Agenda Item No 6

North East Derbyshire District Council

Audit and Corporate Governance Scrutiny Committee

2 February 2017

Medium Term Financial Plan 2017/18 -2020/21

Report of the Executive Director Operations

This report is public

Purpose of the Report

- To enable the Audit and Corporate Governance Scrutiny Committee to consider the attached report concerning the Medium Term Financial Plan 2017/18 to 2020/21 prior to the report being taken to Cabinet and Council.

1 Report Details

1.1 To update Members of the Audit and Corporate Governance Scrutiny Committee to ensure they are kept informed of the Council's financial position as set out in the Medium Term Financial Plan 2017/18 to 2020/21. Any comments expressed by the Audit and Corporate Governance Scrutiny Committee will be taken into account in the report, or reported verbally to Cabinet.

1.2 The report attached as **Appendix 1** will be taken to Cabinet on 15 February 2017 and to Council on the 20 February.

2 Conclusions and Reasons for Recommendation

2.1 These are detailed in the attached report.

Reasons for Recommendation

2.2 To ensure that the Audit and Corporate Governance Scrutiny Committee are kept informed of the Council's financial position as set out within the Medium Term Financial Plan.

3 Consultation and Equality Impact

Consultation

3.1 These are detailed in the attached report.

Equalities

3.2 These are detailed in the attached report.

4 Alternative Options and Reasons for Rejection

4.1 These are detailed in the attached report.

5 Implications

5.1 Finance and Risk Implications

Financial
These are detailed in the attached report.

Risk

These are detailed in the attached report.

5.2 Legal Implications including Data Protection

These are detailed in the attached report.

5.3 Human Resources Implications

These are detailed in the attached report.

6 Recommendations

6.1 That the Audit and Corporate Governance Scrutiny Committee note the report and make any comments that they believe to be appropriate with regards to the attached report which will be taken to Cabinet on 15 February 2017.

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)	No
District Wards Affected	All.
Links to Corporate Plan priorities or Policy Framework	Robust Governance (including Risk Management) arrangements underpin the effective operation of the Council and its ability to secure all of the Corporate Plan priorities.

8 Document Information

Appendix No	Title	
1	Cabinet Report 15 February 2017 – Medium Term Financial Plan 2017/18 -2020/21	
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)		
Report Author		**Contact Number**
Executive Director – Operations, Bryan Mason		7154

AGIN6(A&CGC0202) 2017 MTFP 2017-21

Appendix 1

North East Derbyshire District Council

Cabinet

15 February 2017

Medium Term Financial Plan 2017/18 to 2020/21 - Draft

Report 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 2017/18 as part of a consideration of the Council's Medium Term Financial Plan covering the years 2017/18 to 2020/21.
- To provide Elected Members with an overview of the Council's financial position 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 20 February 2017 in order to secure agreement to the Council's budget in respect of the 2017/18 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 2 February 2017.

1.2 While all of the above accounts are detailed and will be considered and agreed on an individual basis it is important that Cabinet gives appropriate consideration to the Council's overall financial position which encompasses both the three individual accounts as outlined within this report together with the range of services provided to local residents. Alongside this MTFP the Council meeting of 20 February 2017 will also be requested to consider the Council's proposed Treasury Management Strategy which links the MTFP into the Borrowing and Investment activity. 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>2016/17 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>2017/18 Original Budget</u>
  This is the proposed budget for the next financial year commencing 1 April 2017 which Council will need to consider for approval at its meeting on 20 February 2017.

- <u>2018/19 to 2020/21 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 following 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 Central Government expenditure targets 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, 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 (2015/16) and to date in the current financial year as at the end of September 2016. The views of cost centre managers concerning the level of expenditure which will be incurred during the remainder of the 2016/17 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 2016. This process has enabled a robust Estimated Outturn to be prepared in respect of the current financial year (2016/17), which has formed the basis for the 2017/18 Budget and the financial forecasts in respect of 2018/19 to 2020/21.

- 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 helps 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 Financial Services 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 it is not necessary that an extensive consultation is undertaken. A specific meeting to consult on the impact of the proposed budget on the local business and commercial sector was held in January 2017.
- 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 taken 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. This engagement helps 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 2nd February 2017. 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 2016/17**
  The Council set its original budget for 2016/17 on the basis that it was necessary to secure £0.395m of savings. On the basis of current estimates the Council will both achieve these savings and secure a surplus of £0.392m. This represents a net improvement of £0.787m which has been achieved by a combination of reduced expenditure across all services, increased income from planning fees, an increase in Council Tax and growth in business rates. These savings will be transferred to the Invest to Save Reserve where they will be available to support agreed priorities in future financial years. 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 four financial years.

