NORWICH
City Council

Cabinet

Date: **Wednesday, 03 February 2016**
Time: **17:30**
Venue: Mancroft room, City Hall, St Peters Street, Norwich, NR2 1NH

Committee members:

Councillors:

Waters (chair)
Harris (vice chair)
Bremner
Driver
Kendrick
Stonard
Thomas (Va)

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AGENDA

EXEMPT ITEMS:

(During consideration of these items the meeting is not likely to be open to the press and the public.)

To consider whether the press and public should be excluded from the meeting during consideration of an agenda item on the grounds that it involves the likely disclosure of exempt information as specified in Part 1 of Schedule 12 A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act.

In each case, members are asked to decide whether, in all circumstances, the public interest in maintaining the exemption (and discussing the matter in private) outweighs the public interest in disclosing the information.

***13. General fund revenue budget 2016/17 and non-housing capital programme 2016/17 to 2020/21 – appendix 5**

- This report is not for publication because it would disclose information relating to the financial or business affairs of any particular person (including the authority holding that information) as in para 3 of Schedule 12A to the Local Government Act 1972.

***14. Capital budget monitoring 2015-16 – Quarter 3 – appendix 1**

- This report is not for publication because it would disclose information relating to the financial or business affairs of any particular person (including the authority holding that information) as in para 3 of Schedule 12A to the Local Government Act 1972.

***15. Use of right to buy one for one receipts**

- This report is not for publication because it would disclose information relating to the financial or business affairs of any particular person (including the authority holding that information) as in para 3 of Schedule 12A to the Local Government Act 1972.

Date of publication**: Tuesday, 26 January 2016**

NORWICH City Council

MINUTES

CABINET

17:30 to 18:50 **13 January 2016**

Present: Councillors Waters (chair), Harris, Bremner, Driver, Kendrick, and Thomas (Va)

Also present: Councillors Haynes and Lubbock

1. APOLOGIES

Apologies were received from Councillor Stonard.

2. PUBLIC QUESTIONS / PETITIONS

No public questions were received.

3. DECLARATIONS OF INTEREST

One declaration of interest was received from Councillor Bremner.

4. MINUTES

RESOLVED to agree the accuracy of the minutes of the meeting held on 9 December 2015

5. DEVOLUTION UPDATE

The leader of the council presented the report.

The chief executive officer explained that the council was awaiting feedback from the department for communities and local government regarding its devolution submission. She said that a workshop around the results of this feedback would be held for members in late February or early March.

In response to a member's question, the chair said that whilst the global status of Cambridge made it an attractive proposition for a joint devolution deal, their submission had not been as far advanced as that of Norfolk and Suffolk. As such, he said, Norfolk and Suffolk were wary of potential delays, although the possibility of an organic approach to developing strong working connections with Cambridge may well arise further down the line. He stressed that, for the time being, the devolution bid was very much a Norfolk / Suffolk one that focussed on the mutual benefits available.

In response to a member's question, the chair said that there was no appetite within the Norfolk / Suffolk submission for an elected mayor, adding that such a role would not enhance representative in an area as demographically and geographically diverse as Norfolk and Suffolk. He added that it was essential that the political sovereignty of the city of Norwich should remain by ensuring that ‘double devolution’ allows the city council to continue its work.

RESOLVED to continue support for the formal engagement with government by the leader of the council and the chief executive, to help secure Norwich’s interests through the development of a powerful and persuasive New Anglia Devolution proposal.

6. EQUALITY INFORMATION REPORT

The cabinet member for fairness and equality presented the report.

RESOLVED to approve publication of the annual equality information report.

7. REVENUE BUDGET MONITORING 2015-16 PERIOD 8

The leader of the council presented the report.

RESOLVED to note the financial position as at 30 November 2015 and the forecast outturn 2015-16.

8. RISK MANAGEMENT REPORT

The leader of the council presented the report. He highlighted the residual risk score of 20 against item B1 (public sector funding) on the corporate risk register, explaining that such a score could not be reduced due to the uncertainty and volatility that existed around local government funding.

RESOLVED To approve the:

1) updated corporate risk register; and,

2) minor updates to the risk management policy.

9. PROCUREMENT OF WORKS

The cabinet member for housing and well-being presented the report. She added that selection of a supplier for electrical works had been delayed to allow for fuller consideration of the tenders as they had proven to be very close in price.

RESOLVED to:

1) approve the award of a framework contract to five suppliers for property improvements and to three suppliers for re-roofing under the Eastern Procurement Ltd framework for a four year period;

2) award contracts on these frameworks up to the value of the property improvement allocations within the 2016-17 Housing Capital Programme to be determined at the council meeting to be held on 23 February 2016;

3) award the contract for replacement kitchens and bathrooms to the best value supplier as determined by the direct call-off prices within the framework; and,

4) award the contract for periodic inspections and rewires to the best value supplier as determined by the direct call-off prices within the framework.

10. AWARD OF CONTRACT FOR THE PASSIVHAUS DEVELOPMENT AT HANSARD CLOSE

The cabinet member for environment and sustainable development presented the report, highlighting the environmental, health and money-saving benefits of the Passivhaus standard.

The senior development officer (enabling) explained that, once complete, these should be the first dwellings in the city to attain certification from the Passivhaus trust.

RESOLVED to award the contract for the construction of ten Passivhaus dwellings at Hansard Close to E N Suiter Ltd.

11. COMMUNITY CENTRE AT HALL ROAD ASDA SITE

The cabinet member for neighbourhoods and community safety presented the report. He highlighted the fact that residents and centre users welcomed the opportunity to move into a new building and such a move had wide community support.

RESOLVED to approve the acquisition of building and associated land at the Asda site on Hall Road on a long lease for 20 years to provide a new community centre.

12. DEVELOPMENT COMPANY – BUSINESS PLAN

The leader of the council presented the report.

RESOLVED to:

1) approve the business plan for The Regeneration Company Ltd.;

2) agree the following elements (as detailed in the confidential appendix to the report):

   - the value of the loan to the company;
   - the value of the land (the "best consideration") to be transferred to the company;
   - the value of the equity investment to allow the land to be transferred to the company;
   - the scope and value of the service level agreement between the council and the company;
   - to purchase the social units at build cost the cost in section 1 of phase 2 at Three Score; (currently assumed to be 25 units).

3) agree to enter into a development agreement with The Regeneration Company to acquire the social housing units within section 1 of phase 2 at Three Score by the end of March 2016 (or such later date as is agreed with The Regeneration Company Ltd) so as not to delay a start on site;

4) delegate any further changes to the business plan to the executive head of regeneration and development in consultation with the section 151 officer and the portfolio holder for resources and income generation.

13. EXCLUSION OF THE PUBLIC

RESOLVED to exclude the public from the meeting during consideration items *14 and *15 (below) on the grounds contained in the relevant paragraphs of Schedule 12A of the Local Government Act 1972 (as amended).

*14. DEVELOPMENT COMPANY – BUSINESS PLAN APPENDICES

The leader of the council presented the report.

RESOLVED to:

a) agree that following an independent land valuation, the value at which the land for Three Score phase 2 should be transferred to the housing development company is £2.2m, which is regarded as "best consideration" under Section 123(2) of the Local Government Act 1972;

b) agree to take 22,000 shares in the company at a value of £100 each to allow the transfer of land to the company;

c) agree that the loan provided by the council to the development company to construct Three Score phase 2 is up to £15.5m for the first 4 years, with a partial repayment in year 5 reducing the loan to £12m;

d) commit to buy social housing units from the company in Section 1 of Phase 2 at build cost- at a minimum expected cost of £3.39m (to be funded from the Housing Revenue Account (HRA). (A formal development agreement between the Council and the company will need to be entered into in March 2016).

*15.MANAGING ASSETS

The leader of the council presented the report and an addendum to the item to include the disposal of an additional parcel of land.

RESOLVED to approve the land and property disposals and partial lease surrender as outlined within the report and its addendum.

CHAIR

Report to	Cabinet	**Item**
	3 February 2016	5
Report of	Chief finance officer	
Subject	General fund revenue budget and non-housing capital programme 2016-17	

Purpose

To propose for approval the budget and budgetary requirement, council tax requirement, and level of council tax for the financial year 2016-17 and non-housing capital programme for 2016-17 to 2020-21.

Recommendations

That cabinet recommends to council:

a) that the council's budgetary requirement for the 2016-17 financial year be set to £16.442m (para 6.1);

b) that the proposed general fund budgets for 2016-17 be approved, taking into account the savings, income and other budget movements set out in the report. (para 6.3);

c) that the council's council tax requirement for 2016-17 be set at £8.469m and that council tax be set at £244.01 for Band D, which is an increase of 1.95% (para 7.1), the impact of the increase for all bands is shown in table 7.2;

d) that the precept on the council tax collection fund for 2016-17 be set at £8.375m calculated in accordance with Sections 32-36 of the Local Government Finance Act 1992 as amended by the Localism Act 2011 (para 7.1);

e) that the prudent level of reserves for the council be set at £4.273m in accordance with the recommendation of the Chief finance officer (para 8.11);

f) that the proposed non-housing capital programme 2016-17 to 2020-21 (para 10.3) be approved; and,

g) that cabinet delegates to the executive head of regeneration and development and the chief finance officer, in consultation with the portfolio holder for resources and income generation, the authority to agree the asset maintenance programme and the final scheme details, including any adjustment to the financial allocations of the section 106 works, provided that this investment is contained within the total budgetary provision shown in Table 10.3.

Corporate and service priorities

The report helps to meet all the corporate priorities.

Financial implications

This report sets out the proposed budget requirement for 2016-17 of £16.442m and the means by which this is to be financed, including through a proposed council tax of £244.01 per Band D property.

It also sets out the proposed capital programme for 2016-17 to 2020-21 illustrating how anticipated capital expenditure needs can be financed over the medium term.

Ward/s: All wards

Cabinet member: Councillor Stonard – Portfolio holder for resources and income generation

Contact officers

Justine Hartley, chief finance officer	01603 212440
Hannah Simpson, group accountant	01603 212561

Background documents

None

Report

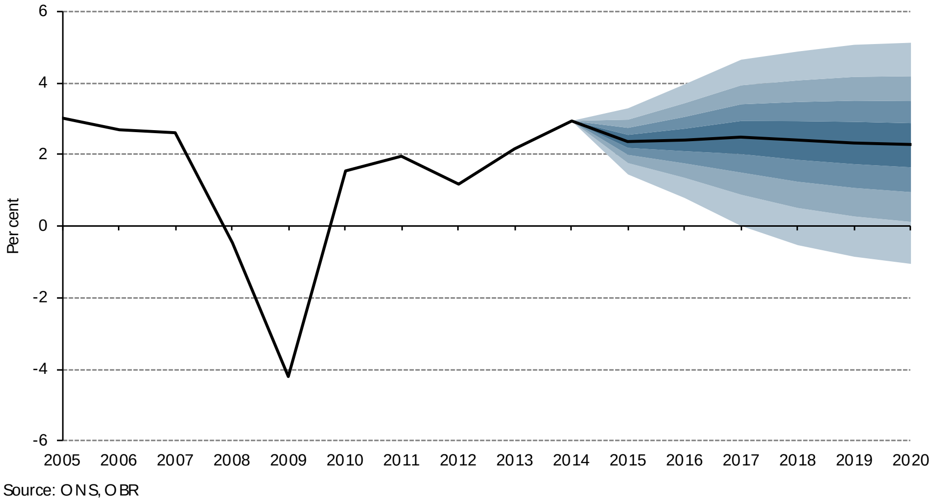
1. Contents of report

1.1 The contents of this report are set out as follows:

2. Budgetary context

2.1 The OBR's GDP growth forecast remains unchanged in 2015 at 2.4 per cent. Growth in 2016 and 2017 has been revised up by 0.1 percentage points in each year. In 2016, that mainly reflects the Government's decision to ease the pace of fiscal tightening. OBR have also revised GDP growth down in 2020 because of the effect of population ageing on the employment rate. The return of inflation to near the Bank of England's 2 per cent target is expected to be a little faster than expected in July, with inflation forecast to reach 1.8 per cent by the second half of 2017.

Figure 2.1: Real GDP growth fan chart November 2015 (Source: OBR)

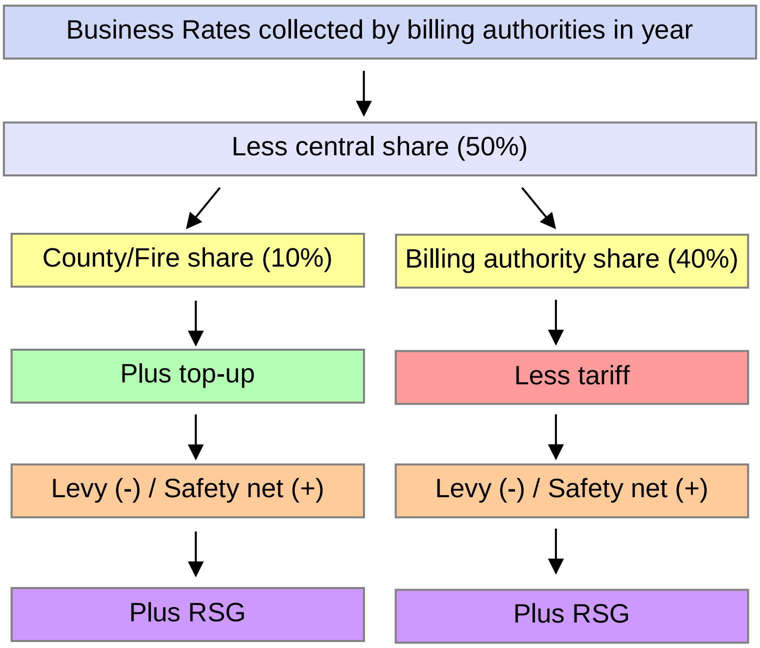


2.2 The OBR currently expects the Public Sector Net Borrowing (PSNB) deficit to continue falling, and the budget to move into surplus in 2019-20.

2.3 The **Business Rates Retention Scheme** replaced the Formula Grant system from 2013-14. The scheme takes the business rates collected in a geographical area during the year and applies various splits, additions and/or reductions to calculate an authority's final allocation. Part of the government's rationale in setting up the scheme was to allow local authorities to retain part of the future growth in their business rates.

2.4 The diagram below illustrates how the scheme calculates funding for local authorities. Central government has decided that billing authorities such as Norwich City Council will receive 40% of the business rates collected in their area.

Diagram 2.2: Business rates retention scheme



2.5 The business rates collected during the year by billing authorities are split 50:50 between central government and local government. Central government's share will be used to fund Revenue Support Grant (RSG) and other grants to local government.

2.6 Each authority then pays a tariff or receives a top-up to redistribute business rates more evenly across authorities. The tariffs and top-ups were set in 2013-14 based on the previous 'Four Block Model' distribution and were due to be uprated by September 2013 RPI. However, this increase has been capped to 2%.

2.7 A levy and 'safety net' system also operates to ensure that a 1% increase in business rates is limited to a 1% increase in retained income, with the surplus funding any authority whose income drops by more than 7.5% below their baseline funding.

2.8 In the years where the 50% local share is less than local government spending totals, the difference is returned to local government via RSG. This is allocated pro-rata to local authorities' funding baseline.

2.9 Therefore, there is a specific need for billing authorities to accurately forecast future business rates. The council has committed resources to this task but is hampered by the number of appeals on properties on our ratings list.

2.10 The government reimburses authorities for the impact of tax changes for small business and other additional business rate reliefs announced in the autumn statement each year by means of a Section 31 grant payment. The grant amount is based on actual costs as captured at year end via local authority returns. The grant is received in the year to which the business rates relate but is required to offset impacts on the general fund revenue account in the following two years.

3. Medium Term Financial Strategy (MTFS)

3.1 The council's budget is underpinned by the MTFS. The financial projections underlying the MTFS have been revised to reflect changes in assumptions, the provisional Local Government Finance Settlement and the changing risk environment in which the council operates. Other budget pressures including inflation and demographic requirements have also been factored in to produce a projection of the council's medium term financial position.

3.2 The presentation of savings in the MTFS shows the net savings required to deliver a balanced budget. Items such as growth and decreases in income are now incorporated within the transformation programme and net off against the savings to be delivered.

3.3 A net reduction for 2016-17 of £0.614m has now been included within the budget. The MTFS shows a need to make further net savings of £10.3m over the next 5 years, which - following the smoothed approach - equates to £2.3m each year to 2020-21 with saving reduced to £1.1m in 2021-22. This is consistent with the £2.3m of savings set out in the 2015-16 budget papers.

3.4 In assessing the longer term financial stability of the council, consideration has been given balancing external factors, such as global and macro-economic risks that may cause the government to increase and/or extend its austerity measures, with the need to maintain services to the residents of Norwich. To a certain degree, the strong culture of forward planning and prudent financial management that exists within the council mitigates these external risks and allows minimum reserve levels to be set below current reserve levels.

3.5 Payroll-related inflation has been estimated at 3.2%, to include estimates for an annual pay settlement, payroll drift, the impact of the Living Wage and increases in pension contributions. Additional estimates have been included for expected increases to pension deficit contributions. Inflation has been allowed for on premises costs, supplies and services and transport at 2.0%, to reflect forecast changes in CPI.

3.6 Specific grant figures have been confirmed by the Department for Communities and Local Government for 2016-17. Grants for future years have been estimated at 2016-17 levels, except for New Homes Bonus and Housing Benefit / CTS Administration Grants. There is a significant level of uncertainty around the future of the New Homes Bonus grant which is subject to consultation at the current time. Whilst current allocations of the grant have been left in, they have been reduced to 4 years duration as proposed in the consultation and no new allocations of New Homes Bonus grant have been anticipated at this time until the outcome of the consultation is known. In addition, Housing Benefit and Local Council Tax Support Administration Grants, have been assumed to decrease by 5% per year. The MTFS assumes no increases in Council Tax beyond that recommended in this report for 2016-17.

3.7 The table below shows the proposed budget for 2016-17 and the medium term financial projections for the 5 years to 2021-22.

Table 3.1: Budget 2016-17 and medium term financial projections for 5 years to 2021-22

	2016-17 Year 1 £000s	**2017/18 Year 2 £000s**	**2018/19 Year 3 £000s**	**2019/20 Year 4 £000s**	**2020-21 Year 5 £000s**	**2021-22 Year 6 £000s**
Employees	£17,832	£18,186	£19,487	£20,690	£21,243	£21,813
Premises	£9,573	£9,848	£10,131	£10,421	£10,721	£11,029
Transport	£273	£280	£287	£294	£302	£309
Supplies and Services	£15,824	£16,001	£16,169	£16,616	£17,076	£17,549
Capital Charges	£2,007	£2,034	£2,062	£2,090	£2,119	£2,147
Transfer Payments	£63,724	£63,724	£63,724	£63,724	£63,724	£63,724
Third Party Payments	£7,081	£7,086	£7,090	£7,095	£7,099	£7,104
Centrally Managed	£1,122	£1,152	£1,183	£1,215	£1,248	£1,282
Recharge Expenditure	£16,649	£16,751	£16,854	£16,958	£17,064	£17,170
Recharge Income	-£24,028	-£24,121	-£24,216	-£24,312	-£24,409	-£24,507
In-Year Savings	£0	£0	£0	£0	£0	£0
Receipts	-£24,384	-£24,964	-£25,559	-£26,167	-£26,791	-£27,429
Government Grants:	-£69,682	-£66,303	-£65,807	-£65,423	-£64,960	-£64,899
New Homes Bonus	-£2,756	-£1,142	-£717	-£400	£0	£0
PFI Grant	-£1,429	£0	£0	£0	£0	£0
Benefit Subsidy	-£63,755	-£63,755	-£63,755	-£63,755	-£63,755	-£63,755
Benefit/CTS Admin Grant	-£1,071	-£1,018	-£967	-£919	-£873	-£829
Other Government Grants	-£671	-£388	-£368	-£350	-£332	-£316
Subtotal budgets	**£15,991**	**£19,674**	**£21,405**	**£23,200**	**£24,436**	**£25,291**
Savings	0	-£2,321	-£4,642	-£6,963	-£9,284	-£10,334
Contribution to/(from) bals	£451	-£1,786	-£1,623	-£1,598	-£451	£26
Budget requirement	**£16,442**	**£15,567**	**£15,140**	**£14,639**	**£14,701**	**£14,983**
Share of NNDR (Baseline)	-£5,217	-£5,437	-£5,615	-£5,797	-£5,986	-£6,181
Council Tax Freeze Grants	£0	£0	£0	£0	£0	£0
Formula Funding	-£2,756	-£1,671	-£982	-£213	£0	£0
Council Tax Requirement	-£8,469	-£8,459	-£8,543	-£8,629	-£8,715	-£8,802
Total funding	**-£16,442**	**-£15,567**	**-£15,140**	**-£14,639**	**-£14,701**	**-£14,983**
New savings (smoothed)		**£2,321**	**£2,321**	**£2,321**	**£2,321**	**£1,050**
Balance brought forward	**-£10,133**	**-£10,584**	**-£8,798**	**-£7,175**	**-£5,577**	**-£5,126**
Contributions (to)/from IandE	-£451	£1,786	£1,623	£1,598	£451	-£26
Balance carried forward	**-£10,584**	**-£8,798**	**-£7,175**	**-£5,577**	**-£5,126**	**-£5,152**
Relative to controllable spend	*23%*	*19%*	*15%*	*11%*	*10%*	*10%*

4. Preparation of the 2016-17 budget

4.1 Guided by the council's corporate plan and its 'changing pace blueprint' (operating model) a range of work has been carried out across the council through the transformation programme, to develop options for additional income and savings in order to meet the target within the MTFS and ensure a balanced budget. This work has been informed by a cross party working group.

4.2 In October 2015, cabinet considered an initial list of income and savings options and agreed for further work to be carried out to progress these.

4.3 In line with the approach used in previous years, cabinet agreed to consult the public on the proposed approach to meeting the savings target for 2016-17. It was also agreed to consult the public on the potential for a council tax rise.

4.4 The consultation closed on 8 January 2016. An analysis of the results of the consultation can be found at Appendix 1. The results showed that of the people who completed the consultation and answered the questions 68% supported a proposed council tax increase.

4.5 Comments and ideas were also received on other things the council could do differently to generate income or save money in the future. A large number of these relate to approaches the council is already progressing. However, as with previous years the comments will be used to inform the council's ongoing development of income and savings opportunities as part of the transformation programme.

4.6 A final list of the key income and savings projects that have been developed through the transformation programme and are now included in the proposed budget for 2016-17 as set out at Appendix 2. They amount to just over £3.5m.

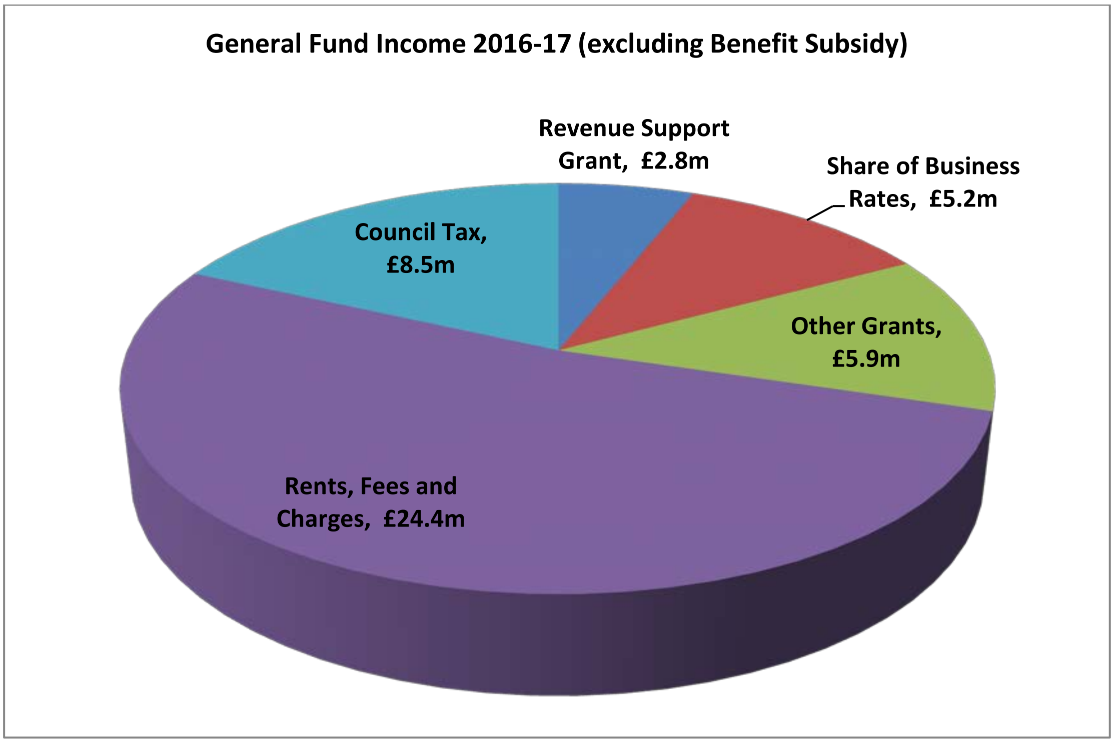
4.7 The changes resulting from the savings would further reduce the council's overall capacity. However, they should not significantly impact the services that the public receive from the council for 2016-17. This further demonstrates the success of the council's ongoing approach to developing savings and income, particularly given that fact that the council has already delivered approximately £27m of recurring revenue savings over the last six years.

4.8 The overall package of proposed income and savings alongside all the other upward and downward budget movements and proposals within this report would result in a net reduction of £2.973m in 2016-17.

5. Budgetary resources

5.1 Expenditure in the general fund is financed from both income within the budgetary requirement and from government grant and council tax within budgetary resources.

Diagram 5.1: Council income excluding benefit subsidy 2016-17



5.2 The total of £38.1m raised locally (through business rates, council tax and rents, fees and charges) amounts to 81% of this income, whilst the £8.7m of central government funding (RSG and other grants) amounts to 19%.

Table 5.3 Formula and other grants 2015-16 and 2016-17

	2015-16 £000s	2016-17 £000s	% change
Revenue Support Grant (RSG)	4,096	2,756	-33%
Business Rates	4,645	5,218	12%
Formula funding	**8,741**	**7,974**	**-9%**
New Homes Bonus	2,356	2,756	17%
Local Council Tax Support / Housing Benefit Administration Grant	1,227	1,071	-13%
Private Finance Initiative (PFI) Grant	1,429	1,429	0%
Other grants	503	671	33%
Total grant funding	**14,256**	**13,901**	**-3%**

5.3 Section 31 Business Rate Relief grant is given to offset reliefs which reduce the business rates income to the Council so is not included as a separate grant.

5.4 In addition to the formula grant, the budgetary requirement is funded by council tax collected by the council. Any increase in the level of council tax is limited by referendum principles. For 2016-17 a 2% limit on increases was announced as part of the provisional settlement.

5.5 The draft budget proposals are based on an increase of 1.95%, and a rate of £244.01 per Band D property. The calculation of the recommended Council Tax Requirement and derivation of the Council Tax Precept are shown in Section 7.

6. Budgetary requirement – income and expenditure

6.1 To achieve a balanced budget, the total movements in the budgets must equal the movements in budgetary resources as shown in the MTFS. The following tables show the available budgetary resources for 2016-17 and the movements in budgets by service area proposed to maintain spend within available resources.

Table 6.1a: Budgetary resources 2016-17

	£000s
Formula funding 2015-16	(4,096)
Business rates 2015-16	(4,645)
Council tax 2015-16	(8,315)
Budgetary resources 2015-16	**(17,056)**
- Decrease in formula funding	1,340
+ Increase in business rates	(573)
+ Increase in council tax	(153)
+ Movement 2015-16 to 2016-17	**613**
= Formula funding 2016-17	(2,756)
= Business rates 2016-17	(5,218)
= Council tax 2016-17	(8,468)
= Budgetary resources 2016-17	**(16,442)**

Table 6.1b: Movement in budget requirement 2015-16 to 2016-17 by service area

	Base	Adj to Base	Inflation	Grants	Trans Savings /Income	Trans Growth	Transfers	Other	Total
								-	
Chief Executive	-	- 5	5	-	-	-	-	- 0	- 0
Chief Executive	**-**	**- 5**	**5**	**-**	**-**	**-**	**-**	**- 0**	**- 0**
	-	-						-	-
Business Relationship Management	1,524	1,421	82	- 330	- 266	-	- 656	- 0	1,775
Finance	- 2,095	210	-	132	- 969	161	463	- 155	- 2,253
Procurement & Service Improvement	- 0	266	61	-	- 658	100	232	- 0	- 0
Democratic Services	292	- 14	16	-	- 22	103	-	- 0	375
Business Relationship Management	**- 278**	**1,883**	**159**	**- 198**	**- 1,915**	**363**	**38**	**- 156**	**- 103**
	-	-						-	-
Communications & Culture	2,139	43	79	-	- 80	-	29	- 1	2,209
Customer Contact	- 93	- 22	70	-	- 93	-	77	- 0	- 61
Customers, Communication & Culture	**2,046**	**21**	**149**	**-**	**- 173**	**-**	**106**	**- 1**	**2,148**
									-
Neighbourhood Housing	2,315	- 10	76	-	-	-	- 97	- 0	2,284
Neighbourhood Services	2,423	- 18	46	-	- 251	36	- 70	- 11	2,155
Citywide Services	10,056	- 74	228	-	- 346	63	- 128	- 9	9,790
Human Resources	- 1	- 12	8	-	- 15	20	-	- 0	0
Strategy & Programme Management	- 0	- 58	17	-	-	-	41	- 0	0
Strategy, People & Neighbourhoods	**14,793**	**- 171**	**375**	**-**	**- 612**	**118**	**- 253**	**- 21**	**14,229**
	-	-						-	-
Regeneration & Development	-	- 8	8	-	-	-	-	- 0	- 0
City Development	- 1,214	- 254	260	-	- 791	617	- 38	3	- 1,417
Planning	1,448	- 11	113	-	- 195	45	- 36	- 37	1,327
Property Services	262	- 196	6	-	-	4	183	-	259
Environmental Strategy	-	20	5	-	- 25	-	-	- 0	0
Regeneration & Development	**496**	**- 448**	**391**	**-**	**- 1,011**	**666**	**109**	**- 35**	**168**
									-
Total	**17,056**	**1,280**	**1,079**	**- 198**	**- 3,711**	**1,148**	**- 0**	**- 212**	**16,442**

6.2 Movements in budget for each type are detailed in Appendix 2.

6.3 The following table shows the proposed budget for 2016-17 analysed by type of expenditure or income (subjective group) compared to 2015-16.

