MEDIUM TERM FINANCIAL STRATEGY

2017/18 – 2021/22

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Date of publication	July 2017	Date of last version	July 2016
Version no.	1	Date of expiry	July 2018
Associated documents			

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DACORUM BOROUGH COUNCIL MEDIUM TERM FINANCIAL STRATEGY 2017/18–21/22

July 2017

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1. Introduction

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

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

1.3 In order to forecast the Council's future financial position, the MTFS contains a number of assumptions, the bases of which are detailed throughout the Strategy. It should be noted that these assumptions are subject to change. The Corporate Director (Finance & Operations) will report back to Cabinet as a matter of urgency if there are changes to key assumptions in the Strategy that threaten the sustainability of the approved MTFS.

2. Recommendations

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

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

2.1.2 A General Fund savings target of £1.6 million be approved for the 2017/18 budget-setting process;

2.1.3 A four-year General Fund savings target of £3.7 million be approved for the duration of this Medium Term Financial Strategy;

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

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

2.1.6 The Financial Planning Framework is approved to support the budget-setting process for 2018/19;

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

3. Financial Planning Framework

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

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

4. Review of the Council's primary funding streams (General Fund)

4.1 On 20 February 2017, the Secretary of State for the Department for Communities and Local Government, The Rt Hon Sajid Javid MP, made a statement to Parliament on the Local Government Finance Settlement 2017/18. The Settlement's key implications for Dacorum are summarised, below.

Reduced central government grant to the local government sector

4.2 On a national level, in 2017/18 there was a 10.8% reduction in the amount of Settlement Funding Assessment paid by government to local authorities – reducing from £18.6bn to £16.6bn. This is forecast to be followed by at least two further years' of annual reductions, resulting in a total reduction of 22% over the period to 2019/20 (from £18.6bn to £14.5bn).

4.3 Settlement Funding Assessment (SFA) constitutes the primary source of government support for local authorities, and refers to the combined payments of Revenue Support Grant and Baseline Funding (Business Rates).

4.4 Dacorum's SFA was reduced by 21.7% (£810k) in 2017/18. Assuming Government observes the remainder of the 4-year Settlement agreement, this will form part of a total 46% (£1.7m) reduction over the three-year period to 2019/20. This level of reduction is significantly higher than the national average for district councils, which was 15.1% in 2017/18 and is forecast to be 31.5% for the period to 2019/20.

The concept of Core Spending Power

4.5 DBC's SFA reduction has been high relative to the district council average since 2016/17, when Government began to award grant on the basis of each authority's *Core Spending Power* (CSP). Government's rationale for adopting CSP is that it enables the amount of grant reduction to be determined by each individual council's affordability rather than simply applying similar percentage reductions to all authorities. In addition to SFA, the CSP affordability calculation takes into account the amount that a council can raise locally from Council Tax and New Homes Bonus (NHB) when apportioning funding reductions.

4.6 In 2017/18, DBC was forecast by Government to generate around £10.5m in Council Tax income compared to a national average for districts of around £6.5m. This means that DBC can generate more income locally than most district councils and therefore, within the context of Core Spending Power, Government deem it capable of absorbing a greater reduction in grant than most district councils.

Revenue Support Grant

4.7 The 2017/18 Settlement (detailed in paragraph 4.4) is the second year of a funding deal, accepted by 97% of local authorities, in which funding levels were agreed until 2019/20, for *RSG, Transitional Grant and Rural Services Delivery Grant*. DBC receives funding through the first two of these grants. (£150m of Transitional Grant funding has been awarded to the sector for 2016/17 and 2017/18 to soften the impact of the continued reductions in RSG. DBC has received around £125k in each of 16/17 and 17/18.)

4.8 Notably, the four-year deal excludes New Homes Bonus, of which Dacorum received £3.1m in 2017/18, and Baseline Funding, of which Dacorum received £2.8m in

2017/18. Updates on both of these funding streams are included within paragraphs 4.13 – 4.25 of this strategy.

