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DERBYSHIRE DALES
DISTRICT COUNCIL

Medium Term Financial Strategy 2018/19 to 2021/22

Including Capital Strategy

This Medium Term Financial Strategy is intended to set out the Council's strategic approach to the management of its finances and provide a framework within which decisions can be made regarding future service provision and council tax levels.

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If you have any questions or comments about this Medium Term Financial Strategy please contact finance@derbyshiredales.gov.uk

1. Executive Summary

1.1 This Medium Term Financial Strategy (MTFS) is intended to set out the Council's strategic approach to the management of its finances and provide a framework within which decisions can be made regarding future service provision and council tax levels.

1.2 It is based on a four-year rolling forecast from 2018/19 to 2021/22 and is intended to be reviewed annually. The MTFS provides the financial context for the Council's resources allocation and budget setting processes.

1.3 In recent years all local authorities have faced significant reductions in Government funding. By the end of 2019/20 the Council's Settlement Funding Assessment (the main source of government grant funding) will have reduced by 65% or £2.4m from 2013/14. This equates to £86 per band D property. The Council has responded well so far and has already made savings of over £1.1million since 1st April 2014. At the same time, public expectations are increasing. The impact of changes in the economy (such as rising inflation and interest rates), together with the referendum decision last year regarding the UK's exit from the European Union, bring more uncertainty and instability.

1.4 The Medium Term Financial Plan (MTFP) contained in this document (Appendix A) shows that further cuts in government funding mean that corporate savings of £1.7m are required by 2020/21. This is a very challenging target, equating to 17% of net revenue spending in 2017/1/8. The District Council has already made budget savings exceeding £1.1m since 2014, and further savings will not be easy to achieve.

1.5 Faced with such unprecedented cuts in government funding and a significant corporate savings target, the Council will have to become more self-sufficient and generate more income from fees and charges, local taxation and business rates, as well as critically reviewing its expenditure, if it is to continue to set a balanced budget (as required by law). The Efficiency Plan (Appendix B) shows how the Council plans to close the budget gap over the next three years.

1.6 As well as having to make savings in order to balance its revenue budget over the coming years, the Council's resources of capital funding are becoming depleted. The Capital Strategy (Appendix C) sets the framework for all aspects of the Council's capital expenditure; including planning, prioritisation, management and funding. The Strategy has direct links to the Council's Asset Management Plan and forms a key part of the Council's Medium Term Financial Strategy (MTFS).

1.7 It is clear that the Council will face some difficult decisions in the coming years regarding which services and which capital projects it should prioritise within the resources (revenue and capital) that are available.

1.8 To set out its approach to balancing future budgets, the Council has produced an Efficiency Plan (see Appendix B). The Efficiency Plan sets out the Council's approach to meeting the Corporate Savings Target and closing the budget gap. Many of the savings are expected to result from the programme of Service Reviews that is already underway. The aim of these service reviews is to identify areas for savings whilst attempting to minimise the impact on frontline services. The Efficiency Plan shows the other approaches that will be taken such as exploration of further partnership working, transformational and organisational efficiencies, better procurement and generating extra income from new fees and charges and additional business rates. The Efficiency Plan also includes a ‘Plan B’ that will be used in the event that the planned savings do not come to fruition.

1.9 The overall aim of this approach is that the Council will be far less reliant on government funding and will become more self-sufficient. As well as ensuring that Council services are streamlined and offer value for money, the approach will focus on income generation and investment in economic development that will lead to growth. In the longer term, this approach will provide the Council with more financial resilience than depending on government grants.

1.10 There are risks associated with this strategy, especially with regard to the delivery of the savings that are required. These risks will be mitigated by robust budget monitoring, together with contingency plans that will be used if the savings identified in the Efficiency Plan do not come to fruition.

2. Overview

2.1 Purpose of Strategy

The Medium Term Financial Strategy (MTFS) provides a robust, consistent and sustainable approach to establishing and maintaining a stable and prudent financial basis on which improvement and transformation of the Council's services can progress within the resources that are available.

The MTFS identifies the estimated financial commitments of the Council alongside the likely level of resources available to it over the next four years. It provides a financial overview against which budgets will be set.

The MTFS helps to:

- establish a framework within which the Council's revenue and capital budgetary processes are aligned with its main aims and priorities as identified in the Corporate Plan 2015 - 2019 and in other service strategies;
- summarise the current financial position;
- ensure the sustainability of the Council's budget;
- set down overall parameters and objectives for future spending, together with a medium-term forecast of the financial position, identifying spending pressures and savings / efficiency targets for the next four years;
- establish an approach to setting the Council Tax based on keeping increases to a minimum whilst protecting investment in key service priorities;
- establish arrangements for the effective evaluation of the financial aspects of decision-making;
- highlight financial risks and mitigating actions.

2.2 Principles of the Strategy

The principles underlying this MTFS are set out in the following table:

Element	Strategy
Revenue Budget	
Sustainable Budget	To have a balanced sustainable budget in the medium-term to ensure that the Council remains in good financial health and meets the statutory requirement to set a balanced budget.
Budget Model	To use a five-year budget model on which to base short and medium-term decisions on the future level of Council Tax and Revenue Reserves
Budget Consultation	A budget consultation exercise will be carried out annually to help inform Members of stakeholders views of spending priorities and acceptable levels of Council Tax. The exercise may involve, for example use of Community Forums & the Residents' Online Panel.
Council Tax	Keep council tax increases to the level necessary to maintain the standards of service required by residents, taking into account factors such as Government policy in respect of capping levels.
Corporate Savings Target & Efficiency Plan	Any 'resource gap' in the Council's budget model (i.e. between spending and income, taking into account forecast commitments, proposed levels of Council Tax and estimated Business Rates Income and Government Grants) will be the Council's Corporate Savings Target. Members & Officers will need to determine how to meet the Corporate Savings target in order to achieve a sustainable, balanced budget. This will be shown in the Efficiency Plan.
Budgetary Control	Up-to-date, reliable information should be available for Members and Officers. Reports for all budget holders should be available monthly, within 10 working days of month-end. Additional monthly reports should be provided for budgets which are significant in terms of size or risk (e.g. salaries, significant income items) and significant variances from budget. Budget holders should put in place action plans to deal with significant variances.
Working Balance	The Council will maintain a working balance of approximately 10% of its net revenue expenditure which is considered appropriate to the strategic and operational risks which the authority faces.
General Reserve	Any General Fund Balance over and above the working balance will be termed the 'General Reserve'. The General Reserve will be available for meeting 'one-off' expenditure or development items, and should only be used to fund ongoing revenue expenditure in exceptional circumstances. The Council will aim to set balanced budgets that do not require the use of the general reserve.

Element	Strategy
Revenue Account	Any over-spending on the revenue account will be met from the General Reserve. Any under-spending on the revenue account will be transferred to strategic reserves used to finance the Capital Programme or "Invest To Save" Initiatives.
Service Growth	Any areas of service growth must be identified through the annual service planning and budget process, and be subject to business case appraisal. Compensating savings or additional income should always be identified.
Priorities	The District Council's priorities are those set out in the adopted Corporate Plan 2015-2019, or its successor Corporate Plan. The Corporate Plan is the District Council's primary policy document. It sets out the District Council's priorities and areas for improvement, and identifies key targets to be achieved. The three current priorities of the District Council are (1) business growth and job creation, (2) affordable housing, and (3) market towns. The Corporate Plan also specifies the Council's wish to maintain performance for a clean and safe district, and to seek efficiencies and innovative working practices.
Strategic Reserves	Strategic reserves will be maintained for earmarked purposes in order to assist the Council in achieving its priorities. These include reserves to fund asset replacements and the capital programme, to smooth-out significant items of expenditure which do not occur annually, and to provide cover for uninsured losses. Balances on reserves will be reviewed at least annually. The MTFP and future revenue budgets will include annual revenue contributions to capital reserves provided that they are affordable.
Provisions	Provision should be maintained for potential liabilities which may arise or will be incurred, such as any insurance claims which are going through the settlement procedure.
Fees and Charges	Fees and charges will be reviewed annually to maximise income, taking into account the Council's priorities, the level of inflation, and charges levied by neighbouring authorities. The Council will explore opportunities for new areas of charge.
Savings, Efficiencies and Value for Money	The Council will continue to seek efficiencies and value for money in all services through a programme of service reviews, its approach to commissioning and procurement, transformational and organisational changes and better use of its assets. The Council will continue to consider opportunities for working in partnership with other local authorities and other organisations where this will deliver efficiencies. The Council will also evaluate existing partnerships to ensure they continue to deliver best value, and where that is not the case the Council will consider reducing or withdrawing funding (giving appropriate notice). This approach should reduce the impact of the savings on priority services.