- **Original Budget 2017/18**
  The budget in respect of 2017/18 currently shows a shortfall of £0.513m. 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 £1.863m which are anticipated to be required by 2020/21. In practical terms the financial forecasts within the MTFP require the Council to save in the region of £0.5m per annum for the next four financial years. Given the Council's performance over previous years this should be a challenging but achievable target. While the savings targets are significant the Council's position has been assisted by 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 £4.98 at Band D (2.8%), which will provide a contribution of £150k towards balancing next year's budget.

- **Budgets 2018/19 to 2020/21**
  The Provisional Local Government Financial Settlement was announced in December 2016 which provided some clarity with respect to Revenue Support Grant and New Homes Bonus. It covers the years to 2019/20 with the fully localised

NNNDR funding regime planned to apply from April 2020. Given that the fully localised NNDR system will review both the resources and the needs element of the funding to all local Council's the review could have a significant impact on a number of individual Council's. Whilst the Government will almost inevitably put in some transitional arrangements for those Councils worst affected it does need to be recognised that there are currently no financial exemplifications of the Government's proposals and therefore the only reasonable assumption at this point in time would appear to be that North East Derbyshire – like all Council's – will see a continued reduction in the level of resources available to it. Despite these uncertainties the reality that the MTFP projects a shortfall in the region of £0.5m a year does provide a realistic working assumption as to the level of savings that will be required.

- It also needs 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.
- 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 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 the efficiencies necessary to minimise 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 the estimated loss of rent income for North East Derbyshire District Council was 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. While the Council is required to follow Government Policy and adopt a 1% rent reduction in respect of next financial year 2017/18, the MTFP assumes that from April 2020 the Government will return to a policy of allowing rents to increase at a rate reflecting inflation in the wider economy.

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 current 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. In an announcement in December 2016 the Government confirmed that it would not require any funding from local HRA's towards the costs of introducing Right to Buy for the tenants of Registered Social Landlords (Housing Associations) during next financial year (2017/18). The Government is, however, actively considering its options and we may see other reforms introduced by April 2018.

- **Estimated Outturn 2016/17**

  The Estimated Outturn figures shown within this report are in line with those previous reported to Cabinet on 23rd November 2016. With respect to the variation from the Original budget there has been an increase in rental income of £0.192m largely arising from a reduction in the level of void properties. This is partially offset by a reduction in charges for services of £0.060m, together with reduced contributions to expenditure of £0.030m as a result of contractual service payments agreed with Derbyshire County Council for Supporting People services. There continues to be a significant level of uncertainty concerning the level of support which will be provided by DCC in respect of these services. With regard to expenditure Rykneld homes are continuing to operate within the Management Fee of £9.902m. On the retained budgets managed by the Council reduced expenditure of £0.205m is anticipated of which £0.075m relates to a reduced provision for doubtful debts. On the basis of these changes the HRA is anticipated to deliver a surplus of £0.486m which is £0.412m above the original budget. It is proposed that this surplus is transferred to the Development Reserve where it will be used to fund additional capital investment.

- **Original Budget 2017/18**
  The key issue for next year is that a further rent reduction of an average 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 £84.76 per week (on a 48 week basis) to one of £83.83 per week. While the Council is aware 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. While income will be reduced and the Council will need to find savings to cover cost increases Officers are of the view that the Council should be in a position to realise efficiency savings which will offset these adverse trends, enabling service standards to tenants to be maintained.

- **Forecast Position 2018/19 to 2020/21**
  The key assumption that has been made is that once the current Government rent policy ends in March 2020 it will revert to the previous approach which allows for rent increases in line with inflation. Other than in respect of this income assumption the forecast position for the latter three years of the proposed MTFP effectively projects or rolls forward the figures in respect of 2017/18. These figures indicate 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 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 p.a, over the period the current MTFP. The major scheme currently in the Programme is the new build scheme at North Wingfield which will provide 27 new Council houses at a cost of just under £5m
- A new programme for a Stock Purchase Scheme is also recommended for inclusion with the Programme in respect for 2017/18 and future financial years. This scheme is proposed because it will enable the utilisation of 'one for one' capital receipts which the Council is allowed to retain by central government on the basis that they are used to acquire additional housing stock to replace that which has been bought under Right to Buy. These receipts can cover up to 30% of the costs of acquisition of additional properties and the proposal is that they would be used to acquire

affordable housing on developments across the District which had a S106 agreement requiring affordable housing in place. Given that there is an element of developer subsidy in such units they can generally be acquired for a cost significantly lower than that associated with building new houses directly. In addition the Council will look to purchase appropriate properties which become available on the open market. It is anticipated that the majority of these will be former Right to Buy properties located within existing council housing / mixed tenure estates. All proposed purchases will be subject to a financial appraisal being undertaken which demonstrates that the purchase provides value for money. The funding for these acquisitions would be by way of one for one capital receipts (30%), together with a contribution from the Development Reserve which is funded from annual contributions from the HRA and prudential borrowing as required.

