Agenda Item No

Bolsover District Council

Executive

2nd FEBRUARY 2015

Medium Term Financial Plan 2015/16 to 2017/18

Report of Councillor Eion Watts, Leader of the Council

Purpose of the Report

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

1 Report Details

Introduction

1. This report presents the following budgets and financial plans for Executive 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 Executive has considered the position as set out within this report and associated appendices then any recommendations made by Executive will be referred to the Council meeting of 4th February 2015 in order to secure agreement to the Council's budget in respect of the 2015/16 financial year. It should be noted that the report has previously been considered by both the Budget Scrutiny Committee at its meeting of 22nd January 2015 and by the Audit Committee at its meeting on 19th January 2015.

2. While all of the above accounts are detailed separately within the report it is important that Executive gives appropriate consideration to the Council's overall financial position which encompasses all the three separate accounts as outlined within this report and to the range of services that it is planned to deliver to local residents. In addition to the consideration of the above three reports Council at its meeting of 4th February 2015 will also be requested to consider the Council's proposed Treasury Management Strategy which links the above three accounts

into the Borrowing and Investment strategy. This helps to ensure that the Council's financial plans are affordable, prudent and sustainable.

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

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

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

- <u>2015/16 Original Budget</u>
  This is the proposed budget for the next financial year commencing 1st April 2015 which Council will need to consider for approval at its meeting on 4th February 2015.

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

Robustness of the Estimates

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

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

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

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

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

2. <u>Conclusions and Reasons for Recommendations</u>

This report presents a budget for consideration by Executive. It seeks to secure 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 <u>Consultation and Equality Impact</u>

Consultation

- Given that this budget report is based on the assumption that in overall terms existing levels of service will continue to be delivered by the current staffing establishment then there is not a requirement for an extensive consultation process to be undertaken. A specific meeting to consult on the impact of the proposed budget on the local business and commercial sector was held on the 26th January. The outcome of this meeting will be reported to Executive and at the meeting of Council on the 4th February.
- The Council is required to consult with stakeholders on the proposed budget. This consultation which is part of the Council's service planning framework has effectively been taking place throughout the financial year. These mechanisms which include active participation in the Local Strategic Partnership, a range of meetings with local groups and associations and a performance management framework which actively considers customer comments and complaints helps ensure that the Council remains responsive to local residents. These meetings help to inform the Council's understanding of what is expected of it by our local communities. In addition the budget process has also sought to ensure that the knowledge of Members in their role as Community Champions has been used to inform the service development process.
- It should also be noted that the budget process itself does not propose any significant change or amendment in the level of services provided to local residents, or any significant change to staffing structures or ways of working. Where significant change is planned this is subject to an appropriate consultation process concerning the proposal under consideration. The outcome of these consultation processes are reported back to Executive or Council for consideration as part of the decision making process. In particular, the Council has in place a Policy covering Organisational Review which details consultation procedures with staff affected, etc.
- In terms of internal consultation on the budget process consideration of a draft version of this report has been undertaken by both the Budget Scrutiny Committee at its meeting on 22nd January and by the Audit Committee on the 19th January. The main themes of the report have also been discussed at the monthly meetings between trade union representatives and management.

Equality Impact.

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

4 Alternative Options and Reasons for Rejection

4.1 Alternative options are considered throughout the report.

5 Implications

5.1 Finance and Risk Implications

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

General Fund

- Estimated Outturn 2014/15:
  The Council set the original budget for 2014/15 on the basis that it was necessary to secure some £0.447m of savings. Due to a variety of factors including an improvement in non domestic rates income (£0.4m), reduction in non employee costs (£0.3m), employee costs (£0.3m), debt charge (£0.2m) combined with the ability to charge certain Invest to Save costs against Efficiency Grant that position has been managed into one where there is a currently anticipated surplus of £0.900m. The forecast surplus will be dependent upon the use of the £1.064m of Efficiency Grant provided by Central Government in order to fund the costs of rationalisation, restructuring and Invest to Save measures. While this surplus has been based upon minimising all budgets and therefore some upward drift of costs is likely such cost presses are highly unlikely to eliminate the forecast surplus. This is a significant achievement for the Council and provides the Council with a firm basis to address the Council's forecast financial position over the period of the Medium Term Financial Plan.

- **Original Budget 2015/16:**
  The budget in respect of 2015/16 currently shows a breakeven position. As part of the Council's longer terms plans to reduce expenditure in line with the reducing resource base officers have already identified measure to implement during the course of 2015/16 which should secure financial savings amounting to some £0.350m. On the basis that these are implemented then a contribution of some £0.264m into the Transformation Reserve can be funded. This will help maintain the momentum on the growth and transformation agenda and crucially will put the Council in a better position to secure the projected financial savings of some £2.3m which it is anticipated will be necessary over the years 2016/17 and 2017/18. Given the Council's performance over the previous four financial years the efficiency target of £0.350m should be achievable. The minimal level of savings required in respect of next year partly reflects both the fact that this was never planned by central government to be a year for major spending reductions, together with the work that the Council has continued to undertake in order to secure efficiencies and to take advantage of the opportunities offered by the growth agenda in previous years. A continuation of that approach is an essential part of a strategy to secure the necessary level of financial savings in future years whilst minimising the impact on local residents.

- **Budgets 2016/17 and 2017/18**
  While the Council has relatively robust figures in terms of anticipated expenditure over the period of the MTFP the figures concerning Government funding are based upon the limited information that has been provided in respect of future public expenditure plans. While there are national elections in May 2015 that will clearly influence the shape of the Autumn statement in the November of 2015 it is not considered likely that there will be any move away from the ongoing reductions in the level of funding provided by central to local government. The position is complicated by the reality that there may also be changes in the distribution of that funding between different services and tiers within local government itself. On the basis of the information to date we are

anticipating a shortfall of some £1.3m in 2016/17 followed by a further shortfall of £1m in 2017/18. These projections are in line with savings targets over the last few year (£1.259m 2011/12, £0.975m 2012/13 £0.884m 2013/14, £0.447m in 2014/15).

- Given the Government's spending plans it is clear that further reductions will be required in future financial years and it is therefore important that the Council maintains its momentum in achieving ongoing financial savings. While clearly these ongoing expenditure reductions will continue to have an impact on services it should be noted that the Council's current approach if continued will enable changes to budgets and service plans to be appropriately considered, planned and managed. This gradual ongoing planned approach is considered to be the most appropriate method for minimising the impact upon local residents.

Housing Revenue Account (HRA)

- **Estimated Outturn 2014/15**
  The Estimated Outturn figures provided within this report are in line with those previous reported to Executive in December 2014 and show no significant variation from the original budget. To summarise the overall position for the HRA in 2014/5 the overall shortfall on the HRA remains one of £20,000 which is the same as the Original Budget agreed in February 2014. In order to retain HRA balances at a level of £1.881m it is proposed that the contribution to the Development Reserve be reduced by a figure of some £0.2m.

- **Original Budget 2015/16**
  The key issues for 2015/16 are that the average rent increase required to comply with Government rent guidelines for social housing is one of 2.2% which results in the average rent for a Council house increasing from £83.61per week (on a 48 week basis) to one of £85.28 per week. In addition it is recommended that all new tenants should be required to pay target rent. In addition to being required by Government Guidance (although such guidance is not compulsory) it needs to be recognised that rent increases in line with inflation are necessary if the Council is to be able to maintain its houses to a good standard in line with the expectations of tenants. It should also be recognised that rental levels for Council housing are and will continue to be significantly below those in the private rented sector.

- **Forecasts 2016/17 and 2017/18**
  The forecast position for the latter two years of the proposed MTFP effectively project or roll forward the figures in respect of 2015/16. These figures demonstrate that despite the range of recent changes to the HRA which have reduced the future rental stream and made the loss of stock under Right to Buy more likely that the HRA remains financially sustainable. This position is supported by the HRA Business Plan which covers a full 30 year period. Recent changes have, however, substantially impacted on the financial model which underpinned the localism of the HRA under which Bolsover District Council was allocated a debt of £94.3m to repay. These changes which all serve to reduce the longer term rental income of the HRA will add a further impetus to the ongoing work to secure efficiencies and improvements in the delivery of the Housing service.

Capital Programme

- Finally, with respect to the capital programme the majority of expenditure will continue to be in respect of the HRA Programme which is funded by capital resources ring fenced to the Council's HRA. The financial provision to fund the ongoing programme of housing refurbishment work is planned to continue at a level of some £4m per annum over the period of the proposed MTFP. After 2017/18 it will be necessary to increase the rate of spend as key elements of the Housing Stock, such as Roofs, Kitchens and bathrooms need replacement. Since the introduction of HRA reform in 2012 the Council has already built some 66 new houses and this programme is set to continue. The new homes at New Houghton will be completed by the end of the current financial year and proposals are now well under way to deliver 7 homes on a former garage site at Rogers Avenue Creswell.

- With regard to the General Fund it is envisaged that the Bolsover Mini Hub will be fully completed and operational by Autumn 2015 at a cost of some £2.2m providing a range of public services from good quality premises. The capital programme also includes expenditure provision in respect of the proposed new enhanced Leisure facilities (swimming pool) at Clowne and for some £1.177m of vehicle replacements which predominantly relates to the Refuse Fleet. Officers are also currently working on projects concerning the replacement of the contact centre at Shirebrook and into continuing to explore options to secure the long term sustainability of Pleasley Vale Mills. Additional reports on these issues will be brought back to Executive as appropriate during the course of the year.