Element	Strategy
Capital Programme:	
New projects	Business cases will be produced for all new projects. Business cases will be evaluated by the Corporate Leadership Team (taking into account factors such as the Council's priorities, ability to deliver and potential for income generation), before being reported to the relevant Policy Committee for approval.
External Funding	External and partnership funding should be explored for all schemes.
Revenue Consequences	The revenue consequences of all capital schemes should be assessed and included in the Medium Term Financial Plan.
Prudential Code	Capital expenditure plans, external borrowing and other long-term liabilities are to be affordable and within prudent and sustainable levels. Prudential Indicators are reported annually to Council.
Prudential borrowing	The Council will consider the use of prudential borrowing to fund capital investment where it can be demonstrated that this is in keeping with the Councils priorities and where the impact on the revenue account is affordable when the cost of the borrowing is taken into account.

2.3 Background

The Council's Financial Strategy was last approved in 2016. Since that time the Council has experienced:

- Stable rates of interest, though base rates have recently increased;
- Increasing rates of inflation.

In June 2017 the Council set a Corporate Savings Target to achieve £1.7m savings by 2020/21. This is on top of savings of £1.1m achieved during the three years from April 2014 to March 2017.

It is therefore vital that the Council has a robust and sustainable financial strategy in place to ensure that it is in a position to deliver balanced budgets as required by statute, whilst being able to meet its priorities whenever possible.

2.4 National and International Influences

Derbyshire Dales District Council's financial and service planning takes place within the context of the national and international economy. This Medium Term Financial Strategy has been prepared within that context.

The potential implications of the wider economic situation on the Council's finances include:

- The Council may find it harder to collect sums due to it, for example for council tax and business rates. Despite the increased pressures, there has not yet been any significant deterioration in collection rates;
- The Council will face increased demands for its services to assist residents falling into hardship (such as for housing benefit discretionary hardship reliefs);
- The Council may find its suppliers and contractors at risk of liquidation, potentially affecting delivery of services;
- Inflationary pressures may be greater than assumed.

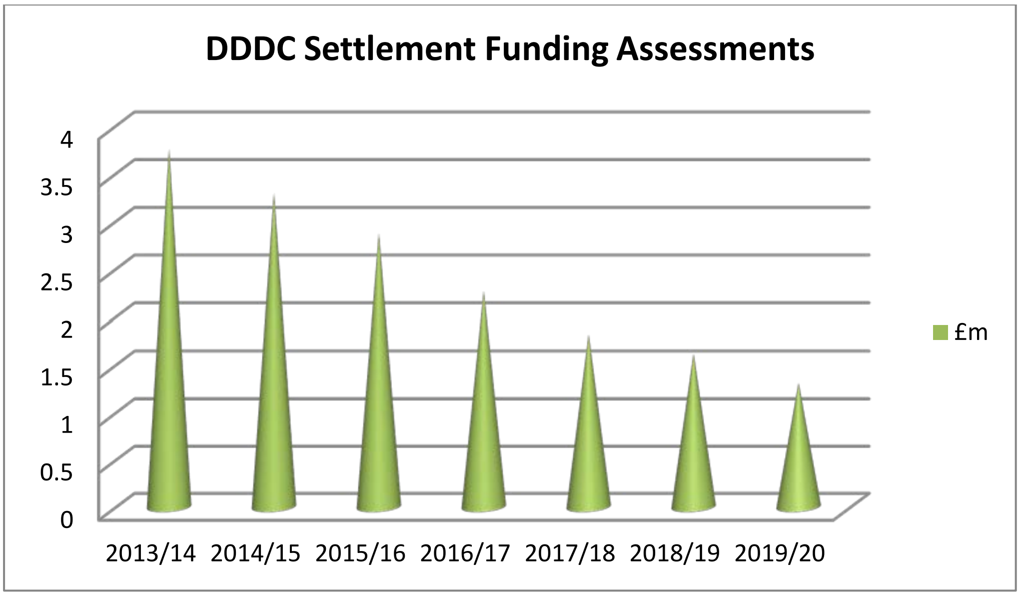
The Government has introduced a number of measures that have significant impacts on local government. The relevant items are set out below:

- Public sector pay rises to be capped at 1% for 2016/17 to 2019/20;
- Introduction of a national living wage, which is currently 7.50 per hour for all workers aged 25 and over, set to reach £9 per hour by 2020;
- New apprenticeship levy from April 2017 based on 0.5% of an employer's pay bill;
- Proposals to introduce 100% local retention of business rates by 2020. This will involve the transfer of additional responsibilities and the phasing out of Revenue Support Grant. The Council has joined with other Derbyshire authorities to submit a bid to become a pilot during 2018/19;
- Last year's announcement that the UK intends to withdraw from the European Union brings more uncertainty and instability. It will therefore be necessary to monitor the impact of "Brexit" on the Council's finances and review plans where necessary.

Whilst the current economic outlook continues to improve there remains a great deal of uncertainty and change and it remains important that the Council has a level of reserves that allows it to withstand unanticipated financial impacts of future developments at a local and national level.

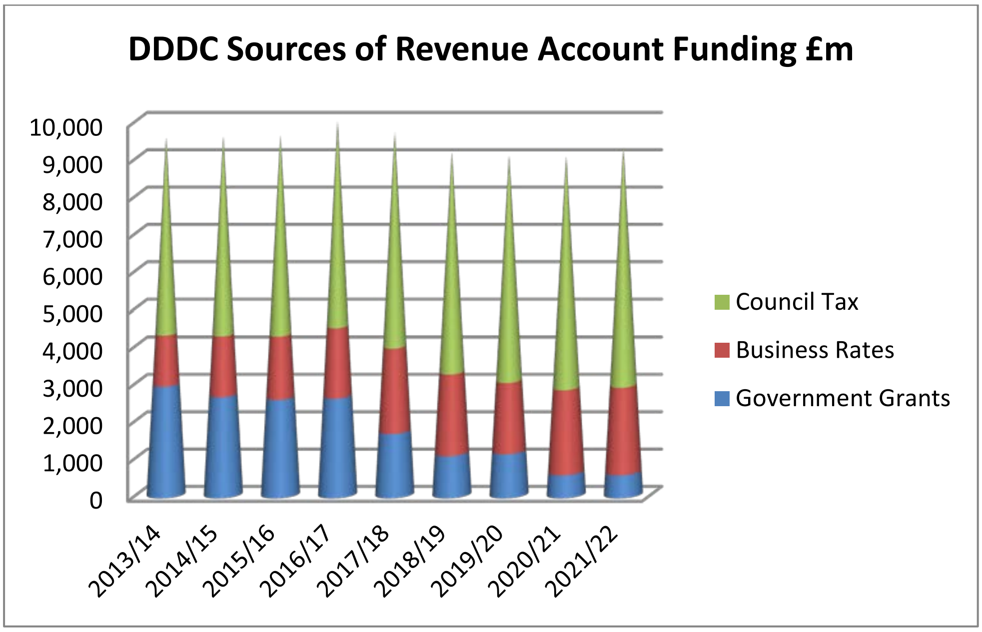
2.5 Government Funding

By the end of 2019/20 the Council's Settlement Funding Assessment (the main source of government grant funding that includes Revenue Support Grant and Business Rates Baseline Funding) will have reduced by 65% or £2.4m from 2013/14. This equates to £86 per band D property. This is illustrated on the table below:



Source: DCLG Notifications

The relative proportions (gearing) of Council funding are predicted to change significantly over the period from 2013/14 to 2021/22. The table below shows that government grants (including Revenue Support Grant and New Homes Bonus) are forecast to reduce from £3m (31% of funding) in 2013/14 to only £0.6m (7% of funding) in 2021/22. Business rates, as a source of funding, increase from 14% to 25% across the same period and council tax increases from 55% to 68%.