Table 6.3: Proposed budget analysis 2016-17 by subjective group

Subjective group	Budget 2015-16 £000s	Budget 2016-17 £000s	Change £000s
Employees	17,381	17,832	451
Premises	9,209	9,573	364
Transport	272	273	1
Supplies and services	15,313	15,824	511
Savings proposals	0	-	0
Third party payments (shared services)	7,531	7,081	(450)
Transfer payments	68,534	63,724	(4,810)
Capital financing	3,526	2,458	(1,068)
Recharge expenditure	18,178	17,771	(407)
Subtotal expenditure	**139,944**	**134,536**	**(5,408)**
Government grants	(73,277)	(69,682)	3,595
Receipts	(24,454)	(24,384)	70
Recharge income	(25,157)	(24,028)	1,129
Subtotal income	**(122,888)**	**(118,094)**	**4,794**
Total Budgetary Requirement	**17,056**	**16,442**	**(614)**

7. Council tax and precept

7.1 The following table shows the calculation of the level of council tax with the recommended increase of 1.95%

Table 7.1: Council Tax calculation 2016-17

	No.	£
Budgetary requirement		**16,442,621**
- Formula grant		-2,756,000
- NNDR Distribution		-5,218,000
= Council tax requirement		**8,468,621**
- Surplus on collection fund		-93,977
= Council tax precept		**8,374,644**
Band D Equivalent properties	34,322	
Council tax (Band D)		**244.01**

7.2 The following table shows the impact of the proposed increase for each council tax band on the Norwich City Council share of total council tax. The full proposed new council tax will be set once we have confirmation from Norfolk County Council and the Office of the Police and Crime Commissioner for Norfolk on any increases they may apply for 2016-17. The figures shown will be reduced, for qualifying council tax payers, by the council's discount scheme which replaced the council tax benefit system.

Table 7.2: Council tax increases 2015-16 to 2016-17, Bands A to H

Band	A	B	C	D	E	F	G	H
2015-16	£159.56	£186.15	£212.75	£239.34	£292.53	£345.71	£398.90	£478.68
Increase	£3.11	£3.63	£4.15	£4.67	£5.71	£6.75	£7.78	£9.34
2016-17	£162.67	£189.79	£216.90	£244.01	£298.23	£352.46	£406.68	£488.02

8. Report by the chief finance officer on the robustness of estimates, reserves and balances

8.1 Section 25 of the Local Government Act 2003 requires that the chief finance officer of the council reports to members on the robustness of the budget estimates and the adequacy of council's reserves. The chief finance officer is required to provide professional advice to the council on the two above matters and is expected to address issues of risk and uncertainty.

8.2 The main driver to achieve savings in the current budget round has been the council's transformation programme. This has been subject to rigorous review by both members and officers and is directly linked to the service planning process ensuring a strong link between the council's priorities and the financial resources available to deliver them. As with all future estimates there is a level of uncertainty and this has been taken into account when assessing the levels of reserves.

8.3 There are risks around the level of unavoidable expenditure and income loss. Historically this has been in excess of £1 million per annum. Both the identification and estimation of these amounts has been included within the council's ongoing transformation programme for the next three years. However, it should be noted that the level of uncertainty surrounding estimates increases as they relate to periods further into the future.

8.4 There are also risks around future grant and business rates incomes. In particular, there is significant uncertainty around the future of the New Homes Bonus grant which is currently the subject of a consultation on its future. There is also uncertainty over business rates income going forward with the move to 100% retention of business rates by local government by 2020. This will bring with it risks and uncertainties particularly those associated with changes in the economic climate and uncertainties from the appeals system for business rates.

8.5 Allowing for the above comments on uncertainty it is the opinion of the chief finance officer that in the budgetary process all reasonable steps have been taken to ensure the robustness of the budget. Further comfort is taken from the record of the council in managing and delivering to budget in year.

8.6 A key mitigation for expenditure/income risks is the chief finance officer's estimate of a prudent level of reserves. An amount has been built into the prudent level of reserves to cover estimated levels of risk, as set out in Appendix 3.

8.7 The requirement for financial reserves is acknowledged in statute. Section 32 of the Local Government Finance Act 1992 requires billing authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

8.8 It is the responsibility of the chief finance officer to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.

8.9 The council holds two types of general fund reserves:

- The general fund is a working balance to cushion the impact of uneven cash flows. The reserve also acts as a contingency that can be used in year if there are unexpected emergencies, unforeseen spending or uncertain developments and pressures where the exact timing and value is not yet known and/or in the council's control. The reserve also provides cover for grant and income risk.
- The earmarked general fund is set aside for specific and designated purposes or to meet known or predicted liabilities e.g. insurance claims.

8.10 Earmarked reserves remain legally part of the general fund although they are accounted for separately.

8.11 A risk assessment has been undertaken to determine the level of non-earmarked general reserves required by the council. In making a recommendation for the level of reserves the Chief finance officer has followed guidance in the CIPFA LAAP Bulletin 77 – Guidance notes on

Local Authorities Reserves and Balances. The risk analysis shows that a prudent minimum level of reserves for 2015-16 will be of the order of £4.273m as shown in Appendix 3.

8.12 The following table shows that the anticipated level of balances will remain above this prudent minimum level for the duration of the medium term planning period.

Table 8.11: Estimated general fund balance through the MTFS period

Year ending	£000s
31 March 2016	£10,133
31 March 2017	£10,584
31 March 2018	£8,798
31 March 2019	£7,175
31 March 2020	£5,577
31 March 2021	£5,126
31 March 2022	£5,152

9. Capital resources 2016-17 – 2020-21

9.1 The council owns and maintains a range of assets. Major investment in these assets is funded from the capital programme. In turn the capital programme is resourced, in part, by the income received from the disposal of surplus assets.

9.2 In June 2011 the council adopted an asset management strategy that established a framework for the maintenance and improvement of assets that meet the needs of the organisation. Underperforming assets, particularly those retained for investment purposes, will be released to provide a receipt for future investment in the capital programme. The key requirements of the strategy are to optimise the existing portfolio (by establishing a rigorous process for review); to prioritise investment in the portfolio to support income generation and cost reduction; to rationalise office accommodation and to work in partnership with others to attract third party funding to bring forward development on council owned sites (e.g. the use of section 106 funding or the HCA development partnership).

9.3 The following table shows the total non-housing capital resources and their application anticipated over the duration of the capital programme:

Table 9.3: Capital resources 2016-17 – 2020-21

Non-housing capital resources	2016-17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020-21 £000s
S106 Balances b/f	(1,516)	(910)	(1,480)	(1,650)	(1,825)
S106 Forecast resources arising	(183)	(653)	(170)	(175)	0
S106 Forecast resources utilised (ongoing works)	595	0	0	0	0
S106 Forecast resources utilised (proposed)	193	84	0	0	0
Total S106 Resources	***(910)***	***(1,480)***	***(1,650)***	***(1,825)***	***(1,825)***
CIL Balances b/f	(541)	(289)	(488)	(789)	(1,172)
CIL Forecast resources arising	(1,361)	(1,259)	(1,909)	(2,425)	(3,017)
CIL Forecast resources utilised (contribution to pool)	1,513	1,060	1,608	2,042	2,541
CIL Forecast resources utilised (ongoing neighbourhood schemes)	60	0	0	0	0
CIL Forecast resources utilised (proposed neighbourhood schemes)	40	0	0	0	0
Total CIL Resources	***(289)***	***(488)***	***(789)***	***(1,172)***	***(1,648)***
GNGP Balances b/f	0	0	0	0	0
GNGP Forecast resources arising	(381)	(615)	0	0	0
GNGP Forecast resources utilised (ongoing works)	81	0	0	0	0
GNGP Forecast resources utilised (proposed)	300	615	0	0	0
Total GNGP Resources	***0***	***0***	***0***	***0***	***0***
CCAG2 Balances b/f	(502)	0	0	0	0
CCAG2 Forecast resources arising	(4,343)	(3,521)	0	0	0
CCAG2 Forecast resources utilised (ongoing works)	357	0	0	0	0
CCAG2 Forecast resources utilised (proposed)	4,488	3,521	0	0	0
Total CCAG2 Resources	***0***	***0***	***0***	***0***	***0***
Anticipated balance b/f	(1,248)	0	0	0	0
Forecast resources arising - borrowing	(24,373)	(10,151)	(6,644)	0	0
Forecast resources arising - grants	(122)	(1,185)	(390)	(1,010)	(1,415)
Forecast resources arising - receipts	(1,585)	(1,090)	(305)	(255)	(240)
Forecast resources arising - revenue contribution	(210)	(210)	(210)	(210)	(210)
Forecast resources utilised (ongoing works)	4,102	0	0	0	0
Forecast resources utilised (proposed)	23,435	12,635	7,549	1,475	1,865
Total other capital resources	***0***	***0***	***0***	***0***	***0***
Total non-housing capital resources	**(1,199)**	**(1,967)**	**(2,438)**	**(2,996)**	**(3,473)**

9.4 The forecast level of resources from asset disposal receipts, Section 106 payments and CIL payments should be regarded with some caution, as they are based upon estimates and are therefore not guaranteed.

9.5 Shortfalls against these targets will be managed by continuing the council's policy of not committing spend against forecast resources until the resources materialise, alongside consideration of further use of borrowing where the associated revenue costs are manageable.

9.6 Anticipated borrowing covers mainly costs associated with Threescore phase 2, construction of a homelessness hostel, Hurricane Way development and other asset for investment schemes expected to generate revenue income in excess of the borrowing costs. Individual business cases will be required for each of these schemes to demonstrate that income streams will cover capital and borrowing costs before the schemes go ahead.

10. Capital programme 2016-17 to 2020-21

10.1 The following table summarises the proposed capital programme and resources, based on capital expenditure supporting the Asset Management Plan and the forecast non-housing capital resources.

Table 10.1: Capital programme 2016-17 – 2020-21

Non-housing capital programmes	2016-17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020-21 £000s
General capital	23,435	12,635	7,549	1,475	1,865
Section 106 schemes	193	1,109	905	-	-
Community Infrastructure Levy	1,553	1,060	1,608	2,042	2,541
GNGP Strategic Pool Schemes	300	615	0	0	0
City Cycle Ambition Group 2	4,488	3,521	0	0	0
Total expenditure	**29,969**	**18,940**	**10,062**	**3,517**	**4,406**
S106	193	1,109	905	0	0
CIL Funding	1,553	1,060	1,608	2,042	2,541
GNGP Funding	300	615	0	0	0
Other capital resources	27,923	16,156	7,549	1,475	1,865
Total resources applied	**29,969**	**18,940**	**10,062**	**3,517**	**4,406**
Total non-housing capital programme	**0**	**0**	**0**	**0**	**0**

10.2 All risks relating to the resourcing and delivery of the capital programme are identified and managed in accordance with the council's risk management strategy

10.3 The table below out the elements making up the proposed detailed capital programme 2016-17 to 2020-21, over and above existing programme items rolling forward.

Table 10.3: Non-Housing Capital Programmes 2016-17 – 2020-21

Scheme	2016-17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020-21 £000s
Asset Investment for income*	5,000	-	-	-	-
CCTV replacement	250	-	-	-	-
Community asset transfer	10	20	-	-	-
Community shop	30	70	-	-	-
Customer centre redesign	70	405	-	-	-
Earlham Cemetery Roadway Improvements	-	60	-	-	-
Energy saving lighting	10	10	10	10	15
Homelessness hostel*	1,000	-	-	-	-
Hurricane Way*	1,098	2,051	-	-	-
Investment for regeneration*	250	-	-	-	-
IT Investment Fund	400	400	400	400	400
Major Repairs 2016-17 Castle	100	30	-	-	-
Major Repairs 2016-17 Community Centres	40	-	-	-	-
Major Repairs 2016-17 Investment Portfolio	130	-	-	-	-
Major Repairs 2016-17 NAIE	40	-	-	-	-
Major Repairs 2016-17 Provision Market Toilets Upgrade	75	100	-	-	-
Major Repairs 2016-17 Rolling Programme Items	75	-	-	-	-
Major Repairs Carry Forward	-	-	-	-	-
Mile Cross promenade	-	25	150	-	-
Mountergate west phase 2 - housing*	-	6,614	6,614	-	-
MUGA Renewal	-	80	75	65	50
New Build - Goldsmith Street (private investment)*	2,717	271	30	-	-
Park depots	25	135	40	-	-
Parking Management System	90	-	-	-	-
Private Rental Pilot*	500	-	-	-	-
Replacement fleet of vehicles*	3,500	-	-	-	-
Riverside Walk adj NCFC	100	-	-	-	-
Sloughbottom Park artificial cricket surface	12	-	-	-	-
St Andrews defect repairs completion	150	-	-	-	-
St Giles MSCP refurbishment*	275	820	-	-	-
The Halls repairs project	260	-	-	-	-
The Halls refurbishment project	-	1,045	-	-	-
Threescore Phase 2*	5,717	-	-	-	-
Threescore infrastructure*	222	-	-	-	-
Threescore phase 3*	500	-	-	-	-
Tombland southern square public realm transformation	-	-	100	1,000	1,400
Traveller Site*	789	394	-	-	-
Wensum riverside walk (Fye Bridge to Whitefriars)	-	20	130	-	-
William Booth Street	-	85	-	-	-
Total General Capital Projects	**23,435**	**12,635**	**7,549**	**1,475**	**1,865**

* Indicates schemes anticipated to be funded by borrowing

Scheme	2016-17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020-21 £000s
CCAG2 Blue Cringleford to Sprowston	1,622	1,911	-	-	-
CCAG2 Yellow Lakenham to Airport	2,866	1,610	-	-	-
Total City Cycle Ambition Group 2	**4,488**	**3,521**	**-**	**-**	**-**
CIL Contribution Strategic Pool	1,513	1,060	1,608	2,042	2,541
CIL Neighbourhood projects	40	-	-	-	-
Total Community Infrastructure Levy	**1,553**	**1,060**	**1,608**	**2,042**	**2,541**
GNGP Bowthorpe Crossing	150	-	-	-	-
GNGP Earlham Millenium Green	-	-	-	-	-
GNGP Heathgate Pink Pway	150	-	-	-	-
GNGP Marriotts Way	-	365	-	-	-
GNGP Wensum Strategy Phase 1	-	250	-	-	-
Total Greater Norwich Growth Project	**300**	**615**	**-**	**-**	**-**
S106 Bowthorpe Bus Link	-	-	-	-	-
S106 Bowthorpe Southern Park	-	-	-	-	-
S106 BRT and Cycle Thorpe Road	-	-	-	-	-
S106 Castle Green	-	95	905	-	-
S106 Chapelfield Gardens	-	-	-	-	-
S106 Eaton Green Play Area	12	-	-	-	-
S106 Green Infrastructure N City	5	-	-	-	-
S106 Hurricane Way	-	-	-	-	-
S106 Livestock Market cycle and walk	53	-	-	-	-
S106 Midland Street	-	-	-	-	-
S106 Mile Cross Gardens	12	1,000	-	-	-
S106 Taylors Lane Connector	-	14	-	-	-
S106 The Runnel	-	-	-	-	-
S106 UEA CPZ Extension	52	-	-	-	-
S106 Wensum View	6	-	-	-	-
S106 Westlegate Public Realm	52	-	-	-	-
S106 Wooded Ridge	-	-	-	-	-
Total Section 106	**193**	**1,109**	**905**	**-**	**-**
Total non-housing capital programme 2016-17	**29,969**	**18,940**	**10,062**	**3,517**	**4,406**

11. Progress in reducing the council's carbon footprint

11.1 Previously information on progress in reducing the council's carbon footprint has been included in the budget report. However, this information is now reported through a range of different mechanisms and is also published at all times on the council's website at www.norwich.gov.uk/Environment/EcoIssues/Pages/CarbonFootprintReport.aspx

Integrated impact assessment

NORWICH City Council

The IIA should assess **the impact of the recommendation** being made by the report

Report author to complete	
Committee:	Cabinet
Committee date:	3 February 2016
Head of service:	Justine Hartley, chief finance officer
Report subject:	General Fund Budget and Capital Programme 2016-17
Date assessed:	16 January 2016
Description:	This integrated impact assessment covers the proposed general fund budget, capital programme and council tax for 2016-17

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)		x		The recommendations of the report will secure continuing value for money in the provision of services to council tax payers and other residents of the city
Other departments and services e.g. office facilities, customer contact	x			
ICT services	x			
Economic development	x			
Financial inclusion	x			
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	x			
S17 crime and disorder act 1998	x			
Human Rights Act 1998	x			
Health and well being	x			

Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	x			
Eliminating discrimination and harassment	x			
Advancing equality of opportunity	x			
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	x			
Natural and built environment		x		The proposed capital programme will provide for improvements to the council's assets and the surrounding environment
Waste minimisation and resource use	x			
Pollution	x			
Sustainable procurement	x			
Energy and climate change		x		The proposed capital programme will provide for improvements in thermal and carbon efficiency

(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	☐	☒	☐	The risks underlying the proposed budgets, council tax and capital programme have been assessed and prudent provision made for the financial consequences of those risks both within the budgets and the recommended prudent minimum level of general fund reserves

Recommendations from impact assessment
Positive
None
Negative
None
Neutral
None
Issues
None

APPENDIX 1

Consultation responses on the proposed budget for 2016-17

A total of **250** people took part in the consultation online and around **10** people completed printed forms.

<u>The results</u>

QA1a: Do you have any suggestions about how the council can generate additional income or save money?

Top suggestions

Cut spending on cycle lanes, roads; criticism of transport schemes	18
Sharing services with other councils, more partnership working	10
Raise council tax	10
Hire out parks for concerts, weddings, other events	6
Stop producing *Citizen*	5
Reduce the number of councillors	5
Reduce councillors’ expenses	5
Scrap our fireworks display	4

QB1a: To what extent do you support the council raising its share of council tax by 1.95 per cent in 2016-17 and using that money to protect key services in the future?

Strongly agree	48.75%
Slightly agree	19.17%
Neither agree nor disagree	6.67%
Slightly disagree	1.67%
Strongly disagree	22.50%
Don’t know	1.25%

(240 responses)

So **67.92%** agreed and **24.17%** disagreed.

QC1a: Do you agree the council should continue to increase ‘applicable amounts’ for the CTRS to protect claimants?

Yes	55.61%
No	44.39%

(205 responses)

QC1b: If so, should we increase these ‘applicable amounts’ by any percentage increase in council tax for the year?

Yes	63.74%
No	36.26%

(171 responses)

QC2: Do you agree we should retain this ‘family premium’ in the ‘applicable amounts’ for CTRS for both new and old claimants to protect claimants?

Yes	52.79%
No	47.21%

(197 responses)

QC3: Do you agree we should continue to backdate CTRS for six months to protect claimants?

Yes	46.46%
No	53.54%

(198 responses)

APPENDIX 2

Movements in budget 2016-17 by type

Table A2.1: Adjustments to base budgets

Adjusted Base / Transfers	£000s
Change to the GF contribution to/from reserves (per MTFS)	834
Revenue contribution to capital	210
Increase to contingency	250
Changes to non-central departmental recharge changes	-96
Changes to Central Departmental Support recharges	27
Removal of unrequired credit budget	55
Total Adjusted Base / Transfers	**1,280**

Table A2.2: Growth and Inflation

Growth and Inflation	£000s
Contract/expenditure inflation	346
Staff salary inflation and increments	409
Pension added years inflationary adjustment and deficit inflationary adjustment	215
Living Wage inflation for contracted staff	109
Total Growth and Inflation	**1,079**

Table A2.3: Grant Changes

Grant changes	£000s
Increase in New Homes Bonus	-400
Reduction in Housing Benefit Admin Grant (£131k matched by reduction in expenditure relating to transfer of Fraud Team to DWP).	156
Removal of New Burdens grant for Local Council Tax Support	46
Total Grant Changes	**-198**

Table A2.4: Transformation Savings/Income

Transformation Savings/Income	£000s
Change to Minimum Revenue Provision policy	-769
Review of LGSS approach across all areas	-400
Review of neighbourhood model and approach	-251
Additional income from the replacement of Rose Lane car park with a new multi storey car park	-222
Reduction in ICT development budget	-200

Transformation Savings/Income	**£000s**
Interest income on loan to Housing Development company - Threescore phase 2	-200
Net impact of increased planning activity, efficiency and income	-175
Additional car park income from existing sites	-175
Reduction in repairs expenditure (one-off) (corresponding growth item)	-116
Amendments to the refuse contract - following award of materials recycling contract savings on separate glass collections	-50
Higher income projection from joint ventures	-80
Adjustment to financing budget to reflect current income levels	-80
Capitalised fee income associated with increased capital programme (corresponding growth item)	-75
Review recharging for capital projects: recharge existing staff time in strategic housing and growth and regeneration to programmed capital projects	-70
Increase in cemetery fees	-67
Business process review and implementation of mobile working efficiencies across services	-60
Review of fees and charges for waste and recycling services	-50
Planned completion of memorial testing programme	-49
Review of sports development including the Norman Centre and the Halls	-35
Additional licensing income	-26
Carbon management programme	-25
Full review of fees and charges across the council and creation of central register informed by benchmarking	-24
Review of tourism development and tourist Information centre including on-line selling	-20
Further savings from CNC building control	-20
Review of NP Law spend	-20
Savings on stationery and subscriptions	-20
Redesign of the communications function to meet the needs of the council as we move forward with channel shift	-15
Reduction in learning and development spend in line with reducing organisation	-15
Create single tree function within the council	-15
Improved GF portfolio rental performance	-14
Increase charges for allotments leading to cost recovery over three years	-1
Appendix 5 items	-372
	-3,711

Table A2.5: Transformation Growth

Transformation Growth	£000s
Housing Benefits Public Sector rent rebates	123
Increasing cost of GF asset maintenance	116
Business rates on land at Mile Cross - delay in implementation of saving	106
Growth in democracy costs	103
Loss of rental income due to disposals	86
Increase staffing in Design and Landscape and Highways sections to meet increased cycle ambition and NATS LGF funding	75
Loss of profit share from Norse building	70
Decrease in income due to downturn in recycling markets	63
Additional business rates on Rose Lane car park	46
Increase in costs due to reviews of planning policy documents	45
Increase in General Fund share of debt management expenses	38
Salary adjustment to Neighbourhood Services budgets	36
Airport Industrial Estate	36
Increased capacity for economic development	35
Home Improvement team costs	25
Potential loss of income for Home Improvement services	25
Reduction in miscellaneous Training and Development income	20
Appendix 5 items	100
Total Transformation Growth	**1,148**

Table A2.6: Other Savings/Income

Other Savings/Income	£000s
Transfer of Fraud function to DWP (linked to reduction in Admin Grant)	-131
Additional Income (individually under £10k)	-73
Savings (individually under £10k)	-15
Growth (individually under £10k)	7
Total Other Savings/Income	**-212**

APPENDIX 3

Calculation of prudent minimum balance

Estimate of prudent level of General Fund reserves 2016-17

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Description	Level of risk		Amount at risk	Risk
Employee Costs	*Medium*		17,832,438	35,665
Premises Costs	*Medium*		9,573,451	35,900
Transport Costs	*Medium*		272,578	1,533
Supplies and Services	*Medium*		15,823,698	237,355
Third Party Payments	*Medium*		7,081,183	53,109
Transfer Payments	*Medium*		63,724,021	191,172
Centrally Managed Expenditure	*Medium*		1,121,913	33,657
Receipts	*Medium*		-24,384,384	128,018
Grants and Contributions	*Low*		-69,681,518	104,522
Total One Year Operational Risk				820,933
Allowing three years cover on operational risk				**2,462,798**
Balance Sheet Risks				
Issues arising from Annual Governance Report	*0*	@	100%	0
General and Specific Risks				
Unforeseen events	2,000,000	@	50%	1,000,000
Legal action – counsels' fees	100,000	@	100%	100,000
Council Tax Reduction	700,000	@	10%	70,000
Business Rates retention	500,000	@	100%	500,000
Litigation / claims	700,000	@	20%	140,000
ESTIMATED REQUIRED LEVEL OF GENERAL FUND RESERVES				**4,272,798**

Operational cost risk profiles

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		Low Risk	*Med Risk*	*High Risk*
Employee Costs	overspend	1.00%	2.00%	3.00%
	probability	15.0%	10.0%	5.0%
	amount at risk	26,749	35,665	26,749
Premises Costs	overspend	2.50%	5.00%	7.50%
	probability	10.0%	7.5%	5.0%
	amount at risk	23,934	35,900	35,900
Transport Costs	overspend	5.00%	7.50%	10.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	1,363	1,533	1,363
Supplies and Services	overspend	5.00%	10.00%	15.00%
	probability	20.0%	15.0%	10.0%
	amount at risk	158,237	237,355	237,355
Third Party Payments	overspend	5.00%	10.00%	15.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	35,406	53,109	53,109
Transfer Payments	overspend	1.00%	2.00%	3.00%
	probability	25.0%	15.0%	10.0%
	amount at risk	159,310	191,172	191,172
Centrally Managed Expenditure	overspend	10.00%	20.00%	30.00%
	probability	20.0%	15.0%	10.0%
	amount at risk	22,438	33,657	33,657
Receipts	shortfall	2.00%	3.50%	5.00%
	probability	25.0%	15.0%	10.0%
	amount at risk	121,922	128,018	121,922
Grants and Contributions	shortfall	1.00%	1.50%	2.00%
	probability	15.0%	10.0%	5.0%
	amount at risk	104,522	104,522	69,682

Report to	Cabinet	**Item**
	3 February 2016	6
Report of	Chief finance officer	
Subject	Housing Rents and Budgets 2016-17	

Purpose

To consider the Housing Revenue Account budget for 2016/17, council housing rents for 2016/17, the prudent minimum level of HRA reserves 2016/17, and housing capital programme 2016/17 to 2021/22.

Recommendation

1) To recommend to council, for the 2016/17 financial year, to:

   a) implement the minimum 1% rent reduction in accordance with legislation that is anticipated to be approved as part of the Welfare Reform and Work Bill 2015/16. In the event that the legislation is not passed, to approve that rent levels remain unchanged until alternative options are presented to cabinet and council (para 6.8).

   b) approve the proposed Housing Revenue Account budgets (para 3.1).

   c) approve the prudent minimum level of housing reserves (para 7.6).

   d) approve the proposed housing capital programme 2016/17 to 2020/21 (para 9.1).

   e) approve that garage rents remain unchanged (para 6.13)

2) To note that service charges will be determined under delegated powers in compliance with the constitution (para 6.14).

Corporate and service priorities

The report helps to meet the corporate priorities "Decent housing for all" and "Value For Money services".

Financial implications

These are set out in the body of the report

Ward/s: All wards

Cabinet members: Councillor Harris **-** Deputy leader and housing and wellbeing
Councillor Stonard – Resources and income generation

Contact officers:	Justine Hartley, chief finance officer	01603 212440
	Shaun Flaxman, group accountant	01603 212805

Background documents

None

Report

1. Contents of report

1.1 The contents of this report are set out as follows:

2. Budgetary context

2.1 The Housing Revenue Account (HRA) is a ring fenced account that the authority must maintain in relation to its council housing stock. The HRA must fund all expenditure associated with the management and maintenance of the housing stock. The HRA is a complex account, the format of which is prescribed by government.

2.2 The HRA moved from a position of being heavily influenced by central government, through the Housing Subsidy system, to a position under Self-Financing where the council had considerably greater discretion over the use of HRA resources. Rent and other income under Self-Financing, remain within the council's HRA rather than being subsumed into a national pool. The level of government influence on the HRA has increased again recently with announcements in the summer budget 2015 about reductions in social rent levels, and with the introduction of measures included within the Housing and Planning Bill 2015.

2.3 The proposed budgets have been drawn up within the framework of the Corporate Plan, corporate Medium Term Financial Strategy (MTFS), the Neighbourhood & Strategic Housing Services' Service Plans, the HRA Business Plan, the Housing Asset Management Plan, and the Housing Investment Strategy.

