South Cambridgeshire Hall
Cambourne Business Park
Cambourne
Cambridge
CB23 6EA

t: 03450 450 500
f: 01954 713149
dx: DX 729500 Cambridge 15
minicom: 01480 376743

South Cambridgeshire District Council

8 November 2017

To: Chairman – Councillor Tony Orgee
Vice-Chairman – Councillor Kevin Cuffley
Members of the Scrutiny and Overview Committee – Councillors David Bard, Ruth Betson, Grenville Chamberlain, Graham Cone, Jose Hales, Philippa Hart and Tumi Hawkins

Quorum: 6

Dear Councillor

This is a supplement to the previously-published agenda for the meeting of **SCRUTINY AND OVERVIEW COMMITTEE** on **THURSDAY, 9 NOVEMBER 2017**, containing those reports which had not been received by the original publication deadline.

Yours faithfully
BEVERLY AGASS
Chief Executive

Requests for a large print agenda must be received at least 48 hours before the meeting.

AGENDA

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10.	**Draft Medium Term Financial Strategy**	**1 - 100**

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South Cambridgeshire District Council

REPORT TO:	Scrutiny and Overview Committee Cabinet	9 November 2017 16 November 2017
LEAD OFFICER:	Head of Finance	

General Fund and Housing Revenue Account Medium Term Financial Strategies (MTFS) 2017/18

Purpose

1. To provide Cabinet with an update in respect of the financial position and forecasts for both the General Fund (GF) and the Housing Revenue Account (HRA), allowing review of financial assumptions, approval of any mid-year budgetary changes and agreement of the budgets strategies for 2018/19 and beyond.

2. This is a key decision because it results in the authority incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budgets, and it was first published in the July 2017 Forward Plan.

Recommendations

3. The Scrutiny and Overview Committee is asked to note the report and endorse the recommendations to Cabinet, which are that Cabinet:

a) Approve the GF MTFS as set out in **Appendix 1** to this report, as follows:

- Approves the assumptions underpinning the MTFS (Section 3)
- Notes the GF forecast at Section 4 and Appendix A of the attached report;
- Notes the indicative unavoidable revenue pressures and their impact on savings requirements ;
- Instructs the Head of Finance to bring forward detailed draft estimates for 2018/19 based on assumptions and issues contained in this report for consideration by the Cabinet in the new year; and
- Instructs the Executive Management Team (EMT) to identify and develop other options for meeting the MTFS additional income / savings requirement.

b) Approve the HRA MTFS as set out in **Appendix 2** to this report, to include:

- changes in financial assumptions as detailed in **Appendix B** to the HRA MTFS
- mid-year revenue budget changes, as detailed in **Appendix D(1)** to the HRA MTFS, which impact future forecasts for the HRA.

- mid-year capital budgets changes, as detailed in **Appendix E** to the HRA MTFS
- update to the total new build budget and the new build schemes included in the Housing Capital Investment Plan, incorporation of the latest budgetary figures in respect of new build schemes, and re-phasing of expenditure in line with anticipated build timetables
- recognition of an increase of £500,000 in the budget for the acquisition of market dwellings, to ensure that right to buy receipts are appropriately reinvested in 2017/18.
- changes in anticipated receipt and use of capital resources for the HRA, as included in **Appendix H** to the HRA MTFS
- approval of the HRA budget strategy for 2018/19, to include the exemplification of savings against a target of £600,480, with £100,480 required from 2018/19, and £250,000 per annum sought from 2019/20 and 2020/21 onwards.
- noting the early proposals for bids and savings in the HRA, in advance of formal consideration as part of the HRA Budget Setting Report in February 2018.

Reasons for Recommendations

4. The General Fund and HRA MTFSs are presented for decision following consideration and review of the both internal and external factors which affect the financial position for both funds.

Executive Summary

5. The GF and HRA MTFSs provide an opportunity to consider any changes in the financial context for the General Fund or Housing Revenue Account. They allow review of external factors affecting the business, such as inflation and interest rates, provide the opportunity to update assumptions in respect of the day to operation of council services, and allow recognition of the anticipated impact of any major changes in national policy as legislation is passed and information surrounding any anticipated regulations begins to emerge.

6. The GF MTFS provides an indication of a number of unavoidable revenue pressures which are expected to come forward into budgets for 2018/19 and notes their impact on requirements for savings and/or increased income. Additionally it identifies a number of earmarked reserves that are available to fund pressures such as the costs of delivering transformational change.

7. The report requests required changes to budgets in the HRA which result from the update of financial assumptions.

8. The report also provides an opportunity to consider key strategic risks, and to present the impact of a number of sensitivities to which the housing business plan is subject.

Background

9. The attached GF MTFS updates the MTFS contained within the GF Budget Setting Report approved by Council in February 2017.

10. The HRA is a ring-fenced area of the Council's activity, and represents the landlord activity which the authority carries out as a stock retaining authority.

11. Budgets are set for the HRA in February of each year, following presentation and consideration of the HRA Budget Setting Report. The HRA Medium Term Financial Strategy, presented for consideration and approval in November of each year, allows review of key assumptions and the resulting impact on the housing business, and proposes the strategic approach to budget setting for the coming year, in the context of the longer-term forecasts for the HRA.

Considerations

12. Consideration needs to be given to the fluid nature of some of the assumptions that are required to be incorporated into the financial forecasting for both the General Fund and the HRA, particularly in relation to the impact of some of the changes in national policy, where the absence of detailed regulations has resulted in the need to make best estimate of the impact at a local level, until this is available.

13. Assumptions will need to be continually reviewed and amended as information is made available and any changes in the economic environment become apparent.

Options

14. The HRA MTFS identifies the financial impact of a number of scenarios for the future of the business, modelling the impact of changes in key assumptions and presented as part of the sensitivity analysis at **Appendix J** of the report.

Implications

15. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered: -

Financial

16. The financial implications for both the GF and the HRA are included in the body and appendices of the relevant MTFSs.

Legal

17. There are no direct legal implications associated with this report. Officers will be required to seek legal advice in relation to a number of the national changes in housing policy as the regulations are released by Central Government.

Staffing

18. There are no direct staffing implications associated with the decisions requested in this report. The identified need to make savings in the HRA over the next 3 years is likely to have implications for staff, all of which will be fully explored with Human Resources once they are known.

Risk Management

19. An assessment of the key risks which the authority currently faces in financial terms are included at Section 6 in the GF MTFS and Appendix A to the HRA MTFS.

Equality and Diversity

20. There are no direct equality and diversity implications associated with this report. Future reports, which consider reductions in expenditure and therefore potential service provision, will need to be accompanied by an Equalities Impact Assessment.

Climate Change

21. There is no direct climate change impact associated with this report.

Consultation responses (including from the Youth Council)

22. The Council's 'Let's Talk' consultation has been undertaken to inform the identification of priorities to include in a new Corporate Plan. As such, it provides evidence to support budgetary considerations and the prioritisation of spend, in both the MTFS and Budget Setting Reports.

23. There has been no formal tenant or leaseholder consultation in the preparation of this strategic report. Consultation with tenants and leaseholders may be required as part of the preparation of future reports, particularly where savings are being proposed and service levels may be impacted.

Effect on Strategic Aims

24. The report addresses the financial context in which the Council operates and therefore provides critical support to all its strategic aims. However, attention is drawn to the following aims in particular.

Objective D – An innovative and dynamic organisation

25. The GF MTFS addresses the financial aspects of providing services to our communities at a strategic level. It seeks to identify and balance cost pressures with funding; from government, local taxation and from commercial and investment initiatives. It sets the strategic context for budget setting for 2018/19 and beyond as the Council seeks to move to a sustainable financial model at a time in which government funding continues to reduce significantly.

Objective B – Homes For Our Future

26. The HRA MTFS seeks to provide a strategic update in respect of the financial position for the HRA in the context of national housing policy. The provision of affordable homes to meet the housing need in the district remains a key consideration for the HRA both in the short term, and for the life of the 30 year business plan.

Appendices

- Appendix 1 – General Fund Medium Term Financial Strategy
- Appendix 2 – Housing Revenue Account Medium Term Financial Strategy

Background Papers

Where the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 require documents to be open to inspection by members of the public, they must be available for inspection: -

(a) at all reasonable hours at the offices of South Cambridgeshire District Council;
(b) on the Council's website; and
(c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

Report Authors: Caroline Ryba, Head of Finance
Telephone: (01954) 713072
Julia Hovells, Principal Accountant
Telephone: (01954) 713071
Suzy Brandes, Principal Accountant
Telephone: (01954) 713101

Version 2
Scrutiny

General Fund
Medium-Term Financial Strategy

November 2017

2017/18 to 2022/23

South Cambridgeshire District Council

Contents

Appendices

Section 1
Introduction

Background

The Medium-Term Financial Strategy (MTFS) for the General Fund (GF) is part of the forecasting and budget setting process which leads to the Budget Setting Report (BSR) being presented to Council in February each year. At this time the Council Tax level for the following financial year is set.

The MTFS sets out the council's financial strategy over the medium-term based on a range of assumptions and forecasts. This document takes the council's existing financial strategy and, if necessary, amends the key assumptions on which it is based. The previous year's 'direction of travel', as set out in the Budget on 23 February 2017, is revised in the light of factors such as national and local policy changes, current and forecast economic indicators and new legislation.

The GF MTFS incorporates a review of the current year's budget position and updated projections for the 5 years from 2018/19 to 2022/23. These demonstrate the effects of any changes in assumptions made and their impact in terms of savings requirements. A key part of the MTFS process is the identification of:

- Items which require immediate action or approval
- Items which provide context for decisions on the strategy or process:
    - The level of spending reductions required
    - The level of GF general reserves

Timetable

Key dates and decision points are set out below:

Date	Task
2017	
2 October	EMT review indicative budget proposals
24 October	Cabinet/EMT consider indicative budget proposals and draft MTFS
16 November	Cabinet reviews GF and HRA MTFS reports
13 December	EMT review draft Budget
2018	
24 January	EMT consider the implications of the Local Government Finance Settlement on the Budget Setting Report
6 February	Scrutiny and Overview Committee considers the Budget Setting Report
8 February	Cabinet considers the implications of the Local Government Finance Settlement on the Budget Setting Report and recommends the Budget Setting Report to Council
22 February	Council approves Budget Setting Report and sets the level of Council Tax for 2018/19

Section 2
Policy context, priorities and external factors

Local policy context and priorities

Corporate Plan

The Corporate Plan provides a key component of the local policy context setting a direction of travel for the council which responds to the future financial outlook.

The Corporate Plan for 2017/18 was agreed on 23 February 2017 and sets out the local policy context and priorities for the council for the years 2017-22. The Plan is currently being revised, with local consultation through the 'Let's Talk' initiative. It will be brought forward for approval alongside the budget in February 2018.

Partnership working

South Cambridgeshire District Council (SCDC) works in partnership with a range of other bodies where this can bring additional benefits to the people who live, work and study in our area, especially when this leads to a pooling of resources and skills to achieve a common aim.

The Greater Cambridge Partnership

The council is working with Cambridgeshire County Council, Cambridge City Council, the University of Cambridge and the Greater Cambridge Greater Peterborough Local Enterprise Partnership to deliver infrastructure, housing and skills targets as agreed with Government in the Greater Cambridge City Deal. The deal consists of a grant of up to £500 million, to be released over a 15 to 20 year period, expected to be matched by up to another £500million from local sources, including through the proceeds of growth.

The City Deal will help Greater Cambridge to maintain and grow its status as a prosperous economic area. The deal is working to:

- accelerate the delivery of 33,500 planned homes
- enable delivery of 1,000 extra affordable new homes on rural exception sites
- deliver over 420 new Apprenticeships for young people
- provide £1bn of local and national public sector investment, enabling an estimated £4bn of private sector investment in the Greater Cambridge area
- create 44,000 new jobs
- create a governance arrangement for joint decision making between local councils

The Partnership is currently developing proposals for transport improvements to enable people, goods and ideas to move more quickly, reliably and sustainably between centres of research, innovation and enterprise, and between places of residence, work and study.

One aspect of this is likely to be proposals to tackle congestion, and this may require ways of managing the number of vehicles on the most congested routes at the most congested times of the day. Whatever proposals are ultimately implemented may have impacts on SCDC services, including potentially budgetary implications. The service and financial impact of such measures will be factored into the council's financial planning in more detail as the impacts become clearer.

The Partnership is also supporting delivery of affordable housing and a skills system that equips more young local people with the skills they need to engage in the knowledge-based industries that comprise the Cambridge Cluster.

The Partnership is also bringing together public, private and academic experts to develop and exploit "smart city" technologies to help identify and address the challenges that Greater Cambridge faces.

The council, with other local authority partners, have agreed to create an investment and delivery fund from a proportion of New Homes Bonus (NHB). As a result of this, the MTFS considers the application of funds from NHB, earmarking future uncommitted funding in line with the expected levels of contribution to the fund.

Cambridgeshire and Peterborough Combined Authority

In November 2016, eight organisations[1] in Cambridgeshire, including South Cambridgeshire District Council, agreed a devolution deal with the government to form the Cambridgeshire and Peterborough Combined Authority (CA). The deal gives delegated powers to the Combined Authority and a new elected Mayor and brings funding to the region. Following elections on 5 May 2017, James Palmer was elected as Mayor for the Combined Authority.

The CA will receive funding and powers from Central Government in a number of areas including:

- £100 million to deliver new homes over a five-year period in Peterborough and Cambridgeshire which includes affordable, rented and shared ownership housing, plus £70million for Cambridge City Council to deliver at least 500 new council homes.
- £20 million a year funding over 30 years to support infrastructure and boost economic growth in the region

The key ambitions for the CA include:

- doubling the size of the local economy
- accelerating house building rates
- improving transport and digital infrastructure.

It has been agreed that the CA costs will be funded from the gain share grant and therefore there will be no charge to SCDC for this. The Mayor has the power to raise a precept (i.e. a separate additional element of council tax to fund the running costs of the Mayoral office). The earliest this could take effect is from 2018/19.

The CA (but not the Mayor) can levy constituent councils to make a contribution towards its functions but this would need to be unanimously agreed by those authorities through the budget making process for the CA. Each Council could also decide voluntarily to make a financial contribution to the CA.

[1] Cambridge City Council; Cambridgeshire County Council; East Cambridgeshire District Council; Fenland District Council; Huntingdonshire District Council; Peterborough City Council; South Cambridgeshire District Council; Greater Cambridge Greater Peterborough Local Enterprise Partnership

Cambridgeshire's economy should benefit from the additional investment and improved infrastructure in the local area that the CA brings.

Shared services

The Council has developed shared services with neighbouring councils. Benefits include improvements in service delivery, efficiencies and greater resilience. The following services are delivered in two or three way partnerships:

Building Control (3)	Legal (3)	ICT (3)
Housing Development Agency (3)	Home Improvement Agency (3)	
Internal Audit (2)	Waste & Recycling (2)	Payroll (2)
Homelink (Shared service for Cambridgeshire and West Suffolk with 36 users)	Planning (2) – this service is currently being developed	

External factors

Brexit negotiations and the General Election

Following the referendum on 2016, the government have entered into formal negotiations with the EU to agree our exit terms. The current impact is a rise on inflation caused initially by the weakness of sterling however there are signs that this is now improving.

The June 2017 general election has seen the election of a Conservative led minority government supported when necessary by the Democratic Unionist Party. The true impact on council funding is unlikely to be seen until the Chancellor's Budget in the autumn – the first to follow the new budget timetable. From winter 2017, Finance Bills will be introduced following the Budget. The aim will be to reach Royal Assent in the spring, before the start of the following tax year. This change in timetable will help Parliament to scrutinise tax changes before the tax year where most take effect.

Until Brexit negotiations have progressed further, it is difficult to make longer term economic and financial predictions. There is the possibility that uncertainty triggered by the forthcoming Brexit will cause changes in the structure and operation of the European Union in future years which may further impact the economic prospects and the UK and Europe.

Inflation rates

The base rate of inflation used to drive expenditure assumptions in the GF financial forecasts is the Consumer Price Index (CPI). Previously the base level of inflation included within forecasts was 2% reflecting the Government target for CPI However, the Bank of England's August 2017 forecast, which reflects the inflationary impact of the decline in the sterling exchange rate, shows higher expected levels of CPI inflation of around 2.6% for 2018/19 reducing thereafter to just above the target rate of 2%. We have therefore revised our assumptions to align with the Bank of England's forecasts, see Section 3. Rates used will be reviewed again for the BSR in February 2018.

Interest rates on deposits

The council lends its cash balances externally on a short-term basis, with a view to generating a return that can be spent on delivering council services whilst managing both security and liquidity of the cash. On 4 August 2016, the Monetary Policy Committee of the Bank of England lowered the base rate from 0.5% to 0.25% in response to increased uncertainty and the worsening economic outlook following the EU referendum outcome. Rates available to investors continue to be exceptionally low. Our assumption relating to the rates at which we can lend out our cash balances have been maintained, as noted in Section 3.

Interest rates on external borrowing

The Council has no GF borrowing; however, it is planned that loans will be taken out in the year 2017/18 and estimates included in the BSR in February 2017 assumed borrowing at the rates available from PWLB at the time.

Currency exchange rates and import tariffs

Reducing value of the sterling has had a negative impact on the procurement costs of the Council. Further increase in the value of foreign currencies is likely to cause further pressure on the budget.

Any potential tariffs on goods imported from the EU could increase the cost of material the council uses to achieve its Housing objectives.

National policy context

Government spending announcements

The Chancellor has maintained the government's pledge to eliminate the budget deficit by 2025. Alongside tax revenues, which are largely determined by the pace of economic growth, this pledge will have considerable impact on the medium term outlook for local government funding. The Chancellor's next budget statement, due late in the autumn, is expected to set out how the government wants to shape its fiscal policy and may give some indication of the future trajectory of funding for local government.