Source: DDDC Medium Term Financial Plans

This demonstrates that the Council is expected to become much less dependent on government grants and much more self-reliant in future, relying more on council tax and business rates as sources of funding.

2.6 The Council's Priorities

The Council's priorities were set in November 2015 within a new Corporate Plan. It identifies a **thriving district** as the priority for improvement and focussed attention. The three priority target areas set by Members, in order, are:

1 - Business growth and job creation (helping new businesses to start; helping existing businesses to grow; and promoting key development sites in and around towns)

2 - Affordable housing (identifying and delivering new affordable housing sites; and improving housing opportunities for vulnerable people)

3 - Market towns (reviving stall markets; and seeking public realm improvements)

The Corporate Plan also recognises the need to maintain a clean and safe district, and to continue to seek efficiencies and innovative working practices across all areas.

This Financial Strategy is aligned with the Council's Corporate Plan and priorities. In order to ensure adequate funding for priorities, it is important that the Council's budgetary processes are aligned with corporate priorities. The following measures are in place.

- The Council produces Service Plans for all front line and support services. The service planning and budget setting process are aligned.
- All items relating to service growth are considered separately when setting the budget and in conjunction with other spending proposals in order that priorities can be set.
- All Committee reports have to include a Strategic Link (to the Corporate Plan), and have a mandatory section for Risk Assessment, including legal risks, financial risks and corporate risks.
- The Council's Capital Programme is ordered by priority, giving Members and officers a visual guide to which priorities capital expenditure is allocated.
- The top priority of the Council, business growth, not only supports the local economy but also helps generate additional Business Rates income in order to help fund the District Council's frontline service provision.

3. The Council's Current Financial Position and Outlook

3.1 The Medium Term Financial Plan & Corporate Savings Target

The Medium Term Financial Plan (MTFP) shows the Council's budget for 2017/18 and forecasts for the following four financial years. Full details are given in Appendix A; the table below provides a summary:

	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s
Forecast spending	9,216	9,627	10,034	10,544	10,775
Income from Council Tax	-5,707	-5,873	-6,002	-6,178	-6,358
Income from business rates	-2,257	-2,159	-1,882	-2,247	-2,315
Government Grant: Revenue Support Grant	-252	0	0	0	0
Government Grant: New Homes Bonus	-781	-597	-573	-338	-338
Government Grant: Disabled Facilities Grants	-270	-270	-270	-270	-270
Government Grant: Rural Services Delivery	-322	-248	-322	0	0
Government Grant: Transition Grant	-77	0	0	0	0
To capital programme reserve: annual contributions	150	150	150	150	150
To capital programme reserve: underspend	300	0	0	0	0
Savings to be achieved	**0**	**630**	**1,135**	**1,661**	**1,644**

The information in the MTFP suggests that the current Corporate Savings Target, to achieve savings of £1.7m by 2020/21, should remain in place.

3.2 Outlook

Medium Term Financial Planning remains difficult. The uncertainties include:

- The rate of inflation, which is rising, and could impact the Council should it rise above the rates assumed in the MTFP;
- The announcement that the UK intends to withdraw from the European Union, which could affect the cost of services and European grant funding;
- The value of the pound, which could affect the cost of goods and services;
- Business rates – the impact of the proposed 100% localisation of business rates including changes to the local share, funding of reliefs (especially Small Business Rate Relief), provision for appeals and the impact of the 2017 revaluation;
- Increases in employer pension contributions;
- Increases in the National Minimum Wage and the Apprentices Levy;
- The impact of future welfare reforms, which could increase the cost of the Council Tax Support Scheme and Housing Benefit Overpayments;
- Increases in demand for services;
- The future of government grants – especially New Homes Bonus;
- Achievement of the savings required (see below).

The assumptions made in preparing the Medium Term Financial Plan are shown in Appendix A. It is possible that some of these assumptions may turn out to be too cautious or over-optimistic. Some scenario testing has been carried out to demonstrate the impact of different assumptions on the savings requirement identified in the medium term plan. The results of that testing are set out below:

	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s	2021/22 £'000s
Current MTFP, as table above Surplus (-) / Deficit	630	1,135	1,661	1,644
Loss of new homes bonus from 2018/19 Surplus (-) / Deficit	1,227	1,135	2,161	2,144
Business Rates Income falls to baseline from 2018/19 and tariff adjustment continues beyond 2019/20 Surplus (-) / Deficit	1,405	1,937	2,849	2,857
No growth in council tax base from 2018/19 Surplus (-) / Deficit	690	1,256	1,844	1,890

Faced with such unprecedented cuts in government funding and a significant corporate savings target, the Council will have to become more self-sufficient and generate more income from fees and charges, local taxation and business rates, as well as critically reviewing its expenditure, if it is to continue to set a balanced budget (as required by law).

3.3 Capital Programme

As well as having to make savings in order to balance its revenue budget over the coming years, the Council's resources for capital funding are diminishing.

The Capital Strategy (Appendix C) sets the framework for all aspects of the Council's capital expenditure; including planning, prioritisation, management and funding. The Strategy has direct links to the Council's Asset Management Plan and forms a key part of the Council's Medium Term Financial Strategy (MTFS)

This medium term financial strategy includes a "strategic reserves policy" that the MTFP and future revenue budgets will include annual revenue contributions to capital reserves provided that they are affordable. These contributions will help to provide for the life cycle (replacement) costs of assets. This is explained further in the Capital Strategy in Appendix C. These contributions do impact on bottom line savings to be achieved but will ensure that sufficient funding is available to allow replacement of these assets at the end of their lives. The impact of the revenue contributions has been included in the MTFP shown on Appendix A.

3.4 The Efficiency Plan

To set out its approach to balancing future budgets, and to meet the suggested Corporate Savings Target, the Council has produced an Efficiency Plan (see Appendix B).

The Efficiency Plan sets out the Council's approach to meeting the Corporate Savings Target and closing the budget gap. Many of the savings are expected to result from the programme of Service Reviews that is already underway. The aim of these service reviews is to identify areas for savings whilst attempting to minimise the impact on frontline services. The Efficiency Plan shows the other approaches that will be taken such as exploration of further partnership working, transformational and organisational efficiencies, better procurement and generating extra income from new fees and charges and additional business rates.

The table below is an extract from the Efficiency Plan and sets out the required savings and the plans for their achievement:

Efficiency Plan:

	2018 / 19	2019 / 20	2020 / 21	2021 / 22
Savings Required (£'000s)	**630**	**1,135**	**1,661**	**1,644**
Planned Savings Targets:				
Service Reviews (leisure centre management & public conveniences)	600	750	750	750
Service Changes (mainly from reviews of markets & leases)	415	415	440	440
Transformation and organisational efficiencies (customer self-service / mobile working, paperless, employee costs)	130	195	341	324
Additional income (including car parking, planning fees, & new income streams.)	80	130	130	130
Total	**1,225**	**1,490**	**1,661**	**1,644**
Net spending requirement (Savings required less planned savings target)	**-595**	**-355**	**0**	**0**

Savings that need Member approval will be the subject of reports to the relevant Policy Committee and / or Council in due course.

There are risks associated with the delivery of this efficiency plan. These risks will be mitigated by robust budget monitoring, together with contingency plans that will be used if the savings identified in the Efficiency Plan do not come to fruition (see section 3.6 on monitoring).

3.5 Reserves and balances

In examining the immediate and longer term spending plans, for both revenue and capital, it is necessary to consider the levels of reserves and balances which are available and, of those, the ones that will be required to meet spending plans.

Revenue balances

It is essential that the Council retains a level of uncommitted balances to meet emergency, unforeseen and unknown eventualities. This includes positive opportunities that may arise as well as disastrous or onerous liabilities.