3. HRA Budget 2015/16 into 2016/17

3.1 The following table shows the proposed budget in summarised statutory form assuming a rent reduction in line with provisions in the Welfare Reform and Work Bill 2015/16 (see para 6.8).

Statutory Division of Service	Original Budget 2015/16 £000s	Draft Budget 2016/17 £000s	Change £000s
Repairs & Maintenance	16,323	15,499	(824)
Rents, Rates, & Other Property Costs	6,183	5,937	(246)
General Management	11,028	11,393	365
Special Services	4,997	5,069	72
Depreciation & Impairment	21,925	22,140	215
Provision for Bad Debts	584	334	-250
Gross HRA Expenditure	**61,040**	**60,372**	**(668)**
Dwelling Rents	(60,144)	(58,973)	1,171
Garage & Other Property Rents	(1,980)	(2,224)	-244
Service Charges – General	(9,145)	(8,343)	802
Adjustments & Financing Items (including revenue contribution to capital)	24,872	26,248	1,376
Miscellaneous Income	0	(75)	-75
Amenities shared by whole community	(560)	(549)	11
Interest Received	(150)	(175)	(25)
Gross HRA Income	**(47,107)**	**(44,091)**	**3,016**
Total Housing Revenue Account	**13,933**	**16,281**	**2,347**

3.2 The £2.347m movement from £13.933m to £16.281m use of reserves can be analysed by type of movement and statutory division of service as follows:

Item	General Mgt	Rents & Service Charges	Repairs & Maintenance	Special Services	Other HRA	Total HRA
Adj to Base/Transfers	223	0	30	(134)	989	1,109
Inflation	193	0	0	31	8	233
Growth	152	170	0	101	751	1,174
Income Reduction	0	920	0	0	0	920
Savings	(119)	(216)	(510)	(56)	(42)	(943)
Income Increase	(11)	(34)	0	0	(100)	(145)
Transfers	(61)	637	(90)	41	(526)	0
Draft Budget 2016/17	**377**	**1,479**	**(570)**	**(17)**	**1,080**	**2,347**

Details of budget movements by type are shown in Appendix 1.

4. HRA balances

4.1 The proposed budgets will impact on the HRA Balance as follows:

Item	£000s
Brought Forward from 2014/15	(20,120)
Budgeted use of balances 2015/16	13,933
Forecast use of balances 2015/16	(2,476)
Carried Forward to 2016/17	**(22,596)**
Draft Budget 2016/17	16,281
Carried Forward to 2017/18	**(6,315)**

4.2 A forecast slight increase in the HRA reserve balance in 2015/16, will provide a substantial resource that is planned to be utilised to fund capital expenditure in 2016/17. This will bring resources down closer to the recommended minimum balance and reduce the requirement to borrow, which incurs greater costs.

5. Background to financial planning for the HRA

5.1 Financial planning for the HRA is based upon the 30-year Business Plan (BP). In February 2015, members approved an average rent increase of 2.2% for 2015/16, which at the time, combined with the approved housing capital plan, indicated that it would be possible to repay HRA borrowing by year 22 of the 30 year HRA business plan.

6. Council housing rents

Rent policy context

6.1 In December 2002 the executive agreed to introduce the government's Rent Restructuring from April 2003. Under this system a target rent for each property is calculated. Rents for individual properties are set to collect the general increase, and move rent levels towards the target rents. The government initially intended that council and registered social landlord rents - for properties of similar sizes and locations - would converge by April 2011 and then extended to April 2017. This meant that the amount of increase in rent could vary for properties depending on how near they were to the target rent as calculated by the Rent Restructuring Formula.

6.2 From 2012-13, the housing subsidy system was abolished and councils are now self-financing. The proceeds of rent increases now remain with the council instead of being negated by housing subsidy payments.

6.3 Under the previous subsidy system, the council was able to finance the Decent Homes Standard, but was unable to maintain service and investment standards in the medium and long term. The introduction of self financing improved this position, enabling a higher level of investment, which has informed the subsequent capital programmes.

6.4 More significantly for council landlords, the self-financing regime relies on councils raising sufficient money through rents to fund their liabilities and investment needs, assessed through their HRA Business Plans.

6.5 For 2014-15, the combination of September 2013 inflation at 3.2% and the movement towards converging rents 2016/17 meant that following rent restructuring formula would have generated an average rent increase of 5.57% for Norwich tenants. However, having considered the financial implications, this council determined that an increase of 1.5% should be applied to all rents, with no additional movement towards convergence with target rents.

6.6 For 2015/16, the government's rent policy changed to state that rent should be increased by Consumer Price Index (CPI) as of September the preceding year, plus 1% and that rent would no longer converge with target rents. This equated to a rent increase of 2.2% for Norwich tenants.

6.7 The level of rent tenants pay has historically been a decision for the council, but it was the expectation of ministers and assumption of the HRA business plan that authorities would follow the guidelines.

2016/17 rent adjustment

6.8 In July 2015 following the initial summer budget by the new government, it was announced that councils with retained housing stock and other social rented housing provided by registered providers (RPs) would be subjected to a mandatory minimum 1% reduction in rent. This is anticipated to last for four years from April 2016 to the end of March 2020. The reduction is set out in the Welfare Reform and Work Bill 2015/16 which is currently in passage through parliament. This budget has been built on the assumption that the bill will be passed and therefore a 1% rent reduction is recommended for approval. In the event that the legislation is not passed, it is proposed that the rent levels remain unchanged and further options will be brought to cabinet and council including input from consultation with tenants.

6.9 For Norwich tenants, a 1% reduction in rent generates an average weekly rent of £78.44 which equates to a reduction of £0.79.

6.10 The 1% rent reduction for four years has a negative impact on the HRA Business Plan and would require HRA borrowing to significantly exceed the borrowing cap. It would not be possible to repay the borrowing and the debt would increase to £318m by the end of the 30 year life of the plan.

6.11 In order to mitigate the negative impact of the anticipated statutory 1% rent reduction, it has been necessary to make changes to future proposed capital programmes to ensure that HRA borrowing continues to remain within allowable borrowing limits. As a consequence, the total planned capital spend over the 30 year life of the plan has been reduced by an average of £7.4m per annum.

6.12 This council has invested significantly in improving its housing stock over recent years to its own 'Norwich standard'. That programme is now nearing completion which will result in reduced spend going forward. In order to meet the required spend reductions, whilst maintaining the 'Norwich standard', scheduled work has also been realigned to the full extent of current expected lifecycles for kitchens, bathrooms, roofs etc., and the level of neighbourhood enhancements has been reduced. In addition, significant reductions in cost have been secured as a result of recent contract retendering.

6.13 It is proposed that garage rents again remain unchanged from current levels in order to maintain affordability and encourage new tenants thereby reducing the number of void garages.

6.14 In accordance with the constitution, levels of tenants' service charges will be determined by officers under delegated powers, in consultation with the portfolio holder and after engagement with tenant representatives.

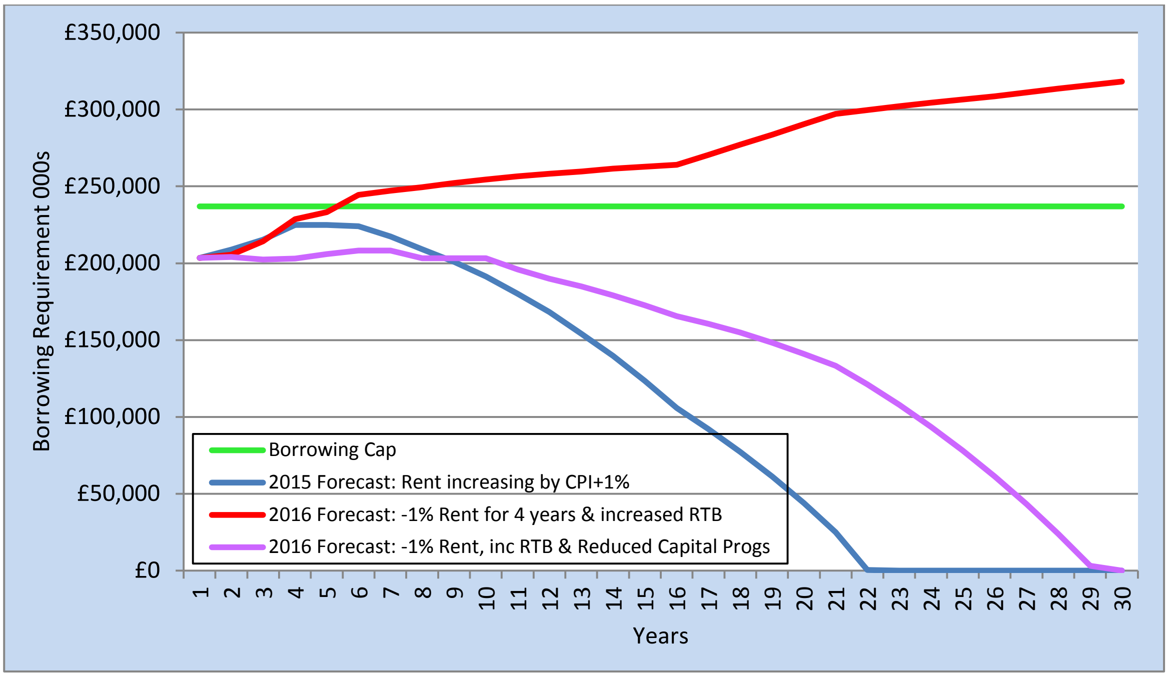
Housing and Planning Bill 2015/16

6.15 During 2015 the government introduced their Housing and Planning Bill which included the following two elements that could potentially have significant financial impact on the HRA Business Plan:

- Pay to Stay requirements which mean that social housing tenants (households) earning over £30,000 per annum will have to pay at or near market rents
- Extension of Right to Buy legislation to Registered Providers, with financial losses resulting from discount to be recovered from the funds generated by the sale of high value void council dwellings.

6.16 It is anticipated that as a result of increased rents, the Pay to Stay requirements will generate an increased level of Right to Buy sales following its implementation in 2017. As any additional rental income raised will not be retained by the council but returned to the government and the loss of housing stock will reduce future rental income, this has a negative impact on the HRA Business Plan. A forecast increase in Right to Buy sales has therefore been included within the modelling shown below.

6.17 The chart below illustrates the impact of the 1% rent reduction and the anticipated higher Right to Buy sales on the updated HRA Business Plan and HRA borrowing requirement. This is shown against the previously anticipated position and an updated forecast incorporating revised future proposed capital programmes.



6.18 In addition, in order to compensate Registered Providers for financial losses incurred as a result of the extended Right to Buy legislation, the Housing and Planning Bill makes provision for a determination to be imposed on Housing Revenue Accounts based on the value of their stock, in lieu of being forced to sell high value void dwellings. Although the formula upon which the determination will be based is as yet unknown, it has been indicated that the sum may represent an additional significant annual capital cost.

6.19 In order to mitigate the impact of a determination and maintain HRA borrowing below the cap with full repayment within 30 years, a number of options exist:

- Further reduction to housing capital investment programme
- Sale of void council dwellings
- Review of HRA expenditure to explore possible future reductions

6.20 As the formula upon which the determination will be calculated is not as yet known, it is not possible to estimate the cost to the council or to draw up any detailed plans to address this. However, for illustrative purposes only, the table below details the level of determination that could be funded from varying levels of annual void sales.

No of sales of void dwellings per annum	Determination that could be funded
15	Could fund a determination of £0.7m per annum for 4 years, reducing to £0.44m for 2 years and £0.25m per annum thereafter
30	Could fund a determination of £2.75m per annum for 4 years, reducing to £1.75m for 2 years and £1m per annum thereafter
50	Could fund a determination of £5.5m per annum for 4 years, reducing to £3.5m for 2 years and £2m per annum thereafter

6.21 Once the exact value of the determination is known, a further report will be provided illustrating the impact on the HRA Business Plan along with detailed options for mitigation.

7. Report by the chief financial officer on the robustness of estimates, reserves and balances

7.1 Section 25 of the Local Government Act 2003 requires that the chief finance officer of the authority reports to members on the robustness of the budget estimates and the adequacy of council's reserves.

7.2 The chief finance officer is required to provide professional advice to the council on the two above matters and is expected to address issues of risk and uncertainty.

Estimates

7.3 As with all future estimates there is a level of uncertainty and this has been taken into account when building the Business Plan and assessing the levels of reserves. In particular, the proposals in the Housing and Planning Bill 2015 are causing significant uncertainty for the setting of the 2016/17 budget. Until the level of the anticipated high value voids determination is known detailed actions to address it cannot be built into the HRA business plan. At this stage therefore, this plan accommodates the 1% rent reduction announced in the summer budget and is also anticipated to accommodate the impact of increased Right to Buy sales from the proposed Pay to Stay policy. The prudent minimum balance for reserves has been increased by £2.75m for 2016/17 because of uncertainties around the anticipated high value voids determination, but no further allowance for the determination has been made because at this stage we have no indication of the level that the determination might be. The government's expectation is that the council will sell properties which become empty to fund the determination.

7.4 Further work will be done to accommodate the determination once the level is known.

7.5 Allowing for the above comment on uncertainty and the need to adapt the plan once the value of the high value determination is known, it is the opinion of the chief finance officer that in the budgetary process all reasonable steps have been taken to ensure the robustness of the budget.

Reserves

7.6 A risk assessment has been undertaken to determine the level of general reserves required by the council, which has been set at £5.968m as set out in Appendix 2.

7.7 In making a recommendation for the level of reserves the chief finance officer has followed guidance in the CIPFA LAAP Bulletin 77 – Guidance notes on Local Authorities Reserves and Balances.

7.8 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

7.9 Earmarked reserves remain legally part of the general fund although they are accounted for separately.

7.10 There are also a range of safeguards in place that help to prevent local authorities over-committing themselves financially. These include:

a) the balanced budget requirement (England, Scotland and Wales) (sections 32, 43 and 93 of the Local Government Finance Act 1992)
b) Chief finance officers' duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003 when the authority is considering its budget requirement (England and Wales)
c) the requirements of the Prudential Code
d) auditors will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.

7.11 Whilst it is primarily the responsibility of the local authority and its chief finance officer to maintain a sound financial position, external auditors will, as part of their wider responsibilities, consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based. However, it is not the responsibility of auditors to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

Role of the chief finance officer

7.12 Within the existing statutory and regulatory framework, it is the responsibility of the chief finance officer to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose. The risk analysis attached as Appendix 2 shows that an adequate level of HRA reserves for the Council will be in the order of £5.968m.

8. Housing capital resources 2016/17-2020/21

8.1 The abolition of the HRA subsidy system from 1 April 2012 and the inception of 'self-financing' for council housing allowed the council, in consultation with its tenants, to develop plans for increased investment in maintaining and improving council housing in Norwich.

8.2 The additional resources made available by retaining rent income within the city, rather than passing surpluses to the government, enabled the council to adopt the Norwich Standard for maintenance and improvements of tenants' homes rather than the basic Decent Homes Standard and to adopt a Housing Investment Strategy (as considered by cabinet on 14 November 2012) to deliver new council housing, reconfiguration of sheltered housing, estate renewal, renewable energy solutions, and support to private sector housing in the city.

8.3 The anticipated 1% minimum rent reduction for social housing announced in the summer budget has led to significantly reduced resources for capital being anticipated over the life of the business plan. The following table indicates the anticipated levels of resources available to the Housing Capital Programme in future years.

Housing Capital Resources	**2016/17 £000s**	**2017/18 £000s**	**2018/19 £000s**	**2019/20 £000s**	**2020/21 £000s**
Forecast resources brought forward	0	0	0	0	0
Capital grants	(568)	(408)	(408)	(408)	(408)
Major Repairs Reserve - depreciation charges	(2,423)	(6,060)	(10,915)	(12,780)	(12,648)
HRA borrowing from headroom under debt cap	(9,110)	(2,139)	0	0	0
Revenue Contribution to Capital	(26,104)	(10,788)	(6,572)	(4,843)	(4,523)
Contributions to costs	(275)	(275)	(275)	(275)	(275)
Capital receipts - properties uneconomic to repair	(1,225)	(1,225)	(1,225)	(1,225)	(1,225)
Capital receipts arising from RTB (25%)	(2,876)	(3,452)	(3,452)	(3,164)	(2,876)
Retained "one for one" RTB Receipts	(4,759)	(3,346)	(382)	(746)	0
Gross forecast resources	**(47,339)**	**(27,693)**	**(23,230)**	**(23,441)**	**(21,955)**
Forecast resources utilised	47,339	27,693	23,230	23,441	21,955
Forecast resources carried forward	**0**	**0**	**0**	**0**	**0**

8.4 The level of RTB receipts included in the proposed capital plan anticipates a further increase in RTB sales because of the government's increased incentives and the impact of the Housing and Planning Bill's 'Pay to Stay' requirements. The additional 'one for one' resources consequently forecast in the capital plan are anticipated to be applied to support the provision of new social housing.

8.5 Proposed housing capital expenditure includes continuing to maintain the structural integrity of tenants' homes, delivering the Norwich Standard of maintenance and improvement, and investment in accordance with the objectives set out in the Housing Investment Strategy.

8.6 All planned capital costs and resources are incorporated into the HRA Business Plan projections.

8.7 All risks relating to the resourcing and delivery of the capital plan are identified and managed in accordance with the council's *Risk management strategy*.

9. Recommended housing capital programme 2016/17 – 2020/21

9.1 The following table details the proposed *Housing capital programme* for approval:

Scheme	2016/17 £000s	2017/18 £000s	2018/19 £000s	2019/20 £000s	2020/21 £000s
Proposed carry-forward from 2015/16	554				
Home Upgrades	12,415	5,835	5,835	5,835	5,835
Heating Upgrades	3,506	2,600	3,900	2,900	3,900
Window & Door Upgrades	2,090	655	555	555	555
Insulation	1,250	400	400	400	400
Community Safety & Environment	450	275	275	275	275
Sheltered Housing Regeneration	450	225	225	225	225
Preventative Maintenance	10,074	8,025	8,025	8,025	8,025
Supported Independent Living	880	500	500	500	500
Site Formation	50	50	50	50	50
Fees	715	715	715	715	715
Neighbourhood Housing	**32,434**	**19,280**	**20,480**	**19,480**	**20,480**
Proposed carry-forward from 2015/16	7,527				
New Build Social Housing	4,144	5,138	1,275	2,486	0
RTB Buyback Programme	500	500	500	500	500
Sheltered Housing Regeneration	150	0	0	0	0
Housing Investment	**12,321**	**5,638**	**1,775**	**2,986**	**500**
Proposed carry-forward from 2015/16	185				
Capital Grants to Housing Associations	1,200	1,800	0	0	0
Home Improvement Agency Works	1,200	975	975	975	975
Strategic Housing	**2,585**	**2,775**	**975**	**975**	**975**
Total Housing Capital Programme	**47,339**	**27,693**	**23,230**	**23,441**	**21,955**

9.2 The outcomes that will be supported by the planned expenditure on the council's own stock compared to previous years, will be as follows:

Housing Capital Programme	2013/14 Outcomes	2014/15 Outcomes	2015/16 Outcomes	2016/17 Planned	*Change 2015/16 to 2016/17*
New kitchens	1,531	1,557	1,575	1,144	-431
New bathrooms	655	1,049	1,049	1,559	510
Heating systems/boilers	>1,000	999	984	617	-367
New composite doors	1,309	4,015	2,622	3,436	814
New PVCu windows	1,320	34	68	9	-59
Whole house improvements	20	20	18	20	2

9.3 These outcomes reflect the end of the windows programme, and the continued focus on the replacement doors programme.

9.4 In addition, future capital programmes anticipate the building of 162 new council homes over the next 5 years.

9.5 The capital programme proposed above will be supplemented by resources and commitments brought forward from the 2015-16 capital programme.

Integrated impact assessment

NORWICH City Council

The IIA should assess **the impact of the recommendation** being made by the report

Report author to complete	
Committee:	Cabinet
Committee date:	3 February 2016
Head of service:	Justine Hartley, chief finance officer
Report subject:	Housing Budgets and Rents 2016-17
Date assessed:	
Description:	This integrated impact assessment covers the proposed housing budgets and council housing rents for 2016-17.

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	☒	☐	The recommendations of the report will secure continuing value for money in the provision of works and services to council tenants
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	
ICT services	☒	☐	☐	
Economic development	☒	☐	☐	
Financial inclusion	☒	☐	☐	
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☒	☐	☐	
S17 crime and disorder act 1998	☒	☐	☐	
Human Rights Act 1998	☒	☐	☐	
Health and well being	☒	☐	☐	

	Impact			
Equality and diversity (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	☒	☐	☐	
Eliminating discrimination & harassment	☒	☐	☐	
Advancing equality of opportunity	☒	☐	☐	
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	☒	☐	☐	
Natural and built environment	☐	☒	☐	The proposed housing capital programme will provide for the Norwich Standard for properties to be maintained
Waste minimisation & resource use	☒	☐	☐	
Pollution	☒	☐	☐	
Sustainable procurement	☒	☐	☐	
Energy and climate change	☐	☒	☐	The proposed housing capital programme will provide for the Norwich Standard for properties to be maintained which includes improvements in thermal and carbon efficiency

(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	☐	☒	☐	The risks underlying the budgets, rent increase, and capital plan and programme have been assessed and prudent provision made for the financial consequences of those risks both within the budgets and the recommended prudent minimum level of HRA reserves

Recommendations from impact assessment
Positive
None
Negative
None
Neutral
None
Issues
None

Draft Housing Revenue Account budgets 2015/16

Budget movements by type

Adjustment to Base / Transfers	£000s
Reduction in corporate recharges	(19)
Other recharge changes	151
Removal of unrequired budgets	108
Revenue Contribution to Capital	869
Adjustment to Base / Transfers	**1,109**

Inflation/Pensions Growth	£000s
Contract/expenditure inflation	(19)
Staff salary inflation and increments	148
Pension added years and pension deficit inflationary adjustments	104
Total Inflation/Pensions Growth	**233**

Growth	£000s
Increase in estimated depreciation costs	767
Removal of remainder of 2015/16 savings budget not covered by staff restructuring	90
Increase in capital contribution relating to leasehold income	28
Reduction in service charge income based on anticipated charges and void levels	137
Increase in number of right to buy valuations	24
Additional recharges from the GF to HRA as a result of Neighbourhood Model Review	98
Increase in parking permit requirement due to relocation of NHOs	30
Total inflation and Growth	**1,174**

Income Reduction	£000s
Reduction in rents	920
Income Reduction	**920**

Savings	**£000s**
Deletion of sheltered housing project manager post	(45)
Furniture & fittings budget not required for 2016/17 as no further sites to be developed	(30)
Reduction in general estate tidiness budget	(250)
Reduction in balcony repairs budget	(50)
Reduction in external wall insulation budget	(150)
Closed area offices	(40)
Reduction in 'garage repairs' budget	(50)
Savings (individually under £10k)	(74)
Reduction in HRA share of debt management expenses	(38)
Reduction in garage voids	(216)
Total Savings	**(943)**

Income Increase	**£000s**
Recovered court costs - previously unbudgeted	(75)
Increase in interest	(25)
Annual recalculation of garage income figures	(25)
Additional Income (individually under £10k)	(20)
Income Increase	**(145)**

APPENDIX 2

Housing Revenue Account – Prudent Minimum Balance

Estimate of prudent level of HRA reserves 2016/17

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Description	Level of risk	Amount at risk	Risk
Employee Costs	*High*	6,378,712	31,894
Supplies and Services	*High*	2,373,314	5,933
Premises Costs	*High*	7,828,784	19,572
Transport Costs	*High*	172,538	431
Contracted Services	*Medium*	15,525,472	116,441
Fees and Charges	*Medium*	1,902,765	28,541
Investment Income	*Medium*	175,000	5,250
Rents & Service Charges	*Low*	68,520,778	171,302
Financing Items	*Medium*	36,673,927	110,022
Total One Year Operational Risk			489,386
Allowing three years cover on operational risk			**1,468,159**
Balance Sheet risk			
Issues arising from Welfare reform			**750,000**
Set aside for high value voids determination (for 2016/17 only)			**2,750,000**
General Risk			
Unforeseen events			**1,000,000**
ESTIMATED REQUIRED LEVEL OF HRA RESERVES			**5,968,159**

Operational cost risk profiles

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		Low Risk	*Med Risk*	*High Risk*
Employee Costs	overspend	1.00%	2.50%	5.00%
	probability	25.0%	15.0%	10.0%
	amount at risk	15,947	23,920	31,894
Supplies and Services	overspend	1.00%	2.50%	5.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	2,373	4,450	5,933
Premises Costs	overspend	1.00%	2.50%	5.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	7,829	14,679	19,572
Transport Costs	overspend	1.00%	2.50%	5.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	173	324	431
Contracted Services	overspend	5.00%	10.00%	15.00%
	probability	10.0%	7.5%	5.0%
	amount at risk	77,627	116,441	116,441
Fees and Charges	overspend	5.00%	10.00%	15.00%
	probability	25.0%	15.0%	10.0%
	amount at risk	23785	28541	28541
Investment Income	shortfall	10.00%	20.00%	30.00%
	probability	20.0%	15.0%	10.0%
	amount at risk	3,500	5,250	5,250
Rents & Service Charges	shortfall	1.00%	1.50%	2.00%
	probability	25.0%	15.0%	5.0%
	amount at risk	171,302	154,172	68,521
Financing Items	overspend	1.00%	2.00%	3.00%
	probability	15.0%	10.0%	5.0%
	amount at risk	55,011	110,022	55,011

Report to	Cabinet	**Item**
	3 February 2016	7
Report of	Chief finance officer	
Subject	Treasury management strategy 2016-17	

Purpose

To outline the council's prudential indicators for 2016-17 through to 2018-19 and set out the expected treasury operations for this period. It fulfils three key reports required by the Local Government Act 2003:

- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The Minimum Revenue Provision (MRP) Policy, as required by Regulation under the Local Government and Public Involvement in Health Act 2007 (Appendix A); and
- The treasury strategy in accordance with the CIPFA Code of Practice on Treasury Management.

The investment strategy is in accordance with the Department of Communities and Local Government investment guidance

Recommendation

To approve each of the key elements of this report and report these to council.

1. The Capital Prudential Indicators and Limits for 2016-17 through to 2018-19 contained within paragraphs 10 - 15 of this report
2. The Borrowing Strategy 2016-17 through to 2018-19 (paragraphs 21 – 25)
3. The Treasury Prudential Indicators (paragraphs 26 - 29), including the Authorised Limit (paragraph 27)
4. The Minimum Revenue Provision (MRP) policy statement contained in paragraph 16
5. The Investment Strategy 2016-17 (paragraphs 30 – 55) and the detailed criteria included in Appendix 3

Corporate and service priorities

The report helps to meet the corporate priority "value for money services"

Financial implications

The report has no direct financial consequences however it does set the guidelines for how the council manages its borrowing and investment resources

Ward/s: all wards

Cabinet member: Councillor Stonard – resources and income generation

Contact officers

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Background documents

None

Introduction

1. The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

2. The second main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer term cash flow planning to ensure that the council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet council risk or cost objectives.

3. CIPFA defines treasury management as:

   "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

4. The council initially adopted the CIPFA Code of Practice on 2 April 2002 and has, through the annual strategy, adopted any subsequent changes or revisions. The adoption of the Code of Practice and the requirement to follow the Code is a requirement under statutory instrument.

The treasury management policy statement

5. The council defines its treasury management activities as:
   The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

6. The council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

7. The council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Reporting requirements

8. The cabinet is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals. Cabinet is required tio report these to council.

A treasury management strategy statement, including prudential and treasury indicators (this report) **-** The first, and most important report covers:

- capital plans, including prudential indicators;
- the treasury management strategy, including treasury indicators; and
- the Minimum Revenue Provision (MRP) policy, describing how residual capital expenditure is charged to revenue over time;
- the investment strategy.

A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

An annual treasury management report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

9. The **treasury management strategy statement** 2016-17 covers the following areas:

Capital
- capital plans and prudential indicators
- minimum revenue provision (MRP) strategy

Borrowing
- current treasury management position
- prospects for interest rates
- borrowing strategy, including the policy on borrowing in advance of need and debt rescheduling
- treasury indicators: limits to borrowing activity and affordability, designed to limit the treasury risk to the council

Investments
- annual investment strategy
- creditworthiness policy

Other
- training
- policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

Capital

Capital plans and prudential indicators

10. The council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

11. **Capital expenditure:** This prudential indicator is a summary of the council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Capital Expenditure	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
£000	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
Non-HRA	7,197	20,778	35,164	18,940	10,062	3,517
HRA	30,515	39,381	47,340	27,693	23,230	23,441
Total Expenditure	**37,712**	**60,159**	**82,504**	**46,633**	**33,292**	**26,958**

The financing need in the table above excludes other long term liabilities such as leasing arrangements which already include borrowing instruments.

Capital expenditure for 2016-17 differs from the proposed capital programme as the figures in the table above include non-housing capital expenditure of £5.195m that is expected to be carried forward at the end of 2015-16 which has already been approved and is therefore not included in the capital programme to be approved.