- 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 £2.764m (over 4 years) to replace a range of predominantly Street Scene vehicles. These vehicles which are required in order to provide statutory services will be funded from Prudential Borrowing. Secondly, there will be the ongoing requirements for work in respect of private sector housing grants predominantly on Disabled Facilities Grant Work. Finally, there will be expenditure in respect of ICT schemes together with an allowance for asset refurbishment across the range of Council assets.

Risk Issues

- A Financial Risk Register has been developed in respect of each of the main accounts and is provided at **Appendix 1 Table 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 2017. 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

6.1. The recommendations will be considered within the content of each of the three Appendices (General Fund, HRA, Capital Programme) which are attached to this report.

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 2016/17 to 2020/21 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 2017/18 financial year, together with progress on actions to ensure the longer term financial sustainability of the Council.

In addition to the above there a number of recommendations which are made in respect of each of the main accounts of the Council (General Fund, HRA and Capital Programme). These will be considered as part of the Appendicies to this report which cover those accounts in more detail.

7 Decision Information

Is the decision a Key Decision? (A Key Decision is an executive decision 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
Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)	
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 1 Table 1 1 Table 2 1 Table 3	**General Fund Revenue Account 2016/17 to 2020/21** General Fund Revenue Account 2016/17 to 2020/21 General Fund Detail General Fund Risk Register
2 2 Table 1 2 Table 2	**Housing Revenue Account** Housing Revenue Account 2016/17 to 2020/21 HRA Risk Register
3 3 Table 1 3 Table 2	**Capital Programme** Capital Programme 2016/17 to 2020/21 Capital Programme 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 Assistant Director Finance and Revenues and Benefits Chief Accountant	(01246) 217154 (01246) 216598 (01246) 217078

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 recommended budgets for both 2016/17 (Estimated Outturn) and 2017/18 (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 the years 2018/19 to 2020/21, with Table 2 providing details at cost centre level.

2016/17 Estimated Outturn

3. In February 2016 Members agreed a budget in respect of the current financial year 2016/17. Given that the Council needed to achieve 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 2016) has evolved from the Original Budget approved in February 2016. 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 2016/17 continues to be the ongoing reduction in the level of Central Government financial support. 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 2017/18 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 in 2017/18 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 of the view that the Council will achieve an outturn position with a significant under spend against the original budget for 2016/17. The forecast Estimated Outturn position in Table 1 incorporates an assumed surplus of £0.392m which will be transferred to the Invest to Save Reserve. It should, however, be recognised that the continued availability of the Invest to Save Reserve has made a significant contribution to the Council's financial position by covering a range of costs on restructuring and service investment which otherwise would have fallen on the General Fund. 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 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. Officers have continued to budget prudently and on balance of probabilities would expect the outturn position to see a further increase in the level of contribution that can be made to the Invest to Save Reserve. There are a limited number of areas such as the contribution from the Derbyshire Wide NNDR Pool, from benefits grants and from planning income where the position may be better than is currently forecast. It is not considered appropriate to assume increased income from these areas in the Estimated Outturn Budget and Members should note that whilst less likely there is a risk that income could fall below that already assumed therefore removing any potential benefits and eroding the forecast level of contribution to the Invest to Save Reserve.

Original Budget 2017/18

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 1 April 2017. The 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 2017/18
- 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 2016/17 is the first year of the Four Year settlement announced in December 2015 which followed on from the General Election of May 2015. 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 with respect to North East Derbyshire there will be no payment of RSG beyond 2018/19.

New Homes Bonus

10. The outcome of the consultation into the future of New Homes Bonus was announced in December 2016. As previously indicated the period of payment has been reduced to five years in respect of 2017/18 and to four years from 2018/19. In addition a scaling factor has been introduced into allocations from 2017/18 to ensure that the overall NHB payments do not exceed the allocations that have been set nationally in public expenditure plans. For 2017/18 that scaling factor is 0.4 and it reduces the payments from the provisional figure of £0.385m to £0.219m. This introduction of a scaling factor will have a continued negative impact upon the availability of NHB and is estimated to cost this Council some £0.25m by 2020/21 when its full cumulative impact will be reached. In conjunction with the reduction of payment period from 6 to 4 years the loss of government funding will be in excess of £0.6m.

11. Alongside reducing the period of years for which New Homes Bonus is payable, the Government is also seeking to further sharpen incentives to help ensure that the grant rewards those authorities who are perceived as performing well in promoting housing growth by having appropriate Planning arrangements in place. These changes will not be introduced in respect of 2017/18 when the consultation paper indicated that those Council's without a Local Plan might see NHB payments stopped. The position is still being reviewed by Government with further reduction a clear possibility.