The Financial Times recently reported that funding to local government has fallen by 77% since 2010. Various commentators have noted that cuts in funding for local government now appear to be having unacceptable effects on some public services. Going forward, there are some indications that this might change, possibly by increasing the share of public spending allocated to the local government sector.

Local government finance

2018/19 and future years

In December 2015, as part of the provisional local government settlement, a four year funding guarantee was offered to councils that submit an efficiency plan. The council's plan has been accepted by government, confirming revenue support grant (RSG) and baseline levels of business rates for 2016-17 to 2019-20.

The final local government finance settlement announced in February 2017 provides firm funding figures for 2017/18 and indicative figures for the following two years. However, only certain elements are subject to the funding guarantee. These elements are Revenue Support Grant (RSG), Transitional Grant and Rural Services Delivery Grant. The settlement effectively phases RSG out over the 4-year timeframe. In addition, business rates tariffs and top-ups in 2018/19 and 2019/20 will not be altered for reasons related to the relative needs of local authorities, and in the final year may be subject to the implementation of 100% business rates retention.

Uncertainty remains for 2018/19 and beyond, principally due to delays in the development of the 100% business rates retention scheme arising from the 2017 general election. This work includes identifying further responsibilities to devolve to councils to match higher levels of business rates retention and a review of needs and distribution.

This MTFS therefore assumes that the level of Settlement Funding Assessment (SFA) will be as indicated in the 2017/18 settlement, included in the February 2017 BSR and as shown below. There is considerable uncertainty relating to SFA for 2020/21, 2021/22 and 2022/23, as this is

beyond the current parliamentary term and after the implementation of 100% business rates retention. The overall SFA has therefore been assumed to remain at 2019/20 levels.

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Revenue Support Grant (RSG)	-	-	-	-	-
Rural Services Grant	81	105	-	-	-
Transition Grant	-	-	-	-	-
Business rates baseline	2,552	2,642	2,674	2,725	2,725
Business rate tariff adjustment / negative RSG	(191)	(661)	(661)	(661)	(661)
Total SFA - per 2017/18 finance settlement	**2,442**	**2,086**	**2,013**	**2,064**	**2,064**

New Homes Bonus

The New Homes Bonus (NHB) was launched in 2010 as a non-ringfenced payment to all local authorities based on the number of new homes added each year within its area. The eligible amount was then paid for each of a period of 6 years.

A cut of approximately two-thirds of the funding available for NHB was announced in the 2015 Spending Review, followed by a technical consultation on the future of the scheme. The outcome of the technical consultation was published alongside the provisional settlement in December 2016. This confirmed the expected direction of travel, 'sharpening the incentive' for councils to deliver new housing. Specifically:-

- The length of NHB payments was cut from six to five years in 2017/18, and further reduced to four years from 2018/19 onwards.
- A national baseline, or 'deadweight', of 0.4% was introduced, below which NHB will not be paid. The government has retained the option of adjusting this baseline, effectively providing a mechanism to control the total NHB payable to councils. The South Cambridgeshire District Council NHB payable on increases in housing stock above the 0.4% deadweight.
- From 2018/19 the government will consider withholding NHB payments from councils without a local plan, and for houses built following planning appeals. Work continues to complete the processes for adopting the Local Plan but the specifics including timing are also dependent on the Planning Inspection process.

The government has included ways of implementing reductions in NHB for houses built following planning appeals in its technical consultation of the local government finance settlement. At present no reductions have been included in the council's forecasts.

The table below includes estimates of future NHB payments based on expected housing completions and the years of payment and deadweight indicated in the government's consultation response. Any changes in these factors could materially impact these estimates. NHB is currently used to fund both revenue and capital spending related principally to growth and place. Along with partners, the Council has committed 40% of NHB funding each year to a City Deal Investment and Delivery Fund, with remaining amounts reserved for schemes to mitigate the impacts of the A14 upgrade. However, the council's revenue expenditure and A14 mitigation take priority over the contribution to the City Deal Investment and Delivery Fund. If NHB reduces, it is the contribution to this Fund that would be impacted first. Greater reductions may require savings in revenue or capital spending, with the spending listed above being considered against other spending priorities.

NHB receipt estimates, based on projections of future housing completions and empty homes brought back into use, are shown below, along with current commitments.

New Homes Bonus	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**
Confirmed NHB funding at February 2016 BSR	2,066	1,051	-	-
Add				
Confirmed NHB receipts for 2016/17	414	414	414	-
Estimated NHB receipts for 2017/18	558	558	558	558
Estimated NHB receipts for 2018/19	-	1,158	1,158	1,158
Estimated NHB receipts for 2019/20	-	-	1,936	1,936
Estimated NHB receipts for 2020/21	-	-	-	1,965
Potential New Homes Bonus Total	**3,038**	**3,181**	**4,066**	**5,617**
Commitments against NHB				
Contribution to General Fund	1,803	1,803	1,803	1,803
Infrastructure Projects	285	65	15	15
Contribution to City Deal Investment and Delivery Fund	1,215	1,272	1,626	2,246
Contribution to A14 upgrade fund	-	-	-	5,000
Use of Infrastructure reserve fund	-	-	-	(3,447)

New Homes Bonus	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Total commitments against NHB	**3,303**	**3,140**	**3,444**	**5,617**
Surplus / (Deficit) for the year allocated to the Infrastructure reserve fund	**(265)**	**41**	**622**	**0**

Council Tax

The recently released technical consultation on the finance settlement indicates that district councils will be able to raise Band D council tax by £5 per annum. The MTFS has been modelled on the basis that this level of increase will be allowed throughout the 5 year MTFS period. As noted in Section 3, this is a change from before, where it was assumed that increases would be limited to 2% from 2021/22. Differences also arise from changes in the modelled tax base.

Council tax Band D rate	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £	2022/23 £
February 2017	135.31	140.31	145.31	148.21	151.17	-
November 2017	135.31	140.31	145.31	150.31	155.31	160.31
Resulting council tax yield	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**
February 2017	8,234	8,673	9,191	9,590	9,977	-
November 2017	8,234	8,673	9,191	9,726	10,251	10,816
Differences	**0**	**0**	**0**	**136**	**274**	

Section 3
Review of key assumptions

Budget forecasts presented in the February 2017 Budget were based on a number of key assumptions, for example levels of general and pay inflation, interest rates, future funding requirements and council tax levels.

These key assumptions have been reviewed taking account of changes in external factors, government announcements, latest forecasts and circumstances. The table below highlights where assumptions have been retained and where changes have been made **(shown in bold)** for the purposes of forecasts presented in this document.

Forecast assumptions for future government grant funding and the prudent minimum balance and target level of the GF Reserve are included in more detail in sections 2 and 6 of this report respectively.

Key area	Assumption	Comment / Sensitivity
Pay inflation	1% through to 2020, 2% thereafter	Reflects Government guidance of 1% cap for the four years from 2016/17. The Council negotiates locally on pa, however there is a potential pressure resulting from national pay negotiations which indicate possible increases of 2-2.9%. Each 1% increase has an associated cost of approximately £180k. A further risk to the costs of pay inflation is a small number of staff within the Shared Waste Service remaining on Cambridge City Council's (CCC) terms, with CCC following the outcome of the national negotiations.
Incremental salary increases	Included at the detailed estimate level, averaging 1.3%	These are reported through to portfolio holder and cabinet members as part of the budget reporting process. Vacancies are budgeted for at mid-point of the SCP scale based on the current practice.

Key area	Assumption	Comment / Sensitivity
Employee turnover	Taken a straight £0.5m split £450k GF £50k HRA.	This is a historical approach for a number of years. It is proposed that this approach is reviewed with the existing savings target split across service budgets through a percentage savings target allocated to cost centres based on staff levels and other aspects of services. This will improve ownership of delivery of this target and imcrease clarity of the process
General inflation (CPI)	**2018/19 - 2.6%** **2019/20 - 2.2%** **2020/21 - 2.3%** **thereafter 2.0%** (previously 2.4% all years)	General provision for inflation based on the August BoE Inflation report.
Major contracts	Inflation per contract	Not used for MTFS, but individual accountants, if aware of an inflation provision in the contract, will build it into a budget estimate.
Incomes and charges increases	On a case by case basis	These are reported through to portfolio holder and cabinet members as part of the budget reporting process
Cash deposit interest rate assumption	0.68%	This excludes investment income derived from lending to ESH, which is based on actual.
Council tax increase	**Assumed £5 throughout** previously 2% from 2021/22 onwards	As indicated within the previous year's local government finance settlement, confirmed by the recent technical consultation.
Government grant (SFA)	Indicative levels of grant as notified through the final local government finance settlement in early 2017.	The council's efficiency plan has been accepted by government and these grant levels confirmed.

Section 4
Review of budgets and savings targets

2016/17 outturn

A favourable variance of £202k *(2015/16: £126k)* before approved carry forward requests of £250k *(2015/16: £530k)* for General Fund Revenue budgets was recorded on net service spending in the GF for 2016/17. After variances on government funding, statutory capital accounting adjustments, contributions to/ from earmarked reserves and the application of direct revenue funding for capital have been taken into account, the overall net effect was a decrease in the GF reserve of £602k.

2017/18 budgets

Departmental budgets are regularly monitored and action is taken where necessary to bring over spending in line with budgets. Where it looks likely that the annual budget will not be spent in full, this is kept under review to ensure that the service spends only what is necessary to deliver its aims and objectives. However, variance from 2017/18 budgets requires consideration of the impacts on future savings requirements and budgets.

Review of savings targets

A summary of these impacts and unavoidable revenue pressures identified at this time are given in the table below. The resulting savings targets are then shown. Revised projections for the GF are given in Section 5.

Description	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Savings target [1] per BSR	**1,981**	**1,981**	**1,981**	**1,981**	**4,429**
Changes to base assumptions	(22)	116	133	(77)	(246)
Inflation	(68)	(63)	(63)	(64)	(64)
Change in business rates retention/ council tax assumptions		(468)	(450)	(383)	(413)
Change in proposed withdrawal from reserves	(984)	(52)	224	546	(1,560)
Savings requirement before bids	**907**	**1,514**	**1,824**	**2,003**	**2,146**
Indicative unavoidable revenue pressures net of related savings					
HES2 – Footway Lighting contract uplift	10	20	20	20	20
HES4 – Waterbeach Facitlities Maintentance costs (net of CCC share)	4.8	4.8	4.8	4.8	4.8
HES6 – Additional staff requirements for SSWS to support household growth (net of CCC share)	40	42	43	45	45
FS3 – Credit card transaction costs	15	15	15	15	15
FS5 – Grant reduction – Universal Credit implementation transfer of payment of Housing Costs to DWP	50	89	0	0	0
FS7 – Apprenticeship Levy	88	91	94	97	97
FS8 – Apprenticeship Levy rebate	(36)	(44)	(45)	(47)	(47)
PLAN1 – Costs Awarded against the Council	200				
PLAN2 – Appeals	150				
PLAN1a – Earmarked reserves withdrawal to fund appeal costs	(116)				
CCS1 – Funding whole council elections in 2018	226	57	57	57	57
HGF4 – Homeless Reduction Act implementation	202	202	202	202	202
HGF4a – Homeless Reduction Act implementation	(26)	(30)			
ICTR2 - Adjusted Revenue Budget due to resubmitted 3cICT Business Case	173	148	133	109	109
Total unavoidable revenue pressures net of related savings	**981**	**594**	**524**	**502**	**502**
New Net savings to be found	**1,888**	**2,108**	**2,348**	**2,505**	**2,648**

[1] Includes annual £450k salary saving target, currently treated as an in-year savings requirement delivered through employee turnover.

Emerging Risks/Pressures and new initiatives

MTFS includes a net total of unavoidable bids and savings for future year, however, a number of emerging financial risks and pressures have been presented to the Council indicating potential future commitments.

Set up of shared services requires up front investment of resources before benefits of the savings created by the shared service can be realised. Planning is in the process of developing a shared service with Cambridge City Council. This will require additional revenue commitments, which are proposed to be met by the Planning Earmarked Reserves set aside in the past for service improvements.

To deliver shared service benefits, ICT will require investment of both revenue and capital.

A number of proposals for Renewable Energy Investments are being currently considered by the Council. These are expected to be funded by the Earmarked Reserve created from 100% rates the Council was allowed to retain from payments by the Renewable Energy providers.

New initiatives to generate commercial income are being put forward by the Housing Service, requiring investment of approximately £116k over the first 2 years due to the lag in potential payback. Detailed proposals will be presented in the Budget Setting Report in February 2018.

Officers will work through the implications of the emerging pressures and update the financial projections as required.

Strategy for savings delivery

At this stage, indicative unavoidable pressures have been identified. Services continue to work on these pressures and on further budget bids and savings to be brought forward into the budget setting process.

The Council's housing company, Ermine Street Housing (ESH), continues to grow, providing valuable interest income on loans provided by the Council. The company is currently undertaking a revision of its business plan, from which revised interest income projections will be made. At this stage, income above that included within the MTFS calculation is projected, as follows.

Further projects are under development. These will increase income flows to the Council and contribute towards the savings targets identified.

However, to achieve a balanced budget and to maintain and enhance services to residents, it is critical that additional pressures are robustly challenged, and that opportunities for efficiencies and generating additional income are pursued,

Description	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Projected ESH interest income	**(694)**	**(1,244)**	**(1,827)**	**(2,157)**	**(2,280)**

Section 5
General Fund – Expenditure and funding

The following projection of GF expenditure and funding results from applying the recommendations included in this report:-

Description	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Expenditure						
Net service budgets	17,592	18,067	18,505	19,074	19,590	20,053
Rollovers from 2016-17 to 2017-18	250					
Financial Position Report (Q2 17-18)	(74)					
Internal Drainage Boards, Reversal of Depreciation and MRP	(667)	(667)	(667)	(667)	(667)	(667)
Net unavoidable bids and savings		981	594	524	502	502
Deficit/(Surplus) on Business Rates / CTax Collection Fund	(1,563)					
Net Interest	(1,452)	(790)	(775)	(755)	(720)	(700)
Net spending requirement	**14,085**	**17,591**	**17,656**	**18,176**	**18,705**	**19,188**
Funded by:						
Locally Retained Business Rates – Growth Element	(3,752)	(3,493)	(2,826)	(2,724)	(2,571)	(2,347)
Business rate tariff adjustment / negative RSG		191	661	661	661	661
Other grants from central government	(410)	(81)	(105)			
New Homes Bonus (NHB)	(1,803)	(1,803)	(1,803)	(1,803)	(1,803)	(1,803)
Appropriations from infrastructure fund	(200)	(285)	(65)	(15)	(15)	(15)
Council Tax	(8,234)	(8,673)	(9,191)	(9,726)	(10,251)	(10,816)
Additional income/savings		(1,1887)	(2,108)	(2,348)	(2,505)	(2,648)
Contributions (from) / to reserves	314	(1,560)	(1,560)	(1,560)	(1,560)	(1,560)
Total funding	**(14,085)**	**(17,591)**	**(17,656)**	**(18,176)**	**(18,705**	**(19,188)**

Council tax included in the table above is calculated as follows:

Council tax calculation	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Tax base including discount for localised council tax support	60,855.4	61,814.6	63,248.2	64,704.9	66,001.6	67,468.4
Band D council tax (£)	135.31	140.31	145.31	150.31	155.31	160.31
Council tax to be raised from council tax payers	**8,234**	**8,763**	**9,191**	**9,726**	**10,251**	**10,816**

Section 6
Risks and reserves

Risks

The council is exposed to a number of risks and uncertainties which could affect its financial position. These are summarised below, and the risks associated with these projections:-

Risks associated with Business Rates

- Business rates appeals, which may be backdated to 2010, may significantly exceed the provisions put aside for this purpose;
- Increases in council tax and business rates receipts due to local growth may not meet expectations;
- The impact of 100% business rates retention, coupled with the implementation of the Fair Funding Review and any additional responsibilities handed down to the council at that time, may create a net pressure on resources.

Other significant risks

- Savings plans may not deliver projected savings to expected timescales;
- Assumptions and estimates, such as inflation and interest rates, may prove incorrect;
- The actual impact and timing of local growth on the demand for some services may not reflect projections used;
- The economic impact of the United Kingdom leaving the European Union may impact some of the council's income streams such as planning fee income;
- Funding from central government (SFA, NHB and other grants) may fall below projections;
- New legislation or changes to existing legislation may have budgetary impacts;
- Unforeseen capital expenditure, such as major repairs to offices and commercial properties, may be required.

Reserves

General Fund reserve

The GF reserve is held as a buffer against crystallising risks and to deal with timing issues and uneven cashflows. As such, the level of the reserve required is dependent on the financial risks facing the council which will very over time. The prudent minimum balance (PMB) and target level of the GF reserve will be reviewed in the light of current risks during the budget setting process.

The following levels are as recommended in BSR 2017 and have been included in the calculations of net savings requirements in this report.

General Fund reserves	£m
February 2017 BSR – Recommended levels	
- Target level	3.05
- PMB	2.54

The table below shows current and projected levels of the GF reserve.

Description	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Balance as at 1 April (b/fwd)	(9,985)	(10,299)	(8,739)	(7,179)	(5,620)	(4,060)
Total Contribution (to) / from reserves	(314)	1,560	1,560	1,560	1,560	1,560
Balance as at 31 March (c/fwd)	(10,299)	(8,739)	(7,179)	(5,620)	(4,060)	(2,500)

Earmarked and specific funds

The other key reserve is the Infrastructure Fund which has been created to support the infrastructure needs of futures developments and will also provide the council's contribution to the A14 upgrade. Contributions to this fund are made up of the unallocated portion of NHB funding, see Section 2.

General Fund savings requirements

In February 2017 the need to find £1,063k (£450k employee turnover savings, £613k other savings) of ongoing net savings in the GF in 2017/18 was identified in financial reports. Current financial projections, taking account of revised assumptions and incorporating all changes proposed as part of this GF MTFS show that work remains to be done to balance the budgets for 2017/18 and beyond.