Risk Issues

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

5.2 Legal Implications including Data Protection

- The Council is legally obliged to approve a budget prior to the commencement of the new financial year in April 2015. This report together with the associated budget timetable has been prepared in order to comply with our legal obligations.
- There are no Data Protection issues arising directly from this report.

5.3 Human Resources Implications

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

6 Recommendations

That all recommendations below are referred to the meeting of full Council on the 4th February 2015.

The following overall recommendations to Council are made:

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

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

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

GENERAL FUND

a) No Council Tax increase is levied for the financial year 2015/16 and the Council accept the proposed Government grant compensation arrangements and this recommendation is submitted for approval by the Council at its meeting on 4th February 2015.

b) The Executive recommends to Council (at its meeting on 4 February 2015) the Medium Term Financial Plan in respect of the General Fund as set out in **Appendix 1** of this report and agrees the Estimated Outturn Budget 2014/15 with a spending requirement of £12,359,032 together with the original budget for 2014/15 with a spending requirement of £13,119,526 as detailed in **Appendix 1 Table 1.**

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

d) That Executive agrees to recommend that the initial £0.218m of any surplus generated in the financial year 2014/15 is used to increase the General Fund balances to a position of £2m with the remainder being allocated to the Transformation reserve.

13 HOUSING REVENUE ACCOUNT

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

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

b) That in recognition of the need to ensure the long term sustainability of the HRA in the light of the financial burdens arising from the debt settlement of March 2012 that the Council agrees to increase the rent on properties that are relet to target rent.

c) That the increases in respect of other charges as outlined in **Appendix 2 Table 2** be implemented with effect from 1 April 2015.

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

14 CAPITAL PROGRAMME

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

(b) That the Assistant Director (Property and Estates) be granted delegated powers in consultation with the Portfolio Member and the Asset Management group to approve the utilisation of the £100,000 of AMP Refurbishment allocation, which such approvals to be reported back to Executive through the Quarterly Budget Monitoring Report.

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

7 <u>Decision Information</u>

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)	-
District Wards Affected	All
Links to Corporate Plan priorities or Policy Framework	**RELEVANT CORPORATE AIMS** STRATEGIC ORGANISATIONAL DEVELOPMENT – to continually improve the efficiency and effectiveness of all Council Services by maximising the potential use of Council resources. **TARGETS** The operation of policy led budgeting

	will help to inform future spending plans and ensure that resources are efficiently utilised in the promotion of Council priorities. **VALUE FOR MONEY** The budget process enables existing expenditure patterns to be challenged and where necessary redirected to ensure that resources are used effectively and directed towards the delivery of the Corporate Aims.

8 Document Information

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

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

APPENDIX 1

General Fund Revenue Account

Introduction

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

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

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

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

2014/15 Estimated Outturn

5. In February 2014 Members agreed a budget in respect of the current financial year 2014/15. Given that the Council was faced with achieving a challenging level of savings in respect of the current financial year it has been necessary to actively manage budgets throughout the year and to remove savings from the budget once they have been agreed. Given that the budget has been under a process of ongoing revision the Revised Budget (the latest version considered by Executive at its meeting on the 1st December 2014) has evolved from the Original Budget which was approved in February 2014. For the purposes of this report, the comparison in Table 1 shows the movement between the Original Budget the Current Budget and the Estimated Outturn position. Given the extent of the work which has been undertaken during the year there is relatively little change

between the Current Budget and Estimated Outturn position. As part of the budget process it is recommended that Members formally approve the Estimated Outturn position as set out within Table 1. The main reason for the variation between the Original Budget and the current position is that the savings which were necessary to balance the budget have now been recognised in service expenditure, while increased funding from reserves and S106 funding etc have been brought into the budget. All of these amendments are reflected in changes in the approved budget at cost centre level and have been subject to appropriate Member approval.

6. The key feature that has driven the Council's financial position during 2014/15 continues to be the ongoing reduction in the level of Central Government grant arising from the Government's Comprehensive Spending Review of Autumn 2010. From 2011/12 Bolsover was one of the 10 English local authorities which suffered the maximum reduction in spending power with this level of grant loss was one of the key factors which lay behind Central Government's decision to provide Transition Grant in respect of 2011/12 (£2.311m) and 2012/13 (£1.930m), with Efficiency Grant of £1.064m in both 2013/14 and 2014/15. Against this background Bolsover District Council has taken appropriate measures in order to bring its underlying level of expenditure back into line with its underlying level of resources. This is reflected in a proposed budget in respect of 2015/16 where a further savings target has been established. However, the Council will invariably have to make savings in the order of £1m p.a. from 2016/17 onwards.

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7. The majority of the measures that have secured savings in previous and the current financial year will continue to provide ongoing savings for the Council into 2015/16 and beyond. As such they have made an important contribution to the financial sustainability of the Council. If these savings had not been secured then the financial challenge facing the Council during 2015/16 and future years would have been significantly greater.

8. As previously outlined within the report in recognition of the severity of the grant cuts that affected Bolsover District Council it has been awarded £1.064m of Efficiency Grant in both 2013/14 and 2014/15. The Efficiency Grant funding is designed to be invested in measures which reduce the underlying level of expenditure and Central Government will only make payment where it is satisfied that the grant is being appropriately used. Given the progress to date it is assumed that the Department for Communities and Local Government will be satisfied with the use of Efficiency Grant in 2014/15 and that its availability will be confirmed.

9. While budgets have been adjusted to minimal levels in order to maximise the level of financial savings secured officers have continued to operate a policy of restricting expenditure wherever possible. While this management action may be offset by upward cost pressures, officers are currently of the view that it should be possible to achieve an outturn position with a significant underspend against the original budget in 2014/15. The forecast Estimated Outturn position in Table 1 incorporates an assumed surplus of £0.9m which is reflected in a contribution to balances. Given that the Original Budget also required the Council to secure savings of some £0.447m this represents an overall improvement of some £1.347m. It should, hover, be recognised that the availability of £1.064m of Efficiency Grant in 2014/15 has made a significant contribution in that this has

covered a range of costs on restructuring and service investment which otherwise would have fallen on the General Fund.

Original Budget 2015/16

10. 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 which commences on the 1st April 2015. The provisional budget which is recommended for consideration by Members is detailed in Table 1 of this Appendix.

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

- Grants from Government
- Expenditure, income levels and efficiencies
- Options for the level of Council Tax in respect of 2015/16
- Enhancement / Use of Reserves in the short term to assist in the management of the Council's financial position provided that the level of reserves remains adequate in the light of the risks facing the organisation.
- The need to ensure that the Council is taking appropriate steps to ensure that its underlying level of expenditure remains in line with the forecast level of resources that will be available to the Council in the light of the ongoing reductions in the level of government grant available to the Council.

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

Level of Government Grant

12 On 18th December 2013 the Government provided details concerning the level of Grant that would be available to local authorities for the two year period covering the 2014/15 and the 2015/16 financial years. This announcement was updated in late December 2014 and the figures in respect of next year have been included on the basis of that announcement which showed a small improvement (£50k) from the original position. The 2016/17 figure is a projection based upon the general principle that the Government will cease to provide Revenue Support Grant to District Council's after the 2017/18 financial year. While the Government has provided details regarding the grant settlement Members should note that – in part arising from the philosophy of localism – there is now less certainty regarding the future level of financial resources. In particular Non Domestic Rating Income, Localisation of Council Tax Benefit and New Homes Bonus all bring significant uncertainties into the financial planning process. In respect of the Efficiency Grant the Government retains an element of discretion over whether this grant should be paid in respect of 2014/15. The figures provided in respect of RSG for future years assume a continuation of this funding within RSG. These resources are then credited to the Transformation Reserve to ensure that they continue to support Invest to Save initiatives. While the details concerning the overall level of grant are sufficiently firm to provide a robust base for the Council's budget it does need to be appreciated that there remains a considerably greater degree of uncertainty concerning Government grant and related resources than was previously the case.

13 Details of the Government grant settlement are included in Table 1 to this Appendix. In terms of the financial support provided by Central Government National Non Domestic rates has become more significant than Revenue Support Grant. Council will be aware that the nature of Non Domestic Rates has evolved in that the Government now provides local authorities an incentive to grow NNDR locally given that they currently retain 20% of the growth in NNDR levels against the baseline figure. Whilst all local authorities are provided with an incentive in that they will retain a proportion of any growth in Business Rates there is a safety net which will protect those local authorities which suffer from a reduction in their local Non Domestic Rating Base. There is accordingly a direct financial incentive for local authorities to promote economic growth in their area, although local authorities would take the view that they have already been active in promoting such growth in order to protect and promote local employment. For Bolsover there are a number of schemes currently in the pipeline which should enhance the Non Domestic Rate Base over the next two to three years. There is, however, the clear risk that these may be offset by decline in other sectors of the local economy, or by the impact of revaluation. More generally whilst local authorities can facilitate and promote growth it does need to be recognised that there are other factors outside the influence of local authorities which are arguably of greater significance in promoting economic growth (the national economic position, geographical location, land availability). The localisation of business rates is, however, clearly intended to provide local authorities with an incentive to promote local economic development. While no growth in respect of the current financial year has currently been assumed within the budget appropriate figures are included within the proposed savings / efficiencies as outlined in section 18 below.

