis of the 30 year Business Plan together with information detailed in the current Stock Condition survey officers are of the view that the stock can be maintained at the Decent Homes standard.

9. The Council will continue to explore options for attracting external funding to promote specific schemes within the HRA. Given the number of non traditional houses held by the Council replacement of these properties is likely to be necessary over the coming years. The Capital Programme 2016/17 – 2018/19 does include a new build scheme at North Wingfield which will provide new homes for social rent, affordable rent and shared ownership. The estimated scheme costs of £4.902m have been included in the Capital Programme, funded by HCA grant (£0.729m), a contribution from the Development Reserve (£1.000m) and prudential borrowing (£3.173m). The table below shows the

forecast breakdown of scheme costs over the term of this financial plan. The scheme is comprised of new build on low grade agricultural land. Negotiations with the land owner, a developer and the HCA are well advanced, with an outline scheme substantially agreed. Once outstanding matters have been finalised then a detailed report setting out the proposal will be brought back to Cabinet for consideration. A consultation process with affected tenants and residents will commence should the final scheme be approved. As well as setting out the details of the scheme, options for further phases of a wider programme of regeneration in the North Wingfield area will be considered.

	2016/17 Original £,000	2017/18 Original £,000	2018/19 Original £,000
General Fund Scheme	1,081	1,611	0
HRA Scheme	2,535	2,092	275
Total	3,616	3,703	275

10. As part of the process of developing this scheme at North Wingfield careful consideration has been given to the issue of its affordability within the context of the HRA Business Plan. Given the availability of both HCA grant and funding from the HRA development reserve some 35% of the costs will be funded without the requirement to incur the ongoing revenue costs arising from prudential borrowing.

11. Linked to the above project and a key part of attracting good HCA grant levels is that part of the scheme which will be undertaken through Rykneld Homes as a Registered Provider (RP). This element of the project will see affordable rent and shared ownership properties being built and managed by the RP. The total estimated costs of this part of the project is £2.692m funded by HCA grant (£0.544m), shared ownership sales (£0.614m) and General Fund prudential borrowing in the short term until the shared ownership receipts are secured. The Treasury Management Strategy reflects the borrowing requirements of the scheme with the cost of borrowing (debt charges) being met by Rykneld Homes through the rental income received on the RP properties.

12. The change to the HRA rent setting policy as outlined in Appendix 2 to this report will have a significant impact on the ability of the Council to afford new build schemes in the future. This is likely to be further exacerbated by the likelihood that HCA funding will increasingly be targeted at shared ownership housing rather than at social rented housing. Against this background the Council will continue to asses any proposals for new build within the context of their affordability against the HRA Business Plan. Given the reduced capacity of the HRA to generate revenue and the anticipated withdrawal of HCA grants it is envisaged that there will be a reduced capacity to fund similar schemes in the future.

Capital Programme Risk Assessment – 2016/17

13. 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 2016/17 capital programme. This indicates that the identified risks which the Council is facing in respect of its 2016/17 Capital Programme amount to £1.3m. 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.

14. 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:

15. The recommendations arising from this Appendix are set out in section 6 of the covering report.

CAPITAL PROGRAMME RISK REGISTER – 2016/17 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 expenditure is programmed across a range of smaller schemes so if significant funding issues arise it should be possible to delay individual projects. • 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.	£11,000,000	10%	£1,100,000
2. Reduction in the forecast level of capital resources. • The assumptions that have been made in respect of 2016/17 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			**£1,300,000**