Description	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Net savings requirement (BSR Feb 2017)	1,063	1,981	1,981	1,981	1,981
Contribution to savings target (Section 4)	(652)	(1,265)	(467)	(157)	22
Unavoidable bids		981	594	524	502
Revised (MTFS) net savings requirement	**411**	**1,697**	**2,108**	**2,348**	**2,505**

General Fund budget strategy

The budget process

The GF budget process for 2017/187 will remain broadly similar to that for previous years, working within an overall cash limit designed to meet known financial pressures.

The GF MTFS has highlighted:

- An on-going pressure arising from a reduction in interest rates earned on cash balances;
- More volatility than before in relation to inflation rates;
- Increased levels of risk and uncertainty in a number of areas, with both direct and indirect impacts on the finances of the council. Direct risks include current changes to business rates and NHB. Indirectly, the current negative economic outlook could impact planning income and increase the demand for the council's services.

Identification of further savings

The council has a record of identifying and delivering savings, through both service reviews and improvements in value for money obtained over all categories of spending. These approaches to finding and delivering savings will continue, but it is expected that the value of new savings found will decrease over time as services become leaner and more cost effective.

Therefore, the council has embarked on a programme of investment and commercialisation. It will also undertake a series of targeted reviews of service budgets to ensure that value for money is being achieved.

MEDIUM TERM FINANCIAL STRATEGY for the General Fund

October 2017

General provision for Inflation					2.6%		2.2%		2.3%		2.0%		2.0%
Assuming council tax increases of £5	Actual 2016/17 £'000	Estimate 2017/18 £'000		Projected Estimate 2017/18 £'000	Projected Estimate 2018/19 £'000		Projected Estimate 2019/20 £'000		Projected Estimate 2020/21 £'000		Projected Estimate 2021/22 £'000		Projected Estimate 2022/23 £'000
EXPENDITURE													
Fully Allocated Net Portfolio Expenditure	15,433	17,467		17,467	17,942		18,380		18,949		19,465		19,928
Add Precautionary items/Council actions/other	10	125		125	125		125		125		125		125
Less Planning Policy funded by New Homes Bonus	(327)	(200)		(200)	(285)		(65)		(15)		(15)		(15)
Rollovers from 2016-17 to 2017-18				250									
Financial Position Report (Q2 2017-18)				(74)									
Net unavoidable bids and savings					982		594		523		502		502
Net Portfolio Expenditure	15,116	17,392		17,568	18,763		19,033		19,582		20,077		20,540
Net Interest on balances	(679)	(800)		(1,452)	(790)		(775)		(755)		(720)		(700)
Internal Drainage Boards, Reversal of Depreciation and Minimum Revenue Provision	(778)	(667)		(667)	(667)		(667)		(667)		(667)		(667)
District Council General Fund Expenditure	**13,659**	**15,926**		**15,449**	**17,307**		**17,592**		**18,161**		**18,691**		**19,174**
Additional income/(savings) to maintain working balance in the year		**(163)**			**(1,888)**		**(2,108)**		**(2,348)**		**(2,505)**		**(2,648)**
Expenditure including savings	**13,659**	**15,763**		**15,449**	**15,418**		**15,484**		**15,813**		**16,185**		**16,525**
INCOME													
Revenue Support Grant (including negative tariff adjustment)	(926)	(230)	-75.2%	(230)	191		661		661		661		661
Rural Services Grant	(130)	(105)		(105)	(81)		(105)		0		0		
Transition Grant	(76)	(76)		(76)									
Retained Business Rates	(3,604)	(3,752)		(3,752)	(3,493)		(3,487)		(3,385)		(3,232)		(3,008)
(Surplus)/Deficit on Council Tax Collection Fund	(38)	(46)		(46)	0		0		0		0		0
(Surplus)/Deficit on Business Rates Collection Fund	153	(1,518)		(1,518)	0		0		0		0		0
Council Tax to be raised from council taxpayers	(7,852)	(8,234)		(8,234)	(8,673)		(9,191)		(9,726)		(10,251)		(10,816)
New Homes Bonus (contribution to the GF)	(1,803)	(1,803)		(1,803)	(1,803)		(1,803)		(1,803)		(1,803)		(1,803)
District Council General Fund Income before appropriation from reserve	(14,275)	(15,763)		(15,763)	(13,859)		(13,924)		(14,253)		(14,625)		(14,966)
Appropriations to/(from) General Fund working balance	617			314	(1,560)		(1,560)		(1,560)		(1,560)		(1,560)
District Council General Fund Income	**(13,659)**	**(15,763)**		**(15,449)**	**(15,418)**		**(15,484)**		**(15,813)**		**(16,185)**		**(16,525)**
	Number	Number		Number	Number		Number		Number		Number		Number
Tax Base for Tax Setting Purposes including discount for localised council tax support	60,257.0	60,855.4	1.0%	60,855.4	61,814.6	1.6%	63,248.2	2.3%	64,704.9	2.3%	66,001.6	2.0%	67,468.4
Basic Amount of Council Tax	£	£		£	£		£		£		£		£
District only	130.31	135.31	3.8%	135.31	140.31	3.7%	145.31	3.6%	150.31	3.4%	155.31	3.3%	160.31
Impact on Council tax of using savings and appropriations from reserves	(10.23)	2.67		(5.15)	55.78		57.99		60.39		61.59		62.37
Underlying Council Tax with no appropriations from the General Fund Balance or Savings	£ 120.08	£ 137.98		£ 130.16	£ 196.09		£ 203.30		£ 210.70		£ 216.90		£ 222.68
Balances at Year End	£'000	£'000		£'000	£'000		£'000		£'000		£'000		£'000
General Fund (recommended minimum level £2.5 million)	(9,985)	(9,985)		(10,299)	(8,739)		(7,179)		(5,620)		(4,060)		(2,500)

Earmarked and specific funds

In addition to general reserves, the council maintains a number of earmarked and specific funds held to meet major expenditure of a non-recurring nature or where the income has been received for a specific purpose but not yet spent. Details of opening and closing balances, with approved/anticipated use over the budget period are set out in Appendix D.

The major earmarked and specific funds are listed below with balances as at 1 April 2017.

Fund	Balance at 1 April 2017 £000	Potential spend 17-18 £000	Net balance carried forward £000	Recommendation
Revenue reserves				
New Homes Bonus Infrastructure Reserve	(7,637)	517	(7,120)	Review separately. Use £58.3k towards revenue bid HGF5
Business Rates Growth and Renewables Reserve	(5,744)		(5,744)	Review separately. Use £1.2m towards revenue bids CCS7-9
Pension Deficit Reserve	(702)	346	(356)	Keep
Planning Enforcement Reserve	(500)		(500)	Keep
Business Efficiency Reserve	(340)	100	(240)	Use for 2018/19 bids
Sustainability - climate change reserve	(117)		(117)	Use £12k towards capital bid FS12 and £28k towards capital bid FS12. Release remainder
Business accommodation reserves	(98)		(98)	Use £98k towards capital bid FS13
Private Stock Condition Survey	(75)		(75)	Review separately
Children & Young People	(75)		(75)	Keep
Business Hub	(74)		(74)	Review separately
Land Charges- appropriations	(19)		(19)	Use £19k towards revenue bid PLAN9
Subtotal	**(15,373)**	**963**	**(14,410)**	

Planning reserves (revenue)				
Major Developments and Parish Liaison Fees Reserve	(472)	150	(322)	Use £207.9k towards revenue bid PLANSHb (Planning shared service) and remaining £114k towards revenue bid PLAN5
Northstowe Reserve	(128)		(128)	Use £12k towards revenue bid PLAN5 and £116k towards revenue bid PLAN2
Planning Fee Reserve excl Northstowe - growth agenda	(179)		(179)	Use £179k towards revenue bid PLAN5
Service Contingency-Planning	(100)		(100)	Use £100k towards revenue bid PLAN5
Planning other	(95)		(95)	Use £95k towards revenue bid PLAN5
Subtotal	**(974)**	**150**	**(824)**	
Other	(326)		(326)	See detail below
Total General Fund Revenue Earmarked reserves	**(16,673)**	**1,113**	**(15,560)**	
Capital reserves				
Refuse Collection sink fund	(407)		(407)	Keep
Supervisors' vehicles sink fund	(46)		(46)	Keep
Street Cleansing sink fund	(229)		(229)	Keep
Air Quality Monitoring	(119)		(119)	Keep
Footway Lighting	(87)		(87)	Keep
Cambourne Office	(83)		(83)	Use £83k towards capital bid FS13
Heritage Initiatives and historic buildings	(40)		(40)	Use £40k towards capital bid FS13
Community Development - Capital	(35)	35	0	None left
Other	(39)		(39)	
Total General Fund Capital Earmarked reserves	**(1,084)**	**35**	**(1,049)**	
Total General Fund Earmarked reserves	**(17,757)**	**1,148**	**(16,609)**	
Shared Waste Service	(45)		(45)	

Breakdown of "Other" in GF Revenue				
Swavesey Byeways Fund	(6)		(6)	Keep
South Cambs Crime & Disorder Partnership	(33)		(33)	Keep
2012/13	(3)		(3)	Release
Land Charges- new burdens grant	(9)		(9)	Keep
Economic Development Portfolio Reserve	(13)		(13)	
Community Chest Grants	(1)	1	(1)	
Taxi Licencing Reserve	(67)		(67)	Keep
RCV's Sinking Fund	(41)		(41)	Keep
Street Cleansing Vehicles Sinking Fund	(24)		(24)	Keep
Air Quality Monitoring	(29)		(29)	Keep
Air Quality Monitoring	(6)		(6)	Keep
Health & Environmental Services	(24)		(24)	Keep
Travellers Site Reserve	(50)		(50)	Review separately
Waterbeach Depot	(5)		(5)	Keep
Webb's Hole Sluice	(3)		(3)	Keep
Contributions-Cambridge Sports Lake Trust	(6)		(6)	Keep
Insurance All Risks	(6)		(6)	Review separately
Total General Fund Revenue Earmarked reserves "Other"	**(326)**		**(326)**	

Refer to the table and the end of the paper for the effect of the recommended withdrawals on the balance of Earmarked Reserves.

General Fund Revenue Reserves - £15,373k

New Homes Bonus Infrastructure Reserve - £7,637k

NHB monies the authority receives from the Government, which are not used towards GF expenditure previously funded by Housing & Planning Delivery Grant or to meet Local Plan and associated costs; the A14 contribution of £5m will eventually come from this reserve, as well as any City Deal funding commitments. £517k contribution towards the City Deal was paid in 2016/17; this will be reflected in this reserve in 2017/18.

It is recommended that commitments SCDC needs to meet from this reserve are reevaluated and any surplus is released.

Business Rates Growth and Renewables Reserve - £5,744k

Set up at the end of 2015/16 in order to fund an investment programme to build new sources of renewable energy. A proposal for use of these funds prepared by the Policy team has been presented to EMT on 27 September 2017. This will utilise £1.2m element of the reserve arising from the Business Rates received from the Renewable Energy sources and permitted to be retained locally at 100% in order to be reinvested back in Renewable Energy. Remainder of the reserve are the funds from the rates retention pilot. At this time the Council is not clear if any conditions are attached to the retention of these funds.
It is recommended that clarification is obtained regarding potential conditions for the use of the funds before releasing any unused funds.

Pension Deficit Reserve - £702k

An allocation from employer pension contributions to meet the current deficit on the Cambridgeshire Local Government Pension Scheme over the next few years. To be retained.

Planning Enforcement Reserve - £500k

Established to meet legal and other costs arising from planning enforcement actions. This reserve is to be maintained in case of major enforcement and will be topped back up if used.

Business Efficiency Reserve - £340k

Set aside to meet costs associated with council actions, implementation of the Business Improvement and Efficiency Programme and Commercialisation Programme projects and the Shared Services Programme. Annual contribution of £50k is budgeted for transfer to this reserve. The Leaders of Cambridge City Council, Huntingdonshire District Council and SCDC have committed £200k of this reserve towards the costs of the 3C Programme Office over two years. This reserve is due to be reduced by £60k to cover the costs of the 3C Shared Services Hub for 2016/17 and a further £40k relating to the budgeted costs of the 3C Shared Services Hub for 2017/18, making the two year cost of the 3C Shared Services Hub £100K instead of £200k.
It is recommended that annual contributions to this reserve are stopped and the available remaining funds are used to continue the work of setting up the Shared Services.

Business Accommodation Reserves - £165k

Consisted of the Cambourne Office reserve of £23k relating to the access road and the Facilities Reserve of £75k created in 2015/16 to spread the cost of repairs. There is a separate capital reserve specifically for capital improvements to the Cambourne office (see below).

It is recommended that the reserves relating to the Cambourne office and Facilities improvements are used to fund the bids for office refurbishment programmes.

Sustainability -climate change - £117k

Set aside to fund future initiatives on sustainability projects such as the one recently delivered on the Cambridge Green Deal. There are likely to be an increased number of these with the development of Northstowe and other growth area developments. No funds from these reserve have been spent since 2015.
It is recommended that this reserve is released.

Private Stock Condition Survey - £75k

Set aside to fund a future survey on the condition of private housing in the district. This is part of a Housing Standards initiative. £15k is set aside from budget each year (including 2017-18) to meet these 5 year costs.
It is recommended that the value in this reserve is reviewed against the timing and potential cost of the survey it was set up to fund.

Children & Young People- £75k

Set side to fund the current and future costs of the South Cambridgeshire and Cambridge City Children and Young People Area Partnership. SCDC administers the finances on behalf of the South Cambridgeshire and Cambridge City Children and Young Peoples Area Partnership. This is a partnership reserve shared with the County.

Business Hub- £67k

Reserve set up in 2015/16 to support the Business Hub initiative. Funds in this reserve include funds from the County Council (originally £72K), which cannot be used without their consent.

Land Charges- appropriations - £19k

Set aside to either provide capital investment in Land Charges e.g. electronic service delivery or to offset unforeseen revenue demands that accrue but cannot be recovered through the current fee structure, set at the start of the year. The reserve has been accumulated in recent years from high income levels which have out-stripped costs; a significant amount was withdrawn from this reserve in 2016-17 and by its nature, can only be utilised through the Land Charges function.

Planning Reserves - £974k

Major Developments Fees and Parish Liaison Reserve - £472k

Northstowe Reserve - £128k

These two reserves have been established from pre-app and planning application fees received in respect of Northstowe and other major developments, identified separately in recognition of their importance, to be called on as and when necessary to ensure planning teams are resourced to support and progress applications for those developments.

This includes the balance remaining from the Planning Enforcement Reserve when it was decided to reduce that reserve from a maximum of £1m to £500,000, set aside to fund two two-year fixed term posts, one in housing and one in planning, to support parish liaison and site development initiatives.

Due to the shortfall in the Development Management income this year, it is expected that £150k transfer from reserves will be required to cover the additional funds allocated to this Cost Centre in the budget and originally covered by additional savings requirement for the same value. It is recommended that remainder of the reserve is used to cover Planning bids for funds in 2018-19.

Planning Fee Reserve excl Northstowe - growth agenda - £179k

Parish Liaison & Site Development Reserve - £100k

These are general use reserves to be used to support Growth budget or additional Planning service requirements as and when necessary.

A detailed 5-year project plan for Growth sets out periodic shortfalls in revenue versus costs and would indicate when and how much for this reserve needs to be allocated for this purpose. This is due to be presented to Finance shortly. It is recommended that this is reviewed and any remainder of the reserve is used towards Planning service bids for 2018-19 or released.

Planning other - £95k

Includes Enforcement of unauthorised developments, Habitat Regulations Assessment, Legal costs: re Northstowe Trust.

This reserve has not been used in the last 2 years and is therefore recommended for release.

Shared Waste Service - £45k

Included with S106 Developers' Contributions Revenue reserves in the accounts. Set up to meet the authority's share of costs resulting from implementation of the Single Shared Waste

Service with Cambridge City Council. Reduced from £126k in February 2016 MTFS and £85k in February 2017 MTFS.

Capital Reserves - £1,084k

Refuse Collection reserve - £407k

Refuse Supervisors' vehicles - £46k

This is a sinking fund being built-up to fund future replacement vehicles for the Shared Waste Service. There is also a sum of £46k set aside for replacement of Supervisors' vehicles.

Street Cleansing reserve - £229k

This is a sinking fund being built-up to fund future replacement vehicles for the Street Cleansing Service.

Air Quality monitoring - £119k

The reserve was set up to fund replacement of equipment used for Air Quality monitoring.

Footway Lighting reserve - £87k

The reserve was set up in 2015-16 to fund the future planned replacement programme of those lights identified as of higher priority in the electrical and safety inspection survey undertaken recently.

Cambourne Office - £83k

The reserve was set up in 2008 for improvements to the office building, this was earmarked for refurbishment projects including moving the meeting rooms to a new location.
There is a separate Cambourne office revenue reserve of £23k (mentioned above).
It is recommended that this reserve is used towards the bids submitted for 2018-19 projects.

Heritage initiatives and historic buildings - £40k

The Reserves for Heritage and Historic Buildings consists of the following:
The Historic Buildings/Conservation Area Grants Reserve, which appears to have been overspent and currently has a debit balance of £28k.
The Preservation of Historic Buildings Reserve, first established in 1982 to provide the means, in the last resort, to save buildings at risk. It has enabled the Council to use its statutory powers,

which could lead to compulsory purchase, repair and resale of such property. This Reserve currently has a balance of £35k.

The Heritage Initiatives Reserve set up in 1996/97 with a one-off contribution of £200,000, for use over a number of years to fund larger conservation projects. The balance of this Reserve is currently £34k.

No use of these reserves was made in the last 2 years, therefore these are recommended for release.

Community Development - Capital - £35k

This reserve has been given up to provide extra Community Chest funding in 2017/18.