14 Executive will be aware that in respect of 2015/16 that a 'pool' of authorities across Derbyshire has been established in respect of Non Domestic Rate Income. Membership of a Derbyshire Wide pool was agreed by Council at a meeting 22nd October 2014 in recognition of the fact that those authorities which are members of a pool will in most cases benefit from retaining a higher level of locally generated non domestic rating income. Within the budget we have assumed that this Council will benefit by some £0.2m in respect of the 2015/16 financial year. Given the uncertainty concerning the availability of such income in respect of 2016/17 or future years no assumptions have been made regarding additional income in respect of those years. While it is reasonable to assume that the income of £0.2m will be secured in respect of 2015/16 it does need to be recognised that there may be a requirement to contribute to the Derbyshire Combined Authorities or other regional growth initiatives which may require a call on this funding.

15 With regard to the New Homes Bonus this is included in the 2015/16 base budget at £1.049m and by the end of 2017/18 is anticipated to reach £1.5m. Every new home built, or empty property brought back into use (offset by demolitions and those properties falling out of use) will provide the local authority with an increased income of £1,000 p.a. for 6 years for a Band A property. This reward, which is top sliced from the overall Government Grant pot – is intended to reward those authorities who allow and facilitate additional housing in their areas. With effect from 2017/18 the first year of New Homes Bonus (2011/12) will no longer be counted because at that stage it will have been paid for the full six

years for which it was due to be paid. While the Council will at that time be receiving approximately £1.5m p.a from the six years of New Homes Bonus to maintain the income at that level the Council will need to secure an additional 250 homes p.a. The majority of these additional homes will need to come from new build properties.

Expenditure, income levels and efficiencies

16 A key element of the Government's approach to local government is that it should seek to secure local sources of funding rather than remaining heavily dependent upon central funding. In part the Government see this objective being realised by local authorities maximising their local development potential by way of Non Domestic Rates (growing the level of business activity) or by way of New Homes Bonus (increasing housing numbers). In addition authorities have been encouraged to look at raising other local sources of income. Over the past two years the Council has taken a number of steps to improve the level of income that it receives from a range of services and in particular Leisure. While Officers will seek to continue to secure further incremental improvements it does perhaps need to be recognised that the majority of gains that are readily achievable have already been secured and are incorporated within the budget proposed in this report.

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

18 With respect to the next financial year the Council has set itself a savings target of some £0.350m in order to secure a balanced budget and build the Transformation Reserve. This approach will help address the savings that will be required in respect of both 2016/17 and 2017/18 currently estimated at some £2.3m. On the basis that the Council takes action in the next financial year to start the process of securing the £2.3m of savings required then that will minimise the detrimental impact of funding cuts on local residents as the Council will be able to adopt a more gradual and considered approach to securing cost reductions. In respect of the current financial year a range of savings and efficiencies amounting to some £0.350m have been identified. These are outlined below:

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

- Transformation, Secondments and Joint Working £125,000
  As part of the decision made in the autumn of 2013 to progress the Strategic Alliance as a vehicle for securing further savings Council accepted a recommendation that officers progress a transformation agenda. As part of this Transformation Agenda it is recommended that Executive approve a savings target of some £150,000 in respect of 2015/16. It should be noted that this is a net target after any associated implementation costs. In previous financial years the costs of restructuring have been met from Efficiency or Transition grant which are no longer available to the Council for the 2015/16 financial year. It is therefore crucial that the Council seeks to cover the costs of restructuring or investment to secure improved working within the financial year in which they are implemented. On that basis these measures should provide greater savings in future financial years. Further secondments and joint working arrangements with North East Derbyshire District Council will continue to be targeted to secure savings to Bolsover District Council. Given that these measures generally arise as a result of natural wastage they tend to involve minimal costs in terms of redundancy, etc whilst minimising the impact on the workforce of the requirement to shrink the size of the organisation.

- Property Rationalisation Savings £50,000
  While the Council has made significant progress during 2014/15 in maintaining rent levels at the Arc it is important that the Council's property assets continue to make an increasing contribution to supporting its financial position. In terms of improving the contribution from the Council's property portfolio the following options are currently being pursued:
  - Officers are in the process of concluding an agreement which will secure Derbyshire County Council as long term tenants at the Arc. Once Chesterfield College have fully moved out from the buildings there will be further opportunities to let out space to other potential tenants. To the extent to which the Council can rent out further space this will secure additional income. Officers are also continuing to work to maximise occupancy levels at the Council's business rental locations. Given the improvement that has been secured at Pleasley Vale over the past two to three years Officers consider it unlikely that significant further income growth can be achieved. By contrast the facility at the Tangent is a relatively new one and officers are of the view that occupancy levels will increase as the facility becomes more established. Occupancy of further space should improve income accordingly.
  - Officers are also looking to dispose of surplus assets where appropriate in order to secure reductions in the cost of day to day maintenance, etc.

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

Summary of Proposed Savings

	2015/16 £000's	2016/17 £000's	2017/18 £000's
Efficiency Target / Budget Shortfall	**350**	**1,346**	**2,273**
Savings Proposals			
NNDR Growth Target 2015/16	(100)	(100)	(100)
NNDR Growth Target 2016/17		(100)	(100)
NNDR Growth Target 2017/18			(100)
Vacancy Management	(75)	(100)	(125)
Transformation, Secondments &Joint Working	(125)	(200)	(300)
Property Rationalisation Savings	(50)	(75)	(75)
Total Savings Proposals	**(350)**	**(575)**	**(800)**
Unidentified Savings Target 2015/16	0	0	0
Unidentified Savings Target 2016/17	-	(711)	(711)
Unidentified Savings Target 2017/18	-	-	(702)
Call on General Fund Balances	**0**	**0**	**0**

Given the importance of securing the above savings to the financial stability of the Council, progress will be reported on a regular basis to Executive. 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.

<u>Medium Term Financial Plan 2016/17 to 2017/18</u>

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

Summary of Required Level of Financial Savings

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Annual Savings / Efficiencies Required	975	884	447	350	996	927
Cumulative Savings Required	975	1,859	2,306	2,656	3,652	4,579

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

25 Provided that the Council can meet and possibly exceed the recommended Efficiency / Savings Target of some £0.350m in respect of next financial year (2015/16), officers are of the view that the Council will be in a relatively good financial position given the extent of the reductions in Government grant which have been experienced. The Council's financial position reflects the fact that it has put in plans over the last three financial years which have led to longer term savings rather than only addressing the in year financial position. Given the ongoing nature of the expenditure reductions which the Council is facing; in particular the shortfall of a further £1.346m (£0.996m after 2015/16 savings) in respect of 2016/17 it would seem to be appropriate to continue this policy which has both secured the necessary savings while minimising the impact on local residents.

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

- Pay increases of 2% in respect of 2015/16, with 1.5% in respect of both 2016/17 and 2017/18.
- No changes to employer superannuation contributions or to the lump sum deficit recovery.
- No allowance has been made in respect of general inflation although specific budget heads such as energy costs and business rates have been increased to reflect anticipated price increases. Executive should note that a significant allowance has been made within the draft budget for an increase in recycling costs which reflects the fact that payments for recycled materials have significantly reduced. Likewise budget increases of some £18k for the role out of Firmstep (2015/16 onl;y), £12k for the cost of maintaining cash machines and £10k for improvements to the HR systems (2015/16 only) have also been proposed.

- A Council Tax increase of 1% or Council Tax Freeze Grant at 1% in respect of 2015/16, with Council Tax or Freeze Grant at 1.9% in respect of both 2016/17 and 2017/18.
- Government Grant reductions of £1.039m in 2016/17 and £0.882m in 2017/18. (It is anticipated that the level of government grant and other funding will be established for both 2016/17 and 2017/18 by the Chancellors Autumn Statement towards the end of the 2015 calendar year). In the absence of any information the contrary it is assumed that both the Non Domestic rating system and the New Homes Bonus funding will continue to operate along existing lines.
- Fees and Charges – service specific increases as agreed by Members.

Options for Council Tax Levels

27 Members will recall that since 2011/12 the Council has decided on a nil Council tax increase 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. These compensatory grant payments to those Councils who did not increase Council Tax are, however, generally limited in the period in which they are receivable and unlike Council Tax increases do not result in an increase in the underlying revenue base of the Council. Council may wish to note that had the Council increased Council Tax in the region of 2% each year that its underlying financial position would have improved by a figure in the region of £0.25m, which would flow from increased Council Tax income.

28 Central Government has continued to make strong requests to local authorities not to increase Council Tax in respect of the 2015/16 financial year. The settlement details that were released in December 2014 have indicated that those Council's which do not increase Council Tax will benefit from a 'freeze grant' funded from the national exchequer which the case of BDC amounts to £0.037m. For those Council's who take the view that an increase in Council Tax is appropriate in order to minimise the impact of expenditure cuts then an increase of up to 2% will be allowed before the Government requires that a referendum is held. It is assumed that the freeze grant will only apply for a period of one year. Given that the Council could raise Council Tax by 2% - without the additional cost and logistical burden of a referendum – there could be a financial benefit to the Council of up to £0.037m in the next financial year. The additional income from the increase in Council Tax of £0.074m would continue to be available to the Council in future financial years. Overall if the Council chooses to accept the additional Government Grant then it will not benefit from the positive impact to its Tax base in future years that would have been secured by a Council Tax increase in 2015/16. This will require that in future years expenditure will need to be £0.074m below what it otherwise would have been, or higher council tax rises will be necessary in subsequent years.

29 In reaching a decision regarding the appropriate level of Council Tax in respect of 2015/16 Members need therefore to give consideration to the Council's financial position in respect of both 2015/16 and in respect of the remainder of the period covered by this MTFP. In summary officers are currently forecasting that over the period April 2015 to March 2018 expenditure reductions (or increased income) of £2.273m will be necessary.

