BABERGH DISTRICT COUNCIL

To: Strategy Committee	**Report Number: N107**
From: Head of Corporate Resources and Head of Housing	**Date of meeting: 13 February 2014**

FINANCIAL OUTLOOK INCLUDING THE 2014/15 DRAFT GENERAL FUND AND HOUSING REVENUE ACCOUNT BUDGETS AND INVESTMENT STRATEGY

1. Purpose of Report

1.1 To explain the financial challenges facing the Council in the short and medium/long term.

1.2 To explain the Council's new strategic approach and desired outcomes following the Transformation Enquiry Group (TEG) process.

1.3 To provide information on the emerging budget strategy for both the short term (2014/15) and longer term (3 – 5 years).

1.4 To set out how the Council intends to use its available resources to achieve the strategic priority outcomes and realign resources to a programme of transformational activities and projects.

2. Recommendations

2.1 That Strategy Committee agree the draft Budget proposals set out in the report, subject to further consideration at the February meeting.

2.2 That the draft General Fund Budget for 2014/15 is based on:

(a) Realigning funding to deliver the Council's Transformation Programme and Strategic Priority outcomes

(b) Investing New Homes Bonus as indicated in section 12.1 of the report

(c) Accepting the council tax freeze grant equivalent to a 1% increase in council tax.

2.3 That the Housing Revenue Account (HRA) Investment Strategy 2014/15 to 2018/19 and the HRA Budget proposals for 2014/15 are based on:

(a) Strategy Committee determining the rent increase option

(b) Approval that the re-let of vacant HRA properties from the 1 April 2014 be at target rent levels.

2.3 That the proposed capital programme in Appendix D is approved.

2.4 That the 10 year revised HRA Business Plan(s) in Appendix C are noted.

The final General Fund and HRA Budgets, along with the HRA Business Plan, will reflect the recommended rent option and any other changes required.

3. Financial Implications

3.1 Detailed in the report.

4. Risk Management

4.1 This report is most closely linked with the following Significant Business Risks:

Risk Description	Likelihood	Impact	Mitigation Measures
Financial milestones are not achieved leading to savings not being realised e.g. proposed investment programme not producing the return on investment anticipated	Depends on decisions and actions taken	Potentially Bad or Disaster	Robust business case for investment, close and regular monitoring of benefits and return and revising investment proposals in response to changes in predicted returns
A change in Government policy in relation to New Homes Bonus (NHB) beyond 2016/17 could reduce the level of income available	Probable	Noticeable	Maximise opportunity for receipt of NHB up to 2016/17. Lobbying by the Council, the LGA and other organisations.
Failure to act upon the requirements of the Welfare Reform Act 2012 and Funding Reforms could lead to unpreparedness for changes in April 2013 and beyond.	Unlikely	Bad	Arrangements under Universal Credit proposals will see housing benefit paid directly to the individual rather than to the Council. Increased bad debt provision, the work of the Financial Inclusion Project and updated Rent Collection Policy and Procedures will seek to mitigate the impact of the changes on the Councils rental income streams and HRA budgets.
Failure to implement cost sharing protocol results in inaccurate or unfair allocation of shared costs and income.	Very low	Noticeable	Assessment made for 2014/15 Budget and further work planned to ensure variations from this are monitored and appropriate changes made.
Failure to plan early and identify options to meet the medium term (3 year) and 2014/15 budget gap of both councils to minimise or avoid reductions in service provision.	Unlikely	Bad	Member and Officer briefings and engagement. Transformation Enquiry Groups, Priority Based Budgeting and establishing a Medium Term Financial Plan.
The Council is no longer	Unlikely	Noticeable	Inflation and interest rate

