MEDIUM TERM FINANCIAL STRATEGY

2015/16 – 2019/20

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DACORUM BOROUGH COUNCIL MEDIUM TERM FINANCIAL STRATEGY 2015/16–19/20

July 2015

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1. Introduction

1.1 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. In detailing the financial implications of the Corporate Plan over a five-year period, the MTFS provides a reference point for corporate decision-making and ensures that the Council is able to optimise the balance between its financial resources and delivery of its priorities.

1.2 The MTFS informs the annual budget-setting process, ensuring that each year's budget is considered within the context of the Council's ongoing sustainability over the entirety of the planning period. The annual budget-setting process is detailed in the Financial Planning Framework in Section 3.

1.3 In order to forecast the Council's future financial position, the MTFS contains a number of assumptions, the bases of which are detailed throughout the Strategy. It should be noted that these assumptions are subject to change. In particular, Government announcements on the Comprehensive Spending Review and the Local Government Finance Settlement, expected in late 2015, are likely to affect current assumptions. The Corporate Director (Finance & Operations) will report back to Cabinet as a matter of urgency if there are changes to key assumptions in the Strategy that threaten the sustainability of the approved MTFS.

2. Recommendations

2.1 The MTFS makes the following recommendations for approval by Council. It is recommended that:

2.1.1 The financial projections within the 5-year Medium Term Financial Strategy be noted, and the Strategy approved;

2.1.2 A General Fund savings target of £1.42 million be approved for the 2016/17 budget-setting process, subject to review following further Government announcements (see recommendation 2.1.7);

2.1.3 A four-year General Fund savings target of £3.04 million be approved for the duration of this Medium Term Financial Strategy, subject to review following further Government announcements (see recommendation 2.1.7);

2.1.4 A review of the Housing Revenue Account base budget and savings target be undertaken as part of the review of the HRA business plan and budget preparation cycle;

2.1.5 The Corporate Director (Finance & Operations) works with the Council's Corporate Management Team and Portfolio Holders to deliver options that will achieve the saving targets identified within the strategy;

2.1.6 The Financial Planning Framework is approved to support the budget-setting process for 2016/17;

2.1.7 The Corporate Director (Finance & Operations) be requested to revise the Medium Term Financial Strategy and re-present to the Cabinet and Council for approval if material changes to forecasts are required following further Government announcements.

3. Financial Planning Framework

3.1 The Financial Planning Framework, shown below, demonstrates the process by which the Council ensures that revenue and investment plans are developed in tandem, and that the annual budgets approved by Council each February are developed within the context of longer-term sustainability, and reflect appropriate consultation with major stakeholders.

June/July	The final budgetary position for the previous year is finalised, and reported to Members for approval through the Provisional Outturn Report to Cabinet, and the Final Outturn Report to the Audit Committee. The approved outturn position is then incorporated within the refreshed MTFS, which is recommended to Council for approval as the basis for the subsequent year's budget-setting process.
August/September	The Budget Review Group, comprising both Members and Officers, begins a series of meetings that continues throughout the budget-setting process to develop proposals for strategic savings options. Budget Holders begin developing Service Plans, in consultation with Portfolio Holders, for the following year. These plans include revenue and capital bids, and highlight new savings proposals and budgetary pressures.
October – November	Proposed budgets are scrutinised and challenged by the Corporate Director (Finance & Operations) and by the Budget Review Group, both supported by the Financial Services team. The results of Spending Review (SR) 2015 will be announced by Government, which will give an indication of future years' grants for the Council. See paragraph 5.36.
November – December	Provisional Local Government Finance Settlement announced by Government, which sets the level of grant the Council will receive over the next year(s). Consultation events held with Town and Parish Clerks and Members, and with members of the public.
January	Draft budget proposals presented to Joint Overview & Scrutiny Committee, for Members' scrutiny. Feedback from Joint OSC is considered by Budget Review Group, and incorporated into final budget proposal presented to a second Joint Overview & Scrutiny Committee meeting.
February	Final budget report presented to Cabinet for recommendation to Council. Council considers the recommendations of Cabinet for approval.
April	The new financial year begins, and the approved budget is then assessed under the in-year budget performance monitoring process.