4.9 Although the four-year deal offers the closest the Council can get to funding certainty over the medium-term, it is by no means guaranteed, with the Secretary of State confirming that the deal will not protect against:

- The extra responsibilities and functions that might need to be accepted by local government as part of the move to 100% business rates retention;
- Future transfer of functions to or between local authorities, or the impact of mergers; and,
- Any other 'unforeseen events'. (No parameters have been put on the breadth of this definition.)

4.10 The table below shows the funding position agreed for DBC over the term of the four-year deal. Note that Baseline Funding (Business Rates) was excluded by Government from the four-year deal on the basis that the new 100% Business Rates retention scheme will be introduced before the end of the period.

	2016/17	**2017/18**	**2018/19**	**2019/20**
Revenue Support Grant	£970k	£100k	0	0
Transitional Grant	£130k	£130k	0	0
Tariff Adjustment	0	0	0	(£1m)
Total Funding	**£1.1m**	**£230k**	**£0**	**(£1m)**

4.11 The table shows that DBC will receive no RSG in the final two years of the Settlement, and will also face the introduction of a 'Tariff Adjustment', costing £1m, in 2019/20. The Tariff Adjustment is effectively 'negative RSG', and its purpose is to allow Government to continue reducing an individual council's SFA, under the Core Spending Power calculation, even after they are no longer in receipt of any RSG to reduce.

4.12 Annual Tariff Adjustments within the planning period but beyond the timeframe of the four-year deal have been forecast based on average reductions over previous years.

Baseline Funding

4.13 Baseline Funding (also known as Retained Business Rates) contributed £2.8m to DBC in 2017/18. This is based on Government's assessment of need within the borough, and it can be increased or decreased depending on whether the overall amount of business rates collectable across the borough increases or decreases. The amount by which the Baseline Funding can reduce is capped at 7.5%, which is known as the 'safety net'.

4.14 Over the last three years the Council has had to provide for potential backdated refunds for extant Business Rates appeals that remained outstanding at the time the localisation of Business Rates was introduced in 2013. The Council's audited assessment of these outstanding appeals is that enough of them will be successful to offset the forecast business growth within the borough, thereby resulting in a net reduction in the amount of business rates collectable, and a consequent reduction in Baseline Funding.

4.15 The assumption in the proposed version of the MTFS is that the Council will be in 'safety net' throughout the planning period and will receive the minimum amount of Baseline Funding, i.e. 7.5% less than the government's assessment of need within Dacorum.

4.16 Prior to the General Election on 8 June 2017, the Local Government Finance Bill, which provided the legislative framework for the introduction of 100% Business Rates Retention scheduled for 2020, had been progressing through Parliament. However, this bill was not re-introduced within the Queen's Speech, outlining the legislative programme for the government, on 21 June 2017.

4.17 Whilst this omission does not necessarily mean that the Business Rates Retention policy will not proceed, it does indicate that Government may have revised its intentions with regard to *how* it will proceed. At present the Local Government Association is continuing to work on the basis that the policy will move ahead. The S151 Officer will continue to monitor Government announcements over coming months and will report back to Members as appropriate.

Council Tax

4.18 As expected, the Council Tax referendum threshold for district councils in 2017/18 was the higher of 2% or £5 on a Band D, and Government has indicated that it will maintain this threshold each year until 2019/20. In February 2017, Council approved an increase in Council Tax for the year of £5, equating to 2.71% for a Band D property.

4.19 The proposed MTFS assumes continued increases of £5 per annum and growth in the tax base of 0.7% per annum, equating to around 450 dwellings per year. It should be noted that in calculating the four-year Settlement for Dacorum, Government assumed that DBC will increase Council Tax by £5 per year, and that the tax base will grow by around 1.5% per year.

New Homes Bonus

4.20 The Council received £3.1m of New Homes Bonus (NHB) from central government in 2017/18. NHB is paid to local authorities to stimulate local housing growth and takes the form of a grant payable to the Council for each additional home created within the borough.

4.21 As part of Spending Review 2015, Government announced a review of NHB and a planned reduction in the amount of grant paid nationally by around 50%, or £800m, in order to divert increased funds to the provision of adult social care. In December 2016, Government announced the results of this review, which will result in the level of payment to DBC reducing annually throughout the medium-term.