GF Revenue Reserves - Other - £326k

Swavesey Byeways Fund - £6k

Built up from the under-utilisation of the money paid through the ratepayers charge. Essentially not owned by SCDC and should be spent on future investment in maintaining the Byeways.

South Cambs Crime & Disorder Partnership - £33k

Partnership reserve held on behalf of the South Cambridgeshire Crime & Disorder Reduction Partnership. Any decision to utilise spend from this is made at Board level.

Community Chest Grants - £1k

Commitment made at the end of the financial year which hasn't yet been paid – this has now been paid.

Taxi Licensing Reserve - £67k

Fund has been built up due to an increase in taxi licence applications. Plans are in-place to draw-down from this fund by employing additional resource to cope with the high demand whilst keeping the licensing fee within current levels in the short term.

RCV (Refuse Collection Vehicle) Sinking Fund - £41k

This is a revenue fund which we make contributions to as an insurance against heavy maintenance and repair costs that may be incurred on RCV's beyond their warranty period e.g. new engine or gearbox which aren't budgeted for within the running maintenance budget. Previously, these heavy costs would be covered under the contract lease agreement but SCDC are moving away from this policy to one of asset ownership.

Street Cleansing Vehicles Sinking Fund - £24k

Ditto the above but in respect to Street Cleansing vehicles.

Air Quality Monitoring x2 - £29k + £6k

These are in respect of two separate s106 agreements, one at Northstowe (£29k) and one on the Cambridge NW development site (£6k). These s106 will have conditions attached to them ensuring that the funds are spent in accordance with the purpose set out in the agreement.

Health & Environmental Services - £24k

Council was successful in securing funding from Improvement East towards a new systems thinking process design. Funds from this are earmarked towards the facilitation of better mobile working strategy within the H&ES department.

Travellers Site Reserve - £50k

This fund has built-up in the last two years from the excess rental income generated from the two Council owned sites at Milton and Whaddon. Both sites have had capital injected in them recently and as such are relatively newly developed with low maintenance costs, meaning rental income as out-stripped the costs of running the sites. The money on this fund could be used for future capital improvements in the sites or used to counter-balance unexpected and therefore unbudgeted day-to-day running costs.

Waterbeach Depot - £5k

There is an annual £5k appropriation into this fund (jointly funded with Cambridge City Council) as an insurance against any unexpected maintenance costs which as tenants, we'd be expected to cover. It is proposed that a ceiling level be set for this so that when it reaches this point e.g. £20k, no more extra money is put in, only replenishments up to the £20k.

Webbs Hole Sluice - £3k

It was decided last year to build up a £15k sinking fund to cover the costs of any major overhaul and servicing works required at the pumping station which it was felt would be needed every 5-years. Therefore the £3k represents the first year of the 5-year

Refer to the table below for the effect of the recommended withdrawals on the balance of Earmarked Reserves.

Fund	Balance at 1 April 2017 £000	Potential spend 17-18 £000	Forecast Balance on 31 March 2018 £000	Recommended withdrawal to fund 2018-19 bids £000	Forecast Balance on 31 March 2019 £000
Revenue reserves					
New Homes Bonus Infrastructure Reserve	(7,637)	517	(7,120)	58	(7,061)
Business Rates Growth and Renewables Reserve	(5,744)		(5,744)	1,200	(4,544)
Pension Deficit Reserve	(702)	346	(356)		(356)
Planning Enforcement Reserve	(500)		(500)		(500)
Business Efficiency Reserve	(340)	100	(240)		(240)
Sustainability - climate change reserve	(117)		(117)	40	(77)
Business accommodation reserves	(98)		(98)	98	(0)
Private Stock Condition Survey	(75)		(75)		(75)
Children & Young People	(75)		(75)		(75)
Land Charges- appropriations	(19)		(19)		(19)
Subtotal	**(15,373)**	**963**	**(14,410)**	**1,396**	**(13,014)**
Planning reserves (revenue)					
Major Developments and Parish Liaison Fees Reserve	(472)	150	(322)	322	(0)
Northstowe Reserve	(128)		(128)	128	(0)
Planning Fee Reserve excl Northstowe - growth agenda	(179)		(179)	179	(0)
Service Contingency-Planning	(100)		(100)	100	(0)
Planning other	(95)		(95)	95	0
Subtotal	**(974)**	**150**	**(824)**	**708**	**(0)**
Other	(326)		(326)		(326)
Total General Fund Revenue Earmarked reserves	**(16,673)**	**1,113**	**(15,560)**	**2,171**	**(13,340)**
Capital reserves					
Refuse Collection sink fund	(407)		(407)		(407)

Supervisors' vehicles sink fund	(46)		(46)		(46)
Street Cleansing sink fund	(229)		(229)		(229)
Air Quality Monitoring	(119)		(119)		(119)
Footway Lighting	(87)		(87)		(87)
Cambourne Office	(83)		(83)	83	0
Heritage Initiatives and historic buildings	(40)		(40)	40	0
Community Development - Capital	(35)	35	0		0
Other	(39)		(39)		(39)
Total General Fund Capital Earmarked reserves	**(1,084)**	**35**	**(1,049)**	**123**	**(926)**
Total General Fund Earmarked reserves	**(17,757)**	**1,148**	**(16,609)**	**2,227**	**(14,266)**
Shared Waste Service	(45)		(45)		(45)
Breakdown of "Other" in GF Revenue					
Swavesey Byeways Fund	(6)		(6)		(6)
South Cambs Crime & Disorder Partnership	(33)		(33)		(33)
2012/13	(3)		(3)		(3)
Land Charges- new burdens grant	(9)		(9)		(9)
Economic Development Portfolio Reserve	(13)		(13)		(13)
Community Chest Grants	(1)		(1)		(1)
Taxi Licencing Reserve	(67)		(67)		(67)
RCV's Sinking Fund	(41)		(41)		(41)
Street Cleansing Vehicles Sinking Fund	(24)		(24)		(24)
Air Quality Monitoring	(29)		(29)		(29)
Air Quality Monitoring	(6)		(6)		(6)
Health & Environmental Services	(24)		(24)		(24)
Travellers Site Reserve	(50)		(50)		(50)
Waterbeach Depot	(5)		(5)		(5)
Webb's Hole Sluice	(3)		(3)		(3)
Contributions-Cambridge Sports Lake Trust	(6)		(6)		(6)
Insurance All Risks	(6)		(6)		(6)
Total General Fund Revenue Earmarked reserves "Other"	**(326)**		**(326)**		**(326)**

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Version 2
Scrutiny / Cabinet

Housing Revenue Account Medium Term Financial Strategy (HRA Business Plan Update)

November 2017

2017/18 to 2046/47

South Cambridgeshire District Council

Contents

Appendices

Section 1
Introduction and Local Context

Foreword by the Portfolio Holder for Housing

In reviewing the Medium Term Strategy for the Housing Revenue Account South Cambs acknowledges the much publicised problems with housing provision that are being experienced everywhere but despite these can rightly point to some successes. Overcoming the challenge of finding match funding for Right to Buy receipts, the Council has continued to use all its receipts from that source within the very strict time constraints that Government sets. One recent decision was to acquire 9 units at Waterbeach (affordable rented and shared ownership) which will be built out by a trusted partner with whom the Council has worked before.

The commitment to maintaining high quality services to its tenants and leaseholders has prompted a review of the use of the communal rooms on the Council's sheltered schemes. Its very active Tenant Participation Group recently completed the first step of that review and two members of the group will participate in the working party that has been set up to make its recommendations by March 2018.

Some of the uncertainty that has made forward planning difficult has been removed with the announcement that the Local Housing Allowance cap will be removed for supported housing. Other uncertainties still remain in the proposed extension of Right to Buy and the forced sale of higher value void properties. However, South Cambs has demonstrated its resilience in the face of many challenges over recent years and undoubtedly the 'can do' attitude of the Housing team will see that continue for the future.

Councillor Lynda Harford

Portfolio Holder for Housing

Background

The Housing Revenue Account (HRA) Medium Term Financial Strategy is one of two updates each year of the original HRA 30-Year Business Plan approved in February 2012, which update the position for the HRA operating in a self-financing environment.

The report allow the authority to review assumptions and consider material changes, which may need the authority to change financial strategy, policy or to take alternative courses of action, to ensure a financially viable Housing Revenue Account in future years. Both revenue and capital investment is considered in this report, with the impact of any proposed changes on the HRA Business Plan clearly identified. A review of the strategic risks facing the HRA is presented at **Appendix A**.

The HRA Medium Term Financial Strategy re-states the budget for the current year (2017/18), highlighting only significant or exceptional in-year changes for approval, reviews and updates financial assumptions and presents updated projections for the following 4 years from 2018/19 to 2021/22, in the context of the longer-term financial position.

Savings either already made, or anticipated in the coming budget year as part of the savings target included in the HRA Budget Setting Report, deliver a sustainable position for the HRA over the medium-term. It must be noted, however, that the current forecasts have been constructed whilst there are still a number of areas of uncertainty in the housing sector, and with the assumptions that housing debt will be fully re-financed at maturity and that any introduction of the 'sale of higher value voids' levy is deferred until at least April 2019. Financial forecasts will be reviewed again as further information is made available to the authority.

Timetable

Committee dates in the financial planning and budget preparation timetable are shown below:

Date	Task
2017	
9 November	Scrutiny and Overview Committee considers HRA Medium Term Financial Strategy, with any amendments incorporated into recommendations to Cabinet
16 November	Cabinet considers HRA Medium Term Financial Strategy, with any amendments incorporated into recommendations to Council
23 November	Council approves HRA Medium Term Financial Strategy
2018	
6 February	Scrutiny and Overview Committee considers HRA Budget Setting Report, with any amendments incorporated into recommendations to Cabinet

8 February	Cabinet considers HRA Budget Setting Report, with any amendments incorporated into recommendations to Council
22 February	Council approves HRA Budget Setting Report

Section 2
Housing Stock

Housing and Leasehold Stock

South Cambridgeshire District Council Housing Revenue Account owns and / or manages the following properties, broken down by category of housing provided:

Housing Category	Actual Stock Numbers as at 1/4/2017	Estimated Stock Numbers as at 1/4/2018
General Housing (Incl. use as Temporary Housing)	4,197	4,177
Sheltered Housing	1,054	1,054
Sheltered Housing – Equity Share	80	80
Miscellaneous Leased Dwellings	20	11
Shared Ownership / FTB Dwellings	50	57
Total Dwellings	5,401	5,379

A breakdown of the housing stock by property type, excluding shared ownership and equity share, is demonstrated in the table below:

Stock Category (Property Type)	Actual Stock Numbers as at 1/4/2017	Estimated Stock Numbers as at 1/4/2018
Bedsits	32	20
1 Bed	1,023	1,016
2 Bed	2,279	2,282
3 Bed	1,861	1,849
4 Bed	71	70
5 Bed	1	1
6 Bed	4	4
Total Dwellings	5,271	5,242

Leasehold Stock

The Housing Revenue Account continues to maintain the freehold in respect of flats, sold under the right to buy process on long leases. Services continue to be provided to these properties in respect of repairs and improvements to communal areas and services for common facilities.

Section 3
The National Policy Context and External Factors

External Factors

In reviewing financial assumptions as a pre-cursor to strategic decision making, it is necessary to consider external factors, outside of the control of the organisation and to update financial projections in light of any changes or trends in these areas.

A table detailing all of the revised business planning assumptions is included at **Appendix B.**

Inflation Rates

The base rate of inflation used to drive expenditure assumptions in the HRA financial forecasts is the Consumer Price Index (CPI). The last 18 months has seen a steady increase in this measure of inflation, with the rate of growth rising from 0.5% in March 2016 to 2.9% by August 2017, a level which has not been seen since mid-2013. The Office for Budget Responsibility (OBR) is currently still predicting a return to the Bank of England's target level for CPI of 2% in the longer-term.

In light of the decision, and resulting negotiations, for the UK to leave the European Union, coupled with changes in government at a national level, it is difficult to accurately predict in which direction this indices will move in the short or medium term.

With this in mind, forecasts for the rate of base inflation have been amended as part of the Medium Term Financial Strategy, from the previously assumed level of 2.4% from 2018/19 on an ongoing basis, to a rate of 2.6% for 2018/19, 2.2% for 2019/20, 2.3% for 2020/21 and 2% then ongoing, to reflect the current view of the Bank of England. This assumption will be revisited again as part of the 2018/19 Budget Setting Report.

Expenditure in respect of building maintenance is inflated in the financial forecasts using the Retail Price Index (RPI), as this is the inflationary measure incorporated into the majority of HRA maintenance contracts.

Over the medium-term RPI runs at an average of 1% above CPI, so for the purposes of financial forecasting, RPI rates of 3.6% for 2018/19, 3.2% for 2019/20, 3.3% for 2020/21 and 3% then ongoing have been adopted to reflect this.

Interest Rates

The Housing Revenue Account is entitled to its proportion of any interest earned on cash balances invested by the authority, with a mix of investments adopted by the Council, including lending to Ermine Street Housing. The Housing Revenue Account proportion includes balances which are revenue or capital in nature. Interest returns currently remain relatively low, with revised interest rate assumptions included in **Appendix B**.

As the Housing Revenue Account is already at its borrowing cap, bar a very small amount of notional internal lending to the General Fund, the level at which the HRA could borrow additional resource, over and above the existing PWLB loan portfolio totalling £205,123,000, is not currently relevant for HRA business planning purposes. Although the rates available currently mean that the rates are still lower than those secured for the self-financing settlement in 2012, any attempt to re-finance the existing loan portfolio now to take advantage of the lower rates would incur significant early redemption penalties. Any interest saving would be far outweighed by the penalty, which would need to be paid at the point of re-financing.

From the perspective of accounting for the interest due to the HRA for the internal lending to the General Fund, the same rate that would be achieved via lending externally is adopted.

Right to Buy Sales

In 2016/17, 65 right to buy applications were received and recorded, compared with 80 in the previous year. 19 applications were received in the first 5 months of 2017/18. This seems to indicate that the increased interest in 2015/16, which resulted in increased completions in 2016/17, deemed to be attributable to the anticipated introduction of 'Pay to Stay', the requirement for those on higher income to pay up to market rent for living in their council home, may now have returned to prior year levels, following Pay to Stay being abolished. In 2016/17, 33 of the applications proceeded to completion of the sale of the property, compared with 23 in 2015/16. In the first 6 months of 2017/18, 13 sales have completed, supporting the view that interest has waned.

It is impossible to accurately predict future sales, although the recent decline in interest and the current uncertainty in the country at national level, indicates it may be prudent to retain the

assumption of reducing sales, with 25 sales in 2017/18, 20 sales per year for 3 years from 2018/19, then reducing to 15 sales per annum from 2021/22 onwards.

Right to Buy Receipts

The authority is still subject to the agreement with CLG, allowing the retention of an agreed proportion of right to buy receipts, subject to a set of specific conditions; the authority still holds a significant sum for re-investment. Receipts must be spent, within 3 years, to fund the delivery of new social housing, with a maximum of 30% of any dwelling being funded via this mechanism, with the balance funded from the Council's own revenue resources or borrowing (within the debt cap). According to the agreement the receipts can't be used on dwellings receiving any other form of public subsidy, ie; Homes and Communities Agency grant.

It has recently been confirmed that the authority is unable to directly utilise capital receipts from the sale of land and other housing assets as a form of match funding for retained right to buy receipts. Although this is a change to our previous assumptions, we are still able to utilise other housing capital receipts for any other form of capital investment in the provision of affordable housing, which allows us to utilise this resource to fund any other areas of the HRA capital programme, swapping the funding previously identified for these areas to match fund the retained right to buy receipts, thus achieving the same aim.

Whilst held, the capital receipts can be invested by the authority to earn interest in the short-term, but if not spent appropriately within the 3 year time frame, have to be paid over to central government, with 'penalty' interest payable at 4% above the base rate, far exceeding the level of interest that will have been earned in the interim. There is scope however, if the resource can't be appropriately invested by the authority to instead pass it to a housing association for investment in social housing with the same constraints applied.

Appendix C summarises the latest position in respect of both receipts held and re-invested. Although a deadline has not yet been breached, there was a need to undertake a number of strategic acquisitions during 2016/17, with more anticipated in 2017/18, to ensure that funds are re-invested locally, and not paid to central government with an interest penalty attached.

At the end of each quarter, the Executive Director (Corporate Services), in consultation with the Director of Housing, continue to make a decision as to whether right to buy receipts are retained or paid directly over to central government. The decision takes account of the authority's ability to

identify the 70% top up funding, or alternatively the potential for the receipt to be passed to a registered provider, with both options maximising the use of the resource and creation of new homes in the locality. Payment of the sums to central government will only occur if there is a considered risk that the resource cannot be utilised appropriately within the required timeframes, thus mitigating the impact of the need to pay receipts over to central government at a later stage, alongside the interest penalty that would be incurred.

The additional capital spending required and the resulting funding sources identified, is then built into the Housing Capital Investment Plan at the next available opportunity.

National Housing Policy

National Rent Setting Policy

The legislation approved as part of the Welfare Reform and Work Bill 2015, requires local authority landlords and registered providers to continue to apply a 1% rent reduction for the next two years, from April 2018 and April 2019.

The authority is still expected to move rents in void properties from actual (transitional) rents directly to target rent levels before relet, recognising that the target rent for each property will also reduce by 1% each year for the remaining two years of this rent policy.

A government announcement on 4 October 2017, confirmed that the authority will be able to revert to the previous policy of increasing rents by CPI (as measured at the preceding September), plus 1% each year, from April 2020. An increase of CPI plus 1% has been confirmed for a 5 years period from April 2020 to give some stability and certainty to housing business plans.

In respect of affordable rents, the government requires local authorities to determine what 80% of the market rent would be for a property, and to apply the 1% reductions to this rent level, with the resulting sum being the maximum which a local authority can charge.