4. Public sector context

4.1 The Local Government Finance Settlement, expected in December 2015, will provide the Council with specific details of the government funding it will receive for financial year 2016/17. Until details of the Settlement are received, modelling the MTFS relies on assumptions informed by existing government announcements, wider economic indices, and performance against previous budgets.

4.2 This version of the MTFS reflects the announcements made by the Chancellor in Summer Budget 2015, issued on 8 July 2015. The next key announcement expected from Government, which is likely to provide key indications as to the future funding outlook for the sector, is the Spending Review (SR), details of which are expected in autumn 2015.

4.3 Based on election pledges, and the Summer Budget, forecasters within the sector expect that reductions to the budgets of unprotected government departments over the life of the current parliament will be on a scale similar to those experienced over the life of the last parliament.

Summer Budget 2015 – key announcements

4.4 From April 2016, a **National Living Wage** will be set at £7.20 per hour, rising to £9 by 2020. As part of its 2015 Budget, Council approved that DBC should apply a living wage supplement to all affected employees in 2015/16, thereby creating a minimum wage of £7.85 per hour. This is already factored into the budget and the implementation of the National Living Wage is not expected to increase the salaries liability beyond the existing assumptions within the MTFS.

4.5 The Chancellor revised future projections for **Government Spending** over the next five years, reducing the public sector spending cuts by over 50% from those implied in the March 2015 Budget. The extent to which this will affect local government funding will depend on how the reductions are apportioned across central government departments, which will not be announced until the Spending Review in autumn. The current MTFS funding assumptions are provide by LG Futures, specialist modellers within the Local Government sector.

4.6 The Chancellor announced that **pay increases for staff in the public sector should be capped at 1%** per year for four years. This was anticipated, and is reflected in the current MTFS.

4.7 There were a range of announcements within the budget that are likely to affect the HRA business plan. Chief amongst these was the announcement that **social rents will be reduced by 1% per year for four years**. The implications of this policy for the Council's new build ambitions are currently being modelled in conjunction with advice from the Chartered Institute of Housing, but are likely to be significant. The updated HRA Business Plan, incorporating the impact of the budget announcements, is subject to a separate report, and will be presented to Cabinet in September 2015.

4.8 The HRA business plan faces further risk to its rent collection rates resulting from the announcements relating to benefit and tax credit reductions, and that **tenants with household incomes of £30k will have to pay market, or near market rent,** for their properties. The additional amount received by DBC cannot be retained by the HRA, but must be paid over to HM Treasury to be used as part of the deficit reduction programme.

5. General Fund Revenue

Update of General Fund budget assumptions based on 2014/15 outturn

5.1 The basic principle of the MTFS model is to extrapolate the current year's approved budget, in this case 2015/16, over the next four years. The extrapolation process includes assumptions on government grant, inflation, changes in demand for services, changing legislation, and probable risks and opportunities.

5.2 In order to provide assurance that the basis of the model, the 2015/16 approved budget, is robust, the following paragraphs provide updated analysis of some of the Council's budgeting assumptions following the recent year-end process for 2014/15. The analysis focuses on those areas where there were over- or under-spends, in order to identify whether the budget assumptions were flawed and require updating to improve the accuracy of the MTFS.

5.2.1 Employees - £422k under budget

- £745k underspend relating to a one-off contribution to reduce the Council's pension deficit. This payment was approved by Council as part of the 2014/15 budget, but payment was actually made within the 2013/14 financial year. This was a timing difference between budgets for a one-off piece of expenditure, and will not affect the 2015/16 budget. This underspend does not necessitate a review of the assumptions within the MTFS.