12. The table below shows how capital expenditure plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing need.

Capital Funding	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
£000	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
Financed by:						
Capital receipts	4,342	19,571	11,682	9,323	5,574	5,600
Capital grants	3,777	7,299	8,812	8,173	3,586	3,735
Capital reserves	12,653	12,118	2,423	6,060	10,915	12,780
Revenue	18,049	9,400	26,104	10,788	6,572	4,843
HRA Non- dwelling depreciation	414	751	775	789	807	826
Total Resources	**39,235**	**48,388**	**49,021**	**34,344**	**26,647**	**26,958**
Net financing need for the year	**(1,523)**	**11,771**	**33,483**	**12,289**	**6,645**	**-**

13. **The council's borrowing need (the Capital Financing Requirement):** The second prudential indicator is the council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the council's

underlying borrowing need. Any capital expenditure which has not immediately been paid for will increase the CFR.

14. The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

15. The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the council's borrowing requirement, these types of scheme include a borrowing facility and so the council is not required to separately borrow for these schemes. The council currently has £1.19m of such schemes within the CFR.

The council is asked to approve the CFR projections below:

Capital Financing Requirement	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
£000	**Actual**	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
CFR Non-HRA	27,217	38,746	62,869	72,761	79,139	78,865
CFR HRA	207,286	207,286	216,396	218,535	218,536	218,536
Total CFR	**234,503**	**246,031**	**279,265**	**291,296**	**297,675**	**297,401**
Movement in CFR	(2,600)	11,529	33,233	12,031	6,379	(274)
Movement in CFR is represented by						
Net financing need for the year (above)	(1,523)	11,771	33,483	12,289	6,645	-
Less MRP/VRP and other financing movements	(1,077)	(242)	(250)	(258)	(266)	(274)
Movement in CFR	(2,600)	11,529	33,233	12,031	6,379	(274)

The CFR is increasing due to:

a. presumed borrowing for building properties within the general fund, it makes no assumptions about selling any of the properties built or any usage of the development company for the building of the properties, other than those agreed in the company's business plan;

b. the HRA debt is increasing due the government's policy adjustment on housing rent levels against those in place during the Council's HRA subsidy buy out in 2012. The anticipated lowering of future rent by 1% each year over the next 4 years (2016-17 to 2019-20) has a material adverse impact on the future revenues of the HRA which significantly increases the need for borrowing in order to undertake capital expenditure on existing works and new build.

Part of the CFR movement on 2018-19 relates to the repayment of the LAMS indemnity funding of £1m.

Minimum Revenue Provision (MRP) policy statement

16. The council is required to pay off an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision - VRP).

CLG regulations have been issued which require the full council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The council is recommended to approve the following MRP Statement:

- The general repayment policy for prudential borrowing is to repay borrowing within the expected life of the asset being financed, up to a maximum of 50 years. This is in accordance with the 'asset life' method in the guidance. The repayment profile will follow an annuity repayment method, which is one of the options set out in the guidance. This means that MRP will be calculated on an annuity basis (like many domestic mortgages) over the estimated life of the asset.

  This is subject to the following details:

  - An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g. plant, roof etc). Asset life will be determined by the chief finance officer. A standard schedule of asset lives will generally be used, but where borrowing on a project exceeds £10m, advice from appropriate advisers may also be taken into account.
  - MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets where over £1m financed from borrowing is planned, where MRP will be deferred until the year after the asset becomes operational.
  - Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the chief finance officer.

- There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

- Repayments included in annual finance leases are applied as MRP.

For authorities, like Norwich, which participate in LAMS using the cash backed option, the mortgage lenders require a 5 year cash advance from the local authority to match the 5 year life of the indemnity. The cash advance placed with the mortgage lender provides an integral part of the mortgage lending, and should therefore be treated as capital expenditure and a loan to a third party. The Capital Financing Requirement (CFR) will increase by the amount of the total indemnity. The cash advance is due to be returned in full at maturity, with interest paid annually. Once the cash advance matures and funds are returned to the local authority, the returned funds are classed as a capital receipt, and the CFR will reduce accordingly. As this is a temporary (5 year) arrangement and the funds will be returned in full, there is no need to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position should be reviewed on an annual basis.

Borrowing

Current treasury management position

17. The treasury management function ensures that the council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to

meet service activity, including capital expenditure plans. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

18. The council's treasury debt portfolio position at 31 March 2015, with forward projections, is summarised below. The table shows the actual external debt (treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£000	**2014/15 Actual**	**2015/16 Forecast**	**2016/17 Estimate**	**2017/18 Estimate**	**2018/19 Estimate**	**2019/20 Estimate**
External Debt						
Debt at 1 April	223,917	223,917	218,857	253,107	266,107	274,107
Expected change in debt	-	(5,060)	34,250	13,000	8,000	-
Other Long Term Liabilities (OLTL)	1,928	1,847	1,762	1,672	1,576	1,474
Expected change in (OLTL)	(80)	(85)	(90)	(96)	(101)	(107)
Debt at 31 March	**225,764**	**220,619**	**254,779**	**267,683**	**275,581**	**275,474**
Capital Financing Requirement (CFR)	**234,503**	**246,031**	**279,265**	**291,296**	**297,675**	**297,401**
Under/(over) borrowing	**8,739**	**25,413**	**24,486**	**23,613**	**22,094**	**21,927**

The debt is increasing due to:

a. presumed borrowing for building properties within the general fund, it makes no assumptions about selling any of the properties built or any usage of the development company for the building of the properties, other than those agreed in the company's business plan;

b. the HRA debt is increasing due the government's policy adjustment on housing rent levels against those in place during the council's HRA subsidy buy out in 2012. The lowering of future rent by 1% each year over the next 4 years (2016-17 to 2019-20) has a material adverse impact on the future revenues of the HRA which significantly increases the need for borrowing in order to undertake capital expenditure on existing works and new build.

19. Within the prudential indicators there are a number of key indicators to ensure that the council operates its activities within well defined limits. One of these is that the council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2016-17 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The chief finance officer reports that the council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Prospects for interest rates

20. The council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the council to formulate a view on interest rates. The following table gives the Capita Asset Services central view.

Annual Average %	Bank	PWLB Borrowing Rates		
		5 yr	25 yr	50 yr
Dec-15	0.50%	2.30%	3.60%	3.50%
Mar-16	0.50%	2.40%	3.70%	3.60%
Jun-16	0.75%	2.60%	3.80%	3.70%
Sep-16	0.75%	2.70%	3.90%	3.80%
Dec-16	1.00%	2.80%	4.00%	3.90%
Mar-17	1.00%	2.80%	4.10%	4.00%
Jun-17	1.25%	2.90%	4.10%	4.00%
Sep-17	1.50%	3.00%	4.20%	4.10%
Dec-17	1.50%	3.20%	4.30%	4.10%
Mar-18	1.75%	3.30%	4.30%	4.20%
Jun-18	1.75%	3.40%	4.40%	4.20%
Sep-18	2.00%	3.50%	4.40%	4.30%
Dec-18	2.00%	3.50%	4.40%	4.30%
Mar-19	2.00%	3.60%	4.50%	4.40%

Further detailed interest rate forecasts are given in Appendix 1.

UK. UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again, probably being second to the US. However, quarter 1 of 2015 was weak at +0.4% (+2.9% y-y) though there was a rebound in quarter 2 to +0.7% (+2.4% y-y) before weakening again to +0.5% (2.3% y-y) in quarter 3. The November Bank of England Inflation Report included a forecast for growth to remain around 2.5 – 2.7% over the next three years, driven mainly by strong consumer demand as the squeeze on the disposable incomes of consumers has been reversed by a recovery in wage inflation at the same time that CPI inflation has fallen to, or near to, zero since February 2015. Investment expenditure is also expected to support growth. However, since the August Inflation report was issued, most worldwide economic statistics have been weak and the November Inflation Report flagged up particular concerns for the potential impact on the UK.

The Inflation Report was also notably subdued in respect of the forecasts for inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon was the biggest since February 2013. However, the first round of falls in oil, gas and food prices over late 2014 and also in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 - early 2016 but a second, more recent round of falls in fuel prices will now delay a significant tick up in inflation from around zero: this is now expected to get back to around 1% in the second half of 2016 and not get to near 2%

until 2017, though the forecasts in the Report itself were for an even slower rate of increase. There is considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the Monetary Policy Committee will decide to make a start on increasing Bank Rate.

USA. The American economy made a strong comeback after a weak first quarter's growth at +0.6% (annualised), to grow by no less than 3.9% in quarter 2 of 2015, but then pulled back to 2.1% in quarter 3. The run of strong monthly increases in nonfarm payrolls figures for growth in employment in 2015 has prepared the way for the Fed. to embark on its long awaited first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own Monetary Policy Committee.

EZ. In the Eurozone, the European Central Bank in January 2015 unleashed a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y-y) but came in at +0.4% (+1.5% y-y) in quarter 2 and +0.3% in quarter 3. However, this lacklustre progress in 2015 together with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and - or increasing its size in order to get inflation up from the current level of around zero towards its target of 2% and to help boost the rate of growth in the EZ.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity and is now cooperating fully with EU demands. An €86bn third bailout package has since been agreed though it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the resistance of the Syriza government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing - communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

- Investment returns are likely to remain relatively low during 2016-17 and beyond;

- Borrowing interest rates have been highly volatile during 2015 as alternating bouts of good and bad news have promoted optimism, and then pessimism, in financial markets. Gilt yields have continued to remain at historically phenominally low levels during 2015. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in later times, when authorities will not be able to avoid new borrowing to finance new capital expenditure and-or to refinance maturing debt;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

Borrowing strategy

21. The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the CFR) has not been fully funded with loan debt as cash supporting the council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is relatively high.

22. Against this background and the risks within the economic forecast, caution will be adopted with the 2016-17 treasury operations. The chief finance officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast,* perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

Any decisions will be reported to Cabinet at the next available opportunity.

23. **Policy on borrowing in advance of need:** The council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the council can ensure the security of such funds.

    Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

24. **Debt rescheduling:** As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

The reasons for any rescheduling to take place may include:

- the generation of cash savings and - or discounted cash flow savings
- helping to fulfil the treasury strategy
- enhance the balance of the portfolio (amend the maturity profile and-or the balance of volatility)

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the council, at the earliest meeting following its action.

25. **UK Municipal Bonds Agency**
The UK Municipal Bonds Agency, set up in 2015, is now offering loans to local authorities. It is hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). This Authority intends to make use of this new source of borrowing as and when appropriate.

Treasury indicators: limits on borrowing activity and affordability

26. **The operational boundary:** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational Boundary £000	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Borrowing	223,917	218,857	253,107	266,107	274,107	274,107
Other long term liabilities	1,847	1,762	1,672	1,576	1,474	1,367
Total	**225,764**	**220,619**	**254,779**	**267,683**	**275,581**	**275,474**

The operational boundary is increasing due to:

a. presumed borrowing for building properties within the general fund, it makes no assumptions about selling any of the properties built or any usage of the development company for the building of the properties, other than those agreed in the company's business plan;

b. the HRA debt is increasing due the government's policy adjustment on housing rent levels against those in place during the Council's HRA subsidy buy out in 2012. The lowering of future rent by 1% each year over the next 4 years (2016-17 to 2019-20) has a material adverse impact on the future revenues of the HRA which significantly increases the need for borrowing in order to undertake capital expenditure on existing works and new build.

27. **The authorised limit for external debt:** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full council. It reflects the

level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
- The council is asked to approve the following authorised limit:

Authorised Limit £000	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Borrowing	263,917	258,857	293,107	306,107	314,107	314,107
Other long term liabilities	1,847	1,762	1,672	1,576	1,474	1,367
Total	**265,764**	**260,619**	**294,779**	**307,683**	**315,581**	**315,474**

The authorised limit is increasing due to:

a. presumed borrowing for building properties within the general fund, it makes no assumptions about selling any of the properties built or any usage of the development company for the building of the properties, other than those agreed in the company's business plan;

b. the HRA debt is increasing due the government's policy adjustment on housing rent levels against those in place during the Council's HRA subsidy buy out in 2012. The lowering of future rent by 1% each year over the next 4 years (2016-17 to 2019-20) has a material adverse impact on the future revenues of the HRA which significantly increases the need for borrowing in order to undertake capital expenditure on existing works and new build.

There are other implications of the Housing and Planning Bill 2015-16 are outlined in paragraphs 6.15 to 6.21 of the Housing Rents and Budgets 2016-17 report.

Separately, the council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA debt limit	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
£000	**Actual**	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
HRA Debt Cap	236,989	236,989	236,989	236,989	236,989	236,989
HRA CFR	207,286	207,286	216,396	218,535	218,536	218,536
HRA Headroom	29,703	29,703	20,593	18,454	18,453	18,453

Slippage from 2015-16 to 2016-17 of the capital programme has been reflected in the CFR for 2016-17 which has reduced the headroom.

Treasury management limits on activity

28. There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs - improve performance*.* The indicators are:

- **Upper limits on variable interest rate exposure:** This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- **Upper limits on fixed interest rate exposure:** This is similar to the previous indicator and covers a maximum limit on fixed interest rates
- **Maturity structure of borrowing:** These gross limits are set to reduce the council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits

The council is asked to approve the following treasury indicators and limits:

£m	2014-15	2015-16	2016-17
Interest rate exposures			
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	20%	20%	20%
Limits on fixed interest rates: • *Debt only* • *Investments only*	100% 100%	100% 100%	100% 100%
Limits on variable interest rates • Debt only • Investments only	20% 20%	20% 20%	20% 20%
Maturity structure of fixed interest rate borrowing			
		Lower	**Upper**
Under 12 months		0%	10%
12 months to 2 years		0%	10%
2 years to 5 years		0%	30%
5 years to 10 years		0%	50%
10 years and above		0%	95%

29. **Affordability prudential indicators**: The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are also required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the council's overall finances. The council is asked to approve the following indicators:

- **Ratio of financing costs to net revenue stream:** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
Non-HRA	4.79%	5.10%	7.67%	10.82%	14.81%	17.44%
HRA	11.96%	11.85%	10.65%	10.64%	10.19%	9.84%

The estimates of financing costs include current commitments and the proposals in this budget report, which are increasing due increased borrowing to fund building of properties. As stated above The debt is increasing due to presumed borrowing for building properties within the HRA and GF, it makes no assumptions about selling any of the properties built or of any special purpose vehicle usage for the building of the properties. Projects will not go ahead unless there is an expectation that revenue streams generated will fully fund the associated borrowing costs and provide n additional return.

- **Incremental impact of capital investment decisions on council tax:** This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in the 2016-17 budget report compared to the council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of government support, which are not published over a three year period.
- **Incremental impact of capital investment decisions on the band D council tax:** The impact of capital expenditure on the council tax would be derived from the effect of Revenue Contributions to Capital on the Council Tax Requirement. Since the council does not budget for any significant revenue contributions, the impact on the Council Tax Requirement, and therefore council tax, is nil.

- **Estimates of the incremental impact of capital investment decisions on housing rent levels:** Similar to the council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the 2016-17 budget report compared to the council's existing commitments and current plans, expressed as a discrete impact on weekly rent levels.

  A key change to the HRA's capital investment programme has been the government's policy adjustment on housing rent levels against those in place during the Council's HRA subsidy buy out in 2012. The anticipated lowering of future rent by 1% each year over the next 4 years (2016-17 to 2019-20) has a material adverse impact on the future revenues of the HRA which significantly reduces the ability of the HRA to undertake capital expenditure on existing works and new build. This will reduce the HRA's overall activity in the future and will reduce future revenue levels through new build and other revenue initiatives.

Investments

Annual investment strategy

30. The main rating agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some institutions with a ratings "uplift" due to implied levels of sovereign support. Commencing in 2015, in response to the evolving regulatory regime, all three agencies have begun removing these "uplifts" with the timing of the process determined by regulatory progress at the national level. The process has been part of a wider reassessment of methodologies by each of the rating agencies. In addition to the removal of implied support, new methodologies are now taking into account additional factors, such as regulatory capital levels. In some cases, these factors have "netted" each other off, to leave underlying ratings either unchanged or little changed. A consequence of these new methodologies is that they have also lowered the importance of the (Fitch) Support and Viability ratings and have seen the (Moody's) Financial Strength rating withdrawn by the agency.

In keeping with the agencies' new methodologies, the rating element of our own credit assessment process now focuses solely on the Short and Long Term ratings of an institution. While this is the same process that has always been used for Standard & Poor's, this has been a change in the use of Fitch and Moody's ratings. It is important to stress that the other key elements to our process, namely the assessment of Rating Watch and Outlook information as well as the Credit Default Swap (CDS) overlay have not been changed.

The evolving regulatory environment, in tandem with the rating agencies' new methodologies also means that sovereign ratings are now of lesser importance in the assessment process. Where through the crisis, clients typically assigned the highest sovereign rating to their criteria, the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions. While this authority understands the changes that have taken place, it will continue to specify a minimum sovereign rating of ….. This is in relation to the fact that the underlying domestic and where appropriate, international, economic and wider political and social background will still have an influence on the ratings of a financial institution.

It is important to stress that these rating agency changes do not reflect any changes in the underlying status or credit quality of the institution. They are merely reflective of a reassessment of rating agency methodologies in light of enacted and future expected changes to the regulatory environment in which financial institutions operate. While some banks have received lower credit ratings as a result of these changes, this does not mean that they are suddenly less credit worthy than they were formerly. Rather, in the majority of cases, this mainly reflects the fact that implied sovereign government support has effectively been withdrawn from banks. They are now expected to have sufficiently strong balance sheets to be able to withstand foreseeable adverse financial circumstances without government support. In fact, in many cases, the balance sheets of banks are now much more robust than they were before the 2008 financial crisis when they had higher ratings than now. However, this is not universally applicable, leaving some entities with modestly lower ratings than they had through much of the "support" phase of the financial crisis.

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31. **Core funds and expected investment balances:** The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
£000	**Actual**	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Fund balances	29,794	25,935	10,876	11,022	9,578	8,580
Capital receipts	24,895	-	-	-	-	-
Earmarked reserves	4,084	-	-	-	-	-
S106, CIL & grants	5,078	4,643	3,691	1,620	-	-
Total Core Funds	**63,852**	**30,579**	**14,567**	**12,643**	**9,578**	**8,580**
Working Capital*	48,722	25,500	25,500	25,500	25,500	25,500
Expected Investments	**67,541**	**33,536**	**37,624**	**40,401**	**40,998**	**43,514**

*Working capital balances shown are estimated year end; these may be higher mid year

A proportion of the capital receipts are ringfenced so can only be spent on specific capital works. It has been assumed that any capital receipts arising in a year are used to finance the capital programme in that year.

32. **Investment policy:** The council's investment policy has regard to the CLG's Guidance on Local government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Capita Asset Services (formerly Sector)al Guidance Notes ("the CIPFA TM Code"). The council's investment priorities will be security first, liquidity second, then return.

33. In accordance with the above guidance from the Welsh government and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

34. Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of government financial support should an institution fail. This withdrawal of implied sovereign support is anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

35. Further, the council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

36. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

37. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable divesification and thus avoidance of concentration risk.

38. The intention of the strategy is to provide security of investment and minimisation of risk.

39. Investment instruments identified for use in the financial year are listed in Appendix 3 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the council's treasury management practices – schedules.

40. **Creditworthiness policy:** The primary principle governing the council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the council will ensure that:

    - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
    - It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the council's prudential indicators covering the maximum principal sums invested.

41. The chief finance officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the council may use, rather than defining what types of investment instruments are to be used.

42. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the council's criteria, the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by Capita Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum council criteria will be suspended from use, with all others being reviewed in light of market conditions.

43. The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) are:

- Banks 1 - good credit quality **–** the council will only use banks which:
    - are UK banks; and-or
    - are non-UK and domiciled in a country which has a minimum sovereign long term rating of AAA
    - and have, as a minimum, the following Fitch, Moody's and Standard Poors credit ratings (where rated):
- Short term - F1, P1, A1
- Long term – A, A2, A
- Viability - financial strength – bbb+ (Fitch - Moody's only)
- Support – 5(Fitch only)
- Banks 2 – Part nationalised UK banks – Lloyds Banking Group and Royal Bank of Scotland. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
- Banks 3 – The council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
- Bank subsidiary and treasury operation - The council will use these only where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies The council will *use* all societies which:
    - meet the ratings for banks outlined above
    - have assets in excess of £2bn

    - or meet both criteria.
- Money market funds – *AAA*
- UK government (including gilts and the DMADF)
- Local authorities, parish councils etc
- Supranational institutions

44. **Country and Capita Asset Services considerations:** Due care will be taken to consider the country, group and sector exposure of the council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 above. In addition:
    - no more than 30% will be placed with any non-UK country at any time
    - limits in place above will apply to a group of companies
    - sector limits will be monitored regularly for appropriateness

45. **Use of additional information other than credit ratings:** Additional requirements under the Code require the council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches-outlooks) will be applied to compare the relative security of differing investment counterparties.

46. **Time and monetary limits applying to investments:** The time and monetary limits for institutions on the council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch long term rating (or equivalent)	**Money Limit**	**Time Limit**
Banks 1 category high quality	AA	£15m	364 days
Banks 1 category lower quality	AA	£10m	364 days
Banks 2 category part nationalised	N/A	£15m	3 yrs
Limit 3 category - council's own banker (not meeting banks 1)	A-	£5m	3 months
Building Societies	Asset worth £2bn	£10m	364 days
DMADF	AAA	unlimited	6 months
Local Authorities	N/A	£10m per LA	5 years
Money market funds	AAA	£5m per fund £25m overall limit	liquid

47. **Country limits:** The council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AAA. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

48. **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

49. **Investment returns expectations.** Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 4 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2016-17 1.00%
- 2017-18 1.75%
- 2018-19 2.00%

There are downside risks to these forecasts (i.e. start of increases in Bank Rate is delayed even further) if economic growth weakens for longer than expected. However, should the pace of growth quicken, there could be upside risk.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next four years are as follows:

- 2016-17 0.90%
- 2017-18 1.50%
- 2018-19 2.00%
- 2019-20 2.25%
- 2020-21 2.50%
- 2021-22 3.00%
- 2022-23 3.00%

Later years 3.00%

50. **Investment treasury indicator and limit:** Total principal funds invested for greater than 364 days. These limits are set with regard to the council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

The cabinet is asked to approve the treasury indicator and limit:

Maximum Principle Funds invested >364 days			
£m	**2016/17**	**2017/18**	**2018/19**
Principle funds invested > 364 days	£15m	£15m	£15m

For its cash flow generated balances, the council will seek to utilise its business reserve instant access and notice accounts and short-dated deposits (overnight to three months), in order to benefit from the compounding of interest.

51. **Investment risk benchmarking:** These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

52. **Security** - The council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio

- in addition, that the security benchmark for each individual year is:

	1 year	2 years	3 years	4 years	5 years
Maximum	0.05%	0.04%	0.03%	0.02%	0.01%

Note: This benchmark is an average risk of default measure, and would not constitute an expectation of loss against a particular investment.

53. **Liquidity** – in respect of this area the council seeks to maintain:
    - Bank overdraft – zero balance
    - Liquid short term deposits of at least £1m available with a week's notice
    - Weighted average life benchmark is expected to be 0.45 years, with a maximum of 2.77 years

54. **Yield -** local measures of yield benchmarks are
    - Investments – internal returns above the 7 day LIBID rate

55. At the end of the financial year, the council will report on its investment activity as part of its annual treasury management report.

Other

Training

56. The CIPFA code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. Members received treasury management training from Capita's Richard Dunlop in November 2013 and further training will be arranged as required.

57. The training needs of treasury management officers are periodically reviewed.

Treasury Management Consultants

58. The council uses Capita Asset Services as its external treasury management advisors.

59. The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

60. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

Integrated impact assessment	NORWICH City Council

The IIA should assess **the impact of the recommendation** being made by the report
Detailed guidance to help with completing the assessment can be found here. Delete this row after completion

Report author to complete	
Committee:	Cabinet
Committee date:	03 February 2016
Head of service:	Justine Hartley
Report subject:	Treasury Management Strategy 2016-17
Date assessed:	22-01-2016
Description:	This report outlines the council's prudential indicators for 2016-17 through to 2018-19 and sets out the expected treasury operations for this period.

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	X	☐	The report has no direct financial consequences however it does set the guidelines for how the council manages its borrowing and investment resources
Other departments and services e.g. office facilities, customer contact	☐	☐	☐	
ICT services	☐	☐	☐	
Economic development	☐	☐	☐	
Financial inclusion	☐	☐	☐	
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☐	☐	☐	
S17 crime and disorder act 1998	☐	☐	☐	
Human Rights Act 1998	☐	☐	☐	
Health and well being	☐	☐	☐	

	Impact			
Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	☐	☐	☐	
Eliminating discrimination & harassment	☐	☐	☐	
Advancing equality of opportunity	☐	☐	☐	
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	☐	☐	☐	
Natural and built environment	☐	☐	☐	
Waste minimisation & resource use	☐	☐	☐	
Pollution	☐	☐	☐	
Sustainable procurement	☐	☐	☐	
Energy and climate change	☐	☐	☐	
(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	☐	☐	☐	

Recommendations from impact assessment
Positive
Negative
Neutral
Issues

Interest Rate Forecasts 2016-2019

APPENDIX 1

PWLB rates and forecast shown below have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

Capita Asset Services Interest Rate View														
	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Rate View	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
3 Month LIBID	0.60%	0.70%	0.80%	0.90%	1.10%	1.30%	1.40%	1.50%	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%
6 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.30%	1.50%	1.60%	1.70%	2.00%	2.10%	2.10%	2.20%	2.20%	2.30%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.60%	1.80%	1.90%	2.00%	2.30%	2.40%	2.40%	2.50%	2.50%	2.70%
5yr PWLB Rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB Rate	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB Rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB Rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Bank Rate														
Capita Asset Services	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
Capital Economics	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%	-	-	-	-	-
5yr PWLB Rate														
Capita Asset Services	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
Capital Economics	2.40%	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%	-	-	-	-	-
10yr PWLB Rate														
Capita Asset Services	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
Capital Economics	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
25yr PWLB Rate														
Capita Asset Services	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
Capital Economics	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%	-	-	-	-	-
50yr PWLB Rate														
Capita Asset Services	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%
Capital Economics	3.40%	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	-	-	-	-	-

Economic Background

UK. UK GDP growth rates in of 2.2% in 2013 and 2.9% in 2014 were the strongest growth rates of any G7 country; the 2014 growth rate was also the strongest UK rate since 2006 and the 2015 growth rate is likely to be a leading rate in the G7 again. However, quarter 1 of 2015 was weak at +0.4%, although there was a short lived rebound in quarter 2 to +0.7% before it subsided again to +0.5% (+2.3% y-y) in quarter 3. The Bank of England's November Inflation Report included a forecast for growth to remain around 2.5% – 2.7% over the next three years. For this recovery, however, to become more balanced and sustainable in the longer term, it still needs to move away from dependence on consumer expenditure and the housing market to manufacturing and investment expenditure. The strong growth since 2012 has resulted in unemployment falling quickly to a current level of 5.2%.

The MPC has been particularly concerned that the squeeze on the disposable incomes of consumers should be reversed by wage inflation rising back above the level of CPI inflation in order to underpin a sustainable recovery. It has, therefore, been encouraging in 2015 to see wage inflation rising significantly above CPI inflation which has been around zero since February. However, it is unlikely that the MPC would start raising rates until wage inflation was expected to consistently stay over 3%, as a labour productivity growth rate of around 2% would mean that net labour unit costs would still only be rising by about 1% y-y. The Inflation Report was notably subdued in respect of the forecasts for CPI inflation; this was expected to barely get back up to the 2% target within the 2-3 year time horizon. The increase in the forecast for inflation at the three year horizon was the biggest in a decade and at the two year horizon it was the biggest since February 2013. However, the first round of falls in oil, gas and food prices in late 2014 and in the first half 2015, will fall out of the 12 month calculation of CPI during late 2015 - early 2016 but only to be followed by a second, more recent, round of falls in fuel prices which will now delay a significant tick up in inflation from around zero. CPI inflation is now expected to get back to around 1% in the second half of 2016 and not get near to 2% until 2017, though the forecasts in the Report itself were for an even slower rate of increase.

There is, therefore, considerable uncertainty around how quickly pay and CPI inflation will rise in the next few years and this makes it difficult to forecast when the MPC will decide to make a start on increasing Bank Rate. There are also concerns around the fact that the central banks of the UK and US currently have few monetary policy options left to them given that central rates are near to zero and huge QE is already in place. There are, accordingly, arguments that they need to raise rates sooner, rather than later, so as to have some options available for use if there was another major financial crisis in the near future. But it is unlikely that either would raise rates until they are sure that growth was securely embedded and 'noflation' was not a significant threat.

The forecast for the first increase in Bank Rate has, therefore, been pushed back progressively during 2015 from Q4 2015 to Q2 2016. Increases after that are also likely to be at a much slower pace, and to much lower final levels than prevailed before 2008, as increases in Bank Rate will have a much bigger effect on heavily indebted consumers and householders than they did before 2008.

The government's revised Budget in July eased the pace of cut backs from achieving a budget surplus in 2018-19 to achieving that in 2019-20 and this timetable was maintained in the November Budget.

USA. GDP growth in 2014 of 2.4% was followed by Q1 2015 growth, which was depressed by exceptionally bad winter weather, at only +0.6% (annualised). However, growth rebounded remarkably strongly in Q2 to 3.9% (annualised) before falling back to +2.1% in Q3.