4.22 There are two principle changes to the grant calculation mechanism that result in this reduction:

- Firstly, NHB payments will be made for only 4 years in 18/19 (down from 5 years in 17/18, and from 6 years previously). All things being equal, this equates to a reduction in the annual payment to DBC of one third from 2018/19 onwards when compared to awards pre-2017/18;

- Secondly, from 2017/18 NHB will only be payable on growth in excess of 0.4% of the tax base, where previously it was payable on all growth. The proposed MTFS assumes annual tax base growth of 0.7%, (based on average growth over the last three years), which equates to around 450 additional dwellings per year, of which only around 190 dwellings (0.3%) will now attract NHB.

4.23 The table below demonstrates how DBC's NHB payments are predicted to fall over the medium-term as a result of these changes:

	Actual		**Forecast**			
	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
New Homes Bonus	£3.5m	£3.1m	£2.1m	£1.9m	£1.2m	£1m

4.24 With the exception of £325k per year, which is used to support annual revenue budgets, the Council has always used NHB to fund capital projects. This strategy has prevented the Council's revenue budgets from becoming dependent on NHB, which has always been considered a volatile funding stream, thereby ensuring that the reductions which are now forecast do not increase the MTFS savings requirements.

4.25 In addition, the forecast reductions in NHB do not leave the Capital Programme underfunded over the medium-term, and therefore do not affect the Council's revenue position by increasing the borrowing requirement. It is recommended that Members continue with the strategy of retaining only £325k of NHB to support the provision of General Fund services.

5. Review of MTFS assumptions

Update of General Fund budget assumptions based on 2016/17 outturn

5.1 The basic principle of the MTFS model is to extrapolate the current year's approved budget, in this case 2017/18, over the next four years. The extrapolation process incorporates assumptions on government grant, inflation, changes in demand for services, changing legislation, and probable risks and opportunities.

5.2 The 2016/17 outturn was approved by Audit Committee at its meeting of 28 June 2017. A fundamental part of the outturn analysis is to focus on those areas where there were over- or under-spends in order to identify whether the budget assumptions could be updated in order to improve the accuracy of the MTFS. Budgetary assumptions for 2018/19 have been updated where appropriate.

Update of MTFS assumptions based on other information

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

	Note	2018/19	2019/20	2020/21	2021/22
Income					
Council Tax	1	3.3%	3.3%	3.2%	3.0%
Revenue Support Grant	2	(£100k)	n/a	n/a	n/a
Tariff Adjustment	3	n/a	(£1m)	(£1.6m)	(£2.4m)
Business Rates Retained	4	2.4%	2.3%	2%	2%
Fees & Charges	5	2.4%	2.3%	2%	2%
Investment Income	6	0.85	0.85	0.85	0.85
Expenditure					
Pay settlement	7	1%	1%	1%	1%
Pay: contract increments	8	0.5%	0.5%	0.5%	0.5%
Pension contributions	9	0	0	1%	0
Utilities	10	5%	5%	5%	5%
Fuel	11	5%	5%	5%	5%
Supplies & Services	12	2.4%	2.3%	2%	2%

Notes:

1. Increase by £5 per Band D and 0.70% increase in tax base (see paras 4.18 – 4.19).
2. Based on four-year Settlement (see paragraphs 4.7 – 4.12).
3. Based on four-year Settlement (see paragraphs 4.7 – 4.12).
4. Based on four-year Settlement (see paragraphs 4.7 – 4.12).
5 Inflation assumptions from OBR on controllable income eg excludes Planning fees
6. Sector forecast on interest rates
7. Consistent with most recent government announcement: Summer Budget 2015
8. Based on actual increments due and historical staff turnover rates
9. Increase 1% on past service costs from next revaluation in 2020/21
10. Currently under review – historical assumptions used at present
11. Currently under review – historical assumptions used at present
12. Inflation assumptions from Office of Budget Responsibility (OBR)

Growth

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

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

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

Fees and Charges Strategy

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

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

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

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

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

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

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

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

General Fund Working Balances and Earmarked Reserves

5.12 The Council's Reserves Strategy is integral to the MTFS because it demonstrates how the Council augments its annual ongoing running costs with plans to finance specific items of one-off expenditure over the medium-term. The Strategy is reviewed annually, and was most recently approved by Council within the 2017/18 Budget Report, in February 2017. The reserves position was most recently approved by the Audit Committee as part of the outturn process for 2016/17 and is included at Appendix C.