Risk Description	Likelihood	Impact	Mitigation Measures
subject to an annual HRA subsidy determination following Self Financing but now bears a greater risk from inflation and interest rate rises.			sensitivities have been modelled in the HRA business plan.
Failure to spend retained RTB receipts within 4 year period, will lead to requirement to repay to Government with an additional 4% interest.	Unlikely	Bad	Provision has been made in HRA Investment Strategy to enable match funding and spend of RTB receipts.
The Government re-opens the HRA Self Financing Debt Settlement and the Council loses spending headroom or surplus revenue in the HRA	Probable	Bad	A financial plan which includes strategy for spending of surplus revenue and headroom which invests in TEG outcomes is being developed. Lobbying by the Council, the LGA and other organisations.
Change in formula guidance leading to inability to increase rents in line with forecasts will lead to an unrecoverable loss of income projected within HRA Business Plans	Dependent on Strategy Committee decision	Noticeable	Increase of £2 cap limit within rent increase formula to recover loss of income in 2014/15
Increasing rents above Housing Benefit Limit Rent level may lead to requirement to pay rent rebate subsidy to Government	Dependent on Strategy Committee decision	Noticeable	Subsidy limit estimates included in HRA Budget forecasts.
A significant increase in RTB sales due to Governments reinvigoration of the RTB and further changes to increase discount levels has led to a loss of rental income not predicted in Business Plans.	High	Noticeable	Re-provision of homes lost through RTB sales will maintain income levels to the HRA. Rent increases in line with projections are necessary to ensure capital funding available to support 70% match funding for additional homes.
Failure to complete convergence of individual rents will lead to variances in rent levels for similar properties in similar areas.	Dependent on Strategy Committee Decision	Noticeable	Reduction in target rent levels would enable individual rents to converge by 2014/15

4.2 A risk assessment by the Section 151 Officer on the General Fund Budget proposals and the adequacy of General Fund reserves, as required by statute, is attached at Appendix F.

5. Consultations

5.1 The proposals are based on the Council's strategic priorities, which were based on a comprehensive community engagement exercise in 2012

5.2 Continuing consultation with all key stakeholders and engagement with communities will continue as strategic priority outcomes and the Medium Term Financial Strategy are developed throughout 2014 and beyond.

5.3 Consultation on the HRA proposals took place with the Tenants Forum on the 10th December. Comments from the consultation are detailed below:

"The Tenants Forum is keen to see investment from the HRA for provision of additional homes, to provide benefit to the wider communities of Mid Suffolk and Babergh. It is appreciated that rent and charges increases will be needed to support future investment"

5.4 A meeting of the Joint Housing Board (JHB) and Tenants Forums was held on the 30th January 2014. The recommendation of JHB and Tenants Forums comments are as follows:

Tenants wish to see continuing and increased investment in their housing services. They want repairs and improvement programmes to continue at the standard agreed. They also wish to see investment in building and/or purchase of additional homes for those people on housing waiting lists. They would prefer that rent increases are kept at the lowest level possible but accept that this may not be achievable taking into account their wish for increased investment in additional homes and improvement programmes.

5.5 Specific spending proposals in line with the strategic priorities and transformation outcomes will be subject to individual consultation at the time that they are brought forward for consideration.

6. Equality Analysis

6.1 Equality Analyses will be undertaken for any service areas where significant changes are proposed as a result of the above process.

7. Shared Service / Partnership Implications

7.1 The integration of senior management and Operational Delivery Teams to serve both councils was substantially complete in July 2013, with the integration of certain back office services to be finalised at the end of the CSD contract in June 2014.

7.2 Members are now working jointly and we are substantially integrated at an Officer level and developing the delivery plans for our Transformation Programme. Both Councils strategic priorities are very similar as are each council's financial challenges. By addressing these together, but respecting that we are two sovereign councils, Babergh and Mid Suffolk are well placed to tackle the challenges we face and grasp the opportunities that exist.

7.3 The draft Budgets for 2014/15 reflect the estimated cost and savings sharing arrangements between the two councils. However, there are and will be ongoing differences in the detailed financial position of each council's General Fund and HRA. There will obviously be instances, therefore, when staff resources and money is focused on a specific priority in one council. That is inevitable.