Until the turmoil in financial markets in August, caused by fears about the slowdown in Chinese growth, it had been strongly expected that the Fed. would start to increase rates in September. The Fed pulled back from that first increase due to global risks which might depress US growth and put downward pressure on inflation, as well as a 20% appreciation of the dollar which has caused the Fed. to lower its growth forecasts. Although the non-farm payrolls figures for growth in employment in August and September were disappointingly weak, the October figure was stunningly strong while November was also reasonably strong; this, therefore, opened up the way for the Fed. to embark on its first increase in rates of 0.25% at its December meeting. However, the accompanying message with this first increase was that further increases will be at a much slower rate, and to a much lower ultimate ceiling, than in previous business cycles, mirroring comments by our own MPC.

EZ. In the Eurozone, the EBC, in January 2015 unleashed a massive €1.1 trillion programme of quantitative easing to buy up high credit quality government and other debt of selected EZ countries. This programme of €60bn of monthly purchases started in March 2015 and it is intended to run initially to September 2016. This appears to have had a positive effect in helping a recovery in consumer and business confidence and a start to an improvement in economic growth. GDP growth rose to 0.5% in quarter 1 2015 (1.0% y-y) but came in at +0.4% (+1.5% y-y) in quarter 2 and +0.3% in quarter 3. However, this more recent lacklustre progress, combined with the recent downbeat Chinese and emerging markets news, has prompted comments by the ECB that it stands ready to strengthen this programme of QE by extending its time frame and - or increasing its size in order to get inflation up from the current level of around zero towards its target of 2%. The ECB will also aim to help boost the rate of growth in the EZ.

Greece. During July, Greece finally capitulated to EU demands to implement a major programme of austerity. An €86bn third bailout package has since been agreed although it did nothing to address the unsupportable size of total debt compared to GDP. However, huge damage has been done to the Greek banking system and economy by the initial resistance of the Syriza government, elected in January, to EU demands. The surprise general election in September gave the Syriza government a mandate to stay in power to implement austerity measures. However, there are major doubts as to whether the size of cuts and degree of reforms required can be fully implemented and so a Greek exit from the euro may only have been delayed by this latest bailout.

Portugal and Spain. The general elections in September and December respectively have opened up new areas of political risk where the previous right wing reform-focused pro-austerity mainstream political parties have lost power. A left wing - communist coalition has taken power in Portugal which is heading towards unravelling previous pro austerity reforms. This outcome could be replicated in Spain. This has created nervousness in bond and equity markets for these countries which has the potential to spill over and impact on the whole Eurozone project.

China and Japan. Japan is causing considerable concern as the increase in sales tax in April 2014 suppressed consumer expenditure and growth. In Q2 2015 quarterly growth shrank by -0.2% after a short burst of strong growth of 1.1% during Q1, but then came back to +0.3% in Q3 after the first estimate had indicated that Japan had fallen back into recession; this would have been the fourth recession in five years. Japan has been hit hard by the downturn in China during 2015 and there are continuing concerns as to how effective efforts by the Abe government to stimulate growth, and increase the rate of inflation from near zero, are likely to prove when it has already fired the first two of its ‘arrows’ of reform but has dithered about firing the third, deregulation of protected and inefficient areas of the economy.

As for China, the government has been very active during 2015 in implementing several stimulus measures to try to ensure the economy hits the growth target of 7% for the current year and to bring some stability after the major fall in the onshore Chinese stock market during the summer. Many commentators are concerned that recent growth figures could have been massaged to hide a downturn to a lower growth figure. There are also major concerns as to the creditworthiness of much of the bank lending to corporates and local government during the post 2008 credit expansion period. Overall, China is still expected to achieve a growth figure that the EU would be envious of. Nevertheless, concerns about whether the Chinese economy could be heading for a hard landing, and the volatility of the Chinese stock market, which was the precursor to falls in world financial markets in August and September, remain a concern.

Emerging countries. There are also considerable concerns about the vulnerability of some emerging countries and their corporates which are getting caught in a perfect storm. Having borrowed massively in dollar denominated debt since the financial crisis (as investors searched for yield by channelling investment cash away from western economies with dismal growth, depressed bond yields and near zero interest rates into emerging countries) there is now a strong flow back to those western economies with strong growth and an imminent rise in interest rates and bond yields.

This change in investors’ strategy, and the massive reverse cash flow, has depressed emerging country currencies and, together with a rise in expectations of a start to central interest rate increases in the US, has helped to cause the dollar to appreciate significantly. In turn, this has made it much more costly for emerging countries to service their dollar denominated debt at a time when their earnings from commodities are depressed. There are also likely to be major issues when previously borrowed debt comes to maturity and requires refinancing at much more expensive rates.

Corporates (worldwide) heavily involved in mineral extraction and - or the commodities market may also be at risk and this could also cause volatility in equities and safe haven flows to bonds. Financial markets may also be buffeted by the sovereign wealth funds of those countries that are highly exposed to falls in commodity prices and which, therefore, may have to liquidate investments in order to cover national budget deficits.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data evolves over time. Capita Asset Services undertook its last review of interest rate forecasts on 9 November 2015 shortly after the publication of the quarterly Bank of England Inflation Report. There is much volatility in rates and bond yields as news ebbs and flows in negative or positive ways. This latest forecast includes a first increase in Bank Rate in quarter 2 of 2016.

The overall trend in the longer term will be for gilt yields and PWLB rates to rise when economic recovery is firmly established accompanied by rising inflation and consequent increases in Bank Rate, and the eventual unwinding of QE. Increasing investor confidence in eventual world economic recovery is also likely to compound this effect as recovery will encourage investors to switch from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly balanced. Only time will tell just how long this current period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

However, the overall balance of risks to our Bank Rate forecast is probably to the downside, i.e. the first increase, and subsequent increases, may be delayed further if recovery in GDP growth, and forecasts for inflation increases, are lower than currently expected. Market expectations in November, (based on short sterling), for the first Bank Rate increase are currently around mid-year 2016.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Geopolitical risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.
- UK economic growth turns significantly weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners - the EU, US and China.
- A resurgence of the Eurozone sovereign debt crisis.
- Recapitalisation of European banks requiring more government financial support.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and - or the start of Fed. rate increases, causing a flight to safe havens

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- Uncertainty around the risk of a UK exit from the EU.
- The commencement by the US Federal Reserve of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The CLG issued Investment Guidance in 2010, and this forms the structure of the council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Capita Asset Services (formerly Sector)al Guidance Notes. This council adopted the Code on 22 March 2011 and will apply its principles to all investment activity. In accordance with the Code, the chief finance officer has produced its treasury management practices (TMPs). This part, TMP 1(5), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the council will use. These are high security (i.e. high credit rating, although this is defined by the council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this

covers pooled investment vehicles, such as money market funds, rated *AAA* by Standard and Poor's, Moody's or Fitch rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society For category 5 this covers bodies with a minimum short term rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the council has set additional criteria to set the time and amount of monies which will be invested in these bodies. This criteria is:

Non-specified investments –are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non specified investments would include any sterling investments

	Non Specified Investment Category	Limit (£ or %)
a.	**Supranational bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom government** (e.g. The Guaranteed Export Finance Company {GEFCO}) The security of interest and principal on maturity is on a par with the government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£15m £15m
b.	**Gilt edged securities** with a maturity of greater than one year. These are government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£15m
c.	The council's own banker if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£5m
d.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The council may use such building societies which have a minimum asset size of £2bn but will restrict	£10m or 1% of assets

	these type of investments to	
e.	Any **bank or building society** that has a minimum long term credit rating of A+-A,, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Maximum Limit of 100%, so long as no more than 25% of investments have maturities of longer the one year at any one time.
f.	Any **non rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to having a minimum asset size of £250m and a restriction on the investment amount to 1% of its assets size.	£10m for a maximum of 3 months
g.	**Certifcates of Deposit** or corporate bonds with banks and building societies	£5m
h.	Money market funds	£5m
i.	**Pooled property funds** – The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The key exception to this is an investment in the CCLA Local Authorities Property Fund.	CCLA £5m

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The council receives credit rating information (changes, rating watches and rating outlooks) from Capita Asset Services (formerly Sector) as and when ratings change, and counterparties are checked promptly On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the chief finance officer, and if required new counterparties which meet the criteria will be added to the list.

The treasury management role of the section 151 officer

The S151 (responsible) officer

- recommending clauses, treasury management policy-practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

Report to	Cabinet	**Item**
Report of	Chief finance officer	8
Subject	Revenue budget monitoring 2015-16 – Period 9	

Purpose

To consider the provisional financial position as at 31 December 2015, the forecast outturn for the year 2015-16, and the consequent forecast of the general fund and housing revenue account balances.

Recommendations

To note the financial position as at 31 December 2015 and the forecast outturn 2015-16.

Corporate and service priorities

The report helps to meet the corporate priority value for money services and the service plan priority to provide accurate, relevant and timely financial information.

Financial implications

The general fund budget is forecast to underspend by £1.344m. The housing revenue account budget is forecast to underspend by £0.909m.

Ward/s: All wards

Cabinet member: Councillor Stonard – Resources and income generation

Contact officers

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Background documents

None

Report

1. Council approved budgets for the 2015-16 financial year on 17 February 2015.

2. The attached appendices show the forecast outturn and year-to-date positions for the general fund and the housing revenue account:
   - Appendix 1 shows the general fund by corporate leadership team responsibilities, and by subjective group
   - Appendix 2 shows the housing revenue account in (near) statutory format, and by subjective group
   - Appendix 3 shows budget and expenditure for the year to date in graphical format

General fund

3. Budgets reported include the resources financing the council's net budget requirement (which includes a contribution of £0.383m from reserve balances as allowed for in the medium term financial strategy) so that the net budget totals zero:

Item	*Approved Budget £000s*
Net Budget Requirement	17,056
Non-Domestic Rates	(4,645)
Revenue Support Grant	(4,096)
Council Tax precept	(8,315)
Total General Fund budget	**0**

4. The general fund has been forecast to underspend by **£1.344m** at year end compared to a forecast underspend last month of **£0.902m**. Key forecast variances from budget are set out below:

Forecast Outturn Variance P8 £000s	*General Fund Service*	*Forecast Outturn Variance P9 £000s*	*Commentary*
(202)	Business Relationship Management	(183)	Reduced external audit fee; LGSS fraud team transfer to DWP but reduced grant still received for one year.
(312)	Procurement and Service Improvement	(319)	Expected underspend on IT services development fund; currently vacant posts in procurement.

Forecast Outturn Variance P8 £000s	*General Fund Service*	*Forecast Outturn Variance P9 £000s*	*Commentary*
(202)	Finance	(495)	Reduction in loans principle and interest (£114k), correction to Minimum Revenue Provision expenditure (£228k), reduction in the business rates retained income and associated removal of business Rates Levy no longer due (net impact £179k).
(147)	Customer Contact	(139)	Land search fee income refunds; grant income re land searches refunds; vacant posts.
(3)	City Development:	(114)	Underspend due to planned Rose Lane car park not being open and associated expenditure budgeted not being used.
(83)	Citywide Services:	(180)	Markets management cost below budget, vacant posts within Green Spaces and Food, Health and Safety.
74	Neighbourhood Housing:	118	Mainly due to CCTV projected overspend - higher than budgeted overtime (£19k), unrealised savings (£50k) and maintenance costs (£27k)

5. For the year to date, an underspend against budget of **£6.161m** is being reported. This underspend is made up of many debit and credit figures where various income and expenditure lines are ahead of or behind budget profile. Significant variances are explained below. These lines will be monitored closely as the year progresses to identify any potential impact on forecast outturn figures.

General Fund Service	*Variance To Date P9 £000s*	*Commentary*
Business Relationship Management	(1,048)	Shared services expenditure currently lower than profile however is expected to match budget by year end. Corporate and Benefits Admin grants received higher than budget to date. No use of the contingency fund to date.
Democratic Services	312	Timing differences in relation to elections costs and income. Awaiting transfer of income to net off against prior year accrued income reversal.

General Fund Service	*Variance To Date P9 £000s*	*Commentary*
Finance	(1,691)	Timing issue between the Housing Benefit subsidy received and expenditure. This is due to the set monthly payment from DWP which does not match the timing profile for expenditure. Due to align by the year end. Interest earned behind profile, forecast to match budget by year end.
Procurement and Service Improvement	(544)	Expected underspend on IT services development fund; Shared services expenditure currently lower than profile however is expected to match budget by year end.
Customer Contact	(556)	Timing difference between the receipt of Transformation Challenge grant funding and related expenditure; Land search fee income refunds; grant income re. land searches refunds.
City Development:	(1,505)	The current underspend against profile relates to counties parking income not paid over till year end. Income on asset properties showing income higher than budget do to income timings
Planning:	(506)	Planning income up on budget due to large applications distorting profile of income.
Property Services:	(643)	Depreciation to be charged on City Hall, works codes to be uploaded

Housing revenue account

6. The budgets reported include a £13.9m use of HRA balances, so that the net budget totals zero:

Item	*Approved Budget £000s*
Gross HRA Expenditure	85,912
Gross HRA Income	(71,979)
Contribution from HRA Balance	(13,933)
Total net HRA budget	**0**

7. The housing revenue account has been forecast to underspend by **£0.909m** at year end compared to a forecast last month of **£1.067m**. Key forecast variances from budget are set out below:

Forecast Outturn Variance P8 £000s	*HRA Division of Service*	*Forecast Outturn Variance P9 £000s*	*Commentary*
(900)	Repairs and Maintenance	(1,095)	Lower than anticipated requirement for general repairs (£249k); less painting (£350k) and internal wall insulation carried out than originally planned (150k); due to change in contractor (currently out to tender) no work in first 6 months (£200k).
(289)	Rents, Rates, and Other Property Costs	(296)	Underspend on Anglian Water costs, partially offset by under-recovery through water service charges.
(515)	General Management	(596)	Unrequired audit fee budget (£101k) and lower than expected NPS recharge relating to Housing Property Management cost centre (£122k) along with various staffing underspends due to vacancies throughout the year, Area office underspend, mainly on repairs (£49k).
194	Special Services	335	Following Community Alarm Service restructure and associated costs, full savings not realised in financial year 2015-16
(1,377)	Depreciation and Impairment	(1,079)	£1,223k unbudgeted forecast profit on sale of assets, offset by corresponding debit against the Movements in Reserves (MiRS) cost centre within "Adjustments and Financing items". Updated forecast depreciation costs giving rise to an increase of £114k.
(234)	Provision for Bad Debts	(234)	Based on first quarter arrears figures, partially offset by unbudgeted write-off costs against 'Dwelling Rents'
331	Dwelling Rents	441	Long term voids at St James and Britannia - originally anticipated that sites would be re-occupied by September 2015, but now delayed until April 2016. Also unbudgeted write off costs, partially offset by underspend against bad debt provision.
(182)	Garage and Other Property Rents	(184)	Lower than anticipated garage void rate

Forecast Outturn Variance P8 £000s	*HRA Division of Service*	*Forecast Outturn Variance P9 £000s*	*Commentary*
641	Service Charges - General	675	Income from Anglian Water service charges lower than anticipated, partially offset by reduced Anglian Water expenditure against 'Rents, Rates, and Other Property Costs'
1,354	Adjustments and Financing Items	1,215	Unbudgeted forecast for profit / loss on sale of assets within the Movements in Reserves (MiRS) cost centre, offset by corresponding credit against "Depreciation and Impairment".

8. For the year to date an underspend of **£5.336m** is being reported. This underspend is made up of many debit and credit figures, where various income and expenditure lines are ahead of or behind budget profile. Significant underspends and overspends to date are explained below. These lines will be monitored closely as the year progresses to identify any potential impact on forecast outturn figures.

HRA Division of Service	*Variance To Date P9 £000s*	*Commentary*
Repairs and Maintenance	(4,356)	These variances have arisen due to invoice delays at the start of the financial year, which is usual for work of this nature. Also, overall projected underspend now being reported.
General Management	(588)	Mainly due to staff vacancies. Also, Families' Unit grant income has been received for the year, but profiled to be received in quarters.
Special Services	(442)	Mainly due to grounds/trees maintenance and permit parking recharges running behind profile .
Depreciation and Impairment	(918)	£917k relating to profit / loss on sale of assets, offset by corresponding debit against the Movements in Reserves (MiRS) cost centre within "Adjustments and Financing items".
Provision for Bad Debts	(438)	Bad debt provision charges not yet posted.
Dwelling Rents	326	Long term voids at St James and Britannia - originally anticipated that sites would be re-occupied by September 2015, but now delayed until April 2016. Also unbudgeted write off costs.

HRA Division of Service	*Variance To Date P9 £000s*	*Commentary*
Service Charges - General	442	Income from Anglian Water service charges lower than anticipated.
Adjustments and Financing Items	926	£917k relating to profit / loss on sale of assets in the Movements in Reserves (MiRS) cost centre, offset by corresponding credit against “Depreciation and Impairment".

Risks

9. A risk-based review based on the size and volatility of budgets has identified a ‘Top 10’ of key budgets where inadequacy of monitoring and control systems could pose a significant threat to the council’s overall financial position. These are shown in the following table.

Key Risk Budgets	Budget £000s	Current Variance	Current Var %	Current RAG	Forecast Variance	Forecast Var %	Forecast RAG
Housing Benefit Payments - Council tenants	36,254	-849	-2%	GREEN	407	1%	GREEN
Housing Benefit Subsidy - Council tenants	-35,639	-1,224	3%	AMBER	-1,216	3%	AMBER
Housing Benefit Payments - Other tenants	32,280	-1,548	-5%	AMBER	-2,915	-9%	RED
Housing Benefit Subsidy - Other tenants	-33,048	2,267	-7%	RED	3,712	-11%	RED
HRA Repairs - Tenanted Properties	12,369	-3,705	-30%	RED	-1,000	-8%	RED
HRA Repairs - Void Properties	2,639	-323	-12%	RED	0	0%	GREEN
Multi-Storey Car Parks	-1,174	26	-2%	GREEN	-117	10%	RED
HRA Rents - Estate Properties	-60,144	326	-1%	GREEN	441	-1%	GREEN
Property Services - City Hall	906	-384	-42%	RED	-34	-4%	GREEN
Corporate Management including Contingency	-2,663	-556	21%	RED	-67	3%	GREEN
Private Sector Leasing Costs	-286	88	-31%	GREEN	42	-15%	GREEN

10. The red/amber status of items in the forecast RAG column is explained below.

Key Risk Budgets	**Comment**
Housing Benefit Payments and Subsidy	Although both of these areas are currently showing a red or amber RAG status, they largely offset one another. There is an overall net forecast underspend on housing benefits budgets of £11k.
HRA Repairs	Lower than anticipated requirement for general repairs (£249k); less painting (£350k) and internal wall insulation carried out than originally planned (150k); due to change in contractor (currently out to tender) no work in first 6 months (£200k).
Multi-Storey Car Parks	Forecast variance reflects additional income expected compared to budget.

11. The 2015-16 budgets approved by council were drawn up in the expectation of reduced resources as announced by the previous government. There are risks to the current and medium term financial position from:

- Further reductions in government grant – the localisation of business rates and of council tax reductions has increased the risks to the council’s financial position arising from economic conditions and policy decisions. In addition, recent government announcements indicate that further reductions in government funding are likely.

- Changes in policy – if further empowerment of local authorities is not matched by devolved resources
- Delivery of savings – the budget incorporates both savings measures already in place and those planned for implementation during the year. If these savings are not achievable in full, overspends will result. With appropriate approvals these may be mitigated through provision made in the corporate contingency, up to the level of that contingency
- Identification of further savings – work is continuing on developing proposals for additional savings to bridge the medium-term budget gap. If these proposals fall short, or are not implemented fully and in a timely manner, further budget shortfalls will result.

12. Forecast outturns are estimates based on management assessments, formulae, and extrapolation. They may not adequately take account of variables such as:

- Bad debts – budget reports show gross debt, i.e. invoices raised. While allowance has been made in the budget for non-collections, the current economic climate may have an adverse influence on our ability to collect money owed. This may be reflected in higher provisions for bad debt, as may the impact of welfare reforms such as the so-called bedroom tax.
- Seasonal factors – if adverse weather conditions or a worsening economic climate depress levels of trade and leisure activities in the city, there may be a negative impact on parking and other income.
- Housing repairs and improvements – the rate of spend on void properties, though closely managed, is heavily influenced by void turnaround, since transfers can create a chain of voids involving significant repair costs.

Financial planning

13. Overall levels of overspend and underspend will have an ongoing impact on the budget for following years and the size and urgency of savings requirements.

14. Net overspends and underspends will be consolidated into the general fund and housing revenue account balances carried forward to 2016-17. These are reflected in periodic updates to the medium term financial strategy and housing revenue account business plan.

Impact on balances

15. The prudent minimum level of general fund reserves has been assessed as £4.474m. The budgeted and forecast outturn's impact on the 2014-15 balance brought forward, is as follows:

Item	*£000s*
Balance at 1 April 2015	(9,615)
Budgeted use of balances 2015-16	383
Forecast outturn 2015-16	(1,344)
= Forecast balance at 31 March 2016	(10,576)

16. The general fund balance is therefore expected to continue to exceed the prudent minimum.

17. The prudent minimum level of HRA reserves has been assessed as £3.111m. The budgeted and forecast outturn's impact on the 2014-15 balance brought forward, is as follows:

Item	*£000s*
Balance at 1 April 2015	(20,181)
Budgeted use of balances 2015-16	13,933
Forecast outturn 2015-16	(909)
Adjustment to reflect reduced revenue contribution to capital against budget (see below)	(15,835)
= Forecast balance at 31 March 2016	(22,992)

18. The forecast revenue contribution to capital outlay has been reduced due to lower capital expenditure in year. Resources will be carried forward to fund future HRA spend.

19. The housing revenue account balance is therefore expected to continue to exceed the prudent minimum.

Collection fund

20. The collection fund is made up of three accounts – council tax, the Business Improvement District (BID) account, and National Non-Domestic Rates (NNDR).

- o Council tax is shared between the city, the county, and the police and crime commissioner based on an estimated tax base and the council tax rates agreed by each of the preceptors. Any surplus or deficit is shared in the following financial year.
- o The BID account is operated on behalf of the BID company, to collect their income from the BID levy. Any surplus or deficit is passed on to the BID company.
- o NNDR income is shared between the city, the county, and central government. Since localisation, any surplus or deficit is also shared, rather than as formerly being borne wholly by the government.

21. There are particular risks attached to NNDR, which are:

- o Appeals – the impact of any appeals will fall on the collection fund and therefore in part on the city. The Valuation Office has cleared a large number of appeals which has adversely affected the council's business rates income levels. However, a backlog of appeals remains and the value of the appeals is not known, nor the likelihood of success, nor the timing of the appeal being determined.
- o NNDR billable – changes in the NNDR billable, e.g. demolition or construction of new billable premises, will impact on the amount billable. Assumptions of growth may also be affected by changes in the larger economic environment.
- o NNDR collectable – arrears and write-offs (e.g. where a business goes into administration) will also impact on the collection fund.

22. These risks are monitored and mitigated through normal revenues operations.

23. A summary of the collection fund is provided below:

Approved Budget £000s	*Current Budget £000s*	**Collection Fund Summary**	*Actual To Date £000s*	*Forecast Outturn £000s*	*Forecast Variance £000s*
		Council tax			
53,797	53,797	Expenditure	45,257	58,606	4,809
(53,797)	(53,797)	Income	25	(58,606)	(4,809)
		Business Improvement District			
656	656	Expenditure	470	660	4
(656)	(656)	Income	(16)	(653)	3
		National Non-Domestic Rate			
77,698	77,698	Expenditure	56,173	70,771	(6,926)
(77,698)	(77,698)	Income	3,240	(70,771)	6,926
0	**0**	**Total Collection Fund**	**105,149**	**7**	**7**

24. On council tax, actual income is not posted from the council tax system into the finance system until year-end. The actual year-end surplus or deficit will be taken into account in considering distribution of balances between the preceptors (city, county, and police).

25. The council operates the BID account on behalf of the BID company, so no surplus or deficit will fall on the council's accounts.

26. Any deficit reported on the NNDR account will roll forward and be distributed in the 2016-17 budget cycle.

27. Additional (section 31) grant is received in the general fund to offset all or part of any shortfall in business rate income due to additional reliefs granted by government. All such grant monies received are transferred to an earmarked reserve and held to be offset against deficits in the years that they impact on the revenue accounts.

Integrated impact assessment

Report author to complete	
Committee:	Cabinet
Committee date:	
Head of service:	Chief finance officer
Report subject:	Revenue budget monitoring 2015-16
Date assessed:	20/01/16
Description:	This is the integrated impact assessment for the revenue budget monitoring 2015-16 report to cabinet

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	☒	☐	The report shows that the council monitors its budgets, considers risks to achieving its budget objectives, reviews its balances position, and is therefore able to maintain its financial standing
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	
ICT services	☒	☐	☐	
Economic development	☒	☐	☐	
Financial inclusion	☒	☐	☐	
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☒	☐	☐	
S17 crime and disorder act 1998	☒	☐	☐	
Human Rights Act 1998	☒	☐	☐	
Health and well being	☒	☐	☐	
Equality and diversity (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	☒	☐	☐	

	Impact			
Eliminating discrimination and harassment	☒	☐	☐	
Advancing equality of opportunity	☒	☐	☐	
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	☒	☐	☐	
Natural and built environment	☒	☐	☐	
Waste minimisation and resource use	☒	☐	☐	
Pollution	☒	☐	☐	
Sustainable procurement	☒	☐	☐	
Energy and climate change	☒	☐	☐	
(Please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Risk management	☐	☒	☐	The report demonstrates that the council is aware of and monitors risks to the achievement of its financial strategy.

Recommendations from impact assessment
Positive
None
Negative
None
Neutral
None
Issues
The council should continue to monitor its budget performance in the context of the financial risk environment within which it operates.