Mandatory Disposal of Higher Value Housing Stock

The ability, as included in the Housing and Planning Act 2016, for Central Government to impose a financial levy on stock owning authorities in respect of the assumed sale of higher value housing stock,

is still subject to regulation. There is a need for secondary legislation to be passed by Government before the policy can be implemented.
The levy would be expected to vary for each financial year, with the value arrived at on a formulaic basis, after a period of consultation with local authorities. Although no regulations are available, it is anticipated that the authority would have some discretion over which assets it disposes of, in order to meet the levy, with periodic payments due throughout each financial year.

The policy allowing for disposal of HRA assets will need to be reviewed, once any further detail is announced, to ensure that the authority can act to dispose of assets quickly if required.

The latest formal announcement in November 2016, by the then Housing Minister, Gavin Barwell, confirmed, that the government will not be requesting any higher value voids levy payments from councils during 2017/18.

The need for secondary legislation to be laid before parliament, coupled with a number of other challenges facing Government at present, are now bringing into question whether this legislation could now be enacted by April 2018, if it is enacted at all.

On the strength of this, it is not considered appropriate to retain the assumption that the authority will be required to dispose of assets to meet a levy with effect from April 2018, and as a result this assumption has been deferred until April 2019, with our financial modelling now assuming that we do not begin to hold any voids until October 2018. This supports the view of Government that if and when detail is announced, local authorities will be afforded the lead in time to prepare.

The HRA Medium Term Financial Strategy has therefore been constructed on the assumption that the compulsion to sell will still require the equivalent of approximately 1.8% of the housing stock each year to be disposed of, representative of approximately 100 properties per annum initially, but with payment simply deferred until 2019/20. Scenario modelling has been undertaken to demonstrate the impact on the HRA of an earlier implementation and no implementation of this policy at all.

Welfare Reforms

Universal Credit

Universal Credit was introduced in Cambridge on the 29th February 2016 and is currently only applicable to single, working age customers, otherwise entitled to make a claim for Jobseekers Allowance. Universal credit generally includes housing costs for this group and this is paid directly to the customer unless it can be demonstrated that there are budgeting concerns. Claims must be made online. The full digital service that will allow claims from couples and those with children will be rolled out to Cambridge Job Centre in June 2018.

As part of the Delivery Partnership Agreement, requests for Personal Budgeting Support are being accommodated by Cambridge CAB (Citizens Advice Bureau). There have been low numbers of these too and many have not attended the appointment at CAB.

Benefit Cap

Preparations for the introduction of the reduced Benefit Cap are progressing well, with early identification of potential customers affected being in the region of 40, of which approximately 20 are HRA tenants. The Council is contacting those potentially affected, with a number of these households having been identified as receiving incomes that exempt them from the cap or having started work or increased their hours of work which will remove them from the cap. Application of the cap was a rolling programme. At the end of September 2017, 15 HRA tenants were impacted. The council has contact all those affected to promote and advise about any Discretionary Housing Payments which are available.

Removal of the Spare Room Subsidy

Numbers of customers affected by the removal of the spare room subsidy continue to reduce slowly and currently there are 248HRA tenants affected by the reform, with 216 impacted by a reduction of 14% and 32 by 25%. There are currently 20 HRA tenants who receive Discretionary Housing Payments to help towards their rent as due to removal of spare room subsidy.

Limiting the Child Element to two children

From 1 April 2017, new benefit claims and current benefit claims which increase the family element above two children, do not have additional child elements included in the Housing Benefit calculation. There are some exemptions for multiple births, result of abuse and adoption, or similar.
It will not impact on current claimants with more than two children, unless they have more children, then the child allowances will not increase, subject to the above exemptions.

Local Housing Allowance Restriction

Social sector rents used in the calculation of Housing Benefit and the Housing Costs element of Universal Credit will be restricted to the prevailing Local Housing Allowance rates from April 2019. Local Housing Allowance rates will be the maximum Housing Benefit payable, towards both rent and any service charges. Regulations have not yet been released, but following the guidance issued thus far it will apply to both general needs housing and supported, impacting those of working age as well as pensioners. However, the shared accommodation rate for under 35's will not apply to those in Supported Housing for Housing Benefit or the Housing element in Universal Credit.

LHA rates are set to be frozen for the remainder of this parliament but may go down if average rents decrease within the Cambridge Broad Rental Market area.

Supported Accommodation Review

DWP launched a consultation considering the new funding for supported housing once many of the above changes come into effect from April 2019, but with no findings published as yet.

Support for Vulnerable People

South Cambridgeshire District Council is still in contract with the County Council, under a partnership arrangement, for the delivery of tenure neutral support services to older people across the city as a whole, with an initial term of 3 years to 31st March 2017, extended under an agreed contract extension until 31st March 2018. The contract sum is £302,000 per annum.

The County Council are currently reviewing the specification for this service and are consulting stakeholders, exploring options for the future delivery of this service, with the potential for a formal tender for the continued provision of support services being considered as an option, alongside a continued partnership arrangement.

Section 4

Revenue Resources – Rent and Other Income

Rent Arrears and Bad Debt Provision

Rent collection performance locally remains consistently good, with over 99% of the value of rent due, collected.

Year-end positions in respect of rent debt, using the banded arrears reports in the rent system are summarised in the table below:

Financial Year End	Value of Year End Arrears in Accounts (Current Tenants)	Current Tenant Arrears as a Percentage of Gross Debit Raised in the Year	Value of Year End Arrears in Accounts (Former Tenants)
31/3/2013	£279,776	1.05%	£67,244
31/3/2014	£316,922	1.12%	£76,767
31/3/2015	£328,376	1.13%	£98,954
31/3/2016	£306,046	1.03%	£92,305
31/03/2017	£337,081	1.14%	£83,498

Performance in the collection of current tenant debt worsened slightly during 2016/17, with current arrears levels having increased further during the first 6 months of 2017/18, when compared with both the year-end position and the profile at this point last year. At the end of September 2017, current tenant arrears stood at £391,995 and former tenant arrears at £110,705, the latter also being higher than at the start of the year.

Although staff continue to work proactively with tenants in arrears, and particularly those affected by benefit changes, the position is still anticipated to become more challenging as the phased introduction of direct payment continues, having begun locally in February 2016.

Considering the above dip in performance, and also recognising the need to collect rent directly from an increasing number of residents as direct payment rolls out, the current assumption of setting aside 0.5% of the rent due per annum in a phased manner, by 2020/21 is proposed to be escalated marginally, to achieve this by 2019/20.

Therefore, a bad debt provision of 0.3% has been retained for 201718, 0.4% made for 2018/19 and 0.5% from 2019/20 onwards.

At 31 March 2017, the provision for bad debt stood at £300,000, representing approximately 71% of the total debt outstanding.

Void Levels

The estimated value of rent not collected as a direct result of void dwellings in 2016/17 was £306,577, representing a void loss of 1.07%. The level of void loss in 2016/17 was partly due to 'management or major voids' held pending disposal or re-development of the site.

At the end of 2016/17, 88 properties were unoccupied, representative of 1.6% of the housing stock, with approximately 28% of these void dwellings being intentionally held vacant pending disposal or re-development of the site.

On an ongoing basis, a base assumption of 1.1% voids in general housing is still considered appropriate for the longer-term. Any requirement to sell higher value void properties in the future would impact this assumption in future iterations of the business plan, with the deferred loss of estimated rental income already incorporated into the financial forecasts as a separate assumption.

Rent Setting

Rent levels continue to be set in February of each year, with the decision made at Council, following pre-scrutiny by the Scrutiny Committee and Cabinet. From April 2018, the authority is required to apply the third year of a four year rent cut in social housing rents of 1% per annum.

In respect of affordable rented homes, the government require local authorities to determine what 80% of the market rent is for each dwelling, and ensure that the combined rent and service charges

levied for a property does not exceed this level, minus the 1% reduction required each year for the four years from April 2016. As local policy limits affordable rents to the Local Housing Allowance level (approximately 60% of market rent) from the point of introduction, it is argued that the 4 year reduction has already been applied for these properties at inception. As a result, affordable rents are reviewed in line with the Local Housing Allowance each year, ensuring that they do not exceed 80% of what is deemed to be market rent, less the impact of 4 years of reducing this by 1%.

The authority identified savings as part of the 2017/18 budget processes, to help to offset the financial impact of the initial year of this policy, but there are further reductions in spending anticipated to be needed

Following announcement by government on 4 October 2017, the existing assumption in respect of longer-term financial forecasts, that the authority will be able to revert to the previous policy of increasing rents by CPI (as measured at the preceding September), plus 1% each year, from April 2020, has been confirmed as accurate. An increase of CPI plus 1% has been confirmed for 5 years from April 2020, with the authority retaining the assumption that this is reduced to CPI plus 0.5%, now from April 2025.

Rent Restructuring

Property specific target social rents under the rent restructuring regime still apply, but the requirement to reduce social housing rents by 1% for a further 2 years, means that the target rents will also continue to reduce in line with this.

The authority has the ability to close the gap between target social rent and the actual rent being charged for a dwelling, only when a property becomes void, and actively does this.

The average target 'rent restructured' rent at the time of writing this report in 2017/18 across the socially rented housing stock was £107.55, with the average actual rent charged being £102.35, both recorded on a 52 week basis. At the time of writing this report, 31% of the social rented housing stock was being charged at target rent levels, compared with 27.5% in the previous year.

The gap between actual and target rent levels now equates to an annual loss of income of approximately £1,421,000 across the HRA, compared with the income assumption in the HRA Self-Financing Debt Settlement, where convergence was anticipated well before now. Closing this gap

may never be realised in many cases, with a significant proportion of properties likely to need to be sold when they fall vacant, to meet any higher value void levy.

There were 51 new build or acquired properties charged at the higher 'affordable rent' levels, equivalent to the Local Housing Allowance at 1st April 2017.

Reserves

Housing Revenue Account General Reserves

Reserves are held partly to help manage risks inherent in financial forecasting and budget-setting. These risks include changes in inflation and interest rates, unanticipated service demands, rent and other income shortfalls, and emergencies. In addition, reserves may be used to support the Housing Capital Investment Plan and, in the short-term, to support revenue spending, for example to spread the impact of savings requirements over more than one financial year. For the Housing Revenue Account the intended target level of reserves remains at £2m.

The impact on HRA reserves for 2016/17, and 2017/18 to date is shown in the table below:

Budgeted or Actual Use of / (Contribution to) HRA Reserves	Financial Year	
	2016/17 £'000	2017/18 £'000
Opening General HRA Reserves	**(8,073)**	**(8,992)**
Changes in HRA Reserves		
Original Budget (Approved in February)	(135)	180
Rollovers (Approved in July)	4,076	800
MTFS Mid-Year Review (Approved in November)	(183)	(366)
Budget Setting Report Revised Budget (February)	(38)	-
Estimated Closing General HRA Reserves	**(4,353)**	**(8,378)**
Actual Outturn for the Year (Reported in July)	(919)	-
Contribution to / (from) Ear-Marked Reserves	0	-
Actual Closing General HRA Reserves	**(8,992)**	**-**

The original budget for 2017/18 approved a net use of general reserves of £180,250 and incorporated a revenue contribution of £2,206,580 to fund capital expenditure.

The financial projections incorporated into this report include the effects of changes in capital scheme approvals and resources, approved rollovers from 2016/17 and incorporation of revised estimates for interest due for 2017/18 based upon revised cash balance assumptions and updated interest rates, as part of this HRA Medium Term Financial Strategy.

The final general HRA reserves position reported at 31 March 2017 was £8,991,935.

The revised projection of the use of general reserves in the current year (2017/18) now indicates that there is expected to be a net use of reserves of £613,620, which would leave a balance of £8,378,320 at 31st March 2018.

There is now a proposed use of £3,006,690 of direct revenue financing of capital expenditure in 2017/18 as a result of approval of rollovers as part of the outturn process for 2016/17. There is also a continued use of direct revenue financing of capital expenditure in future years, as a result of the decision to utilise the reserve previously held for potential debt redemption to allow top up and appropriate re-investment of right to buy receipts.

Earmarked Funds

In addition to General Reserves, the Housing Revenue Account still maintains a small number of earmarked or specific funds which are held for major expenditure of a non-recurring nature or to mitigate perceived risk. See **Appendix I** for detail of existing balances held.

Section 5
Review of Revenue Budgets

2017/18 Mid-Year Budget Changes

As part of the HRA Medium Term Financial strategy, there is no formal mid-year review of service delivery or operational budgets, but there is an opportunity to review the HRA position for the current year from a strategic perspective, allowing incorporation of any major in-year changes in income or financing arrangements as a direct result of changes in the capital programme.

For 2017/18, there is the need to recognise and approve the following changes in the HRA mid-year:

- A reduction in the amount of interest that the HRA will expect to pay in 2017/18, recognising a small amount of internal lending to the General Fund.
- An increase in the anticipated interest received on cash balances for 2017/18, due to a combination of the level of cash balances held and updated interest rates, where the average rate earned by the authority has increased due to additional lending to Ermine Street Housing.
- Depreciation – no change yet incorporated, as awaiting outcome of external audit review.

These changes are detailed in **Appendix D (1)**, and are incorporated into the HRA Summary Forecast at **Appendix G.**

Housing Savings Programme

As part of the 2016/17 budget setting process, a formal savings target of £250,000 per annum, for four years, was incorporated into the HRA, in direct response to some of the national changes in housing policy which have, will, or are expected to have a negative financial impact on the HRA.

As part of the 2017/18 budget preparation process a detailed financial review of the HRA was undertaken to arrive at proposals for how to deliver year 1 of the savings required, to ensure that the

authority is best placed to respond to changes in the economy and in national housing policy. It is important to consider how services will need to transform for the future, to deliver within the financial constraints imposed, whilst still meeting the needs of the most vulnerable.

For 2018/19 a similar approach will adopted when setting service budgets.

The revenue work streams being considered as part of the second year of the savings programme include:

- Responsive, Cyclical and Void Repairs
- Housing & Tenancy Management (to include Tenant Participation and Anti-Social Behaviour)
- Direct Revenue Financing (DRF) of capital expenditure, facilitated through a review of capital investment in the existing housing stock

Any operational pressures for the Housing Service for 2018/19 and beyond will also need to be considered as part of this process, and these include:

- Administrative burden of Fixed Term Tenancies
- Administrative burden of any requirement to meet Higher Value Voids Levy
- Additional rent collection and arrears recovery costs associated with welfare reform

The final proposals for year two will be presented to Cabinet and Council, following scrutiny consideration, as part of the 2018/19 budget process, included in the 2018/19 HRA Budget Setting Report.

As part of the HRA Medium Term Financial Strategy process, officers have been asked to provide early identification of areas where savings could be made or where additional investment is either required or desired.

The results of this exercise are detailed in **Appendix D (2),** and indicate that the savings target for 2018/19 can be achieved, after taking account of the unavoidable revenue pressures and bids also identified.

These proposals have not been built into the HRA Summary Forecast at **Appendix G**, as they will be subject to change and revision in the lead up to the 2018/19 budget process, where they will be incorporated formally.

Depreciation

Prior to April 2012, the Major Repairs Allowance (MRA) was included in the HRA as a proxy for depreciation. When self-financing was introduced, a move to accounting for actual componentised depreciation was announced, with an initial 5 year transitional period until March 2017, where the notional MRA could still be used as the measure of depreciation to allow authorities time to move towards this.

Transitional measures ceased with effect from 31st March 2017, and all stock holding local authorities are now required to account for full depreciation on a componentised basis, from April 2017.

Depreciation is charged to the revenue account each year, and the resource is then transferred into the major repairs reserve, where it is in effect 'locked' and is only available to be re-invested in the creation or improvement of social housing assets.

Section 6
Housing Capital Budget

Stock Investment and Decent Homes

Stock condition data is continually updated in respect of the housing stock, improving the information held to inform future decision making. The authority is still working with Cambridge City Council to jointly procure updated software to record and report asset management data, as part of a wider project to procure a fully integrated housing management information system.

At 31 March 2017, 93.75% of the housing stock was reported as decent, compared with 87.5% at 31 March 2016, with 329 properties that were considered to be non-decent (in addition to refusals), and another 457 anticipated to become non-decent during 2017/18.

In addition to decent homes investment, the authority still invests in energy conservation initiatives, such as external wall insulation, solar energy initiatives, renewable heating sources, air source heat pumps and more controllable high heat retention electric storage systems.

The level of investment in the housing stock as a whole, including that which falls outside of the decent homes standard, was subject to review as part of the 2017/18 budget setting process, with some resulting changes adopted. Any reduction in the level of investment in the existing housing stock will help to ensure that the authority is able to set a balanced budget for the HRA over the longer-term, without breaching the HRA debt cap, whilst also maximising any resource available to increase the limited supply of new affordable housing.

The latest Housing Capital Investment Plan is included at **Appendix H.**

As with the revenue position, officers have been asked for early indications of where savings may be delivered in the Housing Capital Programme. The findings from this exercise are detailed at **Appendix D (2),**

Consistent with the exercise for revenue savings, these proposals have not been built into the Housing Capital Investment Plan at **Appendix H**, as they may be subject to change and revision in the lead up to the 2018/19 budget process, where they will be incorporated formally.

New Build & Re-Development

General Approach

Following changes in national housing policy, the authority can no longer rely upon rental surpluses in the short-term to provide resource for investment in new build housing.

To ensure the delivery of a new build programme in the short to medium term, resources previously set-aside for potential debt repayment have been combined section 106 commuted sums, right to buy receipts and other existing funding streams that can be released as a direct result of capital receipts from the sale of HRA land as self-build plots.

The authority still explores alternative funding options and delivery models, including; mixed rented and market sale schemes, shared ownership homes and starter homes, with initiatives such as modular construction also being considered.