7.4 Actual staffing and other costs will, therefore, have to be reflected in the accounts year on year and funding adjusted accordingly to ensure that each council's finances are accounted for separately and that costs and benefits from integration and shared services continue to be allocated appropriately to each council.

8. STRATEGIC CONTEXT

8.1 Over the past 3 years, Babergh District Council and Mid Suffolk District Council have recognised the financial challenges facing them and have taken a number of key strategic decisions to enable them to secure financial sustainability in the medium and longer term including:

- The appointment of a single Chief Executive and management team to lead and manage a single integrated delivery organisation supporting two separate sovereign elected councils – to reduce the proportion of costs spent on management and staffing and to secure both economies of scale and resilience of services

- The establishment of clear strategic priorities and outcomes that each Council wishes to achieve for their respective communities based on the feedback received during a community engagement exercise in 2012 – to ensure that increasingly limited funding is spent strategically

- The development of an outline programme of transformation projects and activities through a Transformational Enquiry process led by councillors in Autumn 2013 that will enable both councils to deliver on the strategic priorities and outcomes.

8.2 At the same time, the government policy frameworks have been reducing core funding for local government as part of its deficit reduction strategy and increasingly incentivising councils to deliver local economic and housing growth and to facilitate the development of strong, safe, healthy and self-sufficient communities.

8.3 As a result, both Councils are facing a reduction in core grant funding, a framework for council tax that limits the ability to raise additional revenue from that source and new incentivised, less predictable and uncertain sources of funding. Examples of the latter are retention of some new income raised through business rates growth, targeted or ring-fenced grants namely new homes bonus and transformation challenge funding from Government to support our transformation programme. Some of this funding will be ongoing and some will be one off funding. In addition to revenue funding changes, both Councils are able to borrow money within prudential borrowing requirements and can now generate capital funding and borrowing using their housing revenue accounts, to fund capital programmes.

8.4 Each Council faces slightly different financial challenges and have slightly different strategic priorities and outcomes. In order to maximise the positive impact on the priorities and outcomes, each council, working collaboratively with the other, must ensure that its more limited management, workforce and other resources are targeted and aligned to those priorities and outcomes. At the same time, both councils must continue to deliver mainstream core services and improve the performance and efficiency of those services.

8.5 Both Councils have reflected this context in their strategic priorities and outcomes and this report now sets out budget proposals for 2014/15 and a framework for developing a sustainable medium term financial strategy. The latter will use a priority based budget review to develop a new business model and align resources to that model that will realise savings, generate income and achieve strategic priorities and outcomes in the medium term.

8.6 Recognising that a proportion of available management, workforce and other resources need to be targeted to develop and deliver the transformation programme in 2014/15 and additional investment funding needs to be available for 2014/15 and later years, this budget report proposes the creation of a Transformation Fund. The Fund will meet the part of the costs of the resources that are attributable to transformation and to provide an ongoing investment fund. Transformation funding will meet the costs of developing programmes and projects and the detailed business case for investment and will be allocated to projects and programmes of activity that demonstrate a viable business case and return on investment in terms of savings, generating income or improved outcomes in line with strategic priorities.

8.7 Each Council is being asked to endorse this budget strategy and set a budget for 2014/15 accordingly, in order to improve its ability to achieve a sustainable financial basis in the medium term. Without this change of strategy, to focus on invest to save, grow and achieve outcomes, there is a greater risk that each council will be unsustainable financially in the medium/longer term.

9. FINANCIAL CHALLENGE

General Fund

9.1 Funding arrangements for councils have changed significantly with Revenue Support Grant (currently £2.9m) reducing significantly over the next 4 years and with more income expected to come from the retention of 50% of growth in Business Rates and 'incentivised' funding such as the New Homes Bonus. Business rates and new homes growth will, therefore, be a significant source of income if we are to achieve a sustainable Budget in the years ahead.