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

Financial Reserves

31 The Council's main uncommitted Financial Reserves which relate to its General Fund are the General Fund Balance of £1.782m and within Earmarked Reserves the Transformation Reserve of £3.158m. Given the growing level of uncertainty surrounding local authority income and the fact that the Council itself has reduced all budgets to a minimal level thus reducing its financial resilience it is important that the Council continues to review what it would consider to be an acceptable level of General Fund balances. Given that the Council has continued to effectively achieve the in year savings targets and has a range of other balances available £1.782m would appear to be a reasonable minimum level of balances going forward. This position is supported by the General Fund Risk Register as set out in Appendix 1 Table 2 which details the financial risks currently faced by the Council which indicates notional financial risks with a total value of £1.425m.

32 In considering the position in respect of the level of financial balances Executive will be aware that it is proposed to utilise some £2m of the Transformation Reserve on the development of the enhanced Leisure facility at Clowne. There is also a clear intention that the remaining balance in the Transformation Reserve of £1.158m will be utilised to progress the Transformation and the Growth agenda. On the basis of current projections the Council should achieve a surplus of some £0.9m at the end of the current financial year. Given the intention to fully utilise the Transformation Reserve it would be appropriate to give consideration to increasing the level of General Fund balances to one of £2m which would require a contribution of some £0.218m at the year end. That would leave the remainder of any surplus to be directed into the Transformation Reserve to fund Invest to Save activities in future years. At a level of some £2m General Fund balances would be some 40% above the estimated level of risk faced by the Council. Crucially should the Council fail to achieve its savings target then the availability of General balances of £2m would enable a period of time in which to make any necessary adjustments and to minimise the impact on local residents.

33 The opportunity to increase the General Fund balances position in 2014/15 should be seen as sound financial management as it needs to be recognised that the financial environment within which local authorities are now operating is characterised by a significantly higher level of risk over that which prevailed during previous financial years. Executive is well aware of the importance of managing expenditure reductions in a planned fashion in order to protect the quality of services to local residents, and an increase in the target level of balances which

will secure improved financial resilience is an important element of protecting service delivery to local people.

Risk Register

34 A financial Risk Assessment is set out in Table 2, 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 £1.425m. This is broadly in line with the current General Fund balances of £1.782m. Given, however, that it is anticipated that the Transformation Reserve will be significantly reduced in order to support Invest to Save projects it is recommended that consideration is given to utilising some £0.218m of the anticipated surplus in respect of 2014/15 in order to increase General Fund balances to a level of some £2m. Given the current level of uncertainty concerning future levels of Government funding that would appear to be an appropriate stance.

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

RECOMMENDATIONS

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

a) No Council Tax increase is levied for the financial year 2015/16 and the Council accept the proposed Government grant compensation arrangements and this recommendation is submitted for approval by the Council at its meeting on 4th February 2015.

c) The Executive recommends to Council (at its meeting on 4 February 2015) the Medium Term Financial Plan in respect of the General Fund as set out in **Appendix 1** of this report and agrees the Estimated Outturn Budget 2014/15 with a spending requirement of £12,359,032 together with the original budget for 2014/15 with a spending requirement of £13,119,526 as detailed in **Appendix 1 Table 1.**

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

d) That Executive agrees to recommend that the initial £0.218m of any surplus generated in the financial year 2014/15 is used to increase the General Fund balances to a position of £2m with the remainder being allocated to the Transformation reserve.

GENERAL FUND SUMMARY **APPENDIX 1 Table 1**

Description	Original Estimate 2014/15	Current Budget 2014/15	Estimated Outturn 2014/15	Original Budget 2015/16	Forecast 2016/17	Forecast 2017/18
	£	£	£	£	£	£
Growth Directorate	2,692,066	3,304,342	3,182,157	2,933,928	2,802,701	2,776,614
Operations Directorate	6,815,649	6,733,186	6,421,029	6,378,639	6,471,703	6,480,556
Transformation Directorate	2,851,423	2,792,255	2,977,590	2,951,776	2,865,261	2,871,840
Recharges to HRA and Capital	(3,475,950)	(3,475,950)	(3,475,950)	(3,475,528)	(3,509,112)	(3,538,211)
Provision for Pay Award	80,675	80,675	72,758	5,246	125,023	252,469
Debt Charges	771,677	781,459	635,534	892,020	1,199,843	1,442,411
Investment Interest	(72,861)	(82,643)	(87,579)	(100,311)	(128,771)	(116,093)
S106 Expenditure						
Growth	60,116	80,383	80,383	120,233	0	0
Transformation	195,122	368,571	368,571	42,334	208,734	88,723
	9,917,917	**10,582,278**	**10,174,493**	**9,748,337**	**10,035,382**	**10,258,309**
Appropriations:						
Contributions to Reserves:	217,850	217,850	1,118,297	1,545,323	1,281,584	1,281,584
Contribution from Earmarked Reserves:	(155,919)	(801,820)	(939,308)	(198,094)	(60,026)	(17,888)
Contribution (from)/to Unapplied Grants/Holding Accounts	64,841	(85,068)	(153,716)	(33,579)	(3,835)	(2,120)
Efficiency Measures	0	0	0	(350,000)	0	0
Contribution from S106 Holding Accounts	(255,238)	(448,954)	(448,954)	(162,567)	(208,734)	(88,723)
TOTAL EXPENDITURE	**9,789,451**	**9,464,286**	**9,750,812**	**10,549,420**	**11,044,371**	**11,431,162**
Parish Precepts	2,144,612	2,227,081	2,227,081	2,227,081	2,227,081	2,227,081
Council Tax Support Grant - Parish	381,139	381,139	381,139	343,025	308,723	277,850
TOTAL SPENDING REQUIREMENT	**12,315,202**	**12,072,506**	**12,359,032**	**13,119,526**	**13,580,175**	**13,936,093**

Revenue Support Grant from SFA	(2,905,097)	(2,905,097)	(2,905,097)	(3,102,529)	(2,063,734)	(1,180,904)
Council Tax Grant (13/14)	(36,052)	(36,052)	(36,052)	0	0	0
Council Tax Grant (14/15)	(31,391)	(36,784)	(36,784)	0	0	0
Business Rates Retention from SFA	(2,606,266)	(2,606,266)	(2,606,266)	(2,656,067)	(2,729,374)	(2,804,705)
NNDR Growth 13/14	(155,079)	(155,079)	(155,079)	(155,079)	(155,079)	(155,079)
NNDR Growth 14/15	0	0	(378,012)	(452,517)	(469,287)	(486,519)
NNDR Pooling - Levy share	0	0	0	(200,000)	0	0
New Homes Bonus Grant 11/12	(117,312)	(117,312)	(117,312)	(117,312)	(117,312)	0
New Homes Bonus Grant 12/13	(193,346)	(193,346)	(193,346)	(193,346)	(193,346)	(193,346)
New Homes Bonus Grant 13/14	(169,639)	(178,391)	(178,391)	(169,639)	(169,639)	(169,639)
New Homes Bonus Grant 14/15	(292,058)	(292,058)	(292,058)	(292,058)	(292,058)	(292,058)
New Homes Bonus Grant 15/16	0	0	0	(277,154)	(277,154)	(277,154)
New Homes Bonus Grant 16/17	0	0	0	0	(275,000)	(275,000)
New Homes Bonus Grant 17/18	0	0	0	0	0	(275,000)
COUNCIL TAX - BDC precept	(3,139,072)	(3,139,072)	(3,139,072)	(3,189,278)	(3,189,278)	(3,189,278)
Council Tax Income	0	0	0	(37,019)	(60,596)	(122,344)
Council tax - Parish element from above	(2,144,612)	(2,227,081)	(2,227,081)	(2,227,081)	(2,227,081)	(2,227,081)
General Government Grants - misc	0	(16,402)	(16,402)	0	0	0
Council Tax - New Burdens Funding	(78,080)	(78,080)	(78,080)	0	0	0
Council Tax Collection Fund Surplus	0	0	0	(50,447)	0	0
TOTAL FUNDING	**(11,868,004)**	**(11,981,020)**	**(12,359,032)**	**(13,119,526)**	**(12,218,938)**	**(11,648,107)**
FUNDING GAP / (SURPLUS)	**447,198**	**91,486**	**0**	**0**	**1,361,237**	**2,287,986**

Appendix 1 : Table 2

BOLSOVER DISTRICT COUNCIL: GENERAL FUND RISK REGISTER

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

Risk and Mitigation in Place	Gross Value of Risk £'s	Probability	Potential Impact £'s
4 Overspend on Capital Programme or underachievement of capital receipts leads to a charge against the Revenue Position • The revenue framework outlined above will also govern the position in respect of the Capital Programme. • The Council has agreed a general principle of not entering into capital commitments unless the resource required to finance those commitments has been secured.	500	25%	125
5. A major Business Continuity Issue arises. • The Council has in place Business Continuity Plans and Insurance Arrangements which are intended to address these risks. • Previously in exceptional circumstances Central Government has provided financial support to authorities in these circumstances.	2,000	10%	200
6. Increased cost of Council Tax Benefit as a result of increasing costs not being fully covered by additional government grant, or from the proposed reforms of the service. • Budgets have been established on a prudent basis, however, part of the risk of cost increase is now upon local authorities.	500	25%	125
7. An increase in employee costs associated with a national pay award, requirement to retain key staff or with changes in local terms and conditions. • While the Council has made budget provision for all known changes there remain risks around the fact that key personnel could leave for better remunerated posts elsewhere, or that a challenge is made in respect of existing terms and conditions.	250	40%	100
Notional Potential Financial Impact of Identified Risks			**1,425**

APPENDIX 2

Housing Revenue Account

Introduction

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

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

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

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

2014/15 Estimated Outturn Budget

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

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

- Rental income is £0.167m (0.8%) below the original budget which reflects a range of minor variances. With respect to other income while that has improved overall by £0.039m there is a decline in Supporting People income of some £0.073m (almost 9%), offset by increased income from Special Services.
- With respect to expenditure there is an overall increase in costs of some £0.180m from the original budget comprising a range of small variances across all areas of activity. The most noticeable trends are the increase in Supervision and Management costs of £0.182m (4%) together with a £0.030m (4%) increase in the cost of Supporting People.
- The impact of an overall reduction in income of £127k combined with an increase in overall expenditure of £179k, is offset by an increased use of Reserves of £0.106m, together with a reduction of £0.2m in the contribution to the Development Reserve.