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

a. **Working balances**, which are required as a contingency against unforeseen events and to ensure that the Council has sufficient funds available to meet its cash flow requirements. The Local Government Act 2003 requires the S151 Officer to report on the adequacy of financial reserves when setting the General

Fund budget requirement for the year. This requirement was met within Appendix N of the Budget Report to Cabinet in February 2017.

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

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

6. General Fund medium-term savings requirements

6.1 Based on the assumptions detailed throughout this Strategy, and the need to maintain the desired level of General Fund Working Balances, the Total Savings Requirement over the life of this MTFS is £3.7m.

6.2 In 2016/17 the Council adopted a three-year savings plan in recognition of the fact that the more easily deliverable savings opportunities have already been taken and that future initiatives are likely to be more complicated and have a longer lead-in period. As a result of this, the Total Savings Requirement comprises three elements which reflect the fact that the Council has a number of initiatives already underway to deliver savings in future years. The table below provides a breakdown of the savings requirement, and is followed by a brief explanation of each element.

		2018/19	**2019/20**	**2020/21**	**2021/22**
a.	Savings identified, and already delivered	£400k	0	0	0
b.	Savings identified, but still to be delivered	£930k	£340k	£430k	0
c.	Savings still to be identified	£270k	£430k	£240k	£650k
	Total Savings Requirement	**£1.6m**	**£770k**	**£670k**	**£650k**

a. **'Savings identified and already delivered'** – refers to additional income, over and above the budgeted level, which is already being realised by the Council. These savings are lower risk as they were identified as part of the year-end process as having already contributed to the year-end surplus for 2016/17.

b. **'Savings identified but still to be delivered'** – refers to those savings initiatives identified by budget holders as deliverable in future years. These savings, particularly the £930k identified for 2018/19, must be considered high risk. If delivery of these schemes is delayed, the savings target for 2018/19 will increase.

To mitigate the risk of delayed delivery, the Finance Team has implemented a new process for 2017/18 to scrutinise budget holders' progress on a monthly basis. Updates will be reported to CMT each month and to Budget Review Group throughout the year, as well as formally to Members of OSCs and Cabinet as part of the quarterly Budget Monitoring reports.

c. **'Savings still to be identified'** – refers to additional initiatives that must be put in place prior to April 2018 in order to meet the Total Savings Requirement. These initiatives will be identified through the annual budget-setting process detailed within the Financial Planning Framework in paragraph 3.1.

7. Key Budget Risks (General Fund)

7.1 The following paragraphs outline some of the key financial risks facing DBC over the medium-term. These risks will be monitored and Members kept updated on the implications for the MTFS.

Business Rates

7.2 The omission of the Local Government Finance Bill from the Queen's Speech in June 2017 has created uncertainty over the previous government's plans to implement 100% Business Rates Retention (BRR) for the local government sector by 2020. Despite there being little certainty on how the scheme would work prior to the general election, the change in Government focus (and the subsequent absence of statements on the matter) suggests that there could be further delays to the implementation of a new funding scheme for the sector.

7.3 This uncertainty is compounded by the risk to the economy arising from the impact of ongoing Brexit negotiations on Business Rates generation. If the BRR scheme is to progress, it will link councils' financial sustainability to their ability to grow and retain rate-paying businesses and it is not yet known how multinational companies will view the UK's attractiveness as a base for investment as details of Brexit begin to emerge. There is a risk that demand for commercial property in the UK will fall as a result of the UK leaving the EU, resulting in reduced Business Rates and consequent funding pressures in the medium-term.