- £110k overspend arising from the costs of the project team employed to deliver the reconfiguration of Waste Services. These costs had initially been budgeted for within the Council's capital programme to be financed through the Management of Change reserve. The costs were still financed from the earmarked reserve and so had no impact on the Council's overall financial position. This overspend will not affect the 2015/16 budget, and does not necessitate a review of the assumptions within the MTFS.

- £120k overspend arising from agency costs due to a period of particularly high staff turnover within the Benefits service, combined with increased work volumes linked to the general economic downturn. This was financed through unringfenced New Burdens grant income so had no impact on the Council's overall financial provision. This overspend will not affect the 2015/16 budget, and does not necessitate a review of the assumptions within the MTFS.

- £68k overspend arising from the approval of the Council's involvement in a Graduate Training Scheme. This was a one-off scheme financed through the Management of Change reserve, and therefore will not affect the 2015/16 budget, nor necessitate a review of the assumptions within the MTFS.

5.2.2 Premises - £305k over budget

- £120k overspend relating to the Hemel Hempstead Civic Centre. Following Council's decision to remain in the Civic Centre until transfer to The Forum in January 2017, there were a number of additional short-term repairs required to ensure that the building remains usable. In order to finance the further repairs that are likely to be required before the Civic is demolished, Council approved a contribution to reserves of £200k in February 2015. This reserve will be closely monitored throughout 2015/16 to ensure it is sufficient, but based on current information there are no further adjustments required to the assumptions within the MTFS as a result of the overspend in 2014/15.

- £70k overspend arising from an increase in demand-led repairs and maintenance to the Council's Community Centres and open spaces. The works to open spaces were primarily due to correct pavement subsidence at the Water Gardens and to repair flint walls at Gadebridge Park following a number of vehicle incidents. Analysis suggests that this overspend was due to abnormally high demand and that the basic budget allocated to this area is generally sufficient. This overspend does not require an adjustment to the assumptions within the MTFS.

- £66k overspend relating to the Council's taking over the management of two Homes of Multiple Occupancy, through the process of Management Orders. This was due to the inadequate state of the properties which were posing a health and safety risk to tenants. The £66k expenditure has been incurred to bring the properties up to the required standard. This will be recovered in full, as rental income from tenants is being retained by Dacorum until the expense is recovered (see income section, below). This is a one-off, self-funding occurrence, and does not require an adjustment to the MTFS assumptions.

5.2.3 Supplies & Services - £503k over budget

- £150k overspend related to Sportspace. The Council's 2014/15 budget for the core funding grant to Sportspace was originally reduced by £50k based on a proposal to amend the forward funding agreement. Members subsequently approved that the amendment to the funding agreement be postponed for one financial year, and that an increased grant of £100k be awarded in 2014/15. This was a one-off overspend and the assumption within the MTFS reverts back to the agreed funding agreement with Sportspace. There is no requirement to amend the assumptions based on this overspend.

- £85k overspend relating to external consultants appointed in 2013/14 to provide project management support for the Forum and associated projects. This was funded from reserves during 2013/14 but the commitment was not included in the base budget for 2014/15. A report was approved by Council in **date 2014** approving the refreshed capital budget for The Forum, which is included in the current Capital Programme. Therefore, no revision of the MTFS assumptions is required.

- £80k overspend relating to external consultants appointed by the Council to undertake a review of its key contracts, enabling savings to be generated for future years. This was one-off expenditure funded from reserves and does not require a revision of current budgeting assumptions.

5.2.4 Income - £952 over recovery

- £128k unbudgeted receipt relating to a claim submitted by the Council claim against HMRC to reclaim VAT paid in previous years. This claim was successful and generated a one-off receipt of £128k.

- £200k over-achievement of income arising in Development Control due to the receipt of some large one-off planning applications, together with a general increase in the number of applications as the economy shows signs of strengthening. Analysis suggests that of the £200k, it is realistic to assume that around £115k represents a sustainable increase in annual income. This has been incorporated into the budget for 2015/16 and no further revisions to budgeting assumptions are required.