National Non Domestic Rates (NNDR)

12. The Government also announced in November 2015 a review of NNDR 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 £3m is retained by this Council. 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. The Government in its announcement over the past three months appears to remain committed to delivering the 100% local retention of rates which it has linked to a review of both the needs and the resources formulas which are used to allocate NNDR funding to individual Council's. While the Government is clearly aware that it will need to have a formula for resource equalisation to offset major shifts in funding between authorities arising out from the revision to the needs and resources calculation, this fundamental reform brings with it a further element of uncertainty to our forward financial planning. On the basis of current information the Government is looking to move to the new arrangements with effect from April 2020 which is the final year of the Planning period set out within the proposed MTFP.

13. While further reform is anticipated the Government has already moved some way towards what it has termed a 'localisation' of NNDR. Currently local authorities retain 50% of the growth in NNDR levels against a baseline figure. Whilst all local authorities are provided with an incentive in that they retain a proportion of any growth in Business Rates there are safety net arrangements to protect those local authorities which suffer a reduction in their local Non Domestic Rating Base. Under these arrangements there is a direct financial incentive for local authorities to promote economic growth in their area, although local authorities would take the view that historically they have always 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 any limited growth will be offset by decline in other sectors of the local economy, or by the impact of revaluation. Accordingly the financial projections are for a static level of NNDR funding across the projected period of the current MTFP to 2020/21. The position may well be complicated by the fact that a full revaluation of all properties is currently being implemented. Although the Government is seeking to ensure revaluation has a neutral impact at the level of individual authorities, the new valuations will be subject to appeal which may introduce further uncertainty into the system. In short whilst our estimates are prudent in assuming no growth of NNDR income, it does need to be recognised that this income stream is a volatile one which lacks the stability and certainty of the more traditional Council Tax income.

14. Cabinet will be aware that with effect from 2015/16 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 27 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 and 2017/18. Given the uncertainty concerning the availability of such income beyond next year no assumptions have been made that such income will be received beyond 2017/18.

Four Year Settlement

15. As part of the Autumn Statement of 2015 the Government committed itself to providing Council's with an option of accepting a four year financial Settlement in order to remove some of the uncertainties over longer term financial planning. By submitting an Efficiency Plan to Central Government this Council has been able to take advantage of the greater certainty offered by the Four Year Settlement. The Settlement, however, only covered Revenue Support Grant, transitional funding and Rural Services Delivery Grant and a limited number of other specific grants. Other income streams such as NNDR and New Homes Bonus will continue to fluctuate arising from a variety of circumstances, leaving Council's with a significant level of uncertainty in their Medium Term financial planning. This Council agreed an Efficiency Plan covering the period to March 202 at the meeting of Cabinet on 28th September 2016. That Efficiency Plan will need to be updated once the budgets and financial plans included within this report are agreed and it may be appropriate to give consideration to utilising the framework of our locally agreed Efficiency Plan in order to drive our

strategy to secure financial sustainability over the period of the current MTFP.

Council Tax

16. Over the period of the previous parliament the Coalition government made clear its opposition to any increase in Council Tax and it provided grant support to Councils which followed 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. These 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. With respect to next year the draft principles concerning Council Tax increases were set out as part of the December settlement. While those authorities providing social care are still entitled to increase Council Tax by up to 4% before a Referendum is required, for District Council's the principles are that Council Tax can be increased by the greater of 2%, or those Council's with a low Council Tax – including NEDDC - can increase the Council Tax by up to £5 on the band D Council Tax for 2016/17. With respect to North East Derbyshire District Council that allows a Council Tax increase of up to £5 on a Band D property (2.8%).

<u>Expenditure, income levels and efficiencies</u>

17. In developing the financial projections covering the period 2017/18 to 2020/21 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.
- An increase of 1% to employer superannuation contributions.
- With regard to the Apprentice levy if the Council were to take no action then this would cost in the region of £45k p.a. While the Council has a long standing commitment to the training of both existing employees and of apprentices the introduction of the National Apprentice scheme has the potential to increase the costs of the scheme to the Council. Other than for the cost of the levy no additional provision has been made within the budgets for such costs and to the extent that investment in the Apprenticeship scheme is made during the course to the year this will need to be met from the Invest to Save reserve.

- While no allowance has been made in respect of general inflation specific budget heads such as energy costs and business rates have been amended to reflect anticipated price changes. Given the recent fall in the exchange rate of sterling this position will need to be monitored carefully. To the extent to which the Council is not able to manage inflationary pressures then the additional costs will need to be met from our vacancy management programme.
- Fees and Charges – service specific increases as agreed by Members.
- New Homes Bonus to be payable for 4 years with a scaling reduction factor 0.4 from 2017/18, with no further losses arising from the Government initiatives to introduce incentives around Planning matters.
- With respect to Planning Fees an amount of £0.400m has been included within the budget. Where income levels – and the associated workload – increase above that level then part of the additional income may be required to fund additional staffing resources (such as Agency staff) in order to maintain performance levels. It is important that performance is maintained both in order to protect the Council's reputation as a "good place to do business" and to ensure that poor performance does not lead to a further reduction or withdrawal of New Homes Bonus funding. It is therefore recommended that delegated powers are granted to the Chief Executive in consultation with the Leader of the Council to agree any necessary increase in planning expenditure to meet peaks in demand, on the basis that these can be met from an anticipated increase in planning fees above the budgeted level of £0.400m

18. 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. Cabinet in June 2016 agreed an investment of £1.752m in Leisure facilities in order to generate further income growth. 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. 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.