In the absence of these balances any such expenditure would fall directly on the General Fund and Council Tax requirement. This could result in significant financial consequences for service provision. As budgets have been tightened and "slack" removed, the need for adequate working balances has become even more important. Whilst it is impossible to advise on the precise level because of the uncertainty involved, it is considered prudent to retain uncommitted working balances of approximately 10% of net revenue expenditure. Working balances at 1st April 2017 are set at £1,000,000, which is considered adequate for the purpose described above.

In addition to the working balance, the Council also has a General Reserve, which stood at £1,013,750 at 1st April 2017. This is also available to meet emergency, unforeseen and unknown eventualities. However, it is important to note that balances, by their very nature, can be used only once. Therefore, the continued use of the General Reserve to support ongoing spending is not sustainable beyond the life of the available amount. A strategy which is based on the continued use of balances to support regular spending can only have a finite life. Therefore, in looking at the use of available balances regard must be taken of the future demands upon them in terms of both capital and revenue spending. In addition, interest is earned on the investment of unused balances. Utilisation of balances will therefore reduce the interest earned in future years.

For the reasons set out above, this Medium Term Financial Strategy allows the General Reserve to be used for meeting "one-off" expenditure or for "invest-to-save" proposals, but restricts its use for funding ongoing revenue expenditure unless there are exceptional circumstances. The Council will aim to set a balanced revenue budget that does not rely on the use of the general reserve.

Strategic Reserves

The Council has strategic reserves for specific purposes, which are consistent with corporate priorities, and these should continue to be earmarked for the identified purpose. This ensures the availability of the amounts in these reserves for those purposes and defrays demands on the revenue spending and general balances.

It is important that reserves are reviewed on at least an annual basis to ensure they are adequate for the purpose, but not excessive, based on an assessment of needs, an understanding of risks, and taking into account the opportunity costs of maintaining reserves. An annual review of earmarked reserves takes place in March each year as part of the budget setting process.

The table below lists the various strategic reserves, the purposes for which they are held, and the balances at 1st April 2017:

Reserve	Purpose	Balance 1st April 2017
Business Rates Fluctuations Reserve	To provide funding towards potential future losses on Non-Domestic Rates	£789,000 Balance considered to be appropriate at the current time but will need to re-examined when the full details of changes to the rates retention scheme are known.
Capital Programme Reserve	To provide funding for capital expenditure	£2,985,000 Required for the five year capital programme and potential future liabilities not yet in the programme. It is recommended that annual contributions are made from revenue, if affordable, to ensure a sufficient balance for future capital projects. Top up is possible if there is a revenue account underspend
Carsington Improvements	To provide grants towards projects in Parishes bordering Carsington Reservoir. The reserve was initiated with a deposit from Severn Trent Water.	£33,000 Expected to be used by 2021/22
Committed Expenditure	Annual contributions in respect of expenditure which has been committed, but service not received at the end of the financial year, therefore an accrual is not appropriate.	£247,000 Expected to be used during 2017/18.
Economic Development	To provide funding for economic development initiatives.	£306,000 Fully committed to deliver the Economic Development Plan.
Elections	Annual revenue contributions to smooth the cost of four-yearly District Council elections.	£68,000 The aim is to build up a reserve of £100,000 by 31st March 2019 towards the cost of the May 2019 election.
Grants Unapplied	The balance of grants received but not yet spent, set aside to finance expenditure in future years. Most grants an only be used for specific purposes.	£3,141,,000, including £1.8m for Section 106 developer contributions. Most of the balance is committed to fund the capital programme. The Capital strategy states that the Council will seeks grants and contributions when the opportunity arises.

ICT Renewals	To provide funding for renewal of the Council's information technology equipment, including the telephone switchboard & central printing equipment.	£471,000 This balance is considered to sufficient to deliver the needs identified in the ICT Strategy.
Insurances	To provide funding for uninsured losses.	£507,000 A balance of approximately £500,000 is considered appropriate.
Invest-to-Save	To provide funding towards, for example, interim and temporary resources to provide additional capacity and skills to support the change agenda, subject to suitable business cases.	£118,000 Top up is possible if there is a revenue account underspend.
Job Evaluation	To provide funding for approximately 8 years for the additional cost of implementing job evaluation / single status.	£150,000 Balance considered to be adequate.
Local Plan	Annual revenue contributions to smooth the cost of four-yearly review of the local plan.	£108,000 Expected to be used during 2017/18, but the MTFP assumes annual contributions will be made to provide funding for the next public inquiry.
Member/Officer Indemnity	To indemnify Members and officers against acts or omissions subsequently found to be ultra vires, and against defence costs of criminal proceedings.	£25,000 in accordance with minute 588/05. Adequate for current needs.
Vehicle Renewals	To provide for the replacement of vehicles.	£1,091,000 Balance is fully committed. Annual revenue contributions will ensure that the balance is adequate.
Wheeled Bins	To provide for the replacement of wheeled bins.	£202,000 No longer required as revenue provision is sufficient. To be released back to revenue account during 2017/18.
Ward Member Budgets	To finance the Local Projects Fund for the four year period of office 2015-2019	£105,000 Adequate for current needs.

3.6 Budgetary Control & Monitoring the Plans

The Council's financial regulations set out the arrangements for setting and managing budgets.

Annual revenue estimates are prepared jointly by Heads of Service and the Head of Resources. The Head of Resources then prepares a budget report for Council.

Each Head of Service is responsible for ensuring that the budgets for controllable expenditure on each Service (as shown in the circulated budgetary control reports) are not exceeded. Where it appears that such a service provision shall be exceeded by an amount in excess of £10,000, the Head of Service concerned must, in consultation with the Head of Resources, inform the relevant policy committee with recommendations on how the expenditure is to be funded or defrayed.

No expenditure introducing major continuing liabilities to the Council, particularly new projects which involve financial commitments in future years, new policy or extension of services, may be incurred without prior consultation with the Head of Resources and the approval of the relevant policy committee either through the budget or separately in the course of the financial year.

Transfers (up to £10,000) of budgets, except for salaries, wages and associated costs, from one service provision to another within a relevant service portfolio may be made by Heads of Service, after consultation with the Head of Resources. For transfers exceeding £10,000 a report shall be taken to the relevant policy committee.

Budgets for salaries, wages and associated costs may be amended, following approval by the Corporate Leadership Team, provided that total salary costs remain within budget.

A Supplementary Estimate is required where expenditure is required or anticipated which:-

a) has not been included in the Revenue Budget; and

b) cannot be met by the transfer of budgetary provision from another service provision; and

c) would cause the controllable expenditure on the particular service to be exceeded,

Any request for a Supplementary Estimate shall be made to the relevant policy committee after consultation with the Head of Resources. Additional income and savings may be used to finance additional expenditure only after consultation with the Head of Resources who may require a report to the relevant policy committee.

Each service has a designated Budget Holder. The Accountancy Section provides the following:

- Up-to-date reports from the Council's financial management system that show budgets and spending / income;
- Monthly budget monitoring reports for budget holders;

- Quarterly budget monitoring reports for the Corporate Leadership Team, which include details of salaries expenditure, income, variances over £5,000 and key reserves.

Reports will be presented to Council as follows:

- In March – revised estimates for the current year, estimates for the coming year, revenue budget and Council tax setting, updated MTFP and Efficiency Plan, five-year capital programme, treasury management strategy and investment strategy; Corporate Plan targets; Service Plans.
- In June – out-turn of revenue account and capital programme, updated MTFP and efficiency Plan and updated capital programme; Out-turn of Key Performance Indicators.
- In November – annual review of Medium Term Financial Strategy, updated MTFP and Efficiency Plan and updated capital programme; annual review of Corporate Plan; mid-year update on Key Performance Indicators.

The Medium Term Financial Plan, Efficiency Plan and Medium Term Financial Strategy will be communicated to employees and stakeholders and published on the Council's website.