- £225k over achievement of income has arisen on Car Parking in 2 key areas: off-street car parking has generated an additional £115k, due to increased usage of council car parks, and the income from on-street penalty charge notices has exceeded budget by £85k. An increase of £140k has already been factored into the budget for 2015/16 (£90k in off-street car parking and £50k in on-street penalty charge income). Annual income in this area is volatile, depending on weather etc, so to increase budgeted income more than has already been done in a single year would be imprudent. No further adjustments to MTFS budgeting assumptions are required.

- The Council has taken over the management of 2 Homes of Multiple Occupancy, through the process of Management Orders. This was due to the inadequate state of the properties which were posing a health and safety risk to tenants. Income of £66k has been accrued to offset the cost of bringing the properties up to the required standard (see corresponding overspend in Supplies and Services section, above).

Update of MTFS assumptions based on other information

5.3 A range of information sources have been used to inform the updated assumptions shown within the following table. The rationale behind estimates is shown in the notes below. Further sensitivity will be undertaken as new information becomes available.

	Note	2016/17	2017/18	20108/19	2019/20
Income		%	%	%	%
Council Tax	1	2.3	2.3	2.3	2.3
Revenue Support Grant	2	(29)	(36)	(26)	(20)
Business Rates Retained	3	1.4	1.7	2	2
Fees & Charges	4	1.4	1.7	2	2
Investment Income	5	0.9	1.5	2	2.75
Expenditure					
Pay settlement	6	1	1	1	1
Pay: contract increments	7	0.6	0.6	0.5	0.3
Pay: National Insurance	8	1.4	0	0	0
Pension contributions	9	0	1.9	0.9	0.9
Utilities	10	5	5	5	5
Fuel	11	5	5	5	5
Supplies & Services	12	1.4	1.7	2	2

Notes:

1. Increase includes 1.8% Council Tax increase and 0.5% increase in the tax base.
2. Reductions based on LG Futures model, to be updated following Spending Review.
3. Inflation assumptions from Office of Budget Responsibility (OBR)
4. Inflation assumptions from OBR on controllable income eg excludes Planning fees
5. Sector forecast on interest rates
6. As announced in Summer Budget 2015
7. Based on actual increments due
8. Removal of National Insurance Contribution Rebate from contracted out schemes
9. Increase 1% on current service costs and 0.9% per annum on past service costs
10. Currently under review – historical assumptions used at present
11. Currently under review – historical assumptions used at present
12. Inflation assumptions from Office of Budget Responsibility (OBR)

Growth

5.4 Growth is defined as an increase in the expenditure, or the net expenditure, budgets of the Council. In the event that essential or unavoidable growth is required within a Service area, a business case outlining the requirements should be produced by the relevant Group Manager and Assistant Director, and be signed off by the Director and S151 Officer, before being submitted for consideration by the Budget Review Group.

5.5 Growth in the income generating capacity of a particular Service does not mean that the additional income automatically accrues to that Service. All Council income, unless stated otherwise by statute, is considered corporate income and is used to finance the provision of all Council services. All requests from budget holders to retain additional income budget in order to finance increased expenditure are subject to the growth process outlined above.

5.6 If, during the budget-setting process, a budget holder reduces the cost of providing one of their services, the resultant saving does not automatically become available to them to finance the expansion of an alternative service area. All savings made across services constitute a contribution to the Council's corporate budgetary position. Any expansion of a Service area constitutes growth, which necessitates a separate growth bid.

Fees and Charges Strategy

5.7 The fees and charges set by the Council are subject to annual review as part of the budget-setting process. Changes made between years are included within the annual Budget Report, and are subject to Council approval. The key principles behind charging are that:

- discretionary charges should recover costs unless the strategy is to provide a particular service at a subsidy;

- discretionary income should be optimised through appropriate commercial charges; and,

- robust systems of discounts or concessions should be in place for those who would otherwise find that they could not access services, where deemed appropriate.

5.8 Provision of many Council services is a statutory requirement and charges for access to these are determined as part of that requirement. The Council therefore has no discretion in setting these fees.