APPENDIX 1

Budget Monitoring Summary Year: 2015-16 Period: 9 (December)

GENERAL FUND SERVICE SUMMARY

Approved Budget	*Current Budget*		*Budget To Date*	*Actual To Date*	*Variance To Date*	*Forecast Outturn*	*Forecast Variance*
		Business Relationship Mgt and Demoracy					
1,537,574	1,645,420	Business Relationship Management	143,747	(904,059)	(1,047,806)	1,462,259	(183,161)
292,745	292,328	Democratic Services	677,502	989,941	312,439	302,915	10,587
(19,263,443)	(19,390,633)	Finance	(8,848,755)	(10,540,183)	(1,691,428)	(19,885,352)	(494,719)
0	(256)	Procurement and Service Improvement	2,543,628	2,000,092	(543,536)	(318,935)	(318,679)
(17,433,124)	**(17,453,141)**	**Total Business Relationship Management and Demoracy**	**(5,483,878)**	**(8,454,209)**	**(2,970,331)**	**(18,439,113)**	**(985,972)**
		Chief Executive					
0	0	Chief Executive	184,977	179,158	(5,819)	(7,477)	(7,477)
0	**0**	**Total Chief Executive**	**184,977**	**179,158**	**(5,819)**	**(7,477)**	**(7,477)**
		Customers, Comms and Culture					
2,124,719	2,139,345	Communications and Culture	1,705,039	1,519,482	(185,557)	2,224,944	85,599
(105,756)	(93,389)	Customer Contact	1,766,339	1,210,518	(555,821)	(232,365)	(138,976)
2,018,963	**2,045,956**	**Total Customers, Comms and Culture**	**3,471,378**	**2,729,999**	**(741,379)**	**1,992,579**	**(53,377)**
		Regeneration and Growth					
(1,101,624)	(1,213,353)	City Development	(2,262,602)	(3,767,842)	(1,505,240)	(1,327,193)	(113,840)
0	0	Environmental Strategy	116,729	339,082	222,353	(14,252)	(14,252)
0	0	Executive Head of Regeneration and	96,353	100,493	4,139	3,218	3,218
1,447,674	1,447,502	Planning	877,449	371,613	(505,836)	1,388,015	(59,487)
262,834	262,195	Property Services	1,360,814	717,975	(642,839)	201,669	(60,526)
608,884	**496,344**	**Total Regeneration and Growth**	**188,743**	**(2,238,679)**	**(2,427,422)**	**251,458**	**(244,886)**
		Strategy, People and Neighbourhoods					
10,069,543	10,055,846	Citywide Services	5,962,479	5,900,073	(62,406)	9,875,904	(179,942)
0	(1,172)	Human Resources	889,970	979,690	89,720	(15,854)	(14,682)
2,315,862	2,433,505	Neighbourhood Housing	912,505	899,530	(12,975)	2,551,079	117,574
2,419,872	2,422,932	Neighbourhood Services	1,636,770	1,405,749	(231,021)	2,405,834	(17,098)
0	(271)	Strategy and Programme Management	343,675	544,331	200,656	41,603	41,874
14,805,277	**14,910,840**	**Total Strategy, People and Neighbourhoods**	**9,745,399**	**9,729,373**	**(16,026)**	**14,858,566**	**(52,274)**
0	**(1)**	**Total General Fund**	**8,106,619**	**1,945,641**	**(6,160,978)**	**(1,343,988)**	**(1,343,987)**

Budget Monitoring Report Year: 2015-16 Period: 9 (December)

HOUSING REVENUE ACCOUNT STATUTORY SUMMARY

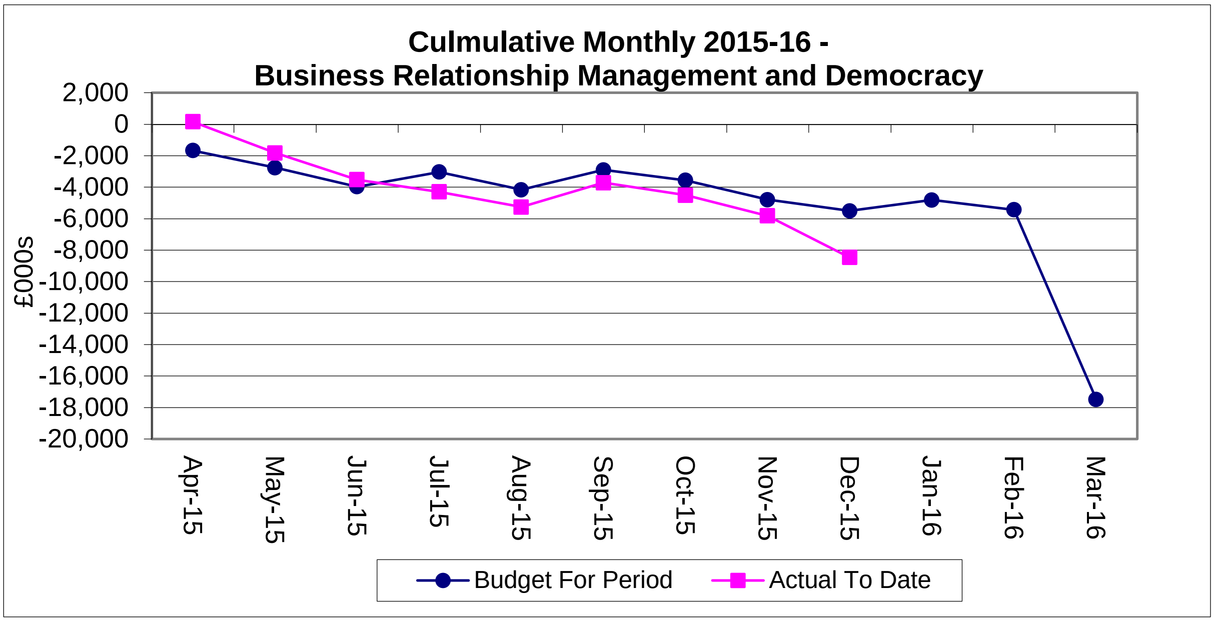
Approved Budget	*Current Budget*		*Budget To Date*	*Actual To Date*	*Variance To Date*	*Forecast Outturn*	*Forecast Variance*
16,069,344	16,069,344	Repairs and Maintenance	12,269,597	7,913,518	(4,356,079)	14,974,749	(1,094,595)
6,436,719	6,436,719	Rents, Rates, and Other Property Costs	6,248,528	6,144,764	(103,764)	6,140,853	(295,866)
11,016,261	10,914,961	General Management	4,962,901	4,374,464	(588,437)	10,318,595	(596,366)
5,086,385	5,187,693	Special Services	3,218,672	2,776,700	(441,972)	5,522,425	334,732
21,430,943	21,430,943	Depreciation and Impairment	0	(917,667)	(917,667)	20,351,693	(1,079,250)
584,000	584,000	Provision for Bad Debts	438,000	0	(438,000)	350,000	(234,000)
(60,143,678)	(60,143,678)	Dwelling Rents	(44,506,321)	(44,180,235)	326,086	(59,702,955)	440,723
(1,980,123)	(1,980,124)	Garage and Other Property Rents	(1,481,327)	(1,597,779)	(116,452)	(2,164,074)	(183,950)
(9,144,884)	(9,144,884)	Service Charges - General	(7,069,171)	(6,627,269)	441,902	(8,470,177)	674,707
0	0	Miscellaneous Income	0	(67,142)	(67,142)	(89,523)	(89,523)
11,355,513	11,355,513	Adjustments and Financing Items	(98,150)	827,657	925,807	12,570,259	1,214,746
(560,480)	(560,480)	Amenities shared by whole community	0	0	0	(560,480)	0
(150,000)	(150,000)	Interest Received	0	0	0	(150,000)	0
0	**7**	**Total Housing Revenue Account**	**(26,017,271)**	**(31,352,988)**	**(5,335,717)**	**(908,635)**	**(908,642)**

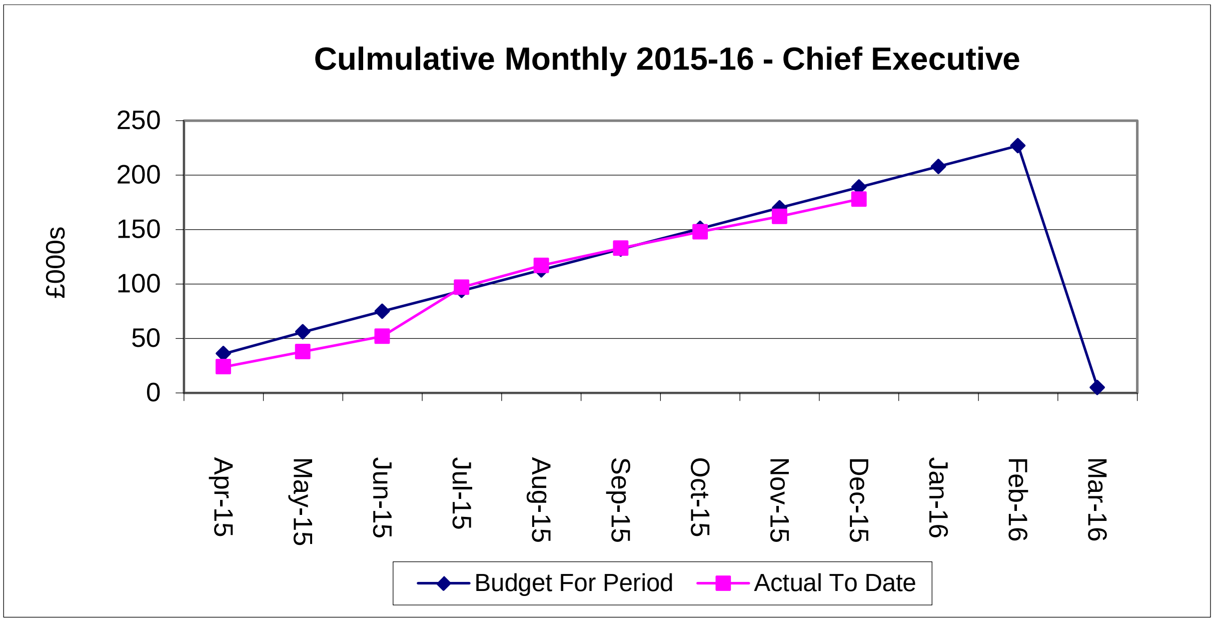
Budget and Expenditure – Monthly by Service Graphs

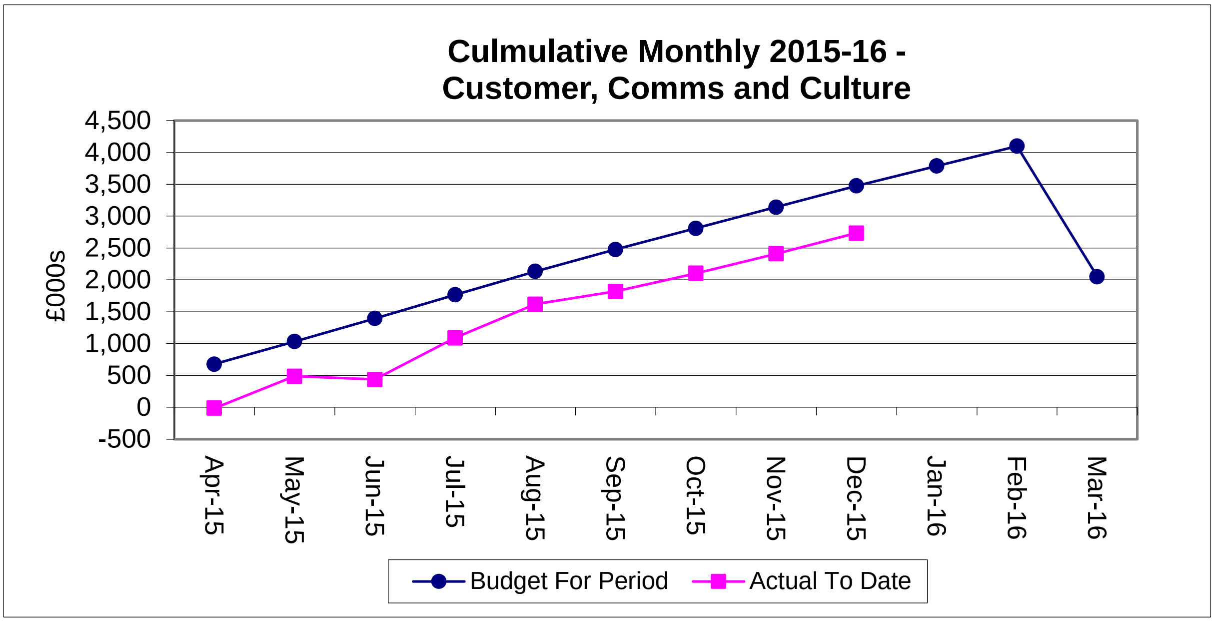
The following graphs show the monthly budget profile and income/expenditure to date for each service (both general fund and housing revenue account) for the financial year.

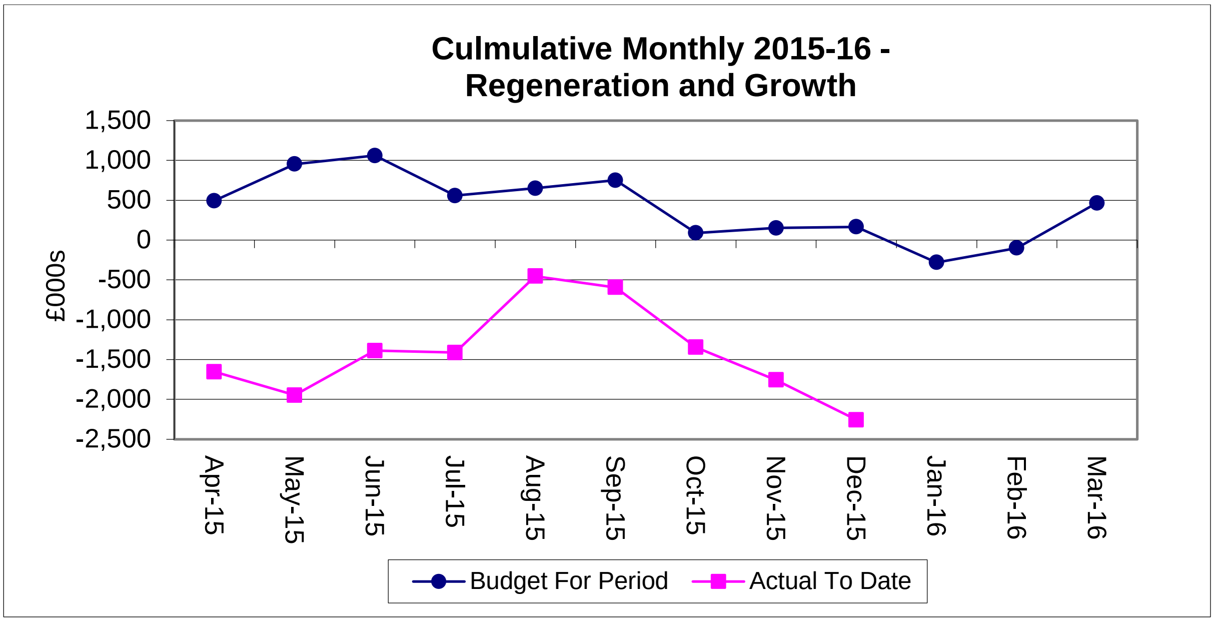
The actual income/expenditure reported is influenced by accrual provisions brought forward from the previous financial year, and by any delays in invoicing and/or payment.

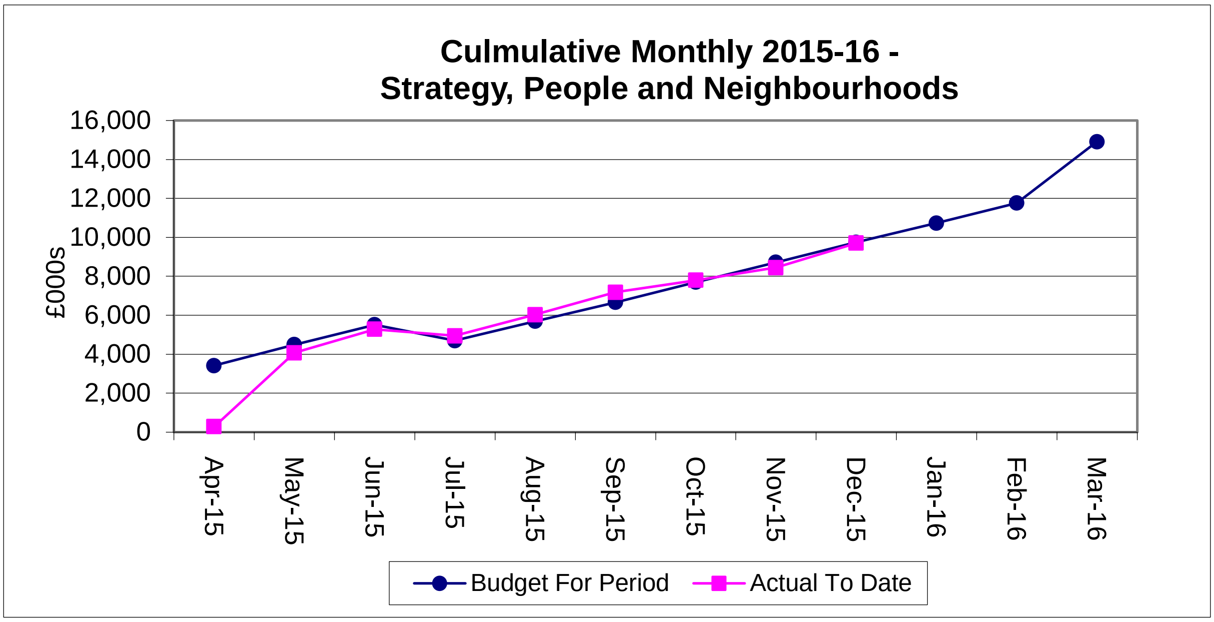
Budgets are profiled to show the expected pattern of income and expenditure, and will be refined and improved during the course of the financial year.

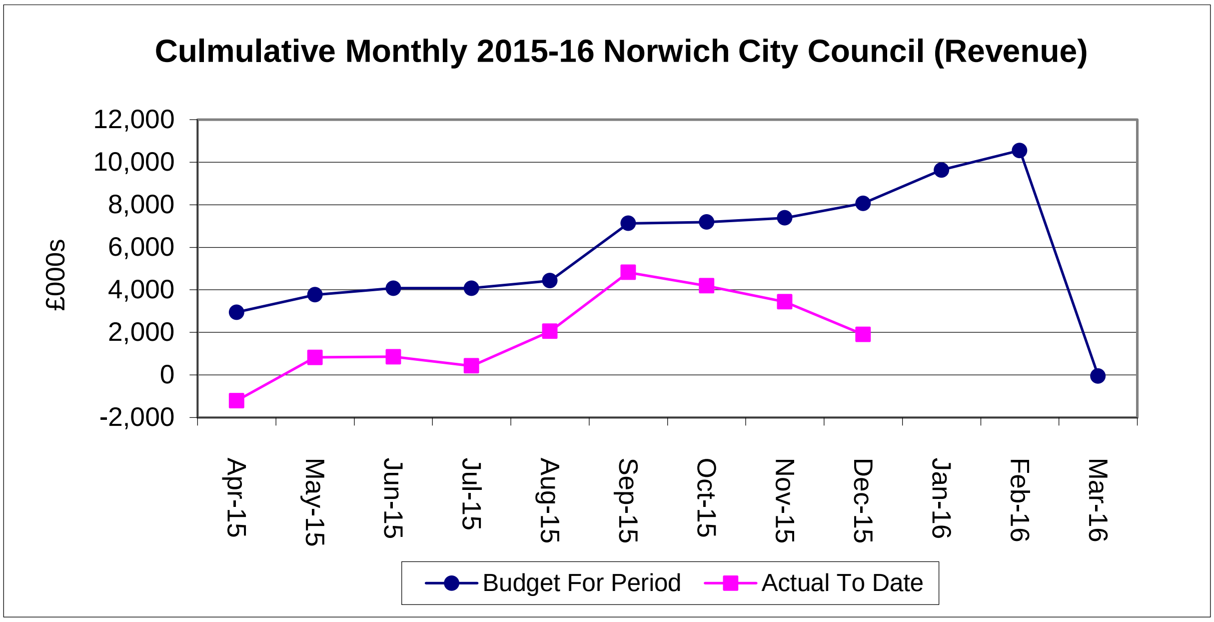





Culmulative Monthly 2015-16 -
Customer, Comms and Culture
£000s
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
-500
Apr-15
May-15
Jun-15
Jul-15
Aug-15
Sep-15
Oct-15
Nov-15
Dec-15
Jan-16
Feb-16
Mar-16
Budget For Period
Actual To Date


Culmulative Monthly 2015-16 -
Regeneration and Growth
£000s
1,500
1,000
500
0
-500
-1,000
-1,500
-2,000
-2,500
Apr-15
May-15
Jun-15
Jul-15
Aug-15
Sep-15
Oct-15
Nov-15
Dec-15
Jan-16
Feb-16
Mar-16
Budget For Period
Actual To Date


Culmulative Monthly 2015-16 -
Strategy, People and Neighbourhoods
£000s
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
Apr-15
May-15
Jun-15
Jul-15
Aug-15
Sep-15
Oct-15
Nov-15
Dec-15
Jan-16
Feb-16
Mar-16
Budget For Period
Actual To Date



Culmulative Monthly 2015-16 Norwich City Council (Revenue)
£000s
12,000
10,000
8,000
6,000
4,000
2,000
0
-2,000
Apr-15
May-15
Jun-15
Jul-15
Aug-15
Sep-15
Oct-15
Nov-15
Dec-15
Jan-16
Feb-16
Mar-16
Budget For Period
Actual To Date

Report to	Cabinet	**Item**
	3 February 2016	9
Report of	Chief finance officer	
Subject	Capital budget monitoring 2015-16 – Quarter 3	

Purpose

To consider the financial position of the capital programmes as at 31 December 2015

Recommendations

To note the position of the housing and non-housing capital programmes as at 31 December 2015

Corporate and service priorities

The report helps to meet the corporate priorities to provide value for money services and to make Norwich a healthy city with good housing.

Financial implications

The financial implications are set out in the body of the report.

Ward/s: All wards

Cabinet member: Councillor Stonard – Resources and income generation

Contact officers

Justine Hartley, chief finance officer	01603 212440
Shaun Flaxman, group accountant	01603 212805

Background documents

None

Report

1. The housing and non-housing capital programmes for 2015-16 were approved by cabinet and council on 4 and 17 February 2015 respectively.

2. The carry-forward of unspent 2014-15 capital budgets to the 2015-16 capital programme was approved following delegation to the executive head of regeneration and development, executive head of strategy, people and neighbourhoods and chief finance officer, in consultation with the portfolio holder for resources and income generation, by cabinet on 10 June 2015.

Non-housing capital programme

2015-16 current position

3. The financial position of the non-housing capital programme is set out in detail in Appendix 1 and summarised with commentary in the following paragraphs.

4. The following table shows expenditure to date and the forecast outturn for expenditure against the approved capital budgets.

Programme Group	Original Budget £000's	Current Budget £000's	Actual to Date £000's	Forecast Outturn £000's	Forecast Variance £000's
Asset Improvement	30	382	79	326	(56)
Asset Investment	1,000	728	(2)	133	(594)
Asset Maintenance	1,233	2,465	636	2,195	(270)
Initiatives Funding	500	1,797	292	1,019	(778)
Regeneration	6,843	15,836	5,074	12,025	(3,811)
Community Infrastructure Levy	1,150	1,150	235	1,090	(60)
Greater Norwich Growth Partnership	378	401	150	323	(78)
Section 106	292	926	65	346	(580)
City Cycle Ambition (Group 1)	22	2,914	1,564	2,908	(5)
City Cycle Ambition (Group 2)	720	720	93	413	(307)
Total Non-Housing	**12,168**	**27,319**	**8,185**	**20,779**	**(6,540)**

5. As at 31 December 2015, the non-housing forecast outturn is £20.78m, which would result in an underspend of £6.54m. The significant variances are largely due to the expenditure profile of significant new build housing projects that are planned to extend into the next financial year (£3.9m) and the re-profiling of planned expenditure against specific schemes such as City Cycle Ambition Group 2 (£0.3m) and Section 106 schemes (£0.6m). It is anticipated that a request will be made to carry forward some of these budgets into 2016-17.

6. The current budget figures shown in this report assume virements for which approval is sought in a separate report on this cabinet agenda.

7. Due to the nature of the programmes and the basis of valuations there is a delay between works being completed and receipt of valuations from contractors which can result in significant variances between actual expenditure to date and forecast outturns for the year end.

8. The non-housing capital programme will continue to be monitored throughout the financial year to ensure that programmes deliver to budget within revised project timescales.

Non-housing capital resources

9. The following table shows the approved sources and application of non-housing capital resources, and receipts.

Housing Capital Resources	Original Approved £000s	Brought Forward £000s	Approved Adjustments £000s	Total Resources £000s	Arisen to Date £000s	Forecast Outturn £000s
Section 106	(447)	(1,657)	0	(2,104)	(1,996)	(2,010)
Community Infrastructure Levy	(1,207)	(94)	0	(1,301)	(782)	(782)
CIL Neighbourhood	(150)	(62)	0	(212)	(173)	(173)
Borrowing	(12,101)	0	0	(12,101)	0	(11,773)
Capital Grants	(1,324)	(6,566)	0	(7,890)	(7,641)	(7,641)
Greater Norwich Growth Partnership	(346)	(21)	0	(367)	(8)	(323)
Capital Receipts and Balances	(1,250)	(1,692)	0	(2,942)	(2,064)	(3,455)
Total Non-Housing Capital Resources	**(16,825)**	**(10,092)**	**0**	**(26,917)**	**(12,664)**	**(26,158)**

Housing capital programme

2015-16 current position

10. The financial position of the housing capital programme is set out in detail in Appendix 2 and summarised with commentary in the following paragraphs.

11. The following table shows expenditure to date and the forecast outturn for expenditure against the approved capital budgets.

Programme Group	Original Budget £000's	Current Budget £000's	Actual to Date £000's	Forecast Outturn £000's	Forecast Variance £000's
Housing Investment	9,498	15,848	3,497	6,892	(8,955)
Neighbourhood Housing	33,327	35,834	19,720	31,275	(5,039)
Strategic Housing	1,501	1,800	411	1,214	(105)
Total Housing	**44,326**	**53,481**	**23,627**	**39,381**	**(14,100)**

12. As at 31 December 2015, the forecast outturn is £39.38m which would result in an underspend of £14.1m. The variance is largely due to the expenditure profile of large new build social housing projects that are planned to extend into the next financial year (£8.2m) and projected delays in the completion of tower block regeneration (£1.26m), heating installation (£1.5m), structural projects (£0.7m). It is anticipated that a request will be made to carry forward some of these budgets into 2016-17.

13. Due to the nature of the programmes and the basis of valuations there is a delay between works being completed and receipt of valuations from contractors which can result in significant variances between actual expenditure to date and forecast outturns for the year end.

14. The housing capital programme will continue to be monitored throughout the financial year to ensure that programmes deliver to budget within revised project timescales.

Housing capital resources

15. The following table shows the approved sources and application of housing capital resources, and receipts.

Housing Capital Resources	Original Approved £000s	Brought Forward £000s	Approved Adjustments £000s	Total Resources £000s	Arisen to Date £000s	Forecast Outturn £000s
Housing Capital Grants	(504)	(16)	0	(520)	(536)	(520)
HRA Major Repairs Reserve	(12,118)	0	0	(12,118)	0	(12,118)
HRA Borrowing from Headroom	(2,845)	0	0	(2,845)	0	0
HRA Revenue Contribution to Capital	(25,235)	0	0	(25,235)	0	(9,400)
HRA Leaseholder Contribution to Major Works	(200)	0	0	(200)	0	(200)
HRA Capital Receipts and Balances	(3,423)	(22,597)	0	(26,020)	(28,837)	(30,463)
Total Housing Capital Resources	**(44,325)**	**(22,613)**	**0**	**(66,938)**	**(29,373)**	**(52,701)**

16. The excess of balances brought forward, includes the approved carried forward budgets from 2014-15.

Capital programme risk management

17. The following table sets out a risk assessment of factors affecting the planned delivery of the 2015-16 capital programmes.

Risk	Likelihood	Impact	Rating	Mitigation
General Fund Capital Receipts not received or delayed	Possible (3)	Major (5)	(15)	Expenditure incurred only as receipts secured
Norwich HCA partnership strategic priority schemes delayed or frustrated	Possible (3)	Major (5)	(15)	Oversight by Norwich HCA partnership Strategic Board
Detailed schemes not brought forward to utilise agreed capital funding	Possible (3)	Moderate (3)	(9)	Active pursuit of investment opportunities; budget provisions unspent could be carried forward if necessary
Cost overruns	Possible (3)	Moderate (3)	(9)	Robust contract management and constraints
Business case for asset improvement programme not sustainable	Unlikely (2)	Moderate (3)	(6)	Advice taken from expert property specialists
Contractor failure or capacity shortfall(s) prevents/delays capital works being carried out	Unlikely (2)	Moderate (3)	(6)	Robust financial checks during procurement process and awareness of early signs of financial difficulties
Housing Capital Receipts not received from RTB sales	Very unlikely (1)	Major (5)	(5)	Relatively low levels of RTB receipts have been forecast; in-year monitoring

Risk	Likelihood	Impact	Rating	Mitigation
Housing Capital Receipts not received from sale of houses beyond economic repair	Possible (3)	Minor (1)	(3)	No plans to use funding until it has been received
Level of Housing contributions from leaseholders does not match forecast	Unlikely (2)	Minor (1)	(2)	Robust charging procedures within contract to ensure amounts due are recovered

Integrated impact assessment	NORWICH City Council

The IIA should assess **the impact of the recommendation** being made by the report
Detailed guidance to help with completing the assessment can be found here. Delete this row after completion

Report author to complete	
Committee:	Cabinet
Committee date:	
Head of service:	Justine Hartley, Chief Finance Officer
Report subject:	Capital Programme Monitoring 2015-16 Q3
Date assessed:	
Description:	To report the current financial position

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)		x		Report demonstrates efficient, effective, and economic delivery of capital works
Other departments and services e.g. office facilities, customer contact	x			
ICT services	x			
Economic development	x			
Financial inclusion	x			
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	x			
S17 crime and disorder act 1998	x			
Human Rights Act 1998	x			
Health and well being	x			

	Impact			
Equality and diversity (please add an ‘x’ as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	☒	☐	☐	
Eliminating discrimination & harassment	☒	☐	☐	
Advancing equality of opportunity	☒	☐	☐	
Environmental (please add an ‘x’ as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	☒	☐	☐	
Natural and built environment	☒	☐	☐	
Waste minimisation & resource use	☒	☐	☐	
Pollution	☒	☐	☐	
Sustainable procurement	☒	☐	☐	
Energy and climate change	☒	☐	☐	
(Please add an ‘x’ as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**

	Impact			
Risk management	☐	☒	☐	Report demonstrates awareness of risks to delivery of planned capital works and mitigating actions

Recommendations from impact assessment
Positive
None
Negative
None
Neutral
None
Issues
None