4. Links to other strategies, policies and plans

This Medium Term Financial Strategy has links to other Council strategies, policies and plans as set out below:

Corporate Plan	Sets out the Council's priorities which are taken into account when preparing the capital programme, especially when evaluating new bids
Risk Management Policy and Strategy	Establishes a framework for the effective and systematic management of risk, which will ensure that risk management is embedded throughout the Council and makes a real contribution to the achievement of the Council's vision and objectives. All committee reports include a financial risk assessment. The strategic risk register includes an item relating to the Council's budget.
Capital Strategy	Sets out the Council's strategic approach to the management of its Capital Programme and provides a framework within which decisions can be made regarding capital investment and financing
Treasury Management Strategy	Sets out how the Council's investments and borrowings are to be organised, and includes treasury indicators
Minimum Revenue Provision Policy	Shows how residual capital expenditure is charged to revenue over time
Investment Strategy	Sets out the parameters on how investments are to be managed
Asset Management Plan	Takes into account the balance between capital expenditure on assets and revenue expenditure on repairs.
Procurement Strategy	Reflects the Council's initiatives to remove unnecessary complexity from processes and procedures and embeds best practice to maximise the benefits available from all commercial arrangements.
Economic Development Strategy	Sets out the need for more modern workspace for local firms, in order to accommodate the growth in higher-paid jobs required by the district. A vibrant economy with more homes and businesses should result in increased council tax and business rates that could be used to fund council services.
Equality & Diversity Policy	Explains that the Council will encourage and promote equality as an employer, in the provision of its services, and in carrying out its public functions. This can have an impact on the cost of services.
Corporate Consultation and Engagement Plan	Records all consultation and engagement planned through the financial year. Included are: corporate mechanisms for consultation e.g. community forums; customer satisfaction surveys; and changes to external facing policies, proposals which have a major impact on services, or changes that have an unfair impact on protected groups. This includes consultation on the draft budget.

5. Risk Management

There are significant risks associated with the Medium Term Financial Strategy. The uncertainties associated with medium term financial planning are set out in section 3.2 of this strategy. The preparation of an efficiency plan is a key mitigating factor but, even so, this financial risk is assessed as High.

The table below identifies the key risks and mitigating actions:

Keys Risks	Mitigating actions and controls
• Lack of resources available to deliver the core Council activities • Controls not performed or overlooked due to time and resource pressures. • Cash flows are not available to maintain standards and quality of service provision. • Increase in claims made to the Council. • Initiatives, development programmes etc. around capital enhancements, car park maintenance etc. may not be performed resulting in members of the public hurt or public property damaged. • Targeted savings or additional income not being achieved. • Loss of a key source of income e.g. government grants or business rates from a large supermarket or quarry. • Increases in pay and prices are higher than forecast.	• Monthly reporting of management accounts with monitoring of variations from budgets. • Quarterly scrutiny of budgets by the Corporate Leadership Team. • The MTFP and capital programme are updated and reported to Council in March, June and November each year. • A number of services have been outsourced, over a long-term agreement. The costs are structured within the outsourced contract, allowing the Council to forecast and plan budget savings effectively (except for the inflationary adjustments). • The Council has an 'invest to save reserve', which may be used for initiatives that will generate savings or additional income over the medium term.. • The Council has insurance arrangements in place to protect itself against claims. • £1.1m savings reached March 2017. • Budgets have been set and balanced for and 2017/18; • The Council has set a Corporate Savings Target. • The Council's Financial Strategy and Efficiency Plan set out the approach to achieving the savings that will be required.

6. Glossary of Terms

Budget

A statement of the Council's policies and spending plans for net revenue and capital expenditure over a specified period of time, usually one financial year from 1st April to 31st March.

Budget Requirement (or External Funding Requirement)

The Council's revenue budget on general fund services after deducting funding streams such as fees and charges and any funding from reserves. This excludes income from council tax, business rates and non-specific government grants such as Revenue Support Grant, Rural Services Delivery Grant and New Homes Bonus.

Business Rates Baseline Funding Level

The amount of a local authority's start-up funding allocation which is provided through the local share of the estimated business rates aggregate (England) at the outset of the scheme as forecast by the Government.

Business Rates Local Share

This is the percentage share of locally collected business rates that will be retained by local government, currently 50%. The local share of business rates is divided between authorities on the basis of proportionate shares set by the government. Currently at Derbyshire Dales District Council the 50% local share is shared 40% for Derbyshire Dales District Council, 9% for Derbyshire County Council and 1% for Derbyshire Fire and Rescue Authority,

The Government has announced that by the end of the current parliament, the local share of business rates will increase to 100%, though this will be accompanied by additional responsibilities. The additional responsibilities and the share between district and county councils have not yet been determined.

Business Rates Pool

As part of the rates retention scheme, authorities are able to come together, on a voluntary basis, to pool their business rates, giving them scope to generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area. This not only allows them to pool their resources under the scheme (which they could do anyway), but ensures that they are treated as if they were a single entity for the purposes of calculating tariffs, top-ups, levies and safety net payments. Derbyshire Dales District Council has been part of the Derbyshire Business Rates Pool since 1st April 2015.

Capital Expenditure

Spending on assets that have a lasting value such as land, buildings, vehicles and equipment. It can also include grants to other bodies towards such assets.

Capital Programme

The Council's plan of future spending on capital projects such as buying land, buildings, vehicles and equipment.

Capital Receipts

The proceeds from the disposal of land or other fixed assets and repayment of certain grants and advances. Capital receipts can be used to finance new capital expenditure within rules set down by the Government, but they cannot be used to finance revenue expenditure, except in specific circumstances defined in regulations.

Capping

This is the power under which the Government may limit the maximum level of local authority spending or increases in the level of spending year on year, which it considers excessive. It is a tool used by the Government to restrain increases in council tax. The Council Tax cap, currently 2%, means that any local authority in England that wishes to raise council tax by more than 2% above the previous year must consult the public in a referendum. Councils losing a referendum would have to revert to a lower increase in their bills.

CIPFA

The Chartered Institute of Public Finance and Accountancy is one of the UK accountancy institutes. Uniquely, CIPFA specialise in the public sector. Consequently CIPFA holds the responsibility for setting accounting standards for local government.

Collection Fund

A separate statutory account, maintained by the council, to show the transactions of a billing authority in relation to amounts collected from Council Tax and Non-Domestic Rates (NDR) and the payments to central government and major preceptors (the County Council, the Police and the Fire Authority).

Collection Fund Surplus or Deficit

If the Council collects more or less council tax than it expected at the start of the financial year, the surplus or deficit is shared with central government and the major preceptors (see above), in proportion to the respective council tax precepts These surpluses or deficits have to be returned to the council taxpayer in the following year through lower or higher council taxes. If, for example, the number of properties or the allowance for discounts, exemptions or appeals vary from those used in the council tax base, a surplus or deficit will arise.

The Collection Fund also shows transactions relating to business rates. Any surplus or deficit arising from business rates is shared in proportion to the local share (see above) and taken into account when setting the council tax for the following financial year.

Contingency

This is money set aside to meet the cost of unforeseen items of expenditure, such as higher than expected inflation or unforeseen events. At Derbyshire Dales District Council the contingency is held in the General Reserve.

Council Tax Base

This is the figure that is used by the Council in the calculation of the Council Tax. It is the number of band D equivalent properties within the District. This figure is produced by the council counting each property in each council tax band across the district; the number of properties in each band is then multiplied by a factor to convert it into a band D equivalent; these are then added up to produce the total number of band D equivalent properties for the district; an adjustment is then made to reflect Council Tax Support; finally a collection rate is applied and the result is the council tax base.

Council Tax Requirement

The Council Tax Requirement is the amount that the Council needs to collect from Council Tax each year. It is the Budget (or External Funding) requirement less business rates income and non-specific grants.

The Council Tax Requirement is divided by the Council Tax Base to calculate the Band D Council Tax for the financial year.

CPI

The main inflation rate used in the UK is the CPI (Consumer Price Index). Some of the council's contracts with suppliers (such as that for waste collection) include an agreement that prices will be increased each year in line with CPI. The Chancellor's CPI inflation target is currently set at 2%.

Financial Year

The Council's financial year commences on 1st April and finishes on 31st March the following year.

General Fund

This is the main revenue account of the Council which summarises the day to day spending of all services provided by the Council which are funded from the precept, government grants and other income.

General Fund Balances

This represents amounts put aside, but not allocated to meet, any future spending commitments or unforeseen pressures. The Council's General Fund Balances include a working balance of £1m to meet emergencies and contingencies, and to assist with cash flow, as well as a General Reserve that currently stands at £1m.