5.9 A thorough review of the true cost and effectiveness of providing statutory services must be undertaken on a regular basis to ensure that the fees charged meet the cost of service provision wherever possible. Where any review indicates an under-recovery of cost, alternative methods of service provision and comparison with other comparable authorities must be undertaken to identify opportunities for minimising the liability to the Council.

5.10 The Local Government Act 2003 includes a general power for Councils to charge for discretionary services i.e. services that an authority has the power, but no obligation, to provide. Some discretionary charges are governed by alternative legislation, in which case this general power does not then apply.

5.11 Increases for the annual review of fees and charges have been included in the MTFS projections based on the percentages set out in table 5.3.

General Fund Working Balances and Earmarked Reserves

5.12 The Council's Reserves Strategy is integral to the Medium Term Financial Strategy because it demonstrates how the Council augments its annual ongoing running costs with plans to finance specific items one-off expenditure over the medium-term. The Strategy is reviewed annually, and was most recently approved by Council within the 2015/16 Budget Report, in February 2015.

5.13 The Council holds two types of reserve. These are:

- **Working balances**, which are required as a contingency against unforeseen events, and to ensure that the Council has sufficient funds available to meet its cash flow requirements. The Local Government Act 2003 requires the Section 151 Officer to report on the adequacy of financial reserves when setting the General Fund budget requirement for the year. This requirement was met within Appendix M of the Budget Report.

- **Earmarked reserves**, which are funds approved by Members to finance specific items of future expenditure. The Council's Financial Regulations dictate that Earmarked Reserves can be created only by Member approval, and that all subsequent transfers to and from those reserves also require Member approval.

5.14 In accordance with best practice, the General Fund Working Balance is maintained at a level between 5% and 15% of Net Service Expenditure.

General Fund Savings Targets

5.15 Based on the assumptions detailed throughout this Strategy, and the need to maintain the desired level of General Fund Working Balances, the savings targets over the life of this MTFS are as follows. (See Appendix A for full summary.)

	2016/17	2017/18	2018/19	2019/20	Total
Savings Target	£1.4m	£1.2m	£0.2m	£0.3m	£3.1m

Key General Fund Budget Risks

5.16 The Council received £2.6m of **New Homes Bonus** (NHB) from central government in 2015/16. NHB is paid to local authorities to stimulate local housing growth and takes the form of a grant for each additional home within the borough, payable for a six-year period. With the exception of £325k per year, which is used to support annual revenue budgets, the Council has contributed NHB to reserves in order to fund capital projects over the life of the Capital Programme.

5.17 Government has been pressured by the Public Accounts Committee to demonstrate the effectiveness of NHB payments, and by a number of local authorities which have not benefitted from NHB payments. As Government seeks to identify further areas to reduce spending, NHB has to be considered one of the Council's most vulnerable funding streams.

5.18 If there are changes to the structure of NHB in future, then the current funding plans for the Capital Programme will need to be reviewed. More clarity over the future of NHB is expected as part of the Spending Review announcements in autumn 2015. This will be kept under review by the S151 Officer, and reported to Members as required.

5.19 **Revenue Support Grant** (RSG) from central government provided the Council with £2m of income in 2015/16, and is used entirely in support of service provision. It is likely that the most significant reductions in government support for local authorities will be via reduced RSG.

5.20 The actual level of RSG that the Council will receive in 2016/17 will not be announced until the Local Government Finance Settlement, expected in December 2015. The working assumption within the MTFS is that the Council's RSG will be reduced by 30% (£600k) in 2016/17. This is based on the more prudent of two of the sector's primary forecasters, LG Futures and the LGA. It should be noted that this forecast was based on information available prior to the Summer Budget 2015, in which the Chancellor announced that overall, cuts to Government spending will be less than half the level that was implied in the March 2015 budget.

5.21 **Retained Business Rates** (also known as Baseline Funding) contributed £2.5m to DBC in 2015/16. This is based on the government's assessment of need within the borough, and it can be increased or decreased depending on whether the overall amount of business rates collectable across the borough increases or decreases. The amount by which the Baseline Funding can reduce is capped at 7%, which is known as the 'safety net'.