New Build and Re-Development Schemes Completed or Approved to Proceed

The table below updates the position in respect of schemes completed or in progress, with portfolio holder approval, based upon previous versions of the business plan, confirming their status and the current budget allocation which is required for each of the schemes, with the budgeted cashflow included at **Appendix E.**

Scheme	Status	Estimated Affordable Units	Indicative Scheme Composition (Subject to Change)	Scheme Budget (Gross of subsidy / capital receipts)
Fen Drayton Road, Swavesey	Completed May 2016	20	4 x 1 Bed House 10 x 2 Bed House 5 x 3 Bed House 1 x 4 Bed House	2,954,320
Horseheath Road, Linton	Completed July 2016	4	1 x 2 Bed Bungalow 2 x 2 Bed Flat 1 x 2 Bed House	494,550
Hill Farm, Foxton	Completed January 2017	15	4 x 1 Bed House 6 x 2 Bed House 5 x 3 Bed House	2,246,660
Robinson Court, Gamlingay	Planning approved. On site 5/5/2017	6 plus 4 shared ownership and 4 market sale	4 x 1 Bed Flat 2 x 2 Bed Flat 2 x 1 Bed House (Shared Ownership) 2 x 2 Bed House (Shared Ownership) 2 x 2 Bed House (Market Sale) 2 x 3 Bed House (Market Sale)	2,309,540
Pembroke Way, Teversham	Planning stage	5	2 x 2 Bed Flat 3 x 3 Bed House	860,230
Pampisford Road, Great Abington	Planning approved, On site.	6 plus 2 shared ownership	2 x 1 Bed Flat 2 x 2 Bed House 1 x 2 Bed Bungalow 2 x 2 Bed Bungalow (Shared Ownership) 1 x 3 Bed House	1,383,080
Woodside, Longstanton	Planning approved. Offer accepted and legal work and contracts underway	3	3 x 2 Bed House	422,230
Balsham Buildings, High Street, Balsham	Planning approved. On site.	9 plus 4 shared ownership	7 x 1 Bed Flat 2 x 2 Bed Flat 4 x 2 Bed House (Shared Ownership)	1,848,900
Bannold Road, Waterbeach	Offer accepted. On site.	16 plus 7 shared ownership	6 x 1 Bed Flat 6 x 2 Bed Flat 4 x 2 Bed House 2 x 2 Bed House (Shared Ownership) 5 x 3 Bed House (Shared Ownership)	4,309,440

Scheme	Status	Estimated Affordable Units	Indicative Scheme Composition (Subject to Change)	Scheme Budget (Gross of subsidy / capital receipts)
Gibson Close, Waterbeach	Planning approved. Offer accepted by developer	6 plus 3 shared ownership	4 x 1 Bed Flat 2 x 2 Bed House 3 x 2 Bed House (Shared Ownership)	1,452,340
Total		**84 rented 17 shared ownership 4 market sale**		**18,281,290**

New Build and Re-Development Schemes in the Pipeline

There are a number of schemes where feasibility work is being carried out with a view to building out the sites for the HRA directly, or alternatively negotiations are in progress with developers, for the HRA to acquire the affordable housing on existing new build development schemes. These schemes do not yet have formal approval, and as such have not yet been built in to the Housing Capital Investment Plan on a scheme specific basis. When a scheme receives Portfolio Holder approval, resource is vired from the unallocated new build / acquisition budget to the scheme specifically to allow monitoring of progress.

Schemes currently in the pipeline include:

Scheme	Status	Estimated Affordable Housing Units	Indicative Scheme Composition (Subject to Change)
Highfields, Caldecote	Planning approved. Offer accepted by developer	3	1 x 1 Bed House 2 x 2 Bed House
Hardwick	Outline planning approval. Offer made to developer, alongside other offers being considered	27 plus 12 shared ownership	11 x 1 Bed Flat 9 x 2 Bed Flat 6 x 2 Bed House 1 x 4 Bed House 8 x 2 Bed House (Shared Ownership) 4 x 3 Bed House (Shared Ownership)

Great Abington	Planning stage. Offer made to developer 18/8/2017	13 plus 5 shared ownership	6 x 1 Bed Flat 2 x 2 Bed House 5 x 3 Bed House 2 x 2 Bed House (Shared Ownership) 3 x 3 Bed House (Shared Ownership)
Melbourn	Planning stage. Offer made to developer 18/8/2017	6 plus 3 shared ownership	2 x 1 Bed Flat 1 x 1 Bed House 3 x 2 Bed House 1 x 2 Bed House (Shared Ownership) 2 x 3 Bed House (Shared Ownership)
Thriplow	Pre-planning. Offer made to developer	10 plus 4 shared ownership	4 x 1 Bed Flat 2 x 2 Bed Flat 4 x 2 Bed House 2 x 2 Bed House (Shared Ownership) 2 x 3 Bed House (Shared Ownership)
Hauxton	Offer made to developer	2	2 x 2 Bed House
Toft	Offer made to developer	25 plus 11 shared ownership	12 x 1 Bed Flat 13 x 2 Bed House 5 x 2 Bed Flat (Shared Ownership) 5 x 3 Bed House (Shared Ownership) 1 x 4 Bed House (Shared Ownership)

The majority of schemes deliver new provision of affordable housing and as such will be eligible for 30% of the scheme to be funded using retained right to buy receipts. Shared ownership dwellings or schemes where some or all of the new homes will replace existing social housing which is no longer considered fit for purpose, are not eligible for use of this resource.

New Build – Other (including use of RTB Funding)

The new build schemes above that currently have approval are not sufficient to ensure that the authority can appropriately re-invest all of the right to buy receipts retained to date. If the offers made for the pipeline schemes were all successful, the authority would have invested sufficient resource to avoid releasing any retained right to buy receipts to central government. If some schemes do not proceed, there will be a need to identify and fund further new build schemes, acquire existing homes for use as social housing, or pass the resource over to a registered provider for re-investment.

The assumption has been retained, that the authority utilise resource previously set-aside for the potential redemption of housing debt, combined with existing resource released by virtue of capital receipts that have been received for the sale of HRA land and dwellings on the open market in recent years and HRA revenue resources, where available, to provide sufficient resource to allow the appropriate re-investment of existing and anticipated retained right to buy receipts in the medium term, without the need to pass any funding to a registered provider in future years.

Work is ongoing to identify and secure new build sites and explore future development opportunities, in a bid to ensure that the HRA has sufficient pipeline schemes to meet investment commitments. The HRA Medium Term Financial Strategy brings forward budget approval into the next 2 years, for investment in new build housing to allow all of the pipeline schemes currently identified to proceed if the offers are successful, but there is a need to recognise that this may not be the case, and that some resource may then need to be re-phased into later years for investment in alternative schemes.

The authority also continues to explore alternative development opportunities, considering differing funding models. Options for working with partner organisations and for developing sites with mixed tenure are all being explored fully in an attempt to maximise the delivery of new homes, despite the financial constraints imposed by some of the national housing policy changes.

As a backstop position, the authority is able to acquire homes on the open market or to pass receipts to a registered provider for them to invest in new build affordable housing within the required timescales and in a way which is compliant with the retention agreement with CLG.

Self-Build Plots

Work is progressing well in preparing and marketing parcels of HRA land that provide self-build opportunities, releasing capital receipts which are then available for re-investment by the HRA to release resource elsewhere in the capital programme, facilitating the delivery of new homes in the district.

14 sites (20 potential plots) are currently being progressed, with 2 single plot sites being marketed, having now received outline planning approval and 2 sites, providing 3 plots having being submitted for planning approval. Officers have identified HRA sites with the potential to provide in the region of 100 self-build plots in total, and 2 sites, providing 4 plots, have been submitted for planning approval

It is anticipated that each plot may realise a gross capital receipt of up to £250,000, which after financing the costs of site preparation, could leave a net receipt of up to £200,000 per plot available to the HRA for re-investment.

Assumptions are incorporated into the HRA Business Plan that capital receipts form plot sales will be available to HRA as a funding source, in line with the latest business case for the self-build project.

Section 106 Funding

Commuted Sums Money received in lieu of Affordable Housing

If the Council receives commuted sum payments, often time limited, where approval has been granted as part of the planning decision to receive payment in lieu of affordable housing, the default position is that the HRA utilises the resource to invest in affordable housing.

The Council currently holds £4.26m in commuted sums for affordable housing. The following table identifies when the money has to be spent (year-end prior to deadline date), against the resource committed to date

Year	Section 106 sum to be spent £	Cumulative Section 106 sum to be spent £	Resource committed General Fund £	Resource committed HRA £	Cumulative resource still to be committed £
2017/18	104,973	104,973	62,000	725,000	-
2018/19	509,258	614,231	50,000	0	-
2019/20	571,040	1,185,271	0	0	348,271
2020/21	235,518	1,420,789	0	0	583,789
2021/22	94,500	1,515,289	0	0	678,289
2022/23	293,180	1,808,469	0	0	971,469
2023/24	68,824	1,877,293	0	0	1,040,293
2024/25	381,213	2,258,506	0	0	1,421,506
2025/26	2,002,615	4,261,121	0	0	3,424,121
			112,000	725,000	

Commitments to date include:

Scheme	Fund	2017/18 £	2018/19 £	Ongoing £
Emmaus – 10 en-suite bed-spaces	General Fund	0	50,000	0
Little Gransden Almshouses – refurbishment of 4 dwellings	General Fund	42,000	0	0
Robinson Court, Gamlingay – redevelopment	HRA	75,000	0	0
Organisational cost for delivery of Affordable Housing using Section 106	General Fund	20,000	0	0
High Street Balsham – contribution towards delivery of 4 shared ownership homes	HRA	200,0000	0	0
Bannold Road, Waterbeach – contribution towards 7 shared ownership homes	HRA	350,000	0	0
Gibson Close, Waterbeach – contribution towards 3 shared ownership homes	HRA	100,000	0	0
		787,000	**50,000**	**0**

With £3,424,121 of resource still to be re-invested, and a commitment to invest the sum in new HRA homes wherever possible, expenditure of £500,000 per annum, and associated Section 106 match funding has been retained in the Housing Capital Plan for the next 5 years.

As the resource can't be combined with retained right to buy receipts for the delivery of a specific social rented housing dwelling, it is likely that the funds will be utilised predominantly to deliver other forms of affordable and intermediate housing, such as shared ownership or shared equity.

Asset Acquisitions & Disposals

Consideration is given to the strategic acquisition or disposal of assets, in line with the current HRA Acquisition and Disposal Policy, which will be reviewed once any regulations surrounding the higher value voids levy are available, to take account of the new approach that would be required in respect of asset management of the housing stock.

The Right to Buy Retention Agreement allows the acquisition of existing dwellings, as an alternative to building new homes. Although not the first priority for the use of this resource, market acquisition does increase the supply of affordable homes available in the district, and is a valid option when new build is not possible within a quarterly deadline for the use of retained receipts. If a decision is taken at the end of a quarter that there is a risk that new build schemes will deliver in the required timeframes, resources can be vired from the unallocated new build / acquisition budget into the budget for direct market acquisition.

In 2016/17, resource of £3,208,000 previously ear-marked for investment in new build homes was diverted into acquisition of market dwellings, to allow the authority to buy in the region of 13 properties for rental at affordable rent levels. All but one of the planned acquisitions was complete by March 2017, with the last completing early in 2017/18. Two further acquisitions have taken place in 2017/18 to date.

Property Address / Location	Property Type	Status
5 Spar Close, Cambourne	2 Bed House	Complete
4 Wattle Close, Cambourne	2 Bed House	Complete
51 Whitegate Close, Swavesey	2 Bed House	Complete
64 Blenheim Close, Cambourne	2 Bed House	Complete
21 Chervil Way, Cambourne	2 Bed House	Complete
34 Spitfire Road, Cambourne	2 Bed House	Complete
45 Sterling Way, Cambourne	2 Bed House	Complete
100 Sterling Way, Cambourne	2 Bed House	Complete
26 Moat Way, Swavesey	2 Bed House	Complete
80 Brenda Gautrey Way, Cottenham	2 Bed House	Complete
20 Kingfisher Way, Cottenham	2 Bed House	Complete
7 Swannell Way, Gamlingay	2 Bed House	Complete
52 Whitegate Close, Swavesey	2 Bed House	Complete
45 Hudson Road, Cambourne	2 Bed House	Complete
61 Jeavon's Lane, Cambourne	3 Bed House	Complete

Receipts from individual asset disposals are recognised in the HRA's reserves only at the point of receipt and after all relevant costs have been provided for, but this may need to change once regulations are available in respect of the sale of higher value voids levy, as it will be necessary to forecast the number of sales which will take place in each period, in order to plan effectively to meet any levy set.

Receipts from the sale of self-build plots are however, already incorporated into financial planning, in anticipation of the need to utilise them in place of other HRA resource, freeing up the latter to top up existing retained right to buy receipts. Any delay in the receipt of these capital sums will significantly impact the authority's ability to spend right to buy receipts appropriately.

As part of the quarterly decision as to whether the authority should retain right to buy receipts, pass them to a registered provider, or as a last resort pay them over to central government, officers need to consider the progress in respect of the sale of self-build plots and any other capital receipts which may have been received by that point in any year, as these release funds elsewhere in the capital programme that can be re-directed into investment in new homes built using right to buy receipts as part of their funding. There is a risk judgement that needs to be made as part of this quarterly decision making process.

Budgetary Changes

Appendix H provides detail of the revised 5-Year Housing Capital investment Plan, and incorporates the following items:

- Expenditure as approved in the HRA Budget Setting Report in February 2017.
- Re-phasing (rollover) of expenditure anticipated to take place in 2016/17 into 2017/18 and beyond, as approved in July 2017.
- Re-phasing of anticipated expenditure in respect of new build schemes, taking account of the latest budgetary requirements for schemes that are progressing, the need to defer some anticipated investment, and to remove investment where schemes may not be expected to progress.
- Virement of resource from the general allocation for new build housing to schemes which have received portfolio holder approval at Woodside, Longstanton, High Street, Balsham, Gibson Close, Waterbeach and Bannold Road, Waterbeach.

- Inclusion of specific budgets for acquisition of dwellings in 2017/18 to ensure that right to buy receipts can be appropriately re-invested despite re-phasing in the new build programme.
- Capital financing has been updated in respect of revised assumptions in right to buy and other capital receipts, grants, Section 106 funding, revenue funding of capital expenditure and borrowing requirements.

The current HRA Business Plan and resulting Housing Capital Investment Plan are constructed on the basis that a partial investment standard is retained in the housing stock, but recognising that future consideration needs to be given to the impact of reducing investment levels over the longer-term to the basic decent homes standard, to provide flexibility to respond to the increased financial pressure that the HRA faces.

Section 7
Summary and Conclusions

HRA Budget Strategy

The Budget Process

The HRA budget for 2018/19 will incorporate the proposals made as part of the HRA Savings Programme. The detail in terms of individual savings proposals, and the impact of reducing budgets by these values, will be presented as part of the 2018/19 budget process. The process will remain broadly similar to that for previous years in terms of timing and detailed administration.

The work being undertaken as part of year 2 of the Savings Programme to exemplify savings will not only allow response to the changes (confirmed and proposed) in national housing policy which negatively impact the HRA business model, but will also allow strategic re-direction of resource into other areas of investment, such as new build housing, should the external financial pressures not be as currently anticipated.

For 2017/18 the HRA Medium Term Financial Strategy incorporates both changes in anticipated interest earned and paid in year from a revenue perspective.

Also incorporated are changes in the capital programme in respect of the budget now required for specific new build schemes, adjusted as they reach the next milestone in the development process and for non-scheme specific new build investment, based upon the level of investment required to avoid paying any retained right to buy to Central Government, instead ensuring they are re-invested in the locality.

Approach to HRA Savings

There is still a need to consider the delivery of a sustainable HRA over the full 30 years, particularly if the higher value voids levy is implemented at a later stage as we are currently assuming. A savings target

of £250,000 per annum from April 2017, for 4 years, was incorporated into the financial forecasts, and approved by Council in February 2016. An adjustment in respect of repairs expenditure in line with estimated stock changes is also assumed.

The assumption that savings will be made, or additional income will be generated to meet the target of £1,000,000 over the four years between 2017/18 and 2020/21 is still required to ensure sustainability, and the continuation of a new build programme for ten years to meet obligations under the retention agreement, based upon current assumptions.

The savings target of £1,000,000 was spread across the four years at a value of £250,000 per annum, to allow time to consider where to make efficiencies or to reduce or cease the delivery of services. As the year 1 target was over-achieved, the balance of savings sought for the remaining 3 years is £600,480, with £100,480 required in 2018/19 and £250,000 required in the last 2 years of the savings programme.

As part of the 2018/19 budget setting process, any areas of new revenue investment will need to be offset by the identification of additional savings or increased income generation elsewhere across the HRA.

Pending receipt of the regulations surrounding the higher value voids levy, any resource previously set-side for potential debt redemption is still assumed to be utilised to sustain the HRA or to be re-invested in new homes, recognising that this will mean that all loans will need to be re-financed as they reach maturity.

One of the key challenges for 2017/18 and beyond, remains the need to ensure that the authority can re-invest retained right to buy receipts appropriately, with the potential for the receipts to need to be paid over to CLG, with interest, currently at 4.25%, calculated from the quarter in which they were originally received if not spent within 3 years. It is not only identification of resource to top up the right to buy receipts that proves challenging, but also our ability to identify sites, secure planning permission, and deliver new homes within the time constraints imposed.

The position will be reviewed again as part of the January 2018 HRA Budget Setting Report, with a view to maintaining service delivery in key statutory areas and protecting services for the most vulnerable, whilst attempting to maintain a programme of new build housing where possible.

Base Assumptions

In order to update the Housing Revenue Account Business Plan, the assumptions included in the base plan have been revisited, and confirmed or amended as appropriate in the light of any more up-to-date intelligence and information.

In all cases, the revised assumptions included are derived from the best information available at the current time, utilising both historic trend data and the expert advice and opinion of specialists where appropriate.