Gross Expenditure

The total cost of providing the Council's services, before deducting income from Government grants, or fees and charges for services.

Minimum Revenue Provision

The minimum amount which must be charged to an authority's revenue account each year, as a provision to repay borrowing and finance leases.

Net Expenditure

This is gross expenditure less income, but before deduction of government grant, business rates and council tax income.

New Homes Bonus

Under this scheme councils receive a new homes bonus (NHB) for each new property built in the district for the first four years following completion. There is also a payment in respect of empty homes brought back into use. Payments are based on match funding the council tax raised on each property with an additional amount for affordable homes. It is paid in the form of an un-ringfenced grant.

Non Domestic Rates (NDR)

Also known as ‘business rates’, see above,

Precept

The amount which a precepting authority (Derbyshire County Council, Derbyshire Police, Derbyshire Fire & Rescue and Town and Parish Councils) requires Derbyshire Dales District Council (as billing authority) to collect on their behalf in the form of council tax.

Prudential Borrowing

A set of rules governing local authority borrowing for funding capital projects under a professional code of practice developed by CIPFA to ensure the Council’s capital investment plans are affordable, prudent and sustainable.

Revenue Expenditure

Expenditure to meet the day-to-day running costs incurred in providing services e.g. wages and salaries, purchase of materials and capital charges.

Revenue Support Grant

A general government grant paid to the Council as a contribution towards the cost of its services. When added to the Business Rates Baseline Funding Level (see above), it produces the Settlement Funding Assessment.

Specific Grants

These grants are for specified purposes and cannot be used on anything else, for example, housing benefits administration.

Strategic (Earmarked) Reserves

These balances are not a general resource but earmarked for specific purposes.

Treasury Management

The process of managing the Council's cash flows, borrowing and investments. Details are set out in the Treasury Management Strategy which is approved by Council in March each year.

Virement

This is the transfer of budget provision from one budget head to another. A virement must be properly authorised by the Council or, if under £10,000, by the Head of Resources under delegated powers.

Appendix A – Medium Term Financial Plan

	Note	Estimate 2017/18	Revised 2017/18	Forecast 2018/19	Forecast 2019/20	Forecast 2020/21	Forecast 2021/22
		£000s	£000s	£000s	£000s	£000s	£000s
Existing Funding Requirement (inflation adjusted)							
Salaries and wages	1	7,679	7,679	7,833	7,990	8,150	8,313
Other expenses, net of income from fees and charges	2	1,809	1,809	1,863	1,919	1,977	2,036
		9,488	**9,488**	**9,696**	**9,909**	**10,127**	**10,349**
Ongoing variances identified in 2016/17 out-turn							
Increased spend on vehicle parts			20	21	22	23	24
Increased spend on composting gate fees			50	51	52	53	54
Grants for housing benefit & council tax support administration			(60)	(62)	(64)	(66)	(68)
Increased fees and charges - leisure centres			(50)				
Increased fees and charges - car parks			(80)	(157)	(161)	(165)	(169)
Future Commitments/Savings							
Transfer to Vehicle Renewals Reserve (annual contributions)		150	150	150	150	150	150
Transfer to capital programme reserve (one-off related to underspend)		30	300				
Transfer to local plan reserve				50	50	50	50
Transfer from Wheeled Bin Reserve (one-off)		(202)	(202)				
Cost pressures of outsourced services					150	300	300
Reductions in grants to voluntary bodies				(12)	(24)	(33)	(34)
Potential increase in pension contributions following revaluation						150	150
One-off consultancy costs for planning policy & development control		50	50				
Reduction in Benefits Administration Subsidy				25	50	75	100
Cost of implementing National Living Wage					50	51	52
Indexation of contract payments				33	33	12	
Gulley empting				20	20	20	20
Insurance tender surveys				15			
Review of customer payment methods				(28)	(28)	(28)	(28)
Increased staff turnover				(25)	(25)	(25)	(25)
Total Net Spending Requirements		**9,516**	**9,666**	**9,777**	**10,184**	**10,694**	**10,925**
Funded By:							
Revenue Support Grant	3	(252)	(252)	0	0	0	0
Business Rates Baseline Funding	4	(1,564)	(1,564)	(1,615)	(1,672)	(1,722)	(1,774)
Business Rates Baseline Funding Tariff Adjustment					362	371	380
Settlement Funding Assessment		(1,816)	(1,816)	(1,615)	(1,310)	(1,351)	(1,394)
Financing from Council Tax	5	(5,659)	(5,659)	(5,829)	(6,002)	(6,178)	(6,358)
Council Tax Collection Fund (surplus) / deficit		(48)	(48)	(44)			
Ongoing additional Business Rates (above baseline)	6	(735)	(735)	(930)	(963)	(991)	(1,021)
Business rates from renewable energy schemes			(150)	(150)	(150)	(150)	(150)
NNDR levy, net of income from NNDR Pool	7	130	130	155	160	165	170
NNDR Collection Fund (surplus) / deficit		62	62	601			
NNDR Collection Fund Deficit from additional reliefs				400			
Use of reserves NDR fluctuations				(601)			
Use of reserves (S31) for 2017/18 relief awards				(400)			
Adjustment to tariff re cap				80	80	80	80
Contribution to Business Rate Fluctuation Reserve				300	300	0	0
New Homes Bonus	8	(781)	(781)	(597)	(573)	(338)	(338)
Rural Services Delivery Grant	9	(322)	(322)	(248)	(322)		
Disabled Facilities Grant		(270)	(270)	(270)	(270)	(270)	(270)
Transition Grant		(77)	(77)				
Total Income		**(9,516)**	**(9,666)**	**(9,147)**	**(9,049)**	**(9,033)**	**(9,281)**
Corporate Saving Target		**0**	**0**	**630**	**1,135**	**1,661**	**1,644**

Notes to Medium Term Financial Plan

1. Assumes annual pay awards of 2%
2. General inflation assumed at 3% per annum
3. SFA as proposed four year deal announced February 2016
4. Based on offer from DCLG to 2019/20 then an annual inflationary increase of 2.5%
5. Assumes that Council Tax will increase by 1.94% per year
   plus an additional £60,000 p.a. in respect of new homes
6. Assumes Business Rates Income (above baseline) will increase by 3% p.a.
7. Assumes NNDR pooling continues
8. New Homes Bonus is awarded for 4 years from 2018/19
9. Assumes Rural Services Delivery Grant awarded until 2019/20, as four-year settlement

Appendix B – Efficiency Plan

This Efficiency Plan has been developed in support of the Council's Medium Term Financial Plan (MTFP) 2017/18 – 2021/22 which, in turn, supports the delivery of the Council's [Corporate Plan].

The MTFP sets out in broad terms the anticipated future spending requirements. This takes account of current and known additional requirements. The quantified additional requirements are based on the planned intentions of the Council and any future impact of decisions already implemented, but cannot be conclusive as other changes will undoubtedly occur over time.

The MTFP demonstrates that there is a balanced budget in 2017 / 2018 but, after this, savings need to be found: £630,000 is required to close the budget gap for 2018/19; £1,135,000 for 2019/20 rising to £1.7m by 2020 / 2021. The aim is to make ongoing savings as soon as possible in order to close the gap and to assist in dealing with other potential future liabilities that have not yet been estimated.

The Council has, over the last four years, been carrying out Service Reviews across its whole portfolio. In addition, a detailed review of existing budgets has also taken place and savings of £1.1m have been achieved from 1st April 2014 to 31st March 2017. A prime focus of this work has been to minimise the impact on residents and frontline service delivery. Much has been done in terms of transforming how the Council operates: minimising support service costs, streamlining processes and making better use of ICT systems, reviewing procurement routes for supplies and services and opening up opportunities for a self-service approach.