5.22 Over the last two years the Council has had to provide for potential backdated refunds for extant Business Rates appeals that were outstanding at the time the localisation of Business Rates was introduced in 2013. The Council's audited assessment of these outstanding appeals is that enough of them will be successful to offset the forecast business growth within the borough, thereby resulting in a net reduction in the amount of business rates collectable, and a consequent reduction in Baseline Funding. The assumption in the MTFS is that the Council will be in 'safety net' and will receive the minimum amount of Baseline Funding, i.e. 7% less than the amount based on the assessment of needs.

5.23 It is possible that the amount of Baseline Funding the Council receives could be reduced further if Government changes the structure of the Business Rates Localisation scheme. At the time the scheme was implemented, however, Government announced that the baselines would not be reset until 2020. The S151 Officer will continue to monitor Government announcements over coming years, as the resetting of baselines, and subsequent reductions in the level of Baseline Funding, could be forthcoming earlier than 2020 if the Government needs to intensify its deficit reduction programme.

5.24 Current **Council Tax** legislation requires local authorities to hold a referendum if, as part of the annual budget-setting exercise, they wish to implement an increase of 2% or more. The MTFS assumes increases in Council Tax of 1.8% per annum over the next four years.

5.25 There is a risk that Government could amend the referendum trigger which, given that the estimated costs of a referendum are £80k, could result in Members reducing the 1.8% assumption in the current MTFS. Each 1% increase equates to around £100k additional annual income for the Council, or £500k over the life of the MTFS. A minor change to this legislation could result in a significant increase to the Council's five-year savings target.

5.26 Government continues to be lobbied by a number of organisations within the sector for increased local control over the setting of Council Tax, and a removal of the 2% referendum trigger. If Government reconsiders current policy and removes the trigger, this could provide an opportunity for the Council to generate increased tax revenue in support of its services.

5.27 **Alternative Financial Model** (AFM) payments are made to district councils by Hertfordshire County Council (HCC) in order to incentivise waste collection programmes that reduce the amount of waste sent to landfill. HCC have advised districts, through the Herts Waste Partnership, that AFM payments will not be guaranteed beyond 2015/16.

5.28 AFM is a key income stream for the Council. In 2015/16, DBC received £400k in AFM payments, and in October 2014 reconfigured its Waste Services to further reduce landfill and capitalise on AFM payments. If the current basis for AFM payments is amended by HCC, or removed entirely, DBC may need to review the provision of its Waste Services in order to ensure that it remains cost effective. More clarity is expected as HCC progress their budget-setting process for 2016/17 and feedback is expected via the Herts Waste Partnership in late autumn 2015. The current MTFS assumes a £150k reduction in AFM payments in 2016/17.

5.29 The Council's **pension fund** deficit increased by £15m, (25%), as a result of the 2014/15 year-end actuarial assessment. The size of the pension fund deficit has a direct relationship with the amount of contributions the Council is required to make to the fund. Changes to the Council's contributions are triggered by the recommendations of the fund's triennial review, the next of which is scheduled for December 2016.

5.30 The current MTFS assumes a 1% increase in the level of current service contributions, i.e. those contributions related to staff that are currently in work, following the December 2016 review. It also contains an assumption that the costs of funding existing pensioners will increase by 0.9% per year. The Council has a Pensions Reserve of £1.8m which could be used for one-off payments to reduce the deficit, pending future actuarial reviews.

5.31 The **Spending Review** (SR) announcement, expected in early autumn 2015, will allocate the Departmental Expenditure Limit (DEL) for the Department for

Communities and Local Government (DCLG) for the next five years. Although DCLG would still be subject to annual budget-setting reviews, the CSR will provide a clear indication of the magnitude of reductions expected within the local government sector over the coming years.