The base financial assumptions included in the financial model are included at **Appendix B**, with continuing uncertainties for the HRA summarised at **Appendix K.**

Appendix G summarises the revenue budget position for the HRA for the period between 2017/18 and 2021/22, based upon inclusion of the amended financial assumptions that form part of the update to the Self-Financing Business Plan.

Appendix J demonstrates the potential impact of the business plan of changes in some of the base assumptions that have been incorporated as part of this review, including the negative impact if rent increases are not returned to the level of CPI plus 1% from 2020/21 as currently being assumed.

HRA MTFS Conclusions

Updating the base assumptions for the HRA has not had a significantly different impact on the future financial projections for the housing business when compared with those made in January / February 2017.

Current financial modelling retains the assumption of the requirement to reduce rents by 1% per annum for four years from April 2016 and the compulsion to sell higher value housing stock on the open market when it becomes void, although this has been deferred in our assumptions until mid 2018/19, assuming no payment to government before April 2019.

However, in order to be in a position to appropriately re-invest existing and anticipated retained right to buy receipts, whilst still delivering a sustainable HRA over a 30 year period, it has been necessary to

retain the assumption that the balance of the £1,000,000 (£250,000 per annum) savings target set for the 4 year period between 2017/18 and 2020/21 be fully delivered. This assumes a reduction in costs or an increase in income is delivered from April of each year.

This results in a savings target for 2018/19 of £100,480, which represents the balance of the £500,000 due to be delivered in the first 2 years of efficiency measures, followed by savings requirements of £250,000 per annum for 2019/20 and 2020/21.

Depending upon the outcome of some of changes in national housing policy, there may be options to review the level of savings required in future years, in the context of whether or not the authority wishes to continue to deliver a programme of new build homes longer term.

If we build in the unavoidable revenue pressures, savings and bids identified as part of the pre-budget process, as detailed in **Appendix D (2)**, the HRA can achieve the net reduction in expenditure required from 2018/19, whilst also making some progress towards the reduction required from 2019/20.

The potential reductions in capital investment, identified in structural works and energy conservation activities, release capital resource which would allow the extension of the existing new build programme, at the level required to top up the estimated right to buy receipts, for a further 8 years. This would deliver a sustainable business plan over the 30 year period, with the homes lost through right to buy being replaced for at least the next 17 years.

Appendix A

Key Risk Analysis

Risk Area & Issue arising	Controls / Mitigation Action
Effects of Legislation / Regulation	
Implications of new legislation / regulation or changes to existing are not identified	• Effective, formal, regular review processes are in place for the HRA to ensure that implications are identified, quantified and highlighted
Funding is not identified to meet the costs associated with changes in statutory requirements	• Additional / specific funding requirements for new services can be identified through the budget process, to allow effective prioritisation of resources. Minimum reserves are held to allow immediate investment if required.
HRA Debt Settlement could be re-opened by Government (or not re-opened when changes dictate that it should)	• The Council has processes in place ensuring early engagement in any consultation and collective representation through national housing bodies
Changes in national rent policy impact the ability to support the housing debt or deliver against planned investment programmes	• Impact of any proposed changes to national rent policy is incorporated into financial planning as early as possible. • Consideration could be given to deviating from national rent policy at a local level if statute were to allow
Implementation of Fixed Term Tenancies carries administrative cost and dictates the need for system change at a time when the Housing Management Information System is being re-procured	• Limited resource is incorporated into financial plans for the ongoing costs associated with housing transformation, with the opportunity to review this annually. Project Board for system replacement are aware of the potential need for changes to IT systems
Housing Portfolio & Spending Plans	
The Council approves plans which are not sustainable into the future, leading to increasing problems in balancing budgets	• Council has adopted medium and long-term modelling (up to 30 years) for HRA, ensuring decisions are made in context of long-term impact • The Business Plan includes long-term trend analysis on key cost drivers Target levels of reserves are set for the HRA to enable uneven pressures to be effectively dealt with, and to provide cover against unforeseen events / pressures

Risk Area & Issue arising	Controls / Mitigation Action
Financial planning lacks appropriate levels of prudency	
Business Planning assumptions are wildly inaccurate Financial policies, in general, are not sufficiently robust Funding to support the approved Capital Plan is not available	Council has adopted key prudency principles, reflected in: • Use of external expert opinion and detailed trend data to inform assumptions • Ongoing revenue funding for capital is reviewed for affordability as part of the 30-year modelling process • Adoption of strict medium / long-term planning • Policy on applying general capital receipts for strategic disposals only at point of receipt
Use of resources is not effectively managed	
There is ineffective use of the resources available to the HRA Failure to deliver Major Housing / Development Projects, i.e. return on capital, project on time etc.	• Council employs robust business planning processes for the HRA • Council has adopted a standard project management framework • A business cases is required for all strategic acquisitions, disposals and one-off areas of significant investment • Performance and contractor management procedures are robust and contracts are enforceable • The Council's accounts are audited on an annual basis, with assurance given that the authority is delivering economy, efficiency and effectiveness in its use of resources

Risk Area & Issue arising	Controls / Mitigation Action
External income / funding streams	
Undue reliance may be placed on external income streams, leading to approval of unsustainable expenditure	• Modelling over the medium and long-term is conducted for key income sources, including sensitivity analysis of potential changes • Council seeks to influence national settlements and legislative changes through response to formal consultation and the provision of information to negotiation bodies such as LGA and CIH
Rent and service charge arrears increase and bad debt rises, as a direct result of the Welfare Benefit Reforms	• Increased resources identified for income management. Performance closely monitored to allow further positive action if required.
Rent income is under-achieved due to a major incident in the housing stock	• Asset Management Plan in place to identify and address key issues in the housing stock to minimise likelihood of widespread incidents
Changes to the right to buy rules and pooling regulations result in a continued high level of sales, with the associated commitment to deliver replacement units or pay over receipts with interest	• Sensitivities modelled so potential impacts are understood • Retained resources are monitored to ensure delivery of required units or return of resource at earliest opportunity
Volatility and competition in the property market impacts the ability to fund capital pressures from the sale of assets	• Policy on applying general capital receipts for strategic disposals only at point of receipt
Volatility and uncertainty in the property market impacts the ability to dispose of assets at appropriate values and within timescales required to meet any higher value voids levy	• Reconsider appropriate level of HRA reserves to hold as a minimum once any levy vale is known • Retain capital receipts realised in advance of the levy in anticipation of the need for them

Appendix B

Business Planning Assumptions (Highlighting Changes)

Key Area	Assumption	Comment	Status
General Inflation (CPI)	**2.6% for 2018/19, 2.2%, 2.3%, then 2% ongoing**	**General inflation on expenditure included at 2.6% for 2018/19, then 2.2%, 2.3% and 2% ongoing, per Bank of England projections.**	**Amended**
Capital Inflation	**3.6% for 2018/19, 3.2%, 3.3%, then 3% ongoing**	**Based upon inflation as measured by the Retail Price Index (RPI), assuming this to be 1% above CPI over the longer-term. This concurs with the majority of current contracts held by the HRA.**	**Amended**
Debt Repayment	Set-aside to repay debt if resource allows	Assumes set-aside to repay debt as loans reach maturity dates if resource allows, with any surplus re-invested in income generating assets. No resource currently available.	Retained
Capital Investment	Partial Investment Standard	Base model assumes a partial investment standard in the housing stock, compared with a basic decent homes standard. This will be reviewed again during 2017/18.	Retained
Pay Inflation	1.3% Pay Progression plus: 2018/19 – 1.0% 2019/20 – 1.0% 2% ongoing	Assume allowance for increments at 1.3%. Pay inflation at 2% ongoing, with a return to long-term government aim from 2020/21, reflecting economic recovery.	Retained
Employee Vacancy Allowance	£50,000	Employee budgets assume a vacancy allowance of £50,000 per annum.	Retained
Rent Increase Inflation	-1% from 2016/17 for 4 years, CPI plus 1% for 4 years, then CPI plus 0.5% from 2024/25	Rent decreases of 1% per annum per government guidelines from 2016/17 to 2019/20, then CPI plus 1% until the end of the 10 year period, then reverting to inflation plus 0.5%. Assume CPI in preceding September is as above. Affordable rents and charges reviewed in line with Local Housing Allowance levels.	Retained
Rent Convergence	Voids Only	Ability to move to target rent achieved only through movement of void properties directly to target rent.	Retained
External Lending Interest Rate	**2.08% for 2017/18, then 2%**	**Interest rates based on latest market achievement, including interest from Ermine Street Housing**	**Amended**
Internal Lending Interest Rate	**2.08% for 2017/18, then 2%**	**Assume the same rate as anticipated can be earned on cash balances held, so as not to detriment the General Fund over the longer term.**	**Amended**
External Borrowing	**2.8% from 2018/19**	**Assumes additional borrowing using Capita predictions of PWLB rates, currently 2.8%, including**	**Amended**

Key Area	Assumption	Comment	Status
Interest Rate		**assumed certainty rate.**	
Internal Borrowing Interest Rate	**2.8% from 2018/19**	**Assume the same rate as external borrowing to ensure flexibility in choice of borrowing route.**	**Amended**
HRA Minimum Balances	£2,000,000	Maintain HRA minimum balance at £2,000,000, pending a review once the impact of the higher value voids levy and other housing policy changes are clear.	Retained
Right to Buy Sales	25 for 2017/18, 20 for 3 years, then 15 sales ongoing	Retain assumption of 25 for 2017/18, 20 for 3 years from 2018/19, until 15 are assumed ongoing from 2021/22.	Retained
Right to Buy Receipts	Settlement receipts excluded. Retained receipts included.	Debt settlement receipts excluded as assumed to fund General Fund housing capital expenditure. Anticipated one-for one receipts included. Debt repayment proportion reported as at 1/4/2017 and assumed available for intended use.	Retained
Void Rates	1.1%	Assumes 1.1% per annum from 2017/18 onwards.	Retained
Bad Debts	**0.3% for 2017/18, 0.4% for 2018/19, then 0.5% from 2019/20**	**Bad debt provision of up to 0.5% over next 3 years to reflect the requirement to collect 100% of rent directly for new benefit claimants, following phased implementation of Universal Credit by 2020.**	**Amended**
Savings Target	£250,000 per annum for 4 years	Inclusion of a savings target at £250,000 per year ongoing, for 4 years from 2017/18 to 2020/21, reducing base budgets by £1,000,000 over this period.	Retained
Responsive Repairs Expenditure	Adjusted pro rata to stock changes	An assumption is made that direct responsive repair expenditure is adjusted annually in line with any change in stock numbers.	Retained
Policy Space	£0	No policy space incorporated at present, but if included would recognise a desire to be able to facilitate strategic investment and respond to pressures. To be reviewed again as part of 2018/19 budget process.	Retained
Service Reviews and Restructures	On case by case basis	Service review outcomes assumed to deliver to the HRA as indicated in the review business case, and incorporated once impact is known.	Retained

Appendix C

Retained 1-4-1 Right to Buy Receipts

Quarter date for Receipt	Retained 1-4-1 Receipt Value (Per Quarter)	Retained 1-4-1 Receipt Value (Cumulative)	Amount of New Build Expenditure Required (Cumulative)	Deadline for Receipt to be spent on New Dwelling	Qualifying Spend by Deadline (Cumulative)	Retained 1-4-1 Receipt Spent (Cumulative)	Balance of Retained 1-4-1 Receipts to be Spent or Paid to CLG (Cumulative)	Further New Build Spend Required by Deadline (Cumulative)
30/06/2012	273,807.59	273,807.59	912,691.97	30/06/2015	4,803,740.45	1,441,122.14	0.00	0.00
30/09/2012	110,185.59	383,993.18	1,279,977.27	30/09/2015	5,486,448.80	1,645,934.64	0.00	0.00
31/12/2012	786,867.59	1,170,860.77	3,902,869.23	31/12/2015	6,535,409.29	1,960,622.79	0.00	0.00
31/03/2013	257,177.59	1,428,038.36	4,760,127.87	31/03/2016	7,792,759.75	2,337,827.93	0.00	0.00
30/06/2013	180,159.83	1,608,198.19	5,360,660.63	30/06/2016	8,427,139.03	2,528,141.71	0.00	0.00
30/09/2013	408,259.67	2,016,457.86	6,721,526.20	30/09/2016	8,837,392.15	2,651,217.65	0.00	0.00
31/12/2013	405,074.37	2,421,532.23	8,071,774.10	31/12/2016	10,121,126.99	3,036,338.10	0.00	0.00
31/03/2014	1,012,895.75	3,434,427.98	11,448,093.27	31/03/2017	13,017,810.92	3,905,343.28	0.00	0.00
30/06/2014	190,149.46	3,624,577.44	12,081,924.80	30/06/2017	13,297,663.86	3,989,299.16	0.00	0.00
30/09/2014	542,412.66	4,166,990.10	13,889,967.00	30/09/2017	16,388,697.43	4,916,609.23	0.00	0.00
31/12/2014	490,971.13	4,657,961.23	15,526,537.43	31/12/2017			0.00	0.00
31/03/2015	417,089.12	5,075,050.35	16,916,834.50	31/03/2018			158,441.12	528,137.07
30/06/2015	417,483.31	5,492,533.66	18,308,445.53	30/06/2018			575,924.43	1,919,748.10
30/09/2015	527,469.65	6,020,003.31	20,066,677.70	30/09/2018			1,103,394.08	3,677,980.27
31/12/2015	446,035.59	6,466,038.90	21,553,463.00	31/12/2018			1,549,429.67	5,164,765.57
31/03/2016	330,902.72	6,796,941.62	22,656,472.07	31/03/2019			1,880,332.39	6,267,774.64
30/06/2016	310,654.33	7,107,595.95	23,691,986.49	30/06/2019			2,190,986.72	7,303,289.06
30/09/2016	687,638.84	7,795,234.79	25,984,115.96	30/09/2019			2,878,625.57	9,595,418.56
31/12/2016	1,410,994.28	9,206,229.08	30,687,430.25	31/12/2019			4,289,619.85	14,298,732.82
31/03/2017	592,869.81	9,799,098.89	32,663,662.95	31/03/2020			4,882,489.66	16,274,965.52
30/06/2017	1,045,231.50	10,844,330.39	36,147,767.95	30/06/2020			5,927,720.71	19,759,069.02
30/09/2017	412,813.15	11,257,143.09	37,523,810.29	30/09/2020			6,340,533.86	21,135,112.86

Appendix D (1)

2017/18 HRA Mid-Year Revenue Budget Adjustments

Area of Income / Expenditure	Description	Budget Amendment in 2017/18 Budget (£)	Budget Amendment in 2018/19 Budget (£)	Comment
Budgeted (use of) / contribution to HRA Reserves pre MTFS		**980,360**		
HRA Summary Account				
Interest paid on Borrowing	An element of notional internal lending reduces the net interest paid by the HRA on borrowing following a change in interest rate assumption.	(14,430)	Incorporated into base assumptions	Short-term and built into assumptions in future years
Interest earned on HRA Balances	Increased interest due to a combination of the level of cash balances held and the assumed interest rates taking account of additional lending to Ermine Street Housing.	(352,310)	Incorporated into base assumptions	One-Off and built into assumptions in future years
Total HRA Summary Account		**(366,740)**		
Total Mid-Year Revenue Changes		**(366,740)**		
Revised (use of) / contribution to HRA Reserves post MTFS		**613,620**		

Appendix D (2)

Summary of Early 2018/19 Budget Proposals

HRA Revenue Bids and Savings - 2018/19 Budget

Category	Bid / Saving	Linked Proposal	Bid / (Saving)				
			2017/18	2018/19	2019/20	2020/21	2021/22
Saving	Reduction in non-responsive revenue maintenance		0	(317,800)	(317,800)	(317,800)	(317,800)
Saving	Permanent reduction in hours of the Resident Involvement Team Leader from 5 days to 4 days per week		(5,000)	(10,000)	(10,000)	(10,000)	(10,000)
Increased Income	To recognise the fee income associated with funding the Development Project Officer role for HRA New Build	A	0	(50,200)	(50,200)	(50,200)	(50,200)
Increased Income	Recognising the funding for re-defining role of Head of Development (New Build)	B	0	(32,900)	(32,900)	(32,900)	(32,900)
Unavoidable Revenue Pressure	Creation of a Compliance Manager post		18,300	43,800	43,800	43,800	43,800
Bid	Tenancy Profiling Project		0	15,400	0	0	0

Bid	Extension of fixed term contract for the Resident Involvement Project Support Officer up to May 2020		0	25,300	25,300	4,600	0
Bid	To fund on a permanent basis the Development Project Officer role for HRA New Build	A	0	50,200	50,200	50,200	50,200
Bid	Re-defining role of Head of Development (New Build) to reflect changes in delivery methods	B	0	32,900	32,900	32,900	32,900
Bid	Increase support and maintenance anticipated for new Housing IT System		0	25,000	25,000	25,000	25,000
Total Net Bids / (Savings)			**13,300**	**(218,300)**	**(233,700)**	**(254,400)**	**(259,000)**

HRA Capital Bids and Savings

Category	**Bid / Saving**		**Bid / (Saving)**				
			2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Capital Saving	Reduction in structural works		0	(140,000)	(140,000)	(140,000)	(140,000)
Capital Saving	Reduction in energy conservation budget		0	0	(820,000)	(820,000)	(820,000)
Capital Bid	Replacement of Housing IT System		0	200,000	0	0	0
Total Net Capital Position Bids / (Savings)			**0**	**60,000**	**(960,000)**	**(960,000)**	**(960,000)**