It is expected, going forward, that the continuing programme of Service Reviews will be the main way that future savings will be identified. Efficiencies in delivery and new ways of delivering services will be explored, including looking at opportunities for sharing services with others and working with the community. In line with the Council's existing programme, the following key services are currently under review:

- ◊ Leisure Services (options for the existing 4 Leisure Centres)
- ◊ Public Conveniences (opportunities to transfer assets to communities and/or charging)
- ◊ Development Management (redesign of business processes in development management and the subsequent introduction of electronic document management)
- ◊ Payments for officer car mileage
- ◊ Discretionary Rate Reliefs
- ◊ Human Resources and Payroll
- ◊ Waste Collection (contract due for renewal / re-tendering in 3 years, exploring all options)
- ◊ Revenues and Benefits (contract due for renewal in 2020).

The following are planned for review over the coming 4 years:-

- ◊ Fees and Charges
- ◊ Clean & Green (last reviewed 4 years ago, review standards and resources)
- ◊ Support Services (all reviews have consequential impacts on support services)

In addition, light touch reviews will be carried out on smaller service areas and the Council will continue to explore opportunities for alternative service delivery models, e.g. the Council has already agreed and operates:-

- ◊ A Joint ICT Service
- ◊ A Joint Internal Audit Service
- ◊ A shared Legal Service with Derbyshire County Council
- ◊ Procurement with the NHS.

The Council will also use the following techniques to identify savings:-

- ◊ Reducing fixed and variable employee costs while protecting existing employees as far as possible.

- ◊ Making best use of our assets – a full Condition Survey of all council buildings has been carried out in the last year and the Capital Programme has been adjusted, as necessary, to ensure the Council's operational assets are fit for purpose. Where opportunities arise, the Council has transferred assets to communities (e.g. Matlock Bath Pavilion, Tansley Village Hall and is looking at Ashbourne Pavilion and Cromford Village Hall) and is also sharing its own offices with the Citizen's Advice Bureau (CAB); Rural Action Derbyshire (RAD); Radio Derby and Age UK. The Asset Management Plan is to be reviewed by March 2018; this will explore any further opportunities for disposing of surplus land and building assets and opportunities for collaboration with others. The Council is also part of the One Public Estate programmes operated within the D2N2 LEP area and the SCR LEP area.

- ◊ Improved procurement and contract negotiations to ensure that value for money is sought.

- ◊ Assessing utilisation of reserves and balances – these are reviewed on a quarterly basis to ensure that they are being held for future commitments or to enable future savings to be achieved, e.g. Invest to Save Reserve, which requires a business case to be submitted to demonstrate potential savings to be made against the investment requested.

- ◊ Generating additional income from fees and charges - e.g. introducing an "advice only" charge in pest control, summer saving ideas in Leisure Centres and by exploring the potential of building and renting out business units. The Council has created a hub, made up from Officers across the Council, to consider commercial opportunities and income generation.

- ◊ Increasing fees and charges.

- ◊ Generating additional income from business rates by helping small and medium-sized businesses in the district to grow.

- ◊ Carrying out a review of Business Rate Discretionary Reliefs.

- ◊ Considering future Council Tax increases.

- ◊ Reviewing the revenue budget. Any underspends made at outturn will, in accordance with existing policy, be transferred to support the Council's Capital Programme or placed in reserves to support any one-off costs associated with the Efficiency Plan. These may include redundancy costs though the Council will seek to avoid compulsory redundancies if at all possible and utilise natural wastage where appropriate to do so.

The table below shows the savings that are required and the planned savings targets:

	2018 / 19	2019 / 20	2020 / 21	2021 / 22
Savings Required (£'000s)	**630**	**1,135**	**1,661**	**1'644**
Planned Savings Targets:				
Service Reviews (ongoing)	600	750	750	750
Service Changes (mainly from reviews of markets & leases)	415	415	440	440
Transformation and organisational efficiencies (customer self-service / mobile working, paperless, employee costs)	130	195	341	324
Additional income (including car parking, planning fees, & new income streams.)	80	130	130	130
Total	**1,225**	**1,490**	**1,661**	**1,644**
Net spending requirement (Savings required less planned savings target)	**-595**	**-355**	**0**	**0**

There are significant risks associated with the MTFP and the Efficiency Plan drawn up to achieve the savings required to ensure balanced budgets over the next 3 years. These include uncertainties over Government plans for New Homes Bonus and Business Rates. The Efficiency Plan also presents some significant challenges for the Council and will, in some instances, require public consultation which could influence decisions the Council has to make. However, the Plan is produced on the basis that if the savings are not achieved as predicted above, the Council will need to put in place alternative savings measures.

To mitigate these risks, the Council has evaluated the impacts and implications to frontline services of reducing all budgets by 10% and 25%. Should the Council decide against some of the decisions required to make the planned savings then proposals based on the 10% and 25% reductions will be placed before the Council.

November 2017

Appendix C – Capital Strategy 2018/19 to 2021/22

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1 Introduction

Capital expenditure represents investment in new or enhanced assets such as land, buildings, infrastructure (e.g. roads and bridges), vehicles, equipment and information technology (hardware and software).

The Capital Strategy plays a key role in the Council's financial planning arrangements and is a key part of the Council's Medium Term Financial Strategy (MTFS).

2 Aims of the Capital Strategy

The principle aims of this Capital Strategy are to:

- provide a clear framework for capital funding and expenditure decisions, ensuring that capital investment is targeted at meeting the Council's Priorities;
- deliver projects that focus on key benefits to the Council such as economic growth or financial returns, for example, "Invest To Save" projects or those that generate income;
- ensure that the value of the Council's existing assets is enhanced / preserved;
- explain how the Council will identify and evaluate bids for capital resources and any implications for the revenue account;
- describe the sources of capital funding available for the medium term and how these might be used to achieve a sustainable capital programme;
- describe the processes for managing the capital programme.

3 Sources of Capital Finance

Decisions on capital spending are made against the background of diminishing resources. The main sources of capital finance available to the Council are:

a) Capital Grants and Contributions

Grants are generally awarded to finance specific projects. Grants may be received from central government, the European Union (until 2019) or other organisations. Some grants come with the expectation of "match funding" from the Council.

> The Council will continue to bid for capital grants when the opportunity arises

Developer contributions, usually derived from Section 106 agreements, are awarded to mitigate the impact of developments on communities. These contributions are usually earmarked for specific purposes in planning agreements and often relate to infrastructure projects or affordable housing schemes.

> The Council will continue to seek section 106 contributions when appropriate.

Another type of developer contribution is the Community Infrastructure Levy. The Community Infrastructure Levy is a planning charge, introduced by the Planning Act 2008 as a tool for local authorities in England and Wales to help deliver infrastructure to support the development of their area. Development may be liable for a charge under the Community Infrastructure Levy (CIL), if the local planning authority has chosen to set a charge in its area. Derbyshire Dales District Council has not yet introduced a Community Infrastructure Levy.

> In due course, officers will prepare a report for the Council to consider whether it is appropriate to introduce a Community Infrastructure Levy in its area.

The Council is committed to working with partners (e.g. housing associations) to provide assets. Various mechanisms provide opportunities to enhance the Council's investment potential with support and contributions from other organisations and partners. These may be through match funding, joint funding etc. A report to Council in June 2016 pointed out that the funding environment is changing dramatically and new approaches need to be explored to ensure the Council can continue to provide a modest supply of homes for rent. Members agreed that proposals for the development of a Joint Venture to deliver mixed tenure housing schemes. This type of approach could be used for other capital projects.

The Council will continue to seek private sector investment. Should opportunities arise, officers will explore new approaches for capital contributions, such as joint ventures, and will prepare reports for Members' consideration.

b) Capital Receipts

Capital receipts are derived from the sales of assets. At Derbyshire Dales District Council this includes a share of receipts from the sale of former council houses, negotiated as part of the stock transfer in 2002, known as the Right to Buy Sharing Agreement. As the Council reviewed its assets some years ago, and disposed of surplus assets at that time, the scope for future capital receipts, other than those under the Right to Buy Sharing Agreement, is limited.

Sometimes a third party will approach the Council with a request to purchase a particular asset, usually land. Each of these opportunities will be explored to identify whether it is in the Council's best interests to agree to a disposal, which would generate a capital receipt.