Borrowing

7.4 Moody's ratings agency recently warned that the UK's credit rating could be downgraded after the general election delivered a hung parliament which could slow down Brexit negotiations, thereby prolonging economic uncertainty in the eyes of investors.

7.5 If this risk was to crystallise, and the cost of government borrowing was to increase, the lending rates available to the Council through the Public Works Loan Board would also increase. Based on the currently approved Capital Programme such an increase would not pose an immediate problem for the Council because there is a minimal additional borrowing requirement over the medium-term. However, this could change if the Council wished to extend the Capital Programme, thereby increasing its borrowing requirement at a time when interest rates were rising.

Pensions

7.6 The Council's pension fund is the most volatile material liability on the balance sheet and prolonged economic uncertainty could drive up the deficit in the short-term. The size of the pension fund deficit has a direct relationship with the amount of contributions the Council is required to make to the fund, and therefore to the annual revenue cost of providing the scheme.

7.7 Changes to the Council's contributions are triggered by the recommendations of the fund's triennial review, the last of which was in December 2016. This review required the Council to increase its employer's contribution rate from 16% to 18.5%, c£370k per annum, from 2017 in order to meet the likely future costs for current employees. There is also the risk that increased deficit relating to past service costs will increase depending on the assumptions within the actuarial valuation.

7.8 The Council currently has a Pensions Reserve of £1.8m which could be used for one-off payments to reduce the deficit, pending future actuarial reviews. However, given the scale of potential payment fluctuations, this MTFS recommends a further annual contribution to the reserve of £200k per annum. This recommendation can be reviewed at the time of the next triennial review, December 2019, to ensure that it remains appropriate.

Staffing pressures

7.9 In common with other local authorities within Hertfordshire, the Council is currently facing difficulties in the recruitment of staff with professional qualifications e.g. within Finance, Legal, Building Control, Planning, Environmental Health. In the short-term this can cause a revenue pressure as the Council is forced to increase its use of (more costly) agency staff in order to maintain service provision. Council officers continue to work with neighbouring authorities to identify a strategic solution to future recruitment needs.

7.10 The current MTFS assumes pay inflation of 1% per annum in accordance with Government's pay cap for public sector workers fixed in 2015 until 2019. If the current national debate on lifting the cap were to gather momentum, there is a risk that the Council could face pressure to increase salaries by more than the 1% assumed within the MTFS. This would result in an increased annual budgetary pressure of c£200k for each additional 1% increase.

8. Housing Revenue Account (HRA)

8.1 The HRA Business Plan plans delivery of the Council's housing objectives over a thirty-year period. The long-term perspective is necessary to ensure sound investment decisions both in terms of the Council's new build programme and in maintaining existing stock.

8.2 The Business Plan is kept constantly under review, and is presented for Members' approval at least annually. The most recently approved HRA Business Plan was approved by Cabinet in February 2017. The table below details the assumptions within the most recently approved plan,

Budget	**Assumptions**
HRA Working Balance	Minimum 5% of turnover, as per Reserves Strategy.
Major Repairs Reserve (MRR) Balance	Depreciation is ring-fenced to the MRR. The plan does not show an increasing MRR balance because in all years planned capital expenditure exceeds depreciation. The investment shortfall is met through HRA contributions to capital.
Rent	In accordance with Government policy, the Business Plan assumes an annual reduction to rents of 1% for three years. After this, the plan assumes uplift on rents of CPI + 1% to all rents.
RPI	3%, as per historic average (since 2001)
CPI	2.3%, as per historic average (since 2001)
New Build Programme	250 units planned with provision for a further 100 units, let at existing social rent levels.
Bad Debt Provision	Voids 0.8% of gross income. Bad debts 0.4% rising to 2% then reducing to 1% with the increases making provision for the impact of Welfare reform.

52 week rent per unit	Average rent of £104 p/w for 2017/18 with future years subject to the inflationary or deflationary assumptions detailed above.
Right to Buy	Assumes 100 per year for 4 years then reducing to 50, then 20.