7. The overall outcome of the recommended amendments to the Budget as outlined in section 6 above is that the HRA general balance continues to increase by some £0.020m resulting in a projected balance at the year end of some £1.881m.

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

9. While the new arrangements should prove to be affordable and sustainable the revised financial governance framework does place significantly more responsibility upon individual local authorities. In particular it will be necessary to ensure adequate financial provision to maintain and refurbish the stock to an appropriate standard and to meet the service expectations of our tenants whilst covering the significant debt charges which arose from the 2012 settlement. During the course of the 2014/15 financial year the Council has updated its HRA Business Plan, to reflect the outcome of the full stock survey which provides a detailed picture of the value and timing of the underlying need for investment in the Housing Stock. To date the Council has utilised the freedom and flexibilities offered by the new HRA regime to replace existing non traditional stock with new homes where appropriate. Under the reformed HRA arrangements one of the key issues will be the ability of local authorities to ensure that their housing stock remains sustainable and continues to meet a decent homes standard. Poor housing management, not securing value for money, and failure to raise rents in

line with that of other social housing providers – as required by the Governments rent policy – will result in the Council not having sufficient funding to maintain the homes of our tenants at an acceptable standard which over the 30 year period of the business plan would result in the stock becoming increasingly unsustainable.

Level of Council House Rents

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

11. Any decision regarding rents needs to be taken in the context of the fact that as part of the Localisation of Council Housing Bolsover District Council was required to take on total debt of some £94.3m. That sum was calculated on the ability of the Council to afford the repayment costs, with the income stream used in the financial model being based on the continuation of the rent convergence policy.

12. The Government's new approach does not include an allowance for rent convergence within the formula for calculating rent increases. Given that the majority of council housing in Bolsover has not reached target impact the impact on the HRA in 2015/16 is an estimated loss of income in that year of some £0.6m rising to a loss of £1.7m for 2019/20. Over the 30 year life of the business plan the loss of rental income arising from not continuing the rent convergence policy is forecast to amount to some £48m (excluding inflation). While the Government has justified the ending of the rent convergence policy on the basis that a majority of Council's have already reached target rents this is not the case in Bolsover where as a Council we started at a lower level of rent than many other authorities.

13. With respect to the change in the basis of setting rental levels this will have a significant impact of the financial sustainability of the local HRA. This in turn could result in poorer services to Council tenants, a reduction in spend on maintenance costs, while potentially new build Council properties would become unaffordable for the Council. To mitigate the impact of these changes upon both current and future tenants the Council will clearly need to go for the annual increase consistent with the Government's rent setting policy. In addition it is recommended that when houses fall vacant and are occupied by a new tenant

that the new tenant be charged at the target rent level rather than at the current historical level. While rental income will rise more slowly to target rents than the previous convergence policy would have allowed tenants will be aware of the increased rental level before accepting the property, while the HRA will over time benefit from income which will enable the sustainability of the current HRA as a viable tenancy option. Under the recommended approach full rent convergence will be delayed from 2022 to 2028, which will result in a rent loss of £18m compared to the original rent convergence policy. While this is still a significant loss it will reduce overall rent loss by some £30m and will leave the Council better placed to offer a housing service in line with tenant expectations.

Housing Revenue Account Budget 2015/16

14. The proposed HRA budget in respect of 2015/16 is presented in Table 1 to this report. The forecast net position for the HRA in the 2015/16 year is that a small surplus of £0.015m will be generated. It is recommended that this surplus be utilised to increase the level of HRA General Reserves which will take them to an estimated level of £1.896m at the end of March 2016. It is also envisaged that any underspend achieved at the end of the 2014/15 financial year would be taken to the HRA general reserve in order to move general balances towards the agreed level of £2m.

15. As part of the setting of the HRA budget the Council also now also needs to give active consideration to the level of HRA capital expenditure which it is able to fund. Under the previous HRA arrangements the level of capital investment was determined by the Government setting the Major Repairs Allowance, providing additional funding such as grant or borrowing approvals, or by the Council agreeing additional contributions from the HRA revenue account. Under the new regime the Council is able to determine the level of capital expenditure, but this is restricted by the affordability to the revenue position of making capital contributions and by the Government's HRA debt ceiling which controls the amount of borrowing that may be undertaken. The budget for 2015/16 proposes a contribution from the HRA to the Major Repairs account of £3.929m (Depreciation £2.210m plus Transfer to Major Repairs Account £1.719m). This is an increase in allocation over the current year of some £0.6m. Details concerning the capital expenditure plans of the HRA are outlined within the capital programme section of this report.

16. The measures outlined within this report enable the funding of HRA expenditure budgets for 2015/16 which are essentially a roll forward budget. Under the current proposals it is planned that tenants will see a continuation of existing levels of service over the period of the current Medium Term Financial Plan. Over the period of the 30 year Business Plan the budget also helps put the Council in a position where Council Housing remains a sustainable form of tenure offering good quality housing with robust tenant rights at a rental level significantly below that available in the private rented sector.

Planning Budgets 2016/17 to 2017/18

17. In line with established good practice the MTFP sets out the Council's projected financial position over a 3 year period. The forecasts in respect of the latter two years are largely based upon a roll forward of the budgets in respect of next financial year. With respect to debt repayments these will be maintained at the at the £3.5m level, while in the latter two years it is envisaged that the contribution to the Development Reserve will be resumed to finance new build schemes that would otherwise require prudential borrowing. The policy of continuing to repay debt at this stage of the Business Plan is crucial both to reducing borrowing costs and in order to build 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 lowered at this stage then the funding will not be available to replace bathrooms, kitchens, roofs, doors and windows as these major investments become necessary.

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

    - The Council continues with the agreed rent setting policy as outlined within this report which adheres to the Government's recommendation that rents in the social housing sector rise by inflation (as measured by the Consumer Price Index) plus 1% per annum, with new tenants paying rents at target rent level.
    - Fees and charges service specific increases as agreed by Members.
    - Interest rates remain low and stable with a rise in Bank Rate – which determines short term borrowing and investment costs – in the region of 1%.
    - That salary costs rise by 2% in respect of 2015/16 with a 1.5% increase in both 2016/17 and 2017/18.
    - That Employer Pension costs remain unchanged for the period 1 April 2015 to 31 March 2018.
    - No allowance has been made in respect of general inflation but allowance has been made for specific items where that is considered to be appropriate.

Fees and Charges

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. These charges are now set in the light of an agreed principle that wherever possible the Council should seek to move as quickly as possible to a position where charges for the service reflect the cost of providing that service.

20. While the Council has adopted the general principle that charges to tenants should reflect the cost of providing the services, in many cases the historical

charge was a notional one. Accordingly Members have recognised that the move to full charging should be phased in over a number of years. The pricing that is proposed in respect of 2015/16 reflects this gradual approach.

21. A schedule of the proposed charges – is set out within Table 3 to this report.

22. With respect to the services provided one of the key services provided to HRA tenants is the warden service. The majority of the warden's service is funded through a contract with the Supporting People Team at Derbyshire County Council. During the course of 2014/15 there have been reductions in the level of income received in respect of Supporting People together with increased costs in operating the service. Given that the County Council is in the process of reviewing the service there are inevitably uncertainties about the future of what will be delivered to local residents.

<u>Level of HRA Balances</u>

23. Given the greater level of uncertainty associated with a localised HRA Council has previously accepted that a minimum level of balances of some £2m is necessary to provide an appropriate level of financial resilience to the account. The financial projections given in Appendix 1 (summarised below) show that the level of HRA balances is projected to increase gradually from the level of £1.881m at the end of the current financial year to a position of some £1.955m at the end of the current planning period. At the targeted minimum level of HRA balances there is effectively a reserve of some £390 per property.

Actual / Projected HRA Balances

31/03/12	31/03/13	31/03/14	31/03/15	31/03/16	31/03/17	31/03/17
£m's	£m's	£m's	£m's	£m's	£m's	£m's
1.024	1.776	1.861	1.881	1.896	1.926	1.955

In addition to the HRA General Reserve it should be noted that there are capital reserves in respect of the Major Repairs Reserve, the Development Reserve and the Vehicle Reserve. While these amount to some £5m it should be noted that they are largely contractually committed to support Approved schemes within the Council's HRA capital programme.

24. In the light of the HRA Risk Register which is provided as Table 3 to this Appendix (which indicates a potential level of risk of some £1.5m), a level of working balances in the region of £2m would appear to be adequate and provide a sound base for the medium term financial management of the HRA.