Subject to Committee approval, the Council will dispose of surplus capital assets to generate capital receipts where there is a sound business case taking into account issues such as financial implications (revenue and capital) and service delivery.

c) Prudential Borrowing

The Council's capital investment falls within, and needs to comply with, the "Prudential Code for Capital Finance in Local Authorities" (The Code). Under the Code local authorities are allowed to set their own limits on the amount that may be borrowed to finance capital expenditure, provided that it is, and can be shown to be, prudent, affordable and sustainable. This method of financing capital expenditure is called "prudential borrowing".

In order for borrowing to be prudent, affordable and sustainable, there must be an identifiable, long-term source of revenue funding for the associated revenue (debt financing) costs. In some cases this will come from revenue savings or additional income arising directly from the capital scheme. For example, building a new car park could generate income through charges. In other cases, there will be no direct additional income or cost saving (but the scheme meets a corporate priority) so the Council will need to ensure that the cost of borrowing will be affordable to the Council's revenue account in the long term.

There could be circumstances where the Council will consider borrowing to then provide loans to other organisations, such as for economic development. This is treated as capital expenditure and funded through borrowing. Officers will explore such schemes and seek Council approval.

The Council is required to make provision for the principal repayment of borrowing; this is known as a Minimum Revenue Provision (MRP). The Council has to prepare an annual statement of its policy on making MRP, and this is reported to Council for approval each March in respect of the forthcoming financial year.

In future years, new borrowing could be a realistic way of funding capital expenditure. However, in order to meet the Prudential Code, the Council would have to identify sustainable income streams or re-examine its revenue spending priorities in order to generate sufficient revenue capacity to make new borrowing affordable.

> Prudential borrowing will be considered as a method of capital financing provided that it is, and can be shown to be, prudent, affordable and sustainable.

d) **Revenue Contributions to Strategic Reserves**

The Council has, in previous years and in the 2017/18 budget, made contributions to strategic reserves to provide capital funding. Such reserves include the Capital Programme Reserve, the Vehicle Renewals Reserve and the ICT Reserve. Until recently, such transfers to reserves have generally taken place when a revenue account underspend has been identified, rather than as part of a planned financial strategy. The 2017/18 budget includes £150,000 transfer to the Vehicle Renewals Reserve to fund future vehicle replacements. The Medium Term Financial Plan assumes that this will continue.

In order to provide a source of capital finance, especially for the life cycle (replacement) costs of certain key assets that have a limited life expectancy (such as vehicles, fitness equipment, and play equipment), the Council's Medium Term Financial Strategy includes the following statements:

I. the MTFP and future revenue budgets should include annual revenue contributions to capital reserves provided that they are affordable;

II. Any under-spending on the revenue account will be transferred to strategic reserves used to finance the Capital Programme or "Invest To Save" Initiatives.

> Strategic capital reserves will be used as a method of financing, subject to availability, and (for some reserves) the relevant purpose.

e) **Leasing**

Leases are currently classified in accounting terms as either finance or operating leases. This distinction is important because it dictates whether the lease must be classified as capital (finance leases) or revenue (operating leases), and different accounting treatment is required for each. However, changes in the classification of leases are due to be introduced in 2019/20. The impact if these changes will be assessed in due course.

At the present time, finance leases are not recommended as a source of capital funding unless there are exceptional circumstances. This is because other sources of finance usually offer greater benefits, especially in terms of cost.

> Finance leases will not be considered as a method of capital financing unless there are exceptional circumstances and they can be shown to be cost effective (compared to other methods of finance that might be available), prudent, affordable and sustainable.

4 Capital Funding Strategy

The capital funding strategy is intended to set out the order that financing will be utilised. Financing will be allocated in the following order:

1. Capital grants and contributions that are linked directly to a specific capital project e.g. a HCA grant or Disabled Facilities Grants. These will be fully allocated to the relevant project. Projects funded by external grants and contributions will not commence until such funding is definitely secured.
2. Capital receipts that are linked directly to a specific capital project e.g. the proceeds from the sale of an asset that will be used as financing for its replacement. Projects funded by capital receipts will not commence until such funding is definitely secured.
3. Capital grants and contributions that are not linked to a particular project but are for a particular purpose e.g. Section 106 agreements for affordable housing - these will be used as funding for projects that meet the specified purpose ahead of other funding sources. Schemes funded by external grants and contributions will not commence until such funding is definitely secured.
4. Transfers from strategic reserves – these will be used to fund capital expenditure subject to availability, and (for some reserves) the relevant purpose.
5. Capital receipts not directly linked to a particular project, where expenditure is within rules set down by the Government. Schemes funded by capital receipts will not commence until such funding is definitely secured.
6. Self-funded borrowing - where the capital investment itself will produce revenue savings or additional income, which is sufficient to cover the cost of borrowing to fund the investment.
7. Prudential Borrowing will be used to fund capital investment if the cost of the

borrowing is affordable within the overall General Fund revenue projections. This will be funding source of last resort.

5 Building, updating and monitoring the Capital Programme

A Capital Programme is prepared annually in March by the Head of Resources in consultation with the Corporate Leadership Team, and reported to the Council for approval. The programme sets out the capital projects that will take place in the forthcoming financial year and the projects that are forecast for the following four financial years. The capital programme is updated in June (to reflect the outturn of the previous financial year and any slippage, as well as adding any new bids) and October/November (reflecting progress on projects and adding any new bids).

Where expenditure is required or anticipated which has not been included in the Capital Programme, then a revision to the Capital Programme is required before that spending can proceed. Revisions to the Capital Programme must be approved firstly by the Corporate Leadership Team, then by Council. For projects over £25,000, or those of a political nature, a report is required to the relevant policy committee before the project is reported to Council. Revisions to the Capital Programme will generally be taken to Council only in June and October/November each year, unless there are exceptional circumstances.

All projects within the programme will be financed in accordance with the funding strategy set out above. Within the available resources, bids for new capital projects are evaluated and prioritised by the Corporate Leadership Team prior to seeking Committee / Council approval.

Bids for inclusion are supported by business cases, which must demonstrate that the project provides an effective and value for money solution, and that all possible sources of external funding have been sought. The business cases also identify any implications for the revenue account, such as increased or reduced expenditure or increased income.

Once approved by Council, a project manager is identified to be responsible for the effective control and monitoring of each project, including financial monitoring. Any projects that might exceed the agreed budget must be reported to the Head of Resources. If appropriate corrective action cannot be taken to bring the project back within budget, the additional costs will be reflected in the next update of the capital programme. Changes which result in an increase in the amount of an accepted tender or estimate by 10% or £50,000, whichever is the lower, will be reported to the relevant Policy Committee as soon as possible with an estimate of the probable new cost, and subsequently to full Council for approval of any additional expenditure.

6 Risk Management

Significant risks associated with individual capital projects are identified in the business case and in the policy committee report associated with the bid, as well as in departmental risk registers.

The most significant risks to the achievement of the overall capital programme are:

- Forecast capital receipts may not be achieved;
- The danger of overspending on capital schemes with no available finance to meet the overspending;
- Budgets for individual projects may be insufficient when tenders are received;
- Availability of funding for future capital projects (though the current programme is fully financed) means that the Council's future ability to finance mandatory Capital expenditure, such as Disabled Facility Grants, will need to be kept under review and the amount available might be insufficient to deal with unforeseen capital expenditure, for example, if there was a requirement similar to the costs of addressing structural damage at the Memorial Gardens Toilets.

7 Links to other plans

This Capital Strategy has links to other Council Plans as set out below:

Corporate Plan	Sets out the Council's priorities which are taken into account when preparing the capital programme, especially when evaluating new bids
Medium Term Financial Strategy	Describes the Council's strategic approach to the management of its finances and provides a framework within which decisions can be made regarding future service provision It sets out policies such as transfer of revenue contributions to strategic reserves to finance capital expenditure
Treasury Management Strategy Statement	Sets out how the Council's investments and borrowings are to be organised, and includes treasury indicators
Minimum Revenue Provision Policy Statement	Shows how residual capital expenditure is charged to revenue over time
Investment Strategy	Sets out the parameters on how investments are to be managed
Asset Management Plan	Takes into account the balance between capital expenditure on assets and revenue expenditure on repairs.

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