9.2 Members are reminded that Babergh has already seen a big cut in core funding over the last 2 years. Total estimated core funding (including Business Rates) is reducing by a further 12.3% in 2014/15. This includes, in relation to the Revenue Support Grant element, a cut of £621k or 21.6%. Further details of the Government's provisional spending announcement on the 18 December 2013 are set out below:

- Reduction in 'Spending Power' of 2.9% nationally (only 1.9% for Babergh due to an increase in New Homes Bonus) - This is the Government's explanation of the funding reductions, taking into account council tax, New Homes Bonus and other grants

- As indicated above, the core funding reduction for Babergh is much higher than this

- The rural SPARSE efficiency grant, introduced last year, is to be continued into 2014/15 (£27k).

9.3 Looking ahead to 2015/16, the Government's indication is that funding for Babergh will reduce by a further 15.4**%**. No change or improvement in the rural vs. urban funding balance is included in either the 2014/15 or proposed 2015/16 settlements although the Rural Services Network continue to rigorously pursue this as part of the Fairer Funding Campaign.

9.4 It must be emphasised that the estimated core funding is not a fixed guaranteed amount as it is now dependent on variations in business rates income. This is being carefully monitored and the volatility and risks, for example rate relief for schools converting to academies and the level of appeals, will need to be considered and addressed.

9.5 Current forecasts are that Babergh will need to save, generate income or produce a return on investments of around £5.4m over the next 4 years to meet the forecast Budget gap within the General Fund.

Housing Revenue Account

9.6 The challenges for the HRA will be to make use of its resources wisely to ensure that HRA homes are maintained to Decent Homes Standard, that the response to Welfare Reforms is met by providing smaller homes and support for tenants to manage their finances, by providing additional affordable homes to meet demand and to re-provide homes lost through increased Right to Buy sales.

9.7 On 1st April 2012 the HRA left the housing subsidy system and entered into Self-Financing. Babergh's determination settlement payment was calculated at £83.6m. This was based on projected levels of income, expenditure and existing stock values and took HRA long term borrowing levels to £89.6m. A borrowing cap in the form of a Capital Financing Requirement (CFR) is set at £97.8m. The cap must not be exceeded.

9.8 HRA CFR levels are predicted to be £88.8m at 31st March 2019, providing borrowing headroom of £11.5m over the next 5 years. New build/acquisitions funding within the Capital Programme 2014 – 2019 totals £4.9m and HRA reserve balances 2014 – 2019 are forecast at £11.9m. This will provide a total HRA Investment Fund contribution of £28.3m to deliver Members strategic housing priorities and housing TEG outcomes. These forecasts depend on the rent increase option that is agreed for 2014/15.

10. TEG Outcomes

10.1 A summary of the key outcomes from the TEGs is set out below:

- A commitment to sustainable growth - more jobs and homes
- Support communities to become more self-sufficient plus focus on the most vulnerable
- Short term changes to how we use resources e.g. CSD re-integration
- In the medium term identify how we re-align our activity and resources to achieve the TEG outcomes.

11. Emerging Budget Strategy (short and longer term)

11.1 In the short term a fund will be created to enable the Council to retain and increase capacity as required, to plan and develop transformational projects and implement the short term TEG proposals and outcomes.

11.2 In the longer term a new business model will be developed that will re-align resources and create project and programme funding streams to support the achievement of the medium term financial plan (MTFP). The MTFP will focus on reducing reliance on core government funding by investing to save, generating additional income and investing in future growth. This will include establishing and embedding a Priority Based Budgeting (PBB) approach

11.3 Achieving financial sustainability for the General Fund in the medium term is one of the Council's key priorities given that the current austerity measures and public sector funding reductions are likely to continue up to at least 2018.

11.4 HRA Business Plan forecasts present a positive financial picture over a thirty year period. Business Plans are sustained by rental income, therefore risks to the HRA include: the change to the Governments rent increase formula, the impact on income levels as a result of the Governments Welfare Reforms and increased levels of Right to Buy sales. A Rent Policy will be developed during 2014/15 so that, rental income is maintained in line with HRA Business Plans, Council rents continue to converge with Housing Association rent levels and similar Council homes have equitable rent levels.