HRA Risk Register

25. A financial Risk Assessment is set out in Table 3, which outlines the risks, the mitigation which is in place, the potential impact and the probability of the event occurring in order to arrive at a notional calculation concerning the potential financial impact of the risks which the Council is currently facing. This indicates that the identified risks which the Council's HRA is currently managing amount to some £1.5m. This report recommends that during the course of this MTFP that the HRA continues to operate a policy of maintaining a general balance of £2m.

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

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

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

managed locally, and they emphasise the importance of robust local planning and financial control in the effective management of our Housing stock.

RECOMMENDATIONS

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

b) That in recognition of the need to ensure the long term sustainability of the HRA in the light of the financial burdens arising from the debt settlement of March 2012 that the Council agrees to increase the rent on properties that are relet to target rent.

c) That the increases in respect of other charges as outlined in **Appendix 2 Table 2** be implemented with effect from 1 April 2015.

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

APPENDIX 2 TABLE 1

Actual 2013/14 £	Details of Expenditure	Original Budget 2014/15 £	Current Budget 2014/15 £	Revised Outturn 2014/15 £	Base Budget 2015/16 £	Forecast 2016/17 £	Forecast 2017/178 £
	HOUSING REVENUE ACCOUNT						
	Expenditure						
4,574,597	Repairs and Maintenance	4,451,671	4,431,671	4,484,369	4,654,184	4,634,058	4,635,722
4,426,397	Supervision and Management	4,290,000	4,390,000	4,472,209	4,790,798	4,835,494	4,865,593
551,221	Special Services	727,591	733,591	625,477	633,369	643,175	652,630
759,661	Supporting People	776,455	776,455	806,530	797,989	796,482	793,423
76,575	Tenants Participation	88,807	88,807	77,765	100,858	90,858	90,858
158,765	Increase in Bad Debts Provision	200,000	200,000	200,000	200,000	200,000	200,000
3,345,374	Cost of Capital - Interest	3,368,222	3,368,222	3,440,050	3,351,435	3,228,935	3,106,435
2,000,000	Cost of Capital - Debt Repayment	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
11,125	Debt Management Expenses	10,500	10,500	11,125	11,125	11,125	11,125
0	Contingency for Pay Award	31,900	31,900	31,026	90,117	144,012	191,323
0	Contingency for 1% Pension Increase	24,378	24,378	0	0	0	0
15,903,715	**Total Expenditure**	**17,469,524**	**17,555,524**	**17,648,551**	**18,129,875**	**18,084,139**	**18,047,109**
	Income						
(19,674,171)	Income	(21,049,980)	(21,049,980)	(20,883,017)	(21,378,789)	(21,911,161)	(22,463,856)
(87,311)	Repairs and Maintenance	(34,990)	(14,990)	(16,490)	(16,490)	(16,490)	(16,490)
(1,267)	Supervision and Management	(410)	(410)	(3,480)	(3,480)	(3,480)	(3,480)
(362,901)	Special Services	(264,000)	(264,000)	(384,855)	(354,576)	(363,441)	(372,527)
(843,670)	Supporting People	(837,500)	(837,500)	(764,927)	(772,956)	(382,279)	(391,837)
(14,568)	Leased Flats	(10,000)	(10,000)	(15,970)	(15,970)	(15,970)	(15,970)
(2,655)	Leased Shops	(2,650)	(2,650)	(2,650)	(2,650)	(2,650)	(2,650)
0	Bringing Empty Properties back into use	0	0	(1,000)	(4,000)	(4,000)	(4,000)
(20,986,543)	**Total Income**	**(22,199,530)**	**(22,179,530)**	**(22,072,389)**	**(22,548,911)**	**(22,699,471)**	**(23,270,810)**
	Appropriations						
2,210,234	Depreciation	2,127,647	2,127,647	2,210,234	2,210,234	2,210,234	2,210,234
1,364,981	T/f to/(from) Major Repairs Reserve	1,202,356	1,202,356	1,119,769	1,718,766	1,834,766	2,054,766
3,575,215		**3,330,003**	**3,330,003**	**3,330,003**	**3,929,000**	**4,045,000**	**4,265,000**
50,000	Contribution to Insurance Reserve	50,000	50,000	50,000	50,000	50,000	50,000
1,250,000	Contribution to Development Reserve	1,150,000	1,150,000	950,000	0	300,000	780,000
200,000	Cont to Vehicle Replacement Reserve	180,000	180,000	180,000	425,000	190,000	100,000
(73,474)	Use of Reserves	0	(100,000)	(100,000)	0	0	0
(4,590)	Use of Unapplied Revenue Grant	0	(6,000)	(6,000)	0	0	0
1,421,936		**1,380,000**	**1,274,000**	**1,074,000**	**475,000**	**540,000**	**930,000**
(85,676)	**Net Operating (Surplus) / Deficit**	**(20,003)**	**(20,003)**	**(19,835)**	**(15,036)**	**(30,332)**	**(28,701)**
(1,775,649)	**Working Balance at Beginning of Year**	**(1,861,325)**	**(1,861,325)**	**(1,861,325)**	**(1,881,160)**	**(1,896,195)**	**(1,926,527)**
(85,676)	Contribution to/(from) Balances	(20,003)	(20,003)	(19,835)	(15,036)	(30,332)	(28,701)
(1,861,325)	**Working Balance at End of Year**	**(1,881,328)**	**(1,881,328)**	**(1,881,160)**	**(1,896,195)**	**(1,926,527)**	**(1,955,228)**

APPENDIX 2 - TABLE 2

Section A - Charges Made over 48 weeks

Type of charge	**Charge per week**		**Difference**	
	Current	**Proposed**	**(£)**	**%**
a. HEATING				
Besit (sheltered)	£10.26	£9.44	-£0.82	-8.0%
1 bed flat (sheltered)	£14.55	£13.39	-£1.16	-8.0%
Wardens Flat	£27.12	£24.95	-£2.17	-8.0%
1 bed bungalow	£16.16	£14.87	-£1.29	-8.0%
2 bed bungalow	£21.49	£19.77	-£1.72	-8.0%
2 bed flat	£24.34	£22.39	-£1.95	-8.0%
b. WARDEN SERVICES				
Static (self funded)	£12.58	£12.86	£0.28	2.2%
Mobile (self funded)	£3.69	£3.77	£0.08	2.2%
c. WARDEN SERVICES (DCC funded)				
Static (DCC)	£13.10	£13.10	Fixed by Contract	
Mobile (DCC)	£5.92	£5.92	Fixed by Contract	
Alarm Monitoring (DCC)	£2.55	£2.55	Fixed by Contract	
d. SPECIAL SERVICES				
Special Services	£14.76	£15.08	£0.32	2.2%
e. BUGGY PARKING				
Buggy Parking (inc electricity)	£3.50	£3.60	£0.10	2.9%
f. GARAGES				
Garages (Direct debit)	£8.50	£8.70	£0.20	2.4%
Garages (other)	£11.25	£11.50	£0.25	2.2%

APPENDIX 2 - TABLE 2
(Continued)

Section B - Charges Made Over 52 Weeks

Type of charge	Charge per week		Difference	
	Current	**Proposed**	**(£)**	**%**
g. LIFELINE (INC MONITORING)				
Lifeline Bronze	£4.35	£4.45	£0.10	2.3%
Lifeline Gold	£6.70	£6.85	£0.15	2.2%
Lifeline RSL	£4.15	£4.25	£0.10	2.4%

Section C - Annual Charge

Type of charge	Charge per year		Difference	
	Current	**Proposed**	**(£)**	**%**
Garage Plot	£180.00	£185.00	£5.00	2.8%

APPENDIX 2, Table 3

HOUSING REVENUE ACCOUNT: RISK REGISTER

Risk and Mitigation in Place	Gross Value of Risk £'s	Probability	Potential Impact £'s
1. With effect from April 2012 the Government introduced a new financial regime to manage the HRA. This reform effectively transferred a number of risks from the national HRA pool to individual local authorities. These include reduction in property numbers from RTB, demolition, failure to increase rents in line with Government policy, etc. • While the new system brings with it uncertainty and associated risks the flexibility incorporated within the system means that risks are more likely to materialise in respect of the longer term sustainability of the HRA. The indicative figures provided cover the initial year impact only. • While the Council will monitor the impact of trends in respect of the HRA through its budgets and the Business Plan it needs to be recognised that many of the risks arise from situations beyond the Council's direct control such as the loss of stock through Right to Buy, or through elements of the housing stock not being economically sustainable.	£2,000,000	25%	£500,000
2. Rental collections fall as a result of the wider economic position and major changes being introduced to the welfare system. • Assumed income levels have been calculated on the basis of previous experience and are based on prudent assumptions with appropriate bad debt provisions in place. • The Council will work with tenants to maximise benefits eligibility and to ensure rent payments are kept up to date. • The Council has recently strengthened its procedures for the recovery of arrears and	£500,000	25%	£125,000

has established appropriate financial provisions should write offs be required.			