19. 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.

20. With respect to the next financial year the Council has a savings target of £0.513m in order to secure a balanced budget. While this is a target that should be achievable it is important to recognise that as the Government continues to withdraw RSG and New Homes Bonus the Council's financial position becomes increasingly challenging with savings targets of £1.050m in 2018/19, £1.456 in 2019/20 and £1.863m in 2020/21. By maintaining an approach based on growth and transformation across the period the Council will reduce the impact on services of the ongoing reduction in central funding. Effectively the Council needs to identify and secure savings in the order of £0.5m a year for the next four years. If these savings can be achieved every year then it will minimise the detrimental impact of funding cuts on local residents as the Council will be able to adopt a gradual and considered approach to securing cost reductions. The areas where officers intend to seek to secure savings are outlined below:

- 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 2017/18 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 secured 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 2017/18. 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 - £100,000

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. Given this position – which was identified at the time of last year's budget - the Asset Management Group was requested to identify options for disposing of assets that could help support the Council's financial position. While the Mill Lane site will provide an opportunity within the next 5 financial years in the more immediate future the key option is likely to be the Ankerbold Road site where officers are progressing plans to enable residential development on the land. The main option which the resultant capital receipt should facilitate would be the repayment of debt which would generate revenue savings by reducing the debt financing costs. While financial benefits are unlikely to accrue before the 2018/19 financial year officers consider that a financial saving in the order of £0.2m should be achievable.

- Dowry on land at the Avenue

Council agreed at a meeting held in March 2013 that it would accept responsibility for the ownership and maintenance of public open space on the Avenue site from the HCA once development commenced. The sum involved was in the order of £0.15m and it was originally envisaged that the sum would be paid over to the Council at the end of the 2013/14 financial year. Due to public expenditure restrictions this did not occur although our current understanding is that the HCA will be in a position to conclude this deal during 2017/18. This would enable debt to be repaid with the result that the Council should be able to cover maintenance costs and in the early years of this arrangement secure a financial contribution to the General Fund in the order of £0.15m p.a.

- 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 considered unlikely to deliver any business growth prior to the end of the current planning period.

21. 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 Potential Savings Options

	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's
Efficiency Target / Budget Shortfall	**513**	**1,050**	**1,456**	**1,863**
Savings Proposals				
NNDR Growth Target	0	0	0	0
Vacancy Management	(50)	(50)	(50)	(50)
Transformation, Secondments &Joint Working	(150)	(300)	(450)	(600)
Property Rationalisation Savings	0	0	0	
Repayment of Debt from asset sale (Ankerbold Road)			(50)	(100)
HCA Dowry in respect of the Avenue Site		(150)	(150)	(150)
Council Tax Increase (up to £5 on a Band D property)	(150)	(300)	(450)	(600)
Total Savings Proposals	**(350)**	**(800)**	**(1,150)**	**(1,500)**
Unidentified Savings Target	209	250	299	363
Call on General Fund Balances	**209**	**250**	**306**	**363**

22. Even on the basis that identified savings opportunities can be secured there remain unidentified savings which amounts to £0.363m at the end of the planning period. 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 2020/21 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

23. Members will recall that between 2011/12 and 2015/16 (with the exception of 2013/14) the Council decided not to increase Council tax enabling the authority 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. Given the Council's financial position arising from the ongoing reduction in the level of central government grant, together with the withdrawal of central Government grant for operating a Council Tax freeze Council in 2016/17 took the decision to increase Council Tax by 1.95%.

24. 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:

	2017/18 £000's	2018/19 £000's	2019/20 £000's	2020/21 £000's
Efficiency Target / Budget Shortfall	**513**	**1,050**	**1,456**	**1,863**

25 In summary officers are currently forecasting that over the period April 2017 to March 2021 expenditure reductions (or increased income) of £1.957m will be necessary. It should be noted that it is highly likely that a ceiling of either a maximum increase of £5 a year on the Band D Council Tax, or 2% 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 2017/18. 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 forecast indicates 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 up to £5 at Band D would secure additional income of £0.560m, over the period they provide a significant financial benefit.