6. Housing Revenue Account (HRA)

HRA Business Plan update

6.1 The HRA Business Plan is a thirty year plan which maps the delivery of Service objectives within the forecast economic outlook. The long-term perspective is crucial to ensure that the Service and its primary asset, the housing stock, is projected to be 'fit for purpose' throughout the entire period.

6.2 The Business Plan is kept constantly under review, and is presented for Members' approval at least annually. The most recently approved HRA Business Plan was approved in September 2014, and it is next scheduled for Cabinet consideration in September 2015. The assumptions within the revised plan will be analysed and updated in light of the announcements made in the Summer Budget 2015. The table below indicates the most recent assumptions within the plan, approved as part of the 2015 Budget, in February 2015.

Budget	Assumptions
HRA Working Balance	Minimum 5% of turnover, as per Reserves Strategy.
Major Repairs Reserve (MRR) Balance	Depreciation is ring-fenced to MRR. The plan does not show an increasing MRR balance because in all years planned capital expenditure exceeds depreciation, with revenue contributions to capital topping up any shortfall required to meet investment commitments.
Debt financing cost	The average debt financing interest rate at the point of final settlement, in April 2012, was 3.30%. These loans are at fixed rate.
Rent	For properties at Target Rent, rents are increased by 'CPI + 1%'. For properties not at Target Rent, rents are increased by 'RPI + 0.5%' plus up to £2 convergence.
RPI	3%
Interest on HRA balances	1% for years 1-5 (consistent with current returns), rising to 2.5% in years 6-10, and 3% thereafter.
New Build Programme	Year 1: 71 Properties. Year 2-5: 133 Properties. Years 6-10: 191. Years 11-30: 30 per annum.
Build cost per unit	£150,000 (incl. Land).
52 week rent per unit	£112 p/w; equal to Dacorum Borough Council average social 'Target Rent'.
General Management costs	£750 per unit, based on current stock.
Right to Buy	The model reflects an assumption of 80 RTB sales in 2015/16, with 40 sales in 2016/17, and 20 per annum thereafter.

6.3 The MTFS will be updated subject to Members' approval of the updated HRA Business Plan.

6.4 The HRA Working Balance is maintained by the Council at a level of not below 5% of turnover, as approved by Members as part of the Reserves Strategy.

Key HRA Budget Risks

6.5 The number of properties sold under **Right to Buy** (RTB) legislation remains at around one hundred per year. Within the current model, the resulting loss of rental income is not yet sufficient to jeopardise the Council's medium-term ambitions. However, this will need to be kept under review as the number of sales shows no sign of abating.

6.6 The Council is subscribed to Government's 'One for One Replacement' scheme, which entitles it to retain substantially all of the receipts from RTB sales. However, in order to retain the income, the Scheme stipulates that it can only be used as a contribution to new build schemes up to a maximum contribution of 30%, and must be utilised within three years of receipt.

6.7 There is a risk that the Council will be unable to retain this income because the high value of receipts (£8m in 2014/15) means that the Council may struggle to cashflow its 70% share of new build project costs within the three-year timeframe. The borrowing cap imposed by government as part of the Self-Financing settlement precludes the Council from borrowing sufficient amounts to meet the costs.

6.8 The announcement made by the Chancellor within the Summer Budget 2015 that **social rents should be reduced by 1%** per year for the next four years, is likely to reduce significantly the level of rental income, and therefore could have a significant impact on the Council's new build ambitions. The impact of this announcement is currently being worked through as part of the HRA Business Plan review, which will be reported to Cabinet in September 2015.

6.9 The HRA business plan faces further risk to its rent collection rates resulting from the Budget announcements relating to **benefit and tax credit reductions**, and that tenants with household incomes of £30k will have to pay market, or near market rent, for their properties. The additional amount received by DBC cannot be retained by the HRA, but must be paid over to HM Treasury to be used as part of the deficit reduction programme. The impact of these changes will be monitored over the next few months and the appropriate changes made to the HRA bad debt provision.