Risk and Mitigation in Place	Gross Value of Risk £'s	Probability	Potential Impact £'s
3. The level of void property is above the budgeted allowance. • Void levels have fluctuated quite significantly as major works and plans are undertaken. A void allowance is built into the main rental budgets to minimise this variance.	£500,000	25%	£125,000
4. There are unanticipated pressures on demand led budgets such as repairs and maintenance, or costs or income fall outside of the budgeted position. • All budgets are based on previous experience of expenditure / income and should be sufficiently robust to cope with the expected range of fluctuation.	£1,000,000	30%	£300,000
5. A significant Business Continuity issue arises. • The Council have developing Business Continuity Plans which should reduce these risks. • Appropriate insurance arrangements are in place. • In exceptional circumstances Central Government has provided an element of financial support.	£2,000,000	10%	£200,000
6. Capital Expenditure • Any significant overspend on the capital programme may require an additional contribution from the HRA to finance. • Regular contract management and capital budget monitoring meetings will manage the HRA capital programme.	£1,000,000	50%	£250,000
Calculated Potential Financial Impact of Identified Risks			**£1,500,000**

APPENDIX 3

Capital Programme

Introduction

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

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

3. The provisional capital budgets for both 2014/15 (Revised Programme) and 2015/6 (Original Programme) are shown in Table 1 to this Appendix. The table also details the forecast investment planned for both 2016/17 and 2017/18.

4. It should be noted that there will be a separate report to Council concerning the Council's Treasury Management Strategy. That report includes consideration of issues concerning leasing and borrowing which constitute the capital financing to enable the proposed capital budgets outlined within this report to proceed. Given its links with the budget process the Treasury Management Strategy will be considered by the budget setting Council on 4th February 2015. With regard to both the HRA and the General Fund elements of the Capital Programme asset surveys have been completed which inform future investment priorities. In the case of the HRA the Capital Programme is effectively fully funded by HRA resources and needs to ensure that assets are replaced at the point in time when they are at the end of their useful operational life. This process is informed by the stock condition survey. A particular issue for the HRA is that its capital investment strategy will need to be shaped by the requirement to undertake replacement of items such as bathrooms and kitchens once they are due for replacement at the end of their effective life. This results in investment needs being concentrated into certain periods rather than being spread evenly over the 30 life of the Business Plan. Accordingly at certain points in time the HRA needs to generate financial balances to fund the level of investment required in future financial years. A

clear consequence of poor financial planning will be deterioration in the quality of the homes currently enjoyed by our tenants.

5. With regard to the General Fund the Stock Condition survey has provided indicative details of the longer term refurbishment requirement of the Council's assets. During 2014/15 the Council concluded the sale of two major assets. This removed the risk that these sales would not be achieved which would have had a major impact on the Council's resource position. With respect to the General Fund stock condition survey the Council has benefitted from the recent investment into the Clowne Campus. Currently major schemes are underway with respect to the construction of the Mini Hub the replacement contact centre at Bolsover. This scheme is estimated to cost a total of some £2.4m and will be open in the autumn of 2015. While the scheme has a significant cost it will provide a range of services to local residents and given the rental streams that are generated from other users provides a revenue stream to the Council.

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

	2014/15 Current £,000	**2014/15 Revised £,000**	**2015/16 Original £,000**	**2016/17 Original £,000**	**2017/18 Original £,000**
General Fund Schemes	5,684	4,131	4,216	3,663	1,786
HRA Schemes	5,870	4,979	5,422	4,231	4,349
Total	11,554	9,110	9,638	7,894	6,135

Capital Programme – Estimated Outturn 2014/15

7. The Estimated Outturn in respect of the current financial year, which is detailed in Appendix 3 Table 1, shows a net decrease of £2.444m (£11.554m less £9.110m) over the Original Programme. The majority of this decrease in expenditure (£1.830m) relates to expenditure with respect of the Mini Hub at Bolsover which will now take place in 2015/16, with the remainder of the underspend spread across a variety of schemes within the Programme.

General Fund Programme 2014/15

8. Within the General Fund table are the capital expenditure plans for 2014/15 and future years. The following are the key schemes.

- The Asset Management Programme currently shows an expenditure requirement of £1.228m. This total is intended to capture all of the intended expenditure requirements as set out within the Asset Management Plan for the current and next three years. With respect to next financial year the Programme contains a provision of £0.5m. Of this amount some £0.4m is classified as

Asset Management Plan work and will not be committed prior to any report back to Cabinet. An amount of £100,000 has been put into an Asset Refurbishment Programme which will allow any urgent refurbishment / upgrading requirements to be addressed as they arise. It is proposed that any plans for the use of this money will be agreed through the Asset Management Group. It is recommended that delegated powers to approve any expenditure are granted to the Assistant Director (Property and Estates) in consultation with the Portfolio Member. Any agreed expenditure would be reported to Executive as part of the Quarterly Budget Monitoring report.

The key buildings which are currently operated by the Council are as follows:

- Project Horizon Office / Admin Buildings (The Arc Clowne, the Hub Bolsover) are both modern buildings and are anticipated to require minimal maintenance over the next 10 years. The one area of uncertainty concerns the construction costs of the Hub which it is assumed will be in line with the original approval. The one administrative building where a significant upgrade has been required as being necessary is the contact centre in Shirebrook where the existing facility is not fit for purpose and is poorly located. Officers are currently exploring options for an upgraded facility.
- The Tangent Shirebrook – Again a modern building with little maintenance requirement anticipated over the next 10 years.
- Pleasley Vale Mills : The Council submitted a Heritage Lottery Bid for the Asset in the spring of 2014 which has proved unsuccessful. Whilst the building is likely to have a limited capital requirement for the next five years or so the reality is that a major refurbishment is likely to be necessary within a 10 year period. Although the cost cannot be forecast with certainty until a more detailed scheme is developed officers would anticipate that it would amount to at least £5m which is unlikely to be fundable from within the Council's anticipated capital resources. Officers are therefore continuing to explore options in respect of the site, including those of a partnership with the private sector.
- Leisure Swimming Pool / Fixed site facilities. Executive at its meeting of 5th January 2015 agreed a strategy to develop a new swimming pool facility at Clowne to replace the existing provision at Cresswell. The proposed programme of £4.0m (including £0.5m contingency) is now incorporated into the Capital Programme given in Table 1, on the basis that it will be funded from a combination of £2m from the Transformation Reserve with costs above that (up to £4m in total) met from prudential borrowing. On completion it is anticipated that the new facility will require minimal maintenance for a period of some 10 years. Executive should note that the work undertaken in respect of Cresswell Pool has indicated a likely refurbishment / upgrading cost over the next five years in the region of £0.5m. Whilst some work may need to be undertaken to maintain services at Clowne prior to the new facility being opened the cost of this work will need to be contained within the revised Asset Management Plan capital allocation as set out within this report.
- The Bolsover public realm and infrastructure project (overall cost £0.6m) is the continuation of the scheme that commenced in 2013/14. It is to be financed

100% from external grant and will be concluded in the current (2014/15) financial year.

- ICT infrastructure – The overall cost of this work over the period of the current MTFP (April 2015 onwards) is one of £0.214m which will be funded from a combination of revenue contribution and capital receipts.
- Disabled Facilities Grants – £0.250m. Over the last few years the capital budget sum proposed for DFG's has been in line with the anticipated grant to be received. It is proposed that the continuation of this arrangement should be assumed within the capital programme for the future years of the MTFP. Council should, however, note that the arrangements around the funding of DFG's are changing and this may result in a greater level of need being identified, or a reduction in the level of external funding. The DFG expenditure and associated grant funding arrangements will be monitored carefully with any changes from the approved programme being reported back to Members.
- The vehicle replacement programme (£1.918m) is an ongoing programme to replace operational vehicles as they reach the end of their economic life. The financing is planned to be via prudential borrowing over the life of the assets replaced. The prudential borrowing will be funded from the Street Scene revenue account.

The sections above have outlined the main elements of the Programme and how they should be financed. For those scheme where no specific funding has been identified the work will need to be funded by Capital Receipts. As at April 2015 it is anticipated that there will be some £2m in 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 be requested 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 2014/15

9. The larger element of the Council's Capital Programme is that which relates to work on council dwellings. Under the new HRA self financing arrangements local authorities are required 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 (£112.350m in the case of BDC). 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.

10. The Council's capital programme for 2014/15 in respect of its Housing Assets amounts to some £4.979m. Of this some £2m relates to the completion of the New Houghton housing scheme to provide replacement bungalows and houses. It is envisaged that this scheme will be fully occupied by the end of the current financial year. This work will be funded from the Development Reserve to avoid the requirement to undertake any prudential borrowing. The remainder of the programme has included expenditure of some £0.8m on heating and insulation upgrades, £0.6m on external door replacements, with £0.5m on kitchen replacements.

11. For next years programme there will be an investment of £1.5m in heating upgrades, and over £1m on reroofing work of a total recommended Programme of £5.4m. It is anticipated that further schemes will be brought forward for Members approval during the course of the year including a regeneration / new build scheme at Rodgers Avenue. Given that the HRA Capital Programme is in the region of £5m in each of the four years covered by the MTFP this amounts to an investment of almost £1,000 a year in every property. This will enable a continuation of our current programme of upgrading and refurbishing our properties to ensure that they continue to meet the Decent Homes standard.

12. HRA vehicle replacement 0.138m

A number of HRA vehicles are due for replacement in both 2014/15 (£0.189m) and in 2015/15 (£0.107m). These vehicles which were previously funded via leasing arrangements will now be funded from the Vehicle Reserve set up within the HRA accounts which provides a more cost effective financing option.

Capital Programme Risk Assessment – 2015/16

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 2015/16 capital programme. This indicates that the identified risks which the Council is facing in respect of its 2015/16 Capital Programme amount to some £1.25m. Should any of these risks arise then all possible financing options will be explored, however, if all these risks materialise then it may be necessary ultimately to charge these costs against General Fund or HRA balances.