26 On the basis that the Council decided to put into effect a Council Tax increase at the limit of up to £5 on a Band D Property then this would reflect an overall increase of 2.8%, which would generate increased income of just over £0.140m, or £0.560m over the period of the current MTFP. While this is a significant sum to raise from local taxpayers it needs to be recognised that the reduction in New Homes Bonus – which is being undertaken to increase funding for Adult Social Care – will cost this Council well in excess of £0.5m per annum. In addition – over the same period – the Council will

lose some of £1.3m in Revenue Support Grant between 2016/17 and 2019/20 even after the growth of funding through NNDR is taken into account. Against this background on ongoing reductions in the level of central government funding an increase in Council Tax is necessary as part of the strategy of protecting the level of services to local residents and putting the Council in a position of being able to continue to deliver its statutory services.

27 While there are clear financial advantages for opting to increase the level of Council Tax in 2017/18 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 an amount of up to £5 at Band D (2.8%), or 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)
2016/17 Charge	118.51	138.27	158.01	177.77	215.27	256.78	296.28	355.54
Up to £5 increase at Band D (2.8%) – p.a.	3.32	3.87	4.42	4.98	6.03	7.19	8.30	9.96
2017/18 Charge With 2.8% Increase	121.83	142.14	162.43	182.75	221.30	263.97	304.58	365.50
Cost per week without increase	2.28	2.66	3.04	3.42	4.14	4.94	5.70	6.84
Cost per week with increase	2.34	2.73	3.12	3.51	4.26	5.08	5.86	7.03

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

28. The Council's main uncommitted Financial Reserves which relate to its General Fund are the General Fund Balance of £2m together with the uncommitted element of 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 £1.4m 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. On the basis that the Council can continued to achieve the in year savings targets and has an Invest to Save reserve in excess of £0.5m an amount of £2m in the General Fund Balance would appear to be a reasonable level of balances over the current MTFP period. 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 £1.895m 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.

29. 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 issues of maintaining or improving service levels

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 £1.4m. The relatively low level of balances arises from the fact that we are utilising the Invest to Save reserve to fund much of the costs of the £1.752m programme of Leisure Centre refurbishment. In order to protect the level of Invest to Save balances it is proposed that this capital work is funded to the maximum extent possible from capital receipts at the year end. This may require that an element of the Invest to Save reserve is earmarked to fund capital expenditure in future years.

Risk Register

30. 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 £1.895m. 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 2017/18 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.

31. The assessment concerning the level of risk is essentially used for two purposes. Firstly, 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.

32. **Recommendations**

a) A Council Tax increase of £4.98 in respect of a Band D property (2.8%) as part of a range of measures necessary to offset the continued reduction in the level of central government funding.

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 2016/17, as the Original Budget in respect of 2017/18, and the financial projection in respect of the years 2018/19 to 2020/21.

c) Officers continue to progress the implementation of measures designed to secure the forecast surplus in respect of 2016/17 and the agreed savings targets in respect of 2017/18 with progress to be reported back to Cabinet and Audit and Corporate Governance Scrutiny Committee on a quarterly basis.

d) That any under spend in respect 2016/17 is transferred to the Invest to Save Reserve, with capital receipts being used at the year end to minimise the use of Invest to Save balances to fund capital expenditure on the Leisure Facilities refurbishment scheme.

e) On the basis that income from Planning Fees is anticipated to exceed the budgeted level of £0.400m the Chief Executive in consultation with the Leader of the Council is granted delegated powers to authorise additional expenditure in order to effectively manage the resultant increase in workload.

Appendix 1 : Table 3

NORTH EAST DERBYSHIRE DISTRICT COUNCIL: GENERAL FUND RISK REGISTER

Risk and Mitigation in Place	Gross Value of Risk £000's	Probability	Potential Impact £000's
1. 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	40%	600
2. 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
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	600	25%	300

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 Welfare Reform inc 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			**1,895**

Appendix 2

Housing Revenue Account

Introduction

1. This Appendix 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 recommended budgets for both 2016/17 (Estimated Outturn) and 2017/18 (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 the period 2018/19 to 2020/21.

2016/17 Estimated Outturn Budget

3. In February 2016 Members agreed a budget in respect of the current financial year 2016/17. The revisions to that original budget agreed during the course of the year were reported to and approved by Cabinet on 23rd November 2016.

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

   - Rental income is £0.192m higher than the original budget which is mainly due to the level of void properties being lower than anticipated.
   - This is partially offset by reduced income from charging for services of £0.060m, along with a reduction in the Contributions to Expenditure of £0.030m which arises from reduced contractual service payments agreed with Derbyshire County Council arising from changes in Supporting People funding agreements. There is a likelihood that further reductions in Supporting People contribution will be an issue in the future years of the current MTFP however, these will need to be addressed by Council as we are notified of such reductions by Derbyshire County Council.
   - The majority of HRA expenditure is paid as Management Fee paid to Rykneld Homes which for 2016/17 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 £0.205m, of which £0.075m is a reduction in the provision for doubtful debts.