11.5 It is recognised that, in order to deliver the outcomes that we want to achieve and rise to the financial challenge of continued reductions in revenue support grant over the next 5 years, 2014/15 is again a year of transition. It is also a year when both General Fund and HRA Budgets need to be realigned to reflect our Investment Strategy in terms of:

- Using incentivised funding (e.g. New Homes Bonus) to support transformational activities and time spent on strategic planning issues that will deliver the council's priorities in the longer term
- Funding the actual strategic priority and transformation projects that emerge such as Housing new build and delivering other strategic priority outcomes relating to the Economy, Communities and the Environment
- Invest to save Projects to generate more income or achieve further efficiencies
- Using HRA funding to support delivery of Housing TEG outcomes and wider Strategic Priority outcomes where possible.
- Any upfront infrastructure costs in relation to specific projects and development proposals
- Developing new or improved income generating activities across all service areas
- Looking at new commissioning and delivery models for key services that will reduce costs in the medium to longer term.
- Council tax strategy

12. Potential Resources available for Investment

12.1 The position in relation to New Homes Bonus (NHB) is as follows, with the proposed investment in a Transformation Fund in 2014/15 shown:

	£000
Balance 1/4/13	791
2013/14 allocation	+856
2013/14 use (fixed term posts)	-243
2013/14 use (to support overall Budget)	-114
2014/15 allocation (provisional)	+1,215
2014/15 use (fixed term posts)	-208
Total Available	**2,297**
Potential use on Strategic Priority, Transformation and Invest to Save	

	£000
projects - Contribution to Transformation Fund:	
• Programme Development Resources	-1,000
• Strategic Priority & Transformation Projects	-400
• Invest to Save Projects	-400
Balance for further projects or to support the base budget (cost sharing variations between the two councils see paragraphs 7.3 and 7.4)	**497**

Note: The amounts shown for investment in projects are purely indicative (split 50/50) and actual amounts will be based on specific projects for which business cases will be presented to Members.

12.2 The potential amounts of NHB that could be received in future years is summarised below:

	Estimate £000
2015/16	1,520
2016/17 (year 6 of scheme)	1,825
2017/18	1,835
2018/19	1,805
Total	**6,985**

Note: The above is based on annual future allocations of £305k a year (average sum received in previous 4 years). Allocations for 2017/18 onwards depend on continuation of the scheme. The estimate is based on years 1 and 2 allocations (2011/12 and 2012/13) dropping out in 2017/18 and 2018/19 but new allocations for these years continuing. It is possible, however, that no new allocations for 2017/18 and 2018/19 will be received in which case the overall sum received would reduce to around £6.1m.

If we grow the supply of new homes by, say, 20% a year beyond our historic level of supply to meet our aspirations around building, the amount of New Homes Bonus indicated over the 4 years would increase by around £1.4m. The Council needs to increase the supply of new homes in order to generate additional council tax income thereby improving its financial stability.

12.3 An overall picture of the potential funding available for the Council's Investment Strategy, combining the potential from New Homes Bonus and the HRA funding that is available is set out below. This includes the amount to be transferred to the Transformation Fund in 2014/15 (as set out in the table in section 12.1 of the report):

	£m
New Homes Bonus:	
2014/15	1.8*
2015/16	1.5
2016/17 (year 6 of scheme)	1.8
2017/18	1.8
2018/19	1.8
Total - NHB	**8.7**
HRA:	
New Build Acquisitions	4.9
Reserves (HRA Balance)	11.9
Borrowing Headroom	11.5
Total - HRA available for Investment	**28.3**
Total - HRA and NHB combined	**37.0**

* See table in section 12.1.

Note: Achieving the potential investment funding levels illustrated in the table will be reliant on key strategic decisions such as planning policies and rent and charges policies to put the Council on a secure financial footing to contribute to supporting the TEGs ambitions to invest in growth.