Key HRA Budget Risks

8.3 The rent levels within the HRA business plan are set to decrease by 1% per year for the next three years, in line with current legislation. Rents after this period are assumed to increase at CPI + 1%, as per the previous rent policy. Any future decisions by Government to impose further rent reductions will have a detrimental effect on the income levels assumed in this plan.

8.4 In order to finance the cost of implementing RTB for Housing Associations, the Housing and Planning Act 2016 stated that stock holding local authorities would be required to sell their high value properties. Receipts would be returned to HM Treasury, which would then allocate to HAs to cover the cost of the RTB discount. This policy was originally set for implementation in 2017 but has not been postponed, though remains likely at some point in the near future. Further detail is yet to be released on how the process would operate, though it is highly likely to result in reduced rental income for the Council as well as a diminution in the Council's overall asset value.

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

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

8.7 There is a risk that the Council will be unable to retain this income because the high value of receipts (£9.5m in 2016/17) means that the Council may struggle to cash-flow its 70% share of new build project costs within the three-year timeframe. The borrowing cap imposed by government as part of the Self-Financing settlement precludes the Council from borrowing sufficient amounts to meet the costs.

8.8 In order to retain the receipts locally, the Council is currently working with a number of local Housing Associations (HAs) with a view to grant aiding their development projects within the borough. This is consistent with the terms of the One for One scheme. However, there remains a risk that RTB sales will continue at a rate that prevents HAs from meeting the 70% contribution rate required to retain the funding. This risk will be closely monitored to ensure that the council exhausts every opportunity to ensure that the funding is retained locally.

9. Capital Resources

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

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

Flexible use of capital receipts

9.3 Within the 2016 Settlement, Government provided new flexibility for local authorities to use capital receipts from the sale of property, plant and equipment to support upfront revenue expenditure on transformational projects that will deliver ongoing efficiency savings. Councils can only use capital receipts from sales made since the date of this announcement, and cannot use existing capital balances for revenue spending.

9.4 At present, the Council's forecast capital receipts are fully committed to financing the approved Capital Programme. It is recommended that any future case for the flexible use of capital receipts first be considered by Budget Review Group, before progressing to Cabinet and Council for further approval in accordance with government guidance.

Capital Spending Plans 2016/17 to 2020/21

9.5 The Council's approved Capital Programme for the current and future years was approved by Council in February 2017, and is summarised below:

Capital Expenditure	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m
General Fund	11.4	17.2	2.4	1.4	5.0
Housing Revenue Account	41.1	38.8	29.1	22.8	16.8
Total	**52.5**	**56.0**	**31.5**	**24.2**	**21.8**

General Fund

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

9.7 The Council is required to pay off an element of borrowing each year through a revenue charge, the Minimum Revenue Provision (MRP). The Council's Treasury Management Strategy approved by Cabinet in February 2017, sets out the Councils policy to, at a minimum, pay off the debt over the life of the asset associated with the borrowing. This policy has been applied to the MTFS forecasts.

9.8 The full impact of borrowing costs of the current Capital Programme on the Council's revenue budgets is reflected in the forecasts included in this strategy. However, at the time of writing the Council is examining the potential for further investment in a number of capital projects, most notably in a housing development company. The costs associated with these projects have yet to be finalised, and thus, at this stage, there is no provision for their funding within the MTFS.

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

9.10 The approved General Fund Capital Programme is financed as follows:

	2017/18 £m	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**	**2021/22 £m**
Capital Receipts	4.6	7.0	0	0	0.6
Borrowing	2.6	5.4	0	0	2.7
Grants and Contributions	1.1	2.5	0.7	0.7	0.7
Revenue Contributions to Capital	3.1	2.1	1.7	0.7	1.0
Total	**11.4**	**17.2**	**2.4**	**1.4**	**5.0**

Housing Revenue Account

9.11 The majority of the approved HRA capital programme is funded through depreciation and revenue surpluses. Revenue is contributed to capital on an annual basis as required to fund the shortfall between planned capital expenditure and depreciation contributions to the Major Repairs Reserve. Surplus revenue not required for capital expenditure is transferred to the HRA revenue reserves.