Appendix E

2017/18 Mid-Year HRA Capital Budget Amendments

Area of Expenditure and Change	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Total Housing Capital Plan Expenditure pre HRA MTFS	**19,285**	**14,823**	**15,764**	**15,718**
Improvements – Existing Stock and Other				
Changes in investment assumptions for varying stock numbers	0	15	97	126
Re-Provision of Existing Homes				
No change	0	0	0	0
HRA New Build				
Re-phase budget for the delivery of new at Pembroke Way, Teversham	(766)	575	191	0
Inclusion of resource for the scheme at High Street, Balsham, of which £10k was utilised in 2016/17	725	1,124	0	0
Inclusion / virement of resource for the scheme at Woodside, Longstanton, of which £2k was utilised in 2016/17	212	210	0	0
Inclusion / virement of resource for the scheme at Bannold Road, Waterbeach	4,309	0	0	0
Inclusion / virement of resource for the scheme at Gibson Close, Waterbeach	502	951	0	0
Increase in budget for acquisitions recognising the need to spend RTB receipts within deadlines	500	0	0	0
Reduction in unallocated new build budget as specific schemes are identified and receive approval for virement	(4,260)	0	0	0
Reduction in unallocated Section 106 new build budget as specific schemes are identified and receive approval for virement	(725)	0	0	0
Inclusion of additional resource for new build or acquisition required to ensure that all pipeline schemes could proceed if offers are accepted and retained right to buy receipts can be appropriately re-invested	0	4,411	4,671	1,871
Total Housing Capital Plan Expenditure post MTFS	**19,782**	**22,109**	**20,723**	**17,715**

Appendix F

New Build Investment Cashflow

New Build / Re-Development Scheme	2017/18 Budget	2018/19 Budget	2019/20 Budget	2020/21 Budget	2021/22 Budget	2022/23 Budget
	£'0	£'0	£'0	£'0	£'0	£'0
Robinson Court Re-Development	2,252,940	0	0	0	0	0
Pembroke Way, Teversham	55,590	575,000	191,000	0	0	0
Pampisford Road, Great Abington	1,377,680	0	0	0	0	0
Woodside, Longstanton	209,830	210,000	0	0	0	0
High Street, Balsham	715,000	1,124,000	0	0	0	0
Bannold Road, Waterbeach	4,309,440	0	0	0	0	0
Gibson Close, Waterbeach	501,510	950,830	0	0	0	0
Acquisitions	718,700	0	0	0	0	0
Unallocated New Build / Acquisition	0	10,257,140	11,214,290	9,228,570	5,700,000	5,700,000
New Build / Acquisition - Section 106 funded	116,000	500,000	500,000	500,000	500,000	0
Total Expenditure	**10,256,690**	**13,616,970**	**11,905,290**	**9,728,570**	**6,200,000**	**5,700,000**
Use of Retained Right to Buy Funding						
Pembroke Way, Teversham	(10,010)	(103,500)	(34,380)	0	0	0
Pampisford Road, Great Abington	(309,980)	0	0	0	0	0
Woodside, Longstanton	(62,950)	(63,000)	0	0	0	0
High Street, Balsham	(130,000)	(204,300)	0	0	0	0
Bannold Road, Waterbeach	(826,850)	0	0	0	0	0
Gibson Close, Waterbeach	(93,130)	(176,570)	0	0	0	0

New Build / Re-Development Scheme	2017/18 Budget	2018/19 Budget	2019/20 Budget	2020/21 Budget	2021/22 Budget	2022/23 Budget
	£'0	£'0	£'0	£'0	£'0	£'0
Acquisitions	(215,610)	0	0	0	0	0
Unallocated New Build / Acquisition	0	(3,077,140)	(3,364,290)	(2,768,570)	(1,710,000)	(1,710,000)
Total Use of Retained Right to Buy Funding	**(1,648,530)**	**(3,624,510)**	**(3,398,670)**	**(2,768,570)**	**(1,710,000)**	**(1,710,000)**
Section 106 Funding						
Pampisford Road, Great Abington	(200,000)	0	0	0	0	0
High Street, Balsham	(75,000)	0	0	0	0	0
Bannold Road, Waterbeach	(350,000)	0	0	0	0	0
Gibson Close, Waterbeach	(100,000)	0	0	0	0	0
New Build / Acquisition - Section 106 funded	(116,000)	(500,000)	(500,000)	(500,000)	(500,000)	0
Total Section 106 Funding	**(841,000)**	**(500,000)**	**(500,000)**	**(500,000)**	**(500,000)**	**0**
Total to be funded from HRA Resources (DRF & MRR) and Sales Receipts	**(7,767,160)**	**(9,492,460)**	**(8,006,620)**	**(6,460,000)**	**(3,990,000)**	**(3,990,000)**
Total HRA Borrowing	**0**	**0**	**0**	**0**	**0**	**0**

Appendix G

HRA Summary Forecast 2017/18 to 2021/22

Description	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Income					
Rental Income (Dwellings)	(28,030,500)	(27,613,930)	(27,171,710)	(28,005,730)	(28,736,320)
Rental Income (Other)	(419,430)	(430,080)	(439,320)	(449,190)	(457,970)
Service Charges	(813,300)	(833,160)	(850,410)	(868,830)	(885,220)
Other Income	(464,740)	(465,460)	(167,060)	(170,900)	(174,320)
Total Income	**(29,727,970)**	**(29,342,630)**	**(28,628,500)**	**(29,494,650)**	**(30,253,830)**
Expenditure					
Supervision & Management - General	3,166,980	3,259,190	3,355,310	3,484,630	3,612,270
Supervision & Management - Special	1,923,420	1,967,470	1,972,630	1,740,240	1,782,820
Repairs & Maintenance	5,601,240	5,782,570	5,953,600	6,112,660	6,051,740
Depreciation – to Major Repairs Res.	9,757,010	9,982,220	10,114,940	10,201,480	10,248,500
Debt Management Expenditure	1,780	1,780	1,820	1,860	1,900
Other Expenditure	294,080	224,830	5,700	(234,060)	(224,940)
Total Expenditure	**20,744,510**	**21,218,060**	**21,404,000**	**21,306,810**	**21,472,290**
Net Cost of HRA Services	**(8,983,460)**	**(8,124,570)**	**(7,224,500)**	**(8,187,840)**	**(8,781,540)**
HRA Share of operating income and expenditure included in Whole Authority I&E Account					
Interest Receivable	(587,980)	(595,200)	(559,260)	(487,570)	(458,980)
(Surplus) / Deficit on the HRA for the Year	**(9,571,440)**	**(8,719,770)**	**(7,783,760)**	**(8,675,410)**	**(9,240,520)**
Items not in the HRA Income and Expenditure Account but included in the movement on HRA balance					
Loan Interest	7,178,370	7,178,930	7,178,930	7,178,930	7,178,930
Housing Set Aside	0	0	0	0	0
Appropriation from Ear-Marked Reserve	0	0	0	0	0
Depreciation Adjustment	0	0	0	0	0
Direct Revenue Financing of Capital	3,006,690	2,192,660	3,084,500	3,860,680	1,039,440
(Surplus) / Deficit for Year	**613,620**	**651,820**	**2,479,670**	**2,364,200**	**(1,022,150)**
Balance b/f	(8,991,940)	(8,378,320)	(7,726,500)	(5,246,830)	(2,882,630)
Total Balance c/f	**(8,378,320)**	**(7,726,500)**	**(5,246,830)**	**(2,882,630)**	**(3,904,780)**

Appendix H

Housing Capital Investment Plan (5 Year Detailed Investment Plan)

Description	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Improvements Existing Stock					
Water / Drainage Upgrades	78	80	81	83	84
Drainage Upgrades	320	330	341	351	0
Disabled Adaptations	832	849	866	883	901
Change of Tenancy - Capital	500	500	500	500	500
Rewiring	950	318	325	331	338
Heating Installation	2,000	2,040	2,081	2,122	2,165
Energy Conservation	1,000	1,020	1,040	1,061	1,082
Estate Roads, Paths & Lighting	84	85	87	89	90
Garage Refurbishment	51	52	53	54	55
Parking/Garages	15	16	16	16	17
Window Replacement	265	271	276	282	287
Re-Roofing	437	446	455	464	473
Full Refurbishments	200	200	200	200	200
Structural Works	150	150	150	150	150
Non-Traditional Refurbishment	0	0	0	0	0
Asbestos Removal	34	34	35	35	36
Kitchen Refurbishment	728	743	758	773	788
Bathroom Refurbishment	312	318	325	331	338
Wilford Furlong, Willingham Refurbishment	644	0	0	0	0
Assumed adjustment in spend for varying stock numbers	0	(34)	(74)	(162)	(235)
Total Improvements - Existing Stock	**8,600**	**7,418**	**7,515**	**7,563**	**7,269**
Other Improvements					
Sheltered Housing and Other Stock	55	55	55	55	55
Flats	20	30	30	30	30
Central / Departmental Investment	19	19	19	19	19

Description	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Total Other Improvements	**94**	**104**	**104**	**104**	**104**
Re-Provision of Existing Homes					
Robinson Court, Gamlingay	2,253	0	0	0	0
Other Re-provision	0	0	0	0	0
Total Re-Provision of Existing Homes	**2,253**	**0**	**0**	**0**	**0**
HRA New Build / Acquisition					
Pembroke Way, Teversham	56	575	191	0	0
Pampisford Road, Great Abington	1,378	0	0	0	0
High Street, Balsham	715	1,124	0	0	0
Woodside, Longstanton	210	210	0	0	0
Bannold Road, Waterbeach	4,309	0	0	0	0
Gibson Close, Waterbeach	502	951	0	0	0
Acquisitions	719	0	0	0	0
Unallocated New Build / Acquisition Budget	0	10,257	11,214	9,229	5,700
Unallocated New Build / Acquisition - Section 106 funded	116	500	500	500	500
Grants to Registered Providers for New Homes	0	0	0	0	0
Total HRA New Build / Acquisition	**8,005**	**13,617**	**11,905**	**9,729**	**6,200**
Other HRA Capital Spend					
Shared Ownership Repurchase	300	300	300	300	300
Self-Build Vanguard - Up front HRA Land Assembly Costs	300	600	780	0	0
HRA Share of Corporate ICT Development	230	70	119	19	19
Total Other HRA Capital Spend	**830**	**970**	**1,199**	**319**	**319**
Total HRA Capital Spend	**19,782**	**22,109**	**20,723**	**17,715**	**13,892**
Inflation Allowance for New Build and Other HRA Spend	0	0	0	0	0
Total Inflated Housing Capital Spend	**19,782**	**22,109**	**20,723**	**17,715**	**13,892**
Housing Capital Resources					
Right to Buy Receipts	0	0	0	0	0

Description	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Other Capital Receipts (Land and Dwellings)	0	0	0	0	0
Other Capital Receipts (Self-Build Plot Sales)	(1,250)	(2,500)	(3,250)	0	0
Major Repairs Reserve	(8,846)	(10,893)	(10,115)	(10,199)	(10,246)
Direct Revenue Financing of Capital	(3,007)	(2,193)	(3,085)	(3,861)	(1,039)
Other Capital Resources (Grants / Shared Ownership / S106 funding)	(3,451)	(2,256)	(874)	(886)	(897)
Retained Right to Buy Receipts	(1,649)	(3,625)	(3,399)	(2,769)	(1,710)
Retained Right to Buy Receipts (Used by Registered Provider)	0	0	0	0	0
HRA CFR / Prudential Borrowing	0	0	0	0	0
Total Housing Capital Resources	**(18,203)**	**(21,467)**	**(20,723)**	**(17,715)**	**(13,892)**
Net (Surplus) / Deficit of Resources	1,579	642	0	0	0
HRA Capital Balances b/f	**(2,222)**	**(643)**	**(1)**	**(1)**	**(1)**
Use of / (Contribution to) Balances in Year	1,579	642	0	0	0
HRA Capital Balances c/f	**(643)**	**(1)**	**(1)**	**(1)**	**(1)**

Note: Generally available capital receipts from the sale of properties under the right to buy as assumed in the self-financing debt settlement, have been excluded on the basis that they are utilised to fund general fund housing capital expenditure, i.e.; Disabled Facilities Grants and Repairs Assistance Grants.

Appendix I

HRA Earmarked & Specific Revenue Funds (£'000)

Self-Insurance Reserve

	Opening Balance	Contributions	Expenditure to July	Current Balance
Self-Insurance Reserve	(1,000.0)	0.0	0.0	(1,000.0)

Debt Set-Aside (Revenue)

	Opening Balance	Contributions	Expenditure to July	Current Balance
Debt Set-Aside	(8,500.0)	0.0	0.0	(8,500.0)

HRA Earmarked & Specific Capital Funds (£'000)

Debt Set-Aside (Capital)

	Opening Balance	Contributions	Expenditure to July	Current Balance
Debt Set-Aside	(4,096.6)	(607.2)	0.0	(4,703,8)

Major Repairs Reserve

	Opening Balance	Contributions	Expenditure to July	Current Balance
MRR	0.0	0.0	0.0	0.0

Appendix J

Business Plan Key Sensitivity Analysis

Topic	Business Plan Assumption	Key Sensitivity Modelled	Financial Impact
General Inflation	General Inflation using CPI of up to 2.6% for expenditure	Volatility in the economy could lead to an increase in expenditure inflation, particularly whilst rents increases are non-existent for the next 4 years. Assume CPI for expenditure only of 3% ongoing.	Debt cap is breached in year 19, with inability to set a revenue budget from this point on.
Rents Inflation	1% reduction for 4 years, then return to CPI plus 1% for 5 years of rent settlement followed by CPI plus 0.5%	There is no guarantee that there will be the ability to return to previously assumed rent increase if rents are set legislatively, so assume a rent freeze from 2020/21.	Debt cap is breached in year 8, with inability to set a revenue budget from this point on.
Direct Payments (Universal Credit)	Bad Debts at 0.3%, 0.4% then 0.5%	Evidence from the pilot authorities for Direct payment indicates that collection rates may fall from 99% to 95%. Assume bad debts at 5% from 2020/21.	Debt cap is breached in year 10,

Note: Key sensitivities are modelled independently to demonstrate the financial impact. Combined they would have a cumulative effect.

Appendix K

Areas of Uncertainty

Housing Revenue Account – Revenue Uncertainties

Self-Financing for the HRA

Future uncertainty exists about the ability to manage the cashflow and service / re-pay the debt for the HRA in a self-financing environment, particularly in light of rent legislation that now imposes rent levels for the HRA. The debt cap, over which the HRA is not allowed to borrow, currently remains. The authority has explored a variety of avenues to persuade government that re-opening the debt settlement may be required.

Right to Buy Sales

The number of sales increased significantly from April 2012, but has remained relatively consistent since then, with a small decline now being experienced. The implications of continuation of sales at current levels from a revenue perspective are significant, with the potential loss of rental income being the major factor.

Right to Buy Retention Agreement

The resource currently retained in respect of 1-4-1 receipts continues to prove challenging to invest within the required timescales. Sufficient resource is included in the capital plan to ensure that existing retained receipts can be appropriately re-invested, subject to identifying and securing suitable schemes. The potential interest that will be payable if the receipts are not utilised within the agreed 3-year period has not been incorporated into the HRA revenue projections.

Welfare Reforms

The negative impact that the introduction of Universal Credit may have on the level of rent arrears and bad debts within the HRA is still unquantifiable, although indications from earlier adopters are that it will be significant.

HRA New Build

Although the current new build programme is progressing well, the lead in time between site identification and start on site is significant, and not all potential schemes are able to progress as anticipated at the outset. Delays in delivery, compared with the assumptions in the financial forecasts have the potential to impact negatively upon rental income. If any individual development scheme does not proceed, the initial outlay needs to be treated as revenue expenditure, but without the anticipated payback that the capital investment would have resulted in. Until schemes are approved, in contract, and have appropriate planning permission, there are still uncertainties over final costs and dwelling numbers, which could impact the HRA in terms of borrowing costs and anticipated rental streams.

National Rent Policy

The change in national rent policy, with what was previously rent guidance, now being legislation, requires rent reductions of 1% per annum from April 2016 for four years. There is no guarantee that rent increases will be re-introduced at CPI plus 1% after this period, although our financial plans are constructed on this basis.

Housing Revenue Account – Revenue Uncertainties

Compulsion to Sell Higher Value Homes Levy

The Housing and Planning Act allowed the introduction of an annual levy, representative of the proportion of high value homes which may become vacant in any one year. Until secondary legislation is laid, and the regulations surrounding the legislation are released, significant uncertainty exists about the value of the levy and the timing within which payments may be due. In addition to the loss of rental income, the process to dispose of a large number of assets in any one year will be costly and administratively burdensome. It is possible that the implementation of the policy may be deferred further or not progressed at all.

Pay Review

South Cambridgeshire District Council employees are subject to a local pay agreement, with a 1% per annum assumed for the next 2 years, before a return to the previous assumption of 2%. There is a risk that nationally agreed pay settlements may exceed this for 2018/19 based upon government indications and union demands, which may bring into question the assumptions being made in respect of a local agreement.

Housing Revenue Account - Capital Uncertainties

Health and Safety Legislative Changes (Incl. External Wall Insulation / Cladding)

It is anticipated that the ongoing Inquiry into the tragic events at Grenfell Tower will result in recommendations for improved fire management practices and possible changes to building standards generally. However, it is too early to know how such changes might apply to the Council's HRA communal properties, which are of different construction and height to Grenfell Tower and cannot be readily compared. The developing investigations are nevertheless being kept under close review and any early findings or advice will be used to improve our overall fire management practices where appropriate.

Right to Buy Sales and Retained Right to Buy Receipts

Interest in right to buy has been broadly maintained in the last two years, with a slight decline now being experienced. Under the terms of the agreement signed with CLG, the authority is committed to invest the receipts in new homes within 3 years of the date of the retained 1-4-1 receipt, with this funding meeting no more than 30% of the cost of the dwelling. Although sufficient top up funding has been identified to match fund exciting retained right to buy receipts, reliance is being placed on the sale of self-build plots to release resource elsewhere in the HRA to provide this funding and there are also challenges in identifying schemes that can deliver within the required timeframes. Receipts may be paid over to central government at the end of each quarter, unless there is demonstrable resource available to provide the top up funding required, or a clear indication that a registered provider in the locality could spend the receipt appropriately on the authority's behalf.

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