13. 2014/15 Draft Budget

General Fund

13.1 A number of key assumptions have been made in formulating the draft General Fund Budget proposals. The overall picture is set out in Appendix A and some of the key aspects are outlined below. The Budget proposals do not reflect any change in service levels or standards:

- Business Rates income to increase by inflation. Any growth would be additional *(Note: Officers are still reviewing the estimates for next year and any updated figures will be reported verbally to the Committee)*
- Savings from the final ODT's and the end of the CSD contract are reflected (from June 2014)
- Creating a Transformation Fund for investment in the Transformation Programme (funded from the New Homes Bonus) - Appropriate additional provision for allocating funding to key priorities, which will be directed to TEG outcomes
- Increased income from the Council Taxbase and a surplus on the Collection Fund
- A council tax freeze thereby accepting the Government grant which is equivalent to a 1% increase in council tax.

Notes:

1. The Government is again making a grant available for those councils that freeze council tax in 2014/15, which will be based on 1% (equivalent to £49k for Babergh) payable for 2 years. This money is likely to be consolidated into the Government's funding streams in the future (although the Revenue Support Grant will reduce dramatically over the medium term).
2. Changes to the Council Taxbase as a result of the Local Council Tax Reduction Scheme has resulted in grants to be given to Town & Parish Councils increasing slightly overall by £26k. The SPARSE grant can be used to fund this.

13.2 The figures shown in Appendix A are provisional and are still being reviewed. They will be finalised for the February Budget report. Subject to this, the key changes between the 2013/14 and 2014/15 Budgets are summarised below:

	£000
Council Taxbase increase and Collection Fund surplus	185
Savings on staff and services (including additional income)	391
Transformation Fund - Programme Development Resources	1,000
Council Tax Freeze Grant 2014/15	49
Reduction in core Govt. funding	-621
Cost pressures - inflation and other changes in income and expenditure (including one off income of £457k in 2013/14)	-994
Available for Transformation & Strategic Priority Projects	**10**

In addition to this, there is £0.8m to fund strategic priority, transformation and Invest to Save Projects (see table in section 12.1).

13.3 The table below shows the potential balance on earmarked reserves at the end of 2014/15 (excluding NHB and the Transformation Fund plus Budget slippage carry forwards) based on estimated contributions and withdrawals. Further details of these are attached at Appendix B and the service specific reserves will be reviewed as part of the year end work on the council's outturn for the year and overall financial position. In addition to this there will be £1.167m in the General Fund general reserve/ working balance.

	£'000
Estimated balance of earmarked reserves at 1 April 2014	**701**
Planned additions to earmarked reserves in 2014/15	20
Planned withdrawals in 2014/15	(275)
Estimated balance of earmarked reserves at 1 April 2015	**446**

13.4 It is estimated that there will be £1.3m New Homes Bonus money in reserves at the end of the current financial year. This amount is to be transferred to the Transformation Fund and the amount remaining in the Fund as at the 31 March 2015 will depend on actual expenditure in 2014/15.

13.5 The Budget for 2014/15 also allows for further transitional costs and savings relating to integration and transformation which will be met from previously earmarked reserves. It is estimated that there will be approximately £0.033m remaining in that earmarked reserve as at 31 March 2015.

Housing Revenue Account

13.6 Strategy Committees recommendation, on the 16th January 2014:

That Members provide a steer to Officers to develop an option for annual rent increases which maintains longer term predicted income levels to the HRA Business Plan. This option will be presented to Members in more detail at Strategy Committee in February.

Members requested that the options investigated for rent increases considered 3 objectives:

- Maintain long term Housing Revenue Account Income Projections
- Maximise equity in rent levels for similar properties in similar areas
- Minimise the impact of rent increases.