- The net cost of HRA services has been reduced by some £0.311 during the course of the year. This robust financial performance together with a recommendation that the level of general HRA balances should be held at £3.0m allows an increase in the contribution to the development reserve of £0.457m, which will provide increased funding for purchasing additional properties for the HRA.

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 £0.029m resulting in a projected balance at the year end of £3m.

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 almost £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 £0.2m every year, or £6m 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 the government has announced that this initiative will only apply from April 2018 the position will need to be monitored carefully given the potential impact upon revenue streams and costs which will fall upon the HRA.

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 on average of £1.5m p.a. Government justified the ending of the rent convergence policy on the basis that the majority of Council's had already reached target rents, however this was not the case at North East Derbyshire which started at a lower level of rent than most other authorities.

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. From 2016/17 the Government has required 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 reduced 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 four year 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 delay 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 sustainability of the HRA will become increasingly difficult to secure.

Housing Revenue Account Budget 2017/18

12. The proposed HRA budget in respect of 2017/18 is set out in Table 1 to this report. The forecast net position for the HRA in the 2017/18 year is that a balanced budget will be set to maintain HRA general reserves at a figure of £3m. The budget does, however, allow a contribution of £0.667m to be made to the Development Reserve which will allow additional properties to be acquired in order to assist the longer term sustainability of the HRA.

13. 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. 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 2017/18 proposes a contribution from the HRA to the Capital Programme of £9.5m. This contribution is funded from the financial provision set aside for depreciation and for a contribution to the major repairs reserve. Details concerning the capital expenditure plans of the HRA are outlined within the capital programme section of this report.

14. The measures outlined within this report enable the funding of HRA expenditure budgets for 2017/18 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 8th 2017 which will agree a management fee for Rykneld Homes in respect of next financial year (2017/18).

Planning Budgets 2018/19 to 2020/21

15. In line with good practice the MTFP sets out the Council's projected financial position over a 4 year period. The forecasts in respect of the latter three years are effectively based upon a roll forward of the budgets in respect of next financial year. Given that the income to fund the service which has been set by Central Government is declining, the key issues for the HRA are the ability to offset cost inflation by securing additional efficiencies in service delivery. There will also be a slight reduction in costs arising from reducing stock numbers associated with RTB, although these reducing costs do not offset the loss of rental income which arises when houses are sold.

16. As outlined above in the context of a reducing level of income all budgets are at standstill. 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.

17. As outlined above the funding for the HRA capital works for council housing 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 £10.164m in 2016/17, with £9.5m in 2017/18 and £9.0m for the remainder of the MTFP period. 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.

18. 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, with a resumption of inflation linked rent increases applying from April 2020.

- 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.

- That the management fee payable to Rykneld Homes remains at the same level as in 2016/17 subject to ongoing negotiations.

- Allowance has been made for cost changes in respect of specific items where that is considered to be appropriate.

<u>Fees, Charges and Rents for Homeless Units</u>

19. While the main source of income for the HRA arises from property rents the HRA is also dependent for its financial sustainability upon a range of other charges including Supporting People services, garages and heating. The proposal with respect to HRA charges for 2017/18 is that no increase be applied in respect of Non Dwellings rents including garages and hard standing.

20. In addition to managing the Council's housing stock Rykneld Homes also provide support in delivering the Council's Homelessness service. Currently there are four furnished HRA properties reserved for this purpose, two with three bedrooms and two with one bedroom. It is proposed to apply government rent policy and to apply a further 1% reduction to these properties from 1st April 2017.

<u>Level of HRA Balances</u>

21. 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. On the basis of the HRA Risk Register, the position at other

authorities and a general reasonableness test it is considered appropriate to maintain a level of HRA general balances in the region of £3m over the period of the current MTFP. At this level of HRA balances there is effectively a reserve of £375 per property. One factor in not seeking to further enhance the level of balances is that this could only be funded by a reduced contribution to the Development Reserve, which is used to acquire additional properties. These properties generate an additional income stream which will help secure the longer term sustainability of the HRA.

22. 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

23. A financial Risk Assessment is set out in Table 3, which outlines the risks, the mitigation which is in place, the potential impact and the probability of the event occurring in order to arrive at a notional calculation concerning the potential financial impact of the risks which the Council is currently facing. This indicates that the identified risks which the Council's HRA is currently managing amount to £2.3m. This report recommends that during the course of this MTFP that the HRA continues to operate a policy of maintaining a housing general balance of £3m which is broadly in line with the level of identified risk.

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

25. Given that the reformed or localised HRA is now established there has been a change in the nature of the strategic risks facing the HRA. While it was originally envisaged that the HRA should benefit from greater financial certainty as a result of the ending of annual central government financial settlements, in reality over the 5 years since the introduction of the localised HRA there has been considerable instability arising from Central

Government including changes to rent setting policy, further incentivising Right to Buy applications and other changes in tenure which have generated significant levels of financial instability in the system. Careful planning has served to mitigate the impact of these changes upon our tenants. Given the background of localism there is a clear requirement to promote stability in financial matters and service delivery by planning within the context of 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.