7. Capital Resources

7.1 Capital expenditure is defined as expenditure incurred on the acquisition or creation of assets needed to provide services, such as houses, vehicles, public buildings, play areas, ICT, etc.

7.2 Capital grants, borrowing and capital receipts can only be spent on capital items and cannot be used to support revenue budgets. However, it should be noted that revenue funds can be used to support capital expenditure. Under the Local Government Act 2003, each council can determine how much it can borrow within prudential limits. All borrowings must be financed from the total available resources of the Council.

Capital Spending Plans 2015/16 to 2019/20

7.3 The Council's approved Capital Programme for the current and future years was approved by Council in February 2015, and is summarised below:

Capital Expenditure	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
General Fund	27.33	14.42	4.89	1.94	2.07
Housing Revenue Account	36.31	29.02	27.59	26.85	26.33
Total	**63.64**	**43.44**	**32.48**	**28.79**	**28.41**

General Fund

7.4 The Council's Capital Programme is currently fully funded, following borrowing of £19.4m taken in May 2015. The loan is structured over a portfolio of 30 loans, with one maturing each year. The loan was taken from the Public Works Loan Board (PWLB), at favourable rates, around 60 basis points above gilts, and resulted in an average initial interest rate of 2.98%.

7.5 The interest rates available at the time the borrowing was taken were significantly lower than those forecast at the time of the previous MTFS (August 2014). This resulted in a total saving to the Council of £1.5m between 2015/16 and 2018/19. It should be noted that the costs faced by the Council in 2015/16 are around £500k higher than forecast in the previous MTFS, due to the borrowing being taken in advance of need in order to secure the historically low rates ahead of the General Election. In taking this approach, the Council was able to capitalise on historically low rates whilst at the same time avoiding the risk of market volatility that may have pushed up the borrowing rates in the wake of an uncertain General Election outcome.

7.6 The Council is required to pay off an element of borrowing each year through a revenue charge, the Minimum Revenue Provision (MRP). The Council's Treasury Management Strategy approved by Cabinet in February 2015, sets out the Councils policy to, at a minimum, pay off the debt over the life of the asset associated with the borrowing. This policy has been applied to the MTFS forecasts.

7.7 The full impact of borrowing costs of the current Capital Programme on the Council's revenue budgets are reflected in the forecasts included in this strategy. However, at the time of writing the Council is examining the potential for further investment in leisure and recreation across the borough. This would provide additional quality of life infrastructure to support the additional housing and economic developments that will be taking place over the next few years. The costs of these proposals for leisure and recreation have not yet been assessed, and thus at this stage there is no provision for their funding within the MTFS

7.8 The financing of the Capital Programme will continue to be supported through the following prioritisation of funds: firstly, appropriate application of grant funding; secondly, use of revenue contributions and capital receipts generated from the sale of Council assets; and, thirdly, through undertaking prudential borrowing.

7.9 The General Fund Capital Programme is financed as follows:

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Capital Receipts	5.5	5.9	1.9	0	0
Borrowing	13.0	5.5	0	0	0
Grants and Contributions	4.8	0.4	0.4	0.3	0.3
Revenue Contributions to Capital	4.1	2.6	2.6	1.6	1.8
Total	**27.4**	**14.4**	**4.9**	**1.9**	**2.1**

HRA

7.10 The current version of the HRA Business Plan indicates that all future capital expenditure within the HRA, including the current new build programme, can be funded from depreciation and revenue surpluses. Revenue is contributed to capital on an annual basis as required to fund the shortfall between planned capital expenditure and depreciation contributions to the Major Repairs Reserve. Surplus revenue not required for capital expenditure is transferred to the HRA revenue reserves.

7.11 As detailed within Section 6 of this strategy, work is currently underway to identify the implications of the recent Summer Budget announcements on the HRA Business Plan. In particular, the requirement for social rents to be reduced by 1% per year for four years is likely to affect the amount of funding available within the HRA, and the way in which HRA capital expenditure is funded in the future. The updated Business Plan will be brought to Cabinet in September 2015.