Non-Housing Capital Programme

Approved Budget	Current Budget		Actual To Date	Forecast Outturn	Forecast Variance
0	45,775	5294 Eaton Park Tennis Development	0	0	(45,775)
0	183,830	5324 City Hall 2nd Floor	2,580	183,830	0
0	97,289	5326 Earlham Park access imps	74,523	97,289	0
30,000	30,000	5332 City Hall external lighting	1,829	20,000	(10,000)
0	25,000	5335 St Andrew's Hall Sound System	0	25,000	0
30,000	**381,894**	**Subtotal Asset Improvement**	**78,932**	**326,119**	**(55,775)**
0	0	5310 22 Hurricane way - asbestos	862	862	862
0	25,753	5312 Yacht Station Repairs	0	0	(25,753)
1,000,000	701,750	5315 Asset investment for income (other	0	132,250	(569,500)
0	0	5925 Replacement of P&D Payment	(3,000)	0	0
1,000,000	**727,503**	**Subtotal Asset Investment**	**(2,138)**	**133,112**	**(594,391)**
0	0	5245 Memorial Gardens temporary works	1,191	1,279	1,279
10,000	10,000	5293 Millar Hall - Norman Centre	0	10,000	0
0	1,183,756	5308 St Andrews MSCP repair	579,089	1,183,756	0
0	0	5900 Bedford St 19/21 fire alarm	272	362	362
30,000	30,000	5902 Castle Museum 18A roof	0	30,000	0
0	0	5906 Hurricane Way 6-12 enabling works	677	791	791
0	20,000	5909 Halls - floor works	0	0	(20,000)
0	15,000	5910 Halls - WC works	0	20,000	5,000
4,000	0	5912 St Edmunds churchyard works	0	0	0
0	96,667	5913 Swanton Rd - Astra TC works	50,386	96,667	0
50,000	50,000	5915 District Lighting upgrade	0	50,000	0
0	29,000	5917 Riverside Leisure Centre works	0	29,000	0
70,000	70,000	5918 St Andrews MSCP CCTV	0	70,000	0
30,000	30,000	5931 Eaton Park access improvements	0	0	(30,000)
15,000	15,000	5932 Bridewell Museum Re-roofing works	0	15,000	0
30,000	30,000	5933 Car Park - Westwick Street	799	1,066	(28,934)
80,000	0	5934 Castle Gate Houses Refurb	0	0	0
3,500	3,500	5935 Charing Cross Re-roofing works	0	0	(3,500)
10,000	5,000	5936 City Bridges	0	5,000	0
100,000	200,000	5937 City Hall finials	0	200,000	0
6,000	6,000	5938 Community Centre - Cadge Rd	0	6,000	0
15,000	0	5939 Community Centre - Cadge Rd	0	0	0
25,000	15,000	5940 Community Centre - Catton Grove	0	15,000	0
35,000	47,600	5941 Community Centre - Norman Car	2,330	47,600	0
35,000	11,400	5942 Community Centre - Norman	0	11,400	0
6,000	6,000	5943 Elm Hill 28 Helifixing	0	6,000	0
50,000	50,000	5944 Investment Portfolio - Refurbishment	323	50,000	0
10,000	10,000	5945 Market - Livestock New Watermain	0	10,000	0
10,000	10,000	5946 Riverside - Pontoons and Ramps	0	10,000	0
3,000	3,000	5947 Riverside - Footpath	0	3,000	0
5,000	7,500	5948 St Andrews & Blackfriars Halls	415	12,500	5,000
20,000	20,000	5949 St Andrews & Blackfriars Hall WC	0	20,000	0
50,000	15,000	5950 Yacht Station Footpath upgrade	0	10,200	(4,800)
60,000	40,000	5951 Yacht Station Main Building upgrade	0	40,000	0
150,000	0	5952 Provision Market Toilets Upgrade	0	0	0
97,000	0	5953 Park depot redevelopment	0	0	0

Approved Budget	Current Budget		Actual To Date	Forecast Outturn	Forecast Variance
210,000	210,000	5954 Waterloo Park pavillion works	208	277	(209,723)
10,000	10,000	5955 Riverside - Footpath Pedestrian	0	10,000	0
3,500	3,500	5956 Riverside - Footpath drainage	0	3,500	0
0	20,000	5959 CC Norman Bowl Lighting	0	35,000	15,000
0	25,000	5960 CC Norman Gym re-roofing	0	25,000	0
0	85,000	5961 Hurricane way (Office block)	0	85,000	0
0	75,000	5962 Hurricane way (6-14) demolition	0	75,000	0
0	7,500	5963 16 St Andrews Street re roofing works	0	7,000	(500)
1,233,000	**2,465,423**	**Subtotal Asset Maintenance**	**635,690**	**2,195,398**	**(270,025)**
1,000,000	1,000,000	5580 CIL Contribution Strategic	221,574	1,000,000	0
10,000	10,000	5589 CIL neighbourhood - Community	0	10,000	0
20,000	20,000	5590 CIL neighbourhood - Britannia Rd	3,322	20,000	0
3,000	3,000	5591 CIL neighbourhood -	0	3,000	0
10,000	10,000	5592 CIL neighbourhood - Natural	90	90	(9,910)
7,000	7,000	5593 CIL neighbourhood - Lakenham Way	600	7,000	0
50,000	50,000	5594 CIL neighbourhood - City Trees	9,535	50,000	0
50,000	50,000	5595 CIL neighbourhood - Netherwood	0	0	(50,000)
1,150,000	**1,150,000**	**Subtotal Community Infrastructure Levy**	**235,121**	**1,090,090**	**(59,910)**
0	0	5102 North Park Avenue - UEA zebra	765	1,020	1,020
0	(118,498)	5103 UEA Hub	0	(118,498)	0
0	755,025	5104 The Avenues	460,136	731,000	(24,025)
0	135	5107 Alexandra Road - Park Lane (via	135	749	614
0	148,720	5108 Park Lane - Vauxhall Street	143,082	162,000	13,280
0	0	5109 Vauxhall Street - Bethel Street	(316,911)	1,342	1,342
0	14,274	5110 Market hub	0	14,274	0
0	161,000	5111 Magdalen Street and Cowgate	188,105	189,000	28,000
0	887,000	5113 Tombland & Palace Street	637,610	1,044,000	157,000
0	0	5114 Gilders Way - Cannell Green	5,761	6,069	6,069
0	386,904	5115 Heathgate - Valley Drive	205,170	331,000	(55,904)
0	577	5117 Munnings Road - Greenborough	633	843	266
0	197,000	5118 Salhouse Road (Hammond Way -	27,990	207,000	10,000
0	370,915	5119 20 mph areas	46,623	147,000	(223,915)
0	32,000	5121 Directional signage and clutter	26,910	38,000	6,000
0	23,491	5122 Automatic cycle counters	17,544	23,491	0
22,000	55,000	5123 Cycle City Ambition Project	120,729	130,000	75,000
22,000	**2,913,543**	**Subtotal Cycle City Ambition**	**1,564,282**	**2,908,290**	**(5,253)**
306,000	306,000	5126 PtP - Yellow - Lakenham/Airport	0	0	(306,000)
304,000	304,000	5127 PtP - Blue - Cringleford/Sprowston	0	0	(304,000)
110,000	110,000	5128 PtP - Yellow & Blue - City Centre	0	0	(110,000)
0	0	5141 CCAG2 Liberator Road	1,327	3,800	3,800
0	0	5142 CCAG2 Spitfire RD Hurricane Way	171	2,000	2,000
0	0	5143 CCAG2 Hurricane Way - Heyford Rd	148	197	197
0	0	5144 CCAG2 Taylors Lane (Connector)	141	188	188
0	0	5145 CCAG2 Fifers Lane/Ives Rd/Heyford	567	38,000	38,000
0	0	5146 CCAG2 Ives Rd - Weston Rd Ind est.	93	124	124
0	0	5147 CCAG2 Bussey Rd - Ives Rd	209	2,000	2,000
0	0	5148 CCAG2 Mile Cross Lane	1,363	1,363	1,363
0	0	5149 CCAG2 Woodcock Rd / Catton	5,128	19,000	19,000
0	0	5150 CCAG2 Mile Cross - Angel Rd via	5,983	55,000	55,000
0	0	5151 CCAG2 Angel RD	307	307	307
0	0	5152 CCAG2 Shipstone Rd/Waterloo Rd	981	19,000	19,000
0	0	5153 CCAG2 Edward Street north	217	217	217
0	0	5154 CCAG2 St Crispins (St Georges -	1,026	9,000	9,000
0	0	5155 CCAG2 Golden Ball	13,397	15,550	15,550
0	0	5156 CCAG2 All Saints	513	9,000	9,000

Approved Budget	Current Budget		Actual To Date	Forecast Outturn	Forecast Variance
0	0	5157 CCAG2 Lakenham Way	1,484	24,000	24,000
0	0	5158 CCAG2 Sandy Lane(Bessemer -	181	181	181
0	0	5159 CCAG2 Hall Rd (Bessemer - Old	2,319	28,000	28,000
0	0	5160 CCAG2 Ipswich Road - Old Hall	1,401	1,868	1,868
0	0	5161 CCAG2 20 MPH areas (Yellow)	15,648	20,864	20,864
0	0	5162 CCAG2 Cycle Parking (Yellow)	197	197	197
0	0	5167 CCAG2 Centre of Cringleford	80	107	107
0	0	5168 CCAG2 Bluebell Road (Connector)	9,105	13,000	13,000
0	0	5169 CCAG2 Eaton Centre	12,973	24,000	24,000
0	0	5170 CCAG2 Eaton - Newmarket Rd south	40	54	54
0	0	5171 CCAG2 Newmarket Rd (Unthank Rd	601	5,887	5,887
0	0	5172 CCAG2 Newmarket Rd / ORR &	403	3,945	3,945
0	0	5173 CCAG2 Newmarket Rd (ORR -	528	5,167	5,167
0	0	5174 CCAG2 Wessex Street approach to	444	4,700	4,700
0	0	5175 CCAG2 Magdalen Rd	2,333	4,700	4,700
0	0	5176 CCAG2 St Clements Hill (entrance	3,035	4,700	4,700
0	0	5177 CCAG2 Chartwell Road/St Clements	710	4,700	4,700
0	0	5180 CCAG2 Cycle Parking (Blue)	385	385	385
0	0	5183 CCAG2 St George's St/Colegate	1,202	42,000	42,000
0	0	5184 CCAG2 Opie St/Castle Meadow (on	698	24,000	24,000
0	0	5185 CCAG2 City Centre Strategy for	19	4,700	4,700
0	0	5186 CCAG2 Administration	7,963	21,000	21,000
720,000	**720,000**	**Subtotal Cycle City Ambition Group 2**	**93,320**	**412,901**	**(307,099)**
0	0	5919 Danby Wood GNDP	525	700	700
0	0	5920 Marston Marsh GNGP	640	853	853
66,000	77,840	5921 Earlham Millenium Green	9,341	13,308	(64,532)
62,000	65,639	5922 Riverside Walk GNDP	6,315	65,639	0
250,000	257,568	5923 Marriotts Way GNDP	132,778	242,568	(15,000)
378,000	**401,047**	**Subtotal GNGP**	**149,599**	**323,068**	**(77,979)**
50,000	191,781	5305 Eco-Investment Fund	7,699	20,000	(171,781)
400,000	987,452	5317 IT Investment Fund	0	533,410	(454,042)
0	20,202	5328 Citizen Gateway Permits	0	0	(20,202)
50,000	50,000	6049 Investment in UK Management	50,000	50,000	0
0	415,777	6054 DECC Green Deal Communities	234,554	415,777	0
0	132,250	6057 Third Party Loan	0	0	(132,250)
500,000	**1,797,462**	**Subtotal Initiatives Funding**	**292,253**	**1,019,187**	**(778,275)**
0	0	5300 Norwich Connect 2	(685)	(914)	(914)
0	231,255	5314 Ass Inv - Mile Cross Depot	44,221	100,000	(131,255)
0	0	5319 Riverside Path Work	(12)	(15)	(15)
0	6,499,814	5320 Rose Lane MSCP Construction	3,289,995	6,483,000	(16,814)
0	260,000	5322 Riverside Walk (adj NCFC)	6,036	40,000	(220,000)
587,000	587,000	5325 Mountergate Phase 2	1,000	1,000	(586,000)
0	265,000	5327 Park Depots demolition	0	0	(265,000)
39,000	39,000	5333 Magpie Road city wall landscape	4,897	39,000	0
0	2,492,410	5512 NaHCASP Threescore	1,401,985	2,492,410	0
4,333,000	3,577,535	8805 New Build - Threescore 2	253,753	2,797,600	(779,935)
1,884,000	1,884,000	8807 New Build - Airport	72,526	72,526	(1,811,474)
6,843,000	**15,836,014**	**Subtotal Regeneration**	**5,073,716**	**12,024,607**	**(3,811,407)**

Approved Budget	Current Budget		Actual To Date	Forecast Outturn	Forecast Variance
0	6,019	5701 s106 Chapelfield Gardens Play	(298)	0	(6,019)
0	0	5704 s106 Stylman Road Play Provision	1,103	1,471	1,471
99,000	188,000	5705 s106 The Runnel Play Provision	1,722	20,000	(168,000)
0	0	5717 s106 Wensum Comm Centre Play	323	323	323
19,000	37,485	5723 Pointers Field Playbuilder Capital	1,218	37,485	0
0	7,000	5730 S106 Midland Street Open Space	0	0	(7,000)
0	9,853	5731 s106 Wooded Ridge project	0	0	(9,853)
17,000	30,000	5732 s106 Wensum View Play	0	10,000	(20,000)
0	42,838	5733 s106 Sarah Williman Close	246	42,838	0
9,000	90,000	5735 s106 Castle Green Play	3,641	30,000	(60,000)
0	40,367	5737 S106 Heartsease Play Area	3,112	40,367	0
0	0	5738 S106 Mousehold Heath environs	0		
66,000	66,000	5740 Bowthorpe Southern park	3,336	11,000	(55,000)
0	50,000	5801 s106 Hurricane Way Bus Link	0	0	(50,000)
0	22,000	5806 Threescore, Bowthorpe - sustainable	0	0	(22,000)
0	29,929	5813 S106 Green Infrastructure Imps	0	0	(29,929)
44,000	163,000	5821 S106 Livestock Mkt Cycle/Walkway	0	63,000	(100,000)
0	87,000	5823 BRT & Cycle Route Measures	10,088	33,421	(53,579)
38,000	53,000	5825 Sustainable Transport Car Club	40,049	53,000	0
0	3,259	5826 Goals Soccer Centre Ped Refuse	0	3,259	0
292,000	**925,750**	**Subtotal Section 106**	**64,540**	**346,164**	**(579,586)**
12,168,000	**27,318,636**	**Total Non-Housing Capital Programme**	**8,185,315**	**20,778,936**	**(6,539,700)**

APPENDIX 2

Housing Capital Programme

Approved Budget	Current Budget		Actual To Date	Forecast Outturn	Forecast Variance
92,900	170,000	7460 Sheltered Housing Redevelopment	93,757	170,000	0
0	1,817,135	7461 Sheltered Hsg redevelopment - St	1,378,238	1,829,000	11,865
0	1,748,392	7462 Sheltered Hsg redevelopment -	282,042	1,248,867	(499,525)
500,000	500,000	7930 Capital Buybacks	0	250,000	(250,000)
355,000	390,000	8800 New Build - Riley Close	10,045	120,000	(270,000)
11,000	13,000	8801 New Build - Pointers Field	1,950	13,000	0
5,000,000	6,139,718	8802 New Build - Goldsmith Street	740,377	870,000	(5,269,718)
850,000	1,788,037	8803 New Build - Brazengate	797,108	1,604,787	(183,250)
925,000	1,272,630	8804 New Build - Hansard Close	41,552	636,315	(636,315)
1,763,787	1,763,787	8805 New Build - Threescore 2	115,576	114,437	(1,649,350)
0	245,010	8807 New Build - Airport	35,939	35,939	(209,071)
9,497,687	**15,847,709**	**Subtotal Housing Investment**	**3,496,584**	**6,892,345**	**(8,955,364)**
1,422,900	1,449,334	7010 Electrical - Internal	778,991	1,449,334	0
521,450	678,450	7040 Whole House Improvements	351,754	750,000	71,550
8,324,350	8,324,350	7070 Kitchen Upgrades	6,276,982	8,324,350	0
4,015,750	4,615,750	7080 Bathroom Upgrades	3,470,301	4,615,750	0
614,300	1,409,300	7100 Boilers - Communal	333,093	615,000	(794,300)
4,180,050	4,355,050	7110 Boilers - Domestic	1,733,675	2,850,000	(1,505,050)
957,150	1,027,150	7150 Insulation	951,622	1,147,744	120,594
507,150	507,150	7170 Solar Thermal & Photovoltaic	79,480	450,000	(57,150)
228,600	561,563	7200 Windows - Programme	180,498	250,000	(311,563)
1,624,300	1,624,300	7280 Composite Doors	963,852	1,850,000	225,700
64,300	64,300	7300 Comm Safe - DES	3,811	5,000	(59,300)
514,300	514,300	7310 Estate Aesthetics	0	314,300	(200,000)
289,300	309,300	7470 Sheltered Housing Comm Facilities	0	0	(309,300)
514,300	514,300	7480 Sheltered Housing Redevelopment	304,178	559,300	45,000
714,300	939,300	7520 Planned Maint - Roofing	460,661	939,300	0
0	65,000	7530 Boundary Walls & Access Gates	2,540	65,000	0
6,114,450	6,114,450	7540 Planned Maint - Structural	3,105,760	5,414,450	(700,000)
1,264,300	1,264,300	7570 Tower Block Regeneration	0	0	(1,264,300)
64,300	64,300	7580 Planned Maint - Lifts	8,618	64,300	0
907,250	907,250	7600 Dis Ad - Misc	607,353	907,250	0
207,150	207,150	7630 Dis Ad - Stairlifts	50,478	82,150	(125,000)
277,150	277,150	7700 HRA Shops	11,623	277,150	0
0	40,283	7950 Other - Communal Bin Stores	40,761	40,761	478
250,000	480,000	7960 Demolition & Site Maintenance	3,576	303,576	(176,424)
33,327,100	**35,833,780**	**Subtotal Neighbourhood Housing**	**19,719,607**	**31,274,715**	**(5,039,065)**

Approved Budget	Current Budget		Actual To Date	Forecast Outturn	Forecast Variance
0	0	6011 Minor Works Grant	1,090	1,453	1,453
0	68,606	6012 Empty Homes Grant	0	0	(68,606)
800,000	800,000	6018 Disabled Facilities Grant	332,409	786,896	(13,104)
0	0	6019 Capital Grants to Housing	(3,668)	(4,891)	(4,891)
0	0	6029 Small Adaptation Grants	3,664	4,885	4,885
0	0	6030 Home Improvement Loans	25,212	2,805	2,805
0	0	6031 Survey Costs	(8)	0	0
50,000	50,000	6044 Works in Default	2,507	25,000	(25,000)
23,000	23,000	6047 DFG Residents Contribution	49,978	65,115	42,115
96,000	96,000	6050 Strong & Well Project	0	96,000	0
282,200	282,200	6052 HIA - Housing Assistance	0	237,049	(45,151)
1,501,200	**1,799,806**	**Subtotal Strategic Housing**	**411,184**	**1,214,312**	**(105,494)**
44,325,987	**53,481,295**	**Total Housing Capital Programme**	**23,627,375**	**39,381,372**	**(14,099,923)**

Report to	Cabinet 3 February 2016	**Item**
Report of	Executive Head of Regeneration and Development	10
Subject	Community Infrastructure Levy (CIL) –Community element of CIL 2016-7	

Purpose

To consider the projects to be funded from the neighbourhood element of CIL in 2016-7 and provide an update on projects approved for funding in 2015-6.

Recommendation:

To agree that the projects listed in Table 2 in paragraph 17 of this report be funded from the neighbourhood element of CIL in 2016-7

Corporate and service priorities:

The report helps to meet the corporate priority "A prosperous city"

Financial Implications:

The table below shows the level of CIL neighbourhood funding collected to date (up to end of December 2015) and forecast for 2015-6 and 2016-7.

Financial Year	Actual £'000	Forecast £'000	**TOTAL**	Allocated / proposed
2013/14	2	-	2	-
2014/15	24	-	24	-
2015/16	47	117	164	148
2016/17	-	256	256	40
TOTAL	**73**	**373**	**446**	**188**

In February 2015, Cabinet approved funding for projects to the value of £148K for 2015-6. As it is not possible to predict with any certainty precisely when funds will be received as it is paid when development starts, a cautious approach is recommended and the report proposes allocating £40K for neighbourhood projects in 2016-7.

Ward/s: All

Cabinet member: Councillor Waters- Leader.

Contact officers

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Background documents

None

Report

Background

1. The council agreed in July 2013 to adopt the Community Infrastructure Levy (CIL) for the city. CIL is a means of securing developer contributions to fund essential infrastructure to serve new development and replaces the majority of s.106 contributions.

2. The CIL 2013 amendment regulations require that 15% of CIL revenue received by the charging authority (or 25% where there is a neighbourhood plan) be passed to parish and town councils where development has taken place (up to a limit of £100 per council tax dwelling in any year).

3. In areas without parish councils, communities will still benefit from this incentive. In these cases the charging authority will retain the CIL receipts but should engage with the communities where development has taken place and agree with them how best to spend the neighbourhood funding.

4. In February 2014, Cabinet agreed a process for engaging with communities before determining how this funding should be used. This was amended and updated to take account of the experience gained in the first year of the process. Cabinet agreed a slightly revised process in July 2015.

5. The regulations require that CIL income is spent on infrastructure as defined by the Town and Country Planning act 2008 (as amended). 'Infrastructure' includes:

   a) Roads and other transport facilities,

   b) Flood defences,

   c) Schools and other educational facilities,

   d) Medical facilities,

   e) Sporting and recreational facilities,

   f) Open spaces.

6. The neighbourhood funding element however can be spent on wider range of things. It can be spent on supporting the development of the area by funding:

   a) The provision, improvement, replacement, operation or maintenance of infrastructure; or

   b) Anything else that is concerned with addressing the demands that development places on an area. (This does not have to relate to any specific development).

Progress on projects funded in 2015-6.

7. The projects listed below were approved for funding from the community element of CIL in 2015-6. The narrative provides an update on progress to date on each of these :

Community Noticeboards- £10K
Neighbourhood managers identified that the community noticeboards in place around the city, although well-used, were in a generally poor condition and many needed replacement.

There are 16 notice boards at various locations used to promote activities and to signpost service providers, playing a vital role in providing information to the communities. These boards are owned by the council and managed by local volunteers who regularly update the information on them. The community and neighbourhoods see these boards as an important means for getting information without any cost.
The boards are over 20 years old and require a range of repairs, replacement parts and overhaul and do not currently reflect the council's corporate image.
This work is currently underway and is set to be complete during 2015-16.

Britannia Road traffic issues- £20K
The scheme responds to residents' concerns about excessive traffic speeds and the use of the street for 'boy racer circuits'. It will implement traffic calming and parking management measures to ensure traffic complies with 20mph limit, making the street safer for pedestrians and cyclists.

Scheme has been designed and is being safety audited during January 2016. Consultation will take place shortly, with delivery planned for 2016-7.

Bignold Road/ Drayton Road junction- £3K
Car sales on the verge facing the Bignold Road and Drayton Road junction led to complaints of poor visibility from local residents, school crossing managers and drivers. This can be simply addressed at minimal cost by the erection of hard wood posts around the grass verge.
Scheme design is underway, implementation will take place in 2016-17.

Natural area/ boundaries improvements George Fox Way and Augustus Hare Drive- £10K
Through liaison with residents, the neighbourhood manager identified an appetite to improve the natural areas and their boundary treatments at this location at a modest cost.
Commencement of work was delayed until January 2016 due to weather delays. Project will be complete early in 2016-17.

Lakenham Way stage 1- £7K
Local residents wished to encourage volunteer involvement and support the development of this route to increase its use, improve bio diversity, and make it

more attractive for schools/community groups . The nearby development at Harford Place increases the potential for greater use of the route.

Ecological studies were completed during 2015; activities and events to take place with schools during 2016 are currently being arranged.

8. Cabinet also agreed that subject to further funding being received during the course of the year, the following projects should be taken forward in 2015-6

   City trees- £50K
   As street trees have been removed due to age / disease, many have not been replaced. This project will replace 116 trees at various locations around the city.

   The sum includes site preparation (removal of any old stumps), planting, tree protection and initial establishment costs relating to watering etc.
   Trees, stakes and guards all ordered; all tree will be planted during winter 2015.

   Netherwood Green- £48K
   There is also a tract of wooded land that runs between Netherwood Green and County Hall which is a former play area. The space could be better managed to deter fly tipping, with potential for development of more formal BMX tracks through the woodland area.

   As insufficient funding has been received to date it is proposed to start this project in 2016-7.

9. Cabinet also recommended that further work was carried out on the Heartsease Electric Gym project with a view to funding this project in 2016-7. This would put in place robust outdoor fitness equipment in a public open space, capable of generating power for lighting, charging phones and so on. However the cost of the project is likely to exceed funds available for 2016-7 and with changes to the neighbourhood operating model this project is unlikely to be progressed.

10. A further £1-4K was also agreed to be allocated to complete work on the Lakenham Way project in 2016-7.Lakenham Way phase 1 is to be completed within 2016-17 with activities and engagement with local schools. Future activity will be included through development of the Yellow Pedalway, it is not anticipated at this point that additional CIL will be required.

Neighbourhood CIL funding available for 2016-7.

11. Table 1 shows the amount of funding received to date and forecast to be received over the next year:

Table 1: Forecast CIL neighbourhood funding for Norwich

Financial Year	Actual £'000	Forecast £'000	**TOTAL**	Allocated / proposed
2013/14	2	-	2	-
2014/15	24	-	24	-
2015/16	47	117	164	148
2016/17	-	256	256	40
TOTAL	**73**	**373**	**446**	**188**

12. It is not possible to predict with any certainty precisely when CIL income will be received as it is paid as development commences. On the basis of the level of CIL income forecast to be available before the start of 2016-7 and the commitments made in 2015, it is recommended that a maximum of £40K is allocated for expenditure for 2015-6.

Projects proposed for use of community element of CIL in 2016-7

13. The process agreed by Cabinet for determining the priorities for the use of the community element of CIL funding has been followed based on existing mechanisms for community engagement. This has been carried out in the context of the development of the council's capital budget.

14. A number of projects have been suggested through these processes. The relative priority of projects has been assessed, recognising that CIL is only one of a number of possible sources of funding available. Projects must also meet the requirements of the CIL regulations. The projects have all been assessed against the prioritisation criteria previously agreed by Cabinet :

    - Impact (the outcomes that will be achieved from the proposed project);
    - Deliverability (are there any constraints to implementing the project in the proposed timescale); and
    - Funding (availability of other funds, appropriateness of use of CIL, availability of sufficient CIL funding to cover the cost).

15. Some projects suggested are too large to be taken forward with the CIL funding available in 2016-7 but could be considered in future years.

16. The experience in delivering CIL funded projects in 2015-6 has shown that projects may take some time to develop with the community through initial feasibility and design stages. It is important therefore to be realistic about timescales for delivery and in many instances funding for feasibility and design work may be more appropriate in the first year with delivery in subsequent years.

17. The table below provides a brief description of projects recommended to be taken forward using CIL neighbourhood funding in 2016-7

Table 2: Brief description proposed CIL neighbourhood funded projects recommended for funding in 2016-7

Project	Description	Community involvement	Proposed allocation	Deliverability	Impact
Ketts Heights	Works to improve and repair site to encourage increased public use and to create a pedestrian link between Gas Hill / Ketts Hill). £10K is for feasibility work and that the friends group will then seeks funds eg HLF to cover costs of implementation. TOTAL COST likely to exceed £60K	The local community has taken the lead in proposing the enhancement of Kett's Heights, and a Friends group has recently formed. The Norwich Society is also supportive. Strong strategic links (housing growth at Rosary Road, development of Thorpe wooded ridge).	£10,000 This allocation is for feasibility work, funding for implementation (c50k) to be accessed by Friends group from HLF and other sources.	The local community has taken the lead in proposing the enhancement of Kett's Heights, and a Friends group has recently formed. The Norwich Society is also supportive.	Open up viewpoint at summit, repair and resurface paths, Repair fencing; Provide new interpretation board and entrance sign; Repair & stabilise chapel ruins, and refurbish Armada Beacon; Woodland management
20 acre wood (W Earlham)	The wood is a significant piece of local green space and is in need of investment to improve access, biodiversity and to control future expenditure on management. Funding will support this. (total cost 79,000)	Friends group was formed in 2013 following a series of community events and walkabouts by the west neighbourhood team. The group is keen to apply for local nature reserve status for the wood and the management plan and other CIL funded works will be a major part in progressing this. The community wishes to duplicate the success of the Friends of Marlpit Wood group reducing flytipping and improving perception of the wood.	£10,000 Allocation will permit delivery of key works, balance (c70k) to be accessed by Friends group from other sources.	Supported by Friends group, ready to deliver initial works.	Supports further development of Friends group; supports site's proposed designation as a local nature reserve

Chapel Break play area	Improvements to make play area more user-friendly and safer. Using s.106 funds from Chapelbreak. (total cost 6,000) The council would reduce its grounds maintenance budget marginally by reducing the amount of litter requiring clearance. Improving setting of the community centre increases its potential to earn income.	Project was originated by the community centre, who hope that clearing undergrowth it will reduce the incidence of litter and vandalism.	£4,000, matched with £2,000 s106	Ready to deliver if project is funded.	Removal of shrubs; Extension of the bark area will enable parents to see children using the play area and improve perception of safety.
Eaton Green Play Area	Improvements to existing play area- to be determined following consultation with community as part of the project. (total cost 40,000) Uses s.106 contributions from the Eaton neighbourhood - there are unlikely to be any additional play funds originating from S.106 agreements in that area of the city.	Strong community involvement – a group formed in order to raise funds from external sources. Neighbourhood CIL funding will therefore be matched with a further 20k.	£4,000, matched by £12,000 s106 (plus £20K s.106 for future maintenance..	Strong community support, supported by Friends group with a track record of securing external funding. Ready to deliver.	Improved range of play experience and quality of provision.
Community Enabling	Local champions to come forward with proposals for improving their area, thereby taking ownership of local issues.	Appetite for delivery from local community. Supports local ownership of local issues.	£12,000	Appetite for delivery from local community.	Supports community taking on local ownership of local issues.
			£40,000 total		

Next steps

18. The total amount of CIL neighbourhood funding committed for 2016-7 will be included in the Council’s capital programme.

19. Feedback will be provided to communities and ward members involved with the engagement process following the Cabinet decision.