26. 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 were 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

27.

a) That Council sets its rent levels in line with Government regulations reducing rent levels by an amount of 1% to apply from 1 April 2017.

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 remain at 2016/17 levels.

c) That the level of general HRA balances be maintained at a figure of some £3m across the period covered by the proposed Medium Term Financial Plan.

d) 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 2016/17, as the Original

Budget in respect of 2017/18, and the financial projection in respect of 2018/19 to 2020/21.

APPENDIX 2 Table 2

HOUSING REVENUE ACCOUNT: RISK REGISTER

Risk and Mitigation in Place	Gross Value of Risk £'s	Probability	Potential Impact £'s
1. 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
2. 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
3.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.	£1,000,000	30%	£300,000

• All budgets are based on previous experience of expenditure / income and should be sufficiently robust to cope with the expected range of fluctuation.			
4. 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
5. 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 the recovery of arrears and has established appropriate financial provisions should write offs be required.	£500,000	30%	£150,000
6. 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
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 2016/17 (Estimated Outturn) and Programme for 2017/18 to 2020/21 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 borrowing and investment which provide 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 at the budget setting Council on 13th February 2017.

4. 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.

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

	2016/17 Est Outturn £,000	2017/18 Original £,000	2018/19 Original £,000	2019/20 Original £,000	2020/21 Original £,000
General Fund Schemes	3,355	765	1,129	1,083	2,158
HRA Schemes	13,064	14,792	9,275	9,000	9,000
Total	16,419	15,557	10,404	10,083	11,158

Capital Programme – Estimated Outturn 2016/17

6. The Estimated Outturn in respect of the current financial year, which is detailed in Appendix 3 Table 1, is an increase of £0.102m over the Current Programme approved in November. This relates to a rolling forward of an ICT scheme that will now take place in 2016/17 rather than future years.

With respect to the 2016/17 Capital Programme the key schemes are the start of work on site in respect of the North Wingfield scheme. The Capital Works programme for the Council's housing stock should will help ensure that the Council continues to provide high quality homes for our tenants. On the General Fund programme the main scheme has been the refurbishment work undertaken at the Leisure Centres which was approved on the basis that it was an Invest to Save Programme, with the costs of refurbishment being met in future years from additional income which will secure a significant reduction in the costs of operating these facilities.

General Fund Programme 2017/18 and future years

7. Within the General Fund table are the capital expenditure plans for 2017/18 and future years. The following are the key schemes.

- 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 £0.423m 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 £0.600m with part of 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.

8. 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 2017 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

9. The larger element of the Council's Capital Programme is that which relates to work on council dwellings. The Council's capital programme for 2017/18 onwards in respect of its Major Works Programme amounts to some £9m. This is significantly reduced from previous financial years which reflects the fact that expenditure levels are 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.

10. 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 2017/18 – 2020/21 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).

11. 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.

12. 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 which will also need to cover shared ownership income pending the securing of the shared ownership receipts. 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.

13. As outlined within the covering report a new programme for a Stock Purchase Scheme is also recommended for inclusion with the Programme in respect for 2017/18 and future financial years. This scheme is proposed because it will be able to utilise 'one for one' capital receipts which the Council is allowed to retain by central government on the basis that they are used to acquire additional housing stock to replace that which has been bought under Right to Buy. These receipts can cover up to 30% of the costs of acquisition of additional properties and the proposal is that they would be used to acquire affordable housing on developments across the District which had a S106 agreement requiring affordable housing. Given that there is an element of developer subsidy in such units they can generally be acquired for a cost significantly lower than that associated with building new houses directly. In addition the Council will look to purchase appropriate properties which become available on the open market. It is anticipated that the majority of these will be former Right to Buy properties located within existing council housing / mixed tenure estates. All proposed purchases will be subject to a financial appraisal being undertaken which demonstrates that the purchase provides value for money. The funding for these acquisitions would be by way of one for one capital receipts (30%), together with a contribution from the Development Reserve which is funded from annual contributions from the HRA and prudential borrowing as required.

14. 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 – 2017/18

15. 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 2017/18 capital programme. This indicates that the identified risks which the Council is facing in respect of its 2017/18 Capital Programme

amount to £1.8m. 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.

16. 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:

17.

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 2016/17, and as the Original Programme in respect of 2017/18 to 2020/21.

b) That Council approve the financial provision for the proposed Stock Purchase scheme at a total cost of £3.2m (funded by £0.96m of One for One receipts, £0.74m Development Reserve and £1.5m prudential borrowing), on the basis that a further report setting out the 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.

CAPITAL PROGRAMME RISK REGISTER – 2017/18 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.	£16,000,000	10%	£1,600,000
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			**£1,800,000**