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. It is recommended:-

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

(b) That the Assistant Director (Property and Estates) be granted delegated powers in consultation with the Portfolio Member and the Asset Management group to approve the utilisation of the £100,000 of AMP Refurbishment allocation, which such approvals to be reported back to Executive through the Quarterly Budget Monitoring Report.

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

CAPITAL PROGRAMME SUMMARY

Fund		Original Estimate 2014/15 £	Current Outturn 2014/15 £	Revised Outturn 2014/15 £	Base Budget 2015/16 £	Forecast 2016/17 £	Forecast 2017/18 £
	General Fund						
	Assets						
ASS	AMP - PV Mills		14,265	14,265			
ASS	AMP - Leisure Buildings		3,750	3,750			
ASS	AMP - The Tangent		4,000	4,000			
ASS	PV Mills Creative Industries		11,253	11,253			
ASS	Pleasley Vale Mills HLF		45,960	45,960			
ASS	AMP - Prior to Exec Approval	500,000	477,985	227,985	400,000	250,000	250,000
ASS	AMP - Refurbishment Work				100,000		
ASS	CCTV - Various Sites		29,322	29,322			
ASS	Bolsover Public Realm and Infrastructure	207,910	423,820	423,820			
		707,910	**1,010,355**	**760,355**	**500,000**	**250,000**	**250,000**
	Project Horizon						
HOR	ICT infrastructure - Project Horizon		59,208	59,208			
HOR	Bolsover Mini Hub		2,433,000	603,577	1,682,730		
HOR	Clowne Campus - Refurbishment		98,278	77,152			
HOR	Sherwood Lodge Disposal		443,496	857,717	40,000		
		0	**3,033,982**	**1,597,654**	**1,722,730**	**0**	**0**
	ICT Schemes						
ICT	ICT infrastructure	111,600	118,592	129,592	57,980	24,000	132,000
ICT	Idox Uniform System		16,100	16,100			
ICT	Fleet Management System		11,002	11,002			
		111,600	**145,694**	**156,694**	**57,980**	**24,000**	**132,000**
	Leisure Schemes						
LEI	Clune Street Recreation Ground		6,944	6,944			
LEI	P Vale Outdoor Education Centre Ph 2		47,134	47,134			
LEI	Fitness Equipment Creswell Leisure Centre						60,000
LEI	Clowne Leisure Facility				500,000	2,500,000	1,000,000
		0	**54,078**	**54,078**	**500,000**	**2,500,000**	**1,060,000**
	Private Sector Schemes						
PS	Disabled Facility Grants	250,000	250,000	300,000	250,000	250,000	250,000
PS	Group Repair (WT)		5,372	5,372			
PS	Carr Vale Group Repair		1,270	1,270			
PS	New Houghton Group Repair		5,887	5,887			
PS	Church Drive Energy Project		9,579	9,579			
PS	Pte Sector Decent Homes		18,611	18,611			
PS	Station Road Shirebrook		1,340	1,340			
PS	Verney & Crompton Street		157,391	157,391			
PS	Photovoltaic System		90,000	90,000			
		250,000	**539,450**	**589,450**	**250,000**	**250,000**	**250,000**
	Vehicles and Plant						
VEH	Vehicle Replacements	826,000	890,980	963,500	1,176,500	630,000	85,000
VEH	8 x Hedgecutters (GM)	4,000	4,000	4,000	4,000	4,000	4,000
VEH	10 x Strimmers (GM)	5,000	5,000	5,000	5,000	5,000	5,000
		835,000	**899,980**	**972,500**	**1,185,500**	**639,000**	**94,000**
	Total General Fund	**1,904,510**	**5,683,539**	**4,130,731**	**4,216,210**	**3,663,000**	**1,786,000**
	Housing Revenue Account						
HRA	Public Sector Housing (funded by MRA)	3,260,683					4,195,680
HRA	Vehicle Replacements	138,000	188,020	261,730	528,000	186,000	84,000
HRA	External Wall Insulation		13,634	191,634			
HRA	Electrical Rewiring Decent Homes		150,000	150,000	250,000	200,000	
HRA	Group Dwellings Safety Work		150,000		250,000	100,000	
HRA	Window Replacement		5,000				
HRA	Cavity Wall + Loft Insulation		9,692	14,692	20,000	20,000	
HRA	External Door Replacements		532,976	632,976	100,000	100,000	
HRA	Heating Upgrades		415,673	470,673	1,220,000	1,200,000	
HRA	Environmental Works		50,000	50,000	100,000	100,000	
HRA	Decent Homes - External		500,711	265,711	408,680	9,680	
HRA	Kitchen Replacements - Decent Homes		493,970	493,970	400,000	800,000	
HRA	GD Boiler Replacement / Heat Meters		150,000	150,000	200,000	200,000	
HRA	New Bolsover		300,000		350,000	250,000	
HRA	HRA New Build - New Houghton Disturb Pymts		50,000	59,000			
HRA	Regeneration Mgmt & Admin	69,320	69,320	69,320	69,320	69,320	69,320
HRA	Re Roofing		750,000	128,000	1,060,000	800,000	

HRA	Sprinkler Systems		16,000	16,000	16,000	16,000	
HRA	HRA New Build - New Houghton	680,163	2,025,185	2,025,185			
HRA	Wall Finishes EWI				400,000	220,000	
HRA	Flat Roofing				50,000	50,000	
	Total HRA	**4,148,166**	**5,870,181**	**4,978,891**	**5,422,000**	**4,321,000**	**4,349,000**
	TOTAL CAPITAL EXPENDITURE	**6,052,676**	**11,553,720**	**9,109,622**	**9,638,210**	**7,984,000**	**6,135,000**
	Capital Financing						
	General Fund						
	Specified Capital Grant	(250,000)	(250,000)	(300,000)	(250,000)	(250,000)	(250,000)
	Private Sector Contributions		(120,975)	(120,975)			
	Prudential Borrowing	(1,362,350)	(1,635,450)	(1,267,842)	(1,176,500)	(1,654,000)	(1,277,000)
	Reserves	(84,250)	(375,312)	(375,312)	(566,980)	(1,509,000)	(9,000)
	External Grant	(207,910)	(265,820)	(265,820)			
	Capital Receipts	0	(3,035,982)	(1,800,782)	(2,222,730)	(250,000)	(250,000)
		(1,904,510)	**(5,683,539)**	**(4,130,731)**	**(4,216,210)**	**(3,663,000)**	**(1,786,000)**
	HRA						
	Major Repairs Allowance	(3,330,003)	(3,648,976)	(2,683,976)	(4,894,000)	(4,135,000)	(4,265,000)
	Vehicle Reserve	(138,000)	(188,020)	(261,730)	(528,000)	(186,000)	(84,000)
	Development Reserve	(680,163)	(2,025,185)	(2,025,185)			
	External Grant	0	(8,000)	(8,000)			
		(4,148,166)	**(5,870,181)**	**(4,978,891)**	**(5,422,000)**	**(4,321,000)**	**(4,349,000)**
	TOTAL CAPITAL FINANCING	**(6,052,676)**	**(11,553,720)**	**(9,109,622)**	**(9,638,210)**	**(7,984,000)**	**(6,135,000)**
	Checks	0	0	0	0	0	0

HRA Capital Reserves

Major Repairs Reserve						
Opening Balance	(4,161,108)	(4,161,108)	(4,161,108)	(4,807,135)	(3,842,135)	(3,752,135)
Amount due in Year	(3,330,003)	(3,330,003)	(3,330,003)	(3,929,000)	(4,045,000)	(4,265,000)
Amount used in Year	3,330,003	3,648,976	2,683,976	4,894,000	4,135,000	4,265,000
Closing Balance	**(4,161,108)**	**(3,842,135)**	**(4,807,135)**	**(3,842,135)**	**(3,752,135)**	**(3,752,135)**
Development Reserve						
Opening Balance	(492,654)	(1,837,676)	(1,837,676)	(762,491)	(762,491)	(1,112,491)
Amount due in Year	(1,150,000)	(1,150,000)	(950,000)	0	(350,000)	(850,000)
Amount used in Year	680,163	2,025,185	2,025,185	0	0	0
Closing Balance	**(962,491)**	**(962,491)**	**(762,491)**	**(762,491)**	**(1,112,491)**	**(1,962,491)**
Vehicle Reserve						
Opening Balance	(142,816)	(188,816)	(188,816)	(107,086)	(4,086)	(8,086)
Amount due in Year	(180,000)	(180,000)	(180,000)	(425,000)	(190,000)	(100,000)
Amount used in Year	138,000	188,020	261,730	528,000	186,000	84,000
Closing Balance	**(184,816)**	**(180,796)**	**(107,086)**	**(4,086)**	**(8,086)**	**(24,086)**

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

Risk and Mitigation in Place	Gross Value of Risk £'s	Probability	Potential Impact £'s
1. Cost Overruns on Approved Projects • Financial monitoring including formal reports to Members is undertaken on a regular basis which should enable mitigating action to be taken. • The Council have robust management arrangements in place. • The Financial Risk Registers in respect of both General Fund and HRA include the risk of an unfunded overspend arising on the Capital Programme.	£10,000,000	10%	£1,000,000
2. Reduction in the forecast level of capital resources. • The assumptions that have been made in respect of 2015/16 are realistic and prudent. • Should any issues be identified which casts doubt upon the level of resources included in the Programme then Officers will take any necessary actions to reduce the level of expenditure commitments.	£500,000	10%	£50,000
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	40%	£200,000
Calculated Potential of Identified Risks			