20. The process will continue to be evaluated so that any necessary refinements can be made in future years.

Integrated impact assessment

NORWICH City Council

The IIA should assess **the impact of the recommendation** being made by the report

Detailed guidance to help with completing the assessment can be found here. Delete this row after completion

Report author to complete	
Committee:	Cabinet
Committee date:	3 February 2016
Head of service:	Andy Watt
Report subject:	Community Infrastructure Levy (CIL) –Community element of CIL 2016-76
Date assessed:	16 December 2015
Description:	

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	☒	☐	CIL will provide income for new infrastructure projects
Other departments and services e.g. office facilities, customer contact	☒	☐	☐	Admin fee can be covered by CIL income
ICT services	☒	☐	☐	
Economic development	☐	☒	☐	CIL will provide income for new infrastructure projects
Financial inclusion	☐	☒	☐	CIL will provide income for new infrastructure projects
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☒	☐	☐	.
S17 crime and disorder act 1998	☒	☐	☐	
Human Rights Act 1998	☒	☐	☐	
Health and well being	☐	☒	☐	CIL will provide income for new infrastructure projects

	Impact			
Equality and diversity (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	☐	☒	☐	CIL will provide income for new infrastructure projects
Eliminating discrimination & harassment	☒	☐	☐	
Advancing equality of opportunity	☐	☒	☐	CIL will provide income for new infrastructure projects
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	☐	☒	☐	CIL income may benefit transportation provision
Natural and built environment	☐	☒	☐	CIL income may provide improvements to the natural and built environment
Waste minimisation & resource use	☒	☐	☐	
Pollution	☒	☐	☐	
Sustainable procurement	☒	☐	☐	
Energy and climate change	☒	☐	☐	

	Impact			
(Please add an ‘x’ as appropriate)	Neutral	Positive	Negative	Comments
Risk management	☒	☐	☐	

Recommendations from impact assessment
Positive
CIL income will provide benefits to local communities and help to mitigate the impact of development.
Negative
There is no negative impact
Neutral
Issues

Report to	**Cabinet**	**Item**
	03 February 2016	11
Report of	Chief finance officer	
Subject	Change of Minimum Revenue Provision Policy	

Purpose

To seek approval for a change in the council's policy with respect to Minimum Revenue Provision

Recommendation

To approve the change in Minimum Revenue Policy to asset life – annuity basis

Corporate and service priorities

The report helps to meet the corporate priority value for money services

Financial implications

Moving to the recommended policy would save the council £3.5m over the next five years. Savings continue to be made until 2035/36. After this year the costs increase until the capital financing requirement is fully paid down in 2064/65. The net present value over the fifty years under the recommended policy is £11.2m, whereas under the current method it is £13.9m

Ward/s: All Wards

Cabinet member: Councillor Stonard - Resources and income generation

Contact officers

Justine Hartley	01603 212440
Philippa Dransfield	01603 212562

Background documents

None

Report

Introduction

1. Local authorities are required to prepare an annual Minimum Revenue Provision (MRP) Statement which is approved as part of the Treasury Management Strategy Statement (TMSS). This section of the report sets out a proposed change to the policy for 2015-16, which under the council's financial regulations requires Cabinet approval and a report to full Council.

Background

2. The statute and regulations with regard to MRP are covered in The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 and the DCLG document, Capital Finance Guidance on Minimum Revenue Provision (February 2012).

3. Regulations 27 and 28 (as amended in 2008) require that a local authority "shall determine for the current financial year an amount of Minimum Revenue Provision which it considers to be prudent". MRP is a charge to the revenue account in relation to capital expenditure financed from borrowing or credit arrangements.

4. The council's MRP policy was created in 2007 at the start of the new MRP system, therefore it has now been in place for 8 years, and the council now faces a substantially different financial context. Significant challenges remain and the council needs to review the method and application of its policies to ensure these remain appropriate and reasonable. The council is seeking to ensure a stable and deliverable financial transition over the next few years, in the interest of prudent management of the council's finances generally (not just MRP).

5. The council's current MRP policy adopts the 'CFR Method' of 4% of capital financing requirement (CFR) at each year end.

6. There are three other suggested options. In DCLG Guidance issued February 2012; the asset life method for MRP is stated as the preferred option, although any prudent provision is permitted.

Analysis of options considered

7. The four options for MRP policy under Local Authorities (Capital Finance and Accounting) (England) Regulations 2008 are:

    a. The Regulatory method – MRP is equal to the amount determined in accordance with the former regulations 28 & 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations.
    b. The CFR Method' of 4% of capital financing requirement (CFR) at each year end. This is the method the council currently uses.

c. Asset Life Method – under this method the MRP is determined by reference to the life of the asset. This is either done on an equal instalment method or by annuity method (MRP is the principal element for the year of the annuity required to repay over the asset life the capital expenditure financed by borrowing or credit arrangements).
d. Depreciation Method – MRP is equal to the provision required in accordance with depreciation accounting in respect of the asset on which the capital expenditure financed by borrowing or credit arrangements.

8. The Regulatory method is only available for the CFR relating to pre-2008 assets.

9. The CFR Method is a reducing balance formula which has the characteristic that the debt is never entirely repaid, because each year repays 4% of the outstanding balance at that time. It would take over 200 years to repay to near zero under the current method. In addition, an amount of debt equal to Adjustment A ((the difference between the credit ceiling and the Capital Financing Requirement on 1st April 2004) is never repaid at all. In Norwich's case, Adjustment A amounts to £2.2m.

10. The asset life equal instalments method:

    a) saves the council £471,263 in 2015/16 & £429,515 in 2016/17.
    b) the savings reduce but continue until 2029/30, after this there is extra annual cost to the council.
    c) the net present value of the MRP under the equal instalments method over 50 years is £13,770,212; that for MRP under the current method over the same period is £13,862,164, a saving of only £91,952.

11. The asset life annuity method :

    a) In 2015/16 produces a saving of £801,336, in 2016/17 a saving of £751,967.
    b) The savings reduce but continue until 2035/36, after this there is extra annual cost to the council.
    c) The net present value of the MRP under the annuity method over fifty years is £11,161,731; that for MRP under the current method over the same period is £13,862,164, a saving of £2,700,433. It should be noted that the balance of the CFR after 50 years is zero under the annuity method but £3,389,071 under the current CFR method.

12. Under the depreciation method alignment with the depreciation must include any amount for impairment chargeable to the Comprehensive Income and Expenditure Statement. This method would produce similar results to the asset life equal instalments method but with added uncertainty around impairments, therefore this method was not considered.

13. The detailed annual savings and graphs for the asset life method of calculating MRP are contained in the Appendices to this report. Appendix 1 is a graphical representation of the effect of each asset life method on MRP each year into the

future, MRP will be lower in the early and higher in the later years. For both asset life methods there is a drop in 2048 due to one asset coming to the end of its life. Appendix 2 is a table of the actual values of MRP under the two asset life methods and the saving of each of these over the current CFR 4% method.

14. The Capital Financing Requirement (CFR) is a measure of capital expenditure financed by borrowing. It is written off by MRP charges. After 50 years, the Council's CFR and debt would be lower under either asset life method than under current arrangements because asset life methods repay the whole General Fund Loans CFR over 50 years rather than leaving a balance perpetually outstanding. Appendix 3 is a graphical representation of the CFR at the end of each financial year. Appendix 4 is a table of the actual values of CFR at the end of each financial year.

15. Appendix 5 is a graphical representation of the net present value of the MRP charges over a fifty year period.

16. Appendix 6 is the proposed new MRP policy

17. This analysis is based on the Council's current borrowing; any new prudential borrowing in the future would increase the CFR accordingly and result in additional MRP.

18. The methodology and calculations have been shared with the council's external auditors and, subject to checking the figures to the council's accounting records, they have agreed the calculations and consequent savings.

Recommendation

19. It is recommended that Cabinet approve the change of MRP policy to the asset life – annuity basis. This will deliver the following savings:

   a) In 2015/16 produces a saving of £801,336, in 2016/17 a saving of £751,967.
   b) The savings reduce but continue until 2035/36, after this there is extra annual cost to the council.
   c) The net present value of the MRP under the annuity method over fifty years is £11,161,731; that for MRP under the current method over the same period is £13,862,164, a saving of £2,700,433.

Integrated impact assessment

NORWICH City Council

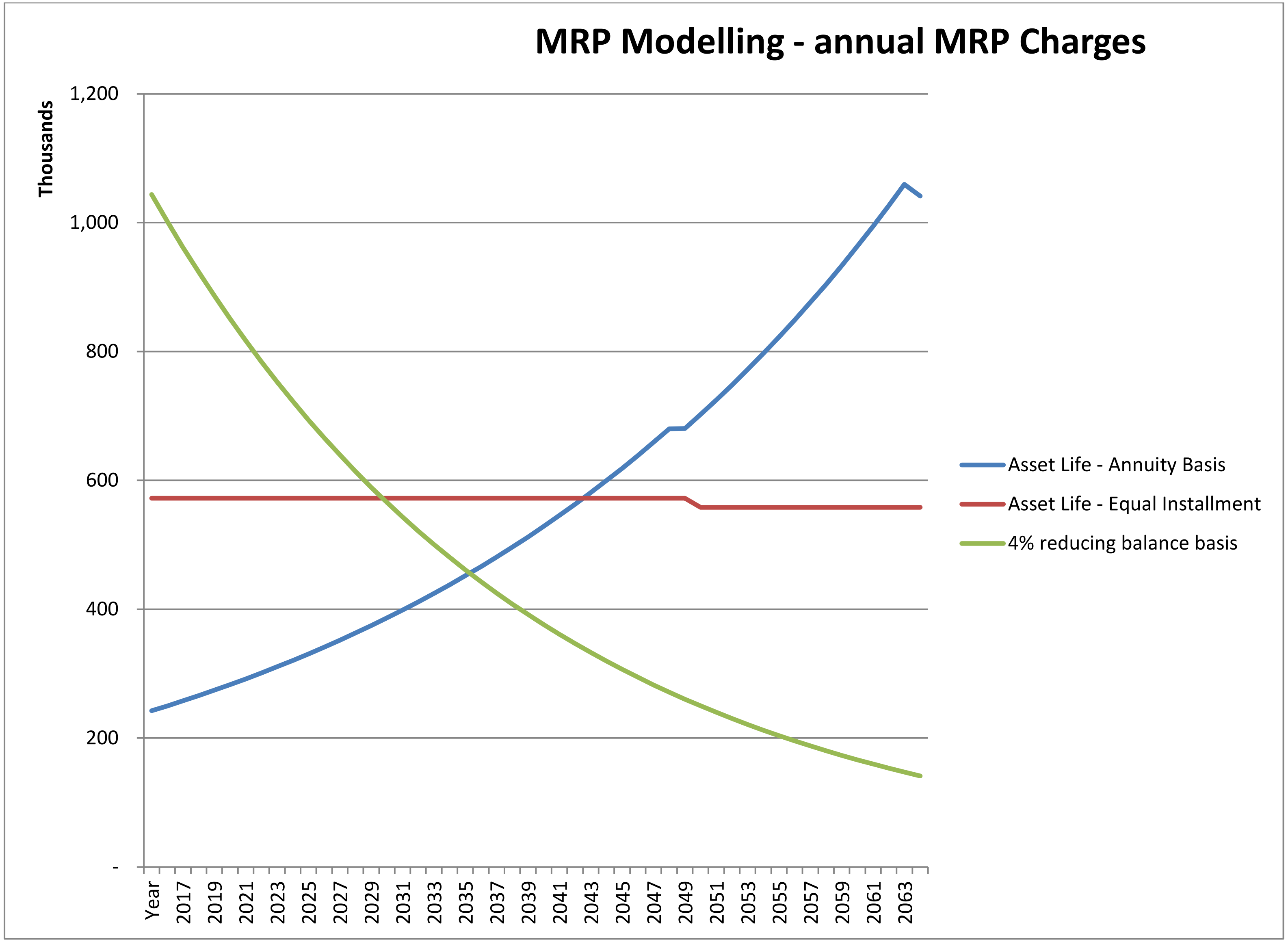
The IIA should assess **the impact of the recommendation** being made by the report
Detailed guidance to help with completing the assessment can be found here. Delete this row after completion

Report author to complete	
Committee:	Cabinet
Committee date:	03 February 2016
Head of service:	Justine Hartley
Report subject:	Change of minimum revenue provision policy
Date assessed:	20 January 2016
Description:	To consider options for the minimum revenue provision policy

	Impact			
Economic (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Finance (value for money)	☐	X	☐	Saves the council £3.5m over the next five years (including 2015/16)
Other departments and services e.g. office facilities, customer contact	☐	☐	☐	
ICT services	☐	☐	☐	
Economic development	☐	☐	☐	
Financial inclusion	☐	☐	☐	
Social (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Safeguarding children and adults	☐	☐	☐	
S17 crime and disorder act 1998	☐	☐	☐	
Human Rights Act 1998	☐	☐	☐	
Health and well being	☐	☐	☐	
Equality and diversity (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Relations between groups (cohesion)	☐	☐	☐	

	Impact			
Eliminating discrimination & harassment	☐	☐	☐	
Advancing equality of opportunity	☐	☐	☐	
Environmental (please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Transportation	☐	☐	☐	
Natural and built environment	☐	☐	☐	
Waste minimisation & resource use	☐	☐	☐	
Pollution	☐	☐	☐	
Sustainable procurement	☐	☐	☐	
Energy and climate change	☐	☐	☐	
(Please add an 'x' as appropriate)	**Neutral**	**Positive**	**Negative**	**Comments**
Risk management	☐	☐	☐	

Recommendations from impact assessment
Positive
Negative
Neutral
Issues


MRP Modelling - annual MRP Charges
Thousands
1,200
1,000
800
600
400
200
-
Year
2017
2019
2021
2023
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2027
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2059
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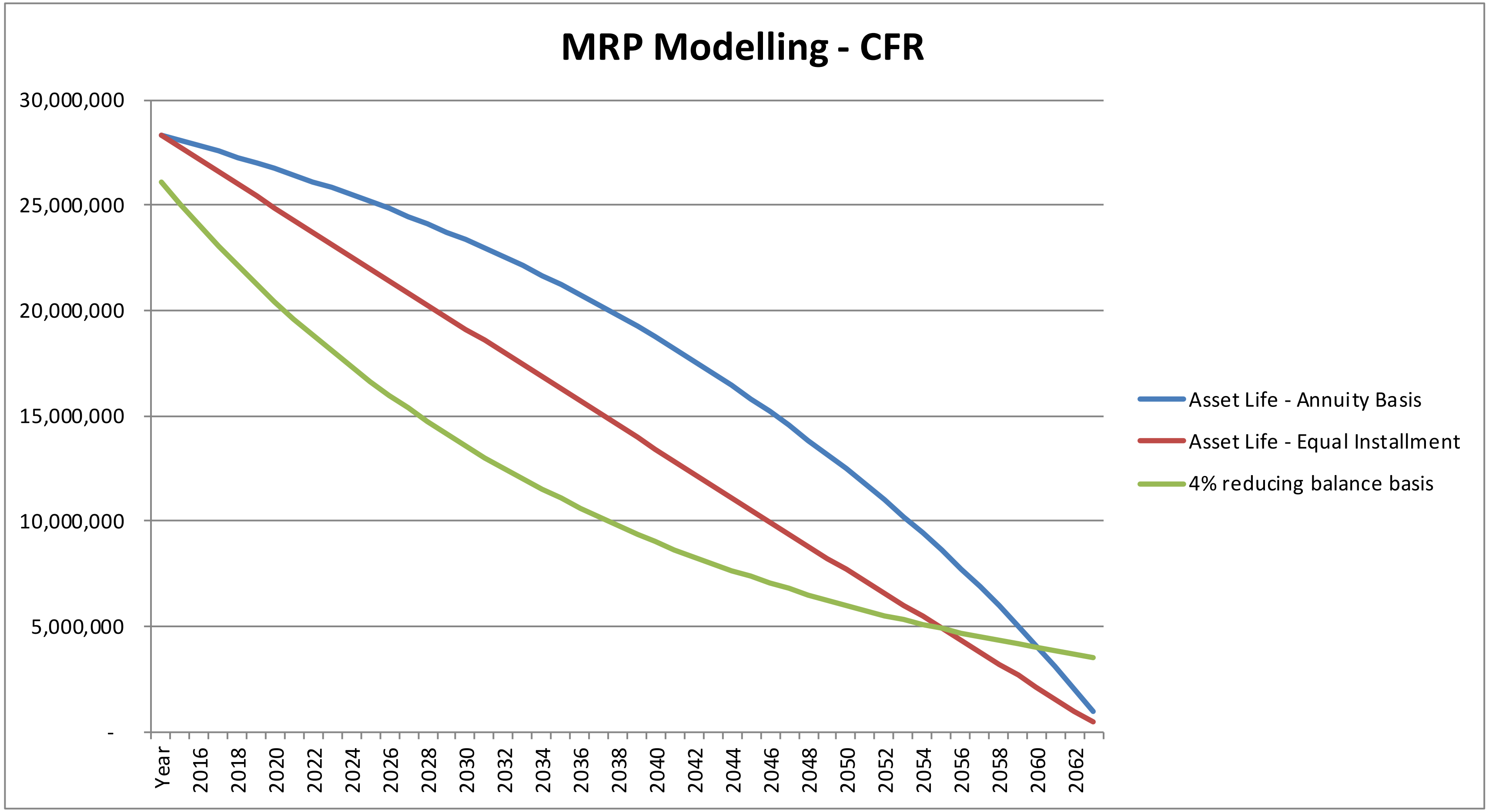
2063
Asset Life - Annuity Basis
Asset Life - Equal Installment
4% reducing balance basis

APENDIX 2

Minimum Revenue Provision Charges					Saving	
Year	Asset Life - Annuity Basis	Asset Life - Equal Installment	4% reducing balance basis		Asset Life - Annuity Basis	Asset Life - Equal Installment
2016	242,372	572,445	1,043,708		(801,336)	(471,263)
2017	249,993	572,445	1,001,960		(751,967)	(429,515)
2018	257,859	572,445	961,881		(704,022)	(389,437)
2019	265,979	572,445	923,406		(657,427)	(350,961)
2020	274,359	572,445	886,470		(612,110)	(314,025)
2021	283,010	572,445	851,011		(568,001)	(278,566)
2022	291,939	572,445	816,971		(525,031)	(244,526)
2023	301,156	572,445	784,292		(483,135)	(211,847)
2024	310,671	572,445	752,920		(442,250)	(180,475)
2025	320,492	572,445	722,803		(402,312)	(150,359)
2026	330,630	572,445	693,891		(363,261)	(121,447)
2027	341,095	572,445	666,135		(325,041)	(93,691)
2028	351,898	572,445	639,490		(287,592)	(67,045)
2029	363,051	572,445	613,910		(250,860)	(41,466)
2030	374,563	572,445	589,354		(214,791)	(16,909)
2031	386,448	572,445	565,780		(179,331)	6,665
2032	398,718	572,445	543,149		(144,431)	29,296
2033	411,384	572,445	521,423		(110,038)	51,022
2034	424,461	572,445	500,566		(76,105)	71,879
2035	437,961	572,445	480,543		(42,582)	91,901
2036	451,899	572,445	461,321		(9,423)	111,123
2037	466,288	572,445	442,869		23,419	129,576
2038	481,143	572,445	425,154		55,990	147,291
2039	496,481	572,445	408,148		88,333	164,297
2040	512,316	572,445	391,822		120,494	180,623
2041	528,665	572,445	376,149		152,516	196,296
2042	545,545	572,445	361,103		184,442	211,342
2043	562,973	572,445	346,659		216,314	225,786
2044	580,967	572,445	332,793		248,175	239,652
2045	599,547	572,445	319,481		280,066	252,964
2046	618,730	572,445	306,702		312,028	265,743
2047	638,537	572,445	294,434		344,103	278,011
2048	658,988	572,445	282,656		376,332	289,788
2049	680,105	572,445	271,350		408,755	301,095
2050	680,418	572,445	260,496		419,922	311,949
2051	702,215	558,015	250,076		452,139	307,939
2052	724,721	558,015	240,073		484,648	317,942
2053	747,960	558,015	230,470		517,490	327,545
2054	771,956	558,015	221,251		550,704	336,763
2055	796,733	558,015	212,401		584,332	345,613
2056	822,318	558,015	203,905		618,413	354,110
2057	848,737	558,015	195,749		652,988	362,266
2058	876,017	558,015	187,919		688,098	370,096
2059	904,188	558,015	180,402		723,785	377,612
2060	933,277	558,015	173,186		760,091	384,829
2061	963,316	558,015	166,259		797,057	391,756
2062	994,335	558,015	159,608		834,727	398,406
2063	1,026,367	558,015	153,224		873,143	404,791
2064	1,059,446	558,015	147,095		912,351	410,920
2065	1,041,405	558,015	141,211		900,193	416,803


MRP Modelling - CFR
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
-
Year
2016
2018
2020
2022
2024
2026
2028
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2032
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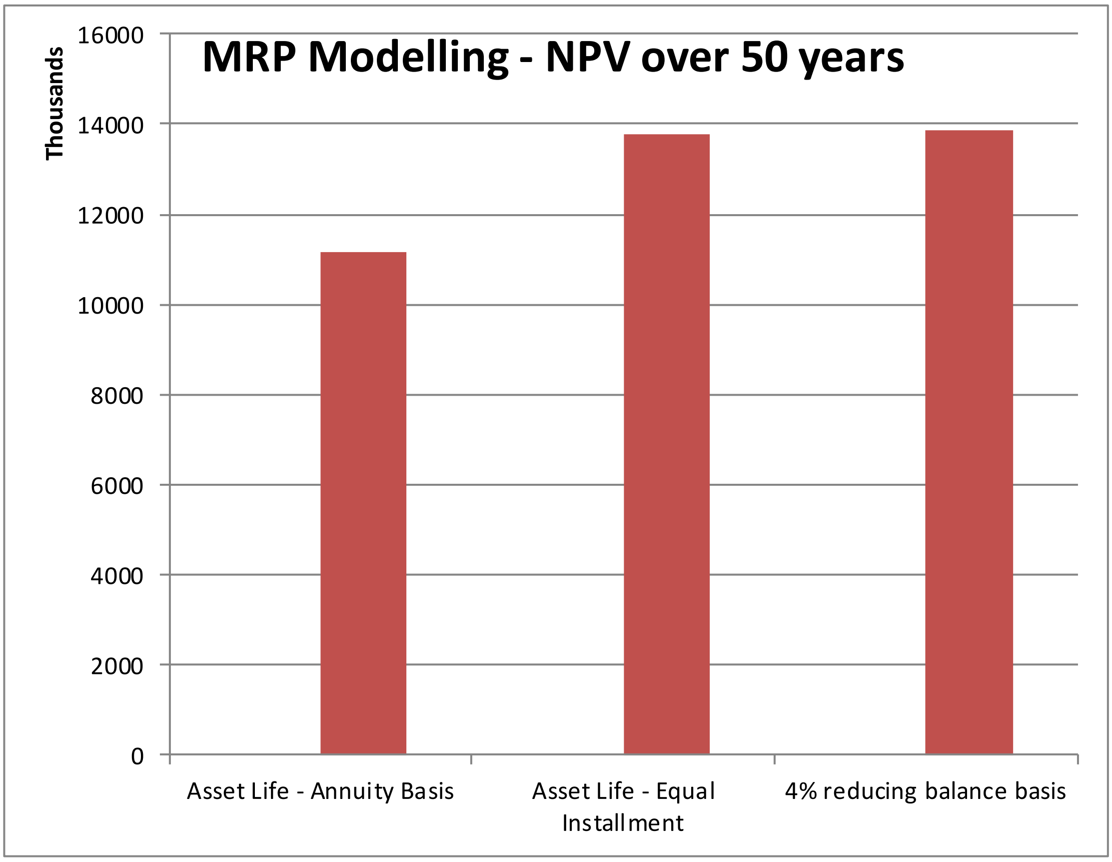
2040
2042
2044
2046
2048
2050
2052
2054
2056
2058
2060
2062
Asset Life - Annuity Basis
Asset Life - Equal Installment
4% reducing balance basis

Balance of CFR Outstanding at year end			
Year	Asset Life - Annuity Basis	Asset Life - Equal Installment	4% reducing balance basis
	28,293,938	28,293,938	26,092,699
2016	28,051,567	27,721,494	25,048,991
2017	27,801,574	27,149,049	24,047,032
2018	27,543,714	26,576,605	23,085,150
2019	27,277,736	26,004,160	22,161,744
2020	27,003,376	25,431,715	21,275,275
2021	26,720,366	24,859,271	20,424,264
2022	26,428,427	24,286,826	19,607,293
2023	26,127,271	23,714,382	18,823,001
2024	25,816,600	23,141,937	18,070,081
2025	25,496,109	22,569,493	17,347,278
2026	25,165,479	21,997,048	16,653,387
2027	24,824,384	21,424,603	15,987,251
2028	24,472,486	20,852,159	15,347,761
2029	24,109,435	20,279,714	14,733,851
2030	23,734,872	19,707,270	14,144,497
2031	23,348,423	19,134,825	13,578,717
2032	22,949,706	18,562,381	13,035,568
2033	22,538,321	17,989,936	12,514,146
2034	22,113,860	17,417,491	12,013,580
2035	21,675,899	16,845,047	11,533,037
2036	21,224,000	16,272,602	11,071,715
2037	20,757,712	15,700,158	10,628,847
2038	20,276,569	15,127,713	10,203,693
2039	19,780,088	14,555,269	9,795,545
2040	19,267,772	13,982,824	9,403,723
2041	18,739,107	13,410,379	9,027,574
2042	18,193,562	12,837,935	8,666,471
2043	17,630,589	12,265,490	8,319,812
2044	17,049,621	11,693,046	7,987,020
2045	16,450,075	11,120,601	7,667,539
2046	15,831,345	10,548,157	7,360,838
2047	15,192,808	9,975,712	7,066,404
2048	14,533,820	9,403,267	6,783,748
2049	13,853,714	8,830,823	6,512,398
2050	13,173,296	8,258,378	6,251,902
2051	12,471,081	7,700,364	6,001,826
2052	11,746,360	7,142,349	5,761,753
2053	10,998,400	6,584,334	5,531,283
2054	10,226,445	6,026,319	5,310,032
2055	9,429,712	5,468,305	5,097,630
2056	8,607,394	4,910,290	4,893,725
2057	7,758,657	4,352,275	4,697,976
2058	6,882,639	3,794,260	4,510,057
2059	5,978,452	3,236,246	4,329,655
2060	5,045,175	2,678,231	4,156,469
2061	4,081,859	2,120,216	3,990,210
2062	3,087,524	1,562,201	3,830,601
2063	2,061,157	1,004,187	3,677,377
2064	1,001,711	446,172	3,530,282
2065	-	-	3,389,071


MRP Modelling - NPV over 50 years
Thousands
16000
14000
12000
10000
8000
6000
4000
2000
0
Asset Life - Annuity Basis
Asset Life - Equal Installment
4% reducing balance basis

Minimum Revenue Provision Policy

Introduction

1. The Government's Capital Finance and Accounting Regulations require local authorities to make 'prudent annual provision' in relation to capital expenditure financed from borrowing or credit arrangements. This is known as Minimum Revenue Provision or MRP. The Government has also issued statutory Guidance on MRP, to which the Council is required to have regard.

2. This policy applies to the financial years 2015/16 and going forward. Any interpretation of the Statutory Guidance or this policy will be determined by the Chief Finance Officer.

Principles of debt repayment provision

3. The term 'prudent annual provision' is not defined by the Regulations. However, the statutory Guidance says:
   "the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant".

   The Guidance does not prescribe the annual repayment profile to achieve this aim, but suggests four methods for making MRP which it considers prudent, and notes that other methods are not ruled out. The City Council regards the broad aim of MRP as set out above as the primary indicator of prudent provision, whilst recognising the flexibilities which exist in determining an appropriate annual repayment profile.

4. The City Council considers that 'prudent' in this context does not mean the quickest possible repayment period, but has regard to the prudent financial planning of the authority overall, the flow of benefits from the capital expenditure, and other relevant factors.

5. As expected by the Statutory Guidance, the City Council will not review the individual asset lives used for MRP as a result of any changes in the expected life of the asset or its actual write off. Some assets will last longer than their initially estimated life, and others will not; the important thing is the reasonableness of the estimate.

6. **General Fund MRP policy: prudential borrowing** The general repayment policy for prudential borrowing is to repay borrowing within the expected life of the asset being financed, up to a maximum of 50 years. This is in accordance with the "Asset Life" method in the Guidance. The repayment profile will follow an annuity repayment method, which is one of the options set out in the Guidance. This means that MRP will be calculated on an annuity basis (like many domestic mortgages) over the estimated life of the asset.

   This is subject to the following details:
   a. An average asset life for each project will normally be used. There will not be separate MRP schedules for the components of a building (e.g. plant, roof etc). Asset life will be determined by the Chief Finance Officer. A standard schedule of asset lives will generally be used, but where borrowing on a project exceeds £10m, advice from appropriate advisers may also be taken into account.
   b. MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets where over £1m financed from borrowing is planned, where MRP will be deferred until the year after the asset becomes operational.

c. Other methods to provide for debt repayment may occasionally be used in individual cases where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Chief Finance Officer.