13.7 Government guidance for Rent Restructuring was introduced in 2002. The objective of rent restructuring is that similar affordable rented homes in the same area should have similar rents regardless of the social landlord. The aim is to deliver more consistent rents and greater transparency for tenants. An example of the difference in a typical Babergh weekly Council rent against typical Housing Association and privately rented property in the district is shown below:

Property size	Private Rent (based on LHA)	Housing Association Rent	Babergh Rent
3 bed house	£161	£105	£95
2 bed house	£129	£96	£85
1 bed flat	£102	£77	£76

13.8 The Government introduced a formula which was to be applied to each property rent annually. The formula would take the existing rent to the new target rent over a set number of years. The formula is: **Last year's rent x RPI + 0.5% + (difference to target rent capped at £2 maximum increase).**

13.9 Use of the Government's formula is not compulsory and councils are free to increase rents above or below the formula increase. However, a 'Limit Rent' sets a restriction on the level of housing benefit subsidy payable to the Council each year. If the Council's average rent exceeds the 'Limit Rent' any shortfall in housing benefit subsidy has to be met by the HRA. So if the Council increases rent above "limit rent" levels, the tenants who are in receipt of full HB will have their rent paid in full but the Council will have to make good the difference between the limit rent level and the HB paid. So the Council is in effect penalised if it increases rent to a level above limit rent.

13.10 Babergh's HRA Self Financing Debt Settlement Determination Payment was calculated at £83.6m. This took HRA long term borrowing levels to £89.6m. Ability to repay this debt was calculated based on income projections which used the Rent Restructuring formula in place at that time. Any changes to projected rent income will cause a loss to the business plan.

13.11 In June 2013 the Government changed the formula guidance. The new guidance is due to take effect in 2015/16. The new formula is: **Last year's rent x CPI + 1.0%.** The element within the formula which makes it possible to increase council rents to meet with housing association rents has been removed. This change will have a detrimental impact on our rental income projections in the longer term. What is not clear is whether this change will also be reflected in the level at which the Government sets "limit rent" for the purposes of Housing Benefit.

13.12 Although information has not been issued about how a 'Limit Rent' will be applied from 2015/16. The Government has made it clear through Welfare Reforms that the intention is to reduce Welfare Benefits spend and in a letter to Local Authorities the Government said:

"Having considered the issue carefully, we are minded not to extend rent convergence beyond 2014-15 – and the policy costings published by the Office for Budget Responsibility are based on that assumption. So when we say rent increases of up to CPI + 1% from 2015/16 onwards, that is what we mean".

So it would be sensible to assume a type of limit rent will be used to control rent increases.

13.13 There is a further benefit related complication. If and when Universal Credit (UC) is introduced, the housing element of a claimants benefit entitlement is likely to be based on the rent payable at that time The housing element included in the Universal credit entitlement will be the full amount of HB payable at that time. Later increases in rent may not see a resulting increase in the housing element of Universal Credit if the rent increase is above CPI + 1% and any Council decision to increase rents after its introduction may impact adversely on tenants in receipt of UC at that time.

13.14 Currently rents for similar properties vary throughout the district. In some cases rents in the same street can vary significantly. This is because historically rents were calculated using a points system, which included for example: number of radiators; kitchen cupboards etc within a property. So, the rent increase using the formula varies from property to property.

13.15 Babergh is 8 years away from fully meeting target rent levels. The change from RPI to CPI formula means the properties not at target rent will never be able to achieve target levels. This will result in a reduced level of rental income to the HRA Business Plan in perpetuity and continued disparity in rent levels for tenants.

13.16 The loss of projected income from 2015/16 is estimated at £2.285m over 5 years and £15.773m over 30 years. In order to minimise the longer term impact on the HRA business plan, and to ensure tenants in receipt of Housing Benefit are not disadvantaged when UC is introduced, consideration needs to be given to increasing the rent levels more significantly for 2014/15.

13.17 The options for rent increases have been modelled which aim to meet Members' objectives and to deal most effectively with the issues outlined. By completing the move to Target Rent for the majority of properties in 2014/15 (1 year earlier than projected), income levels will be maintained and greater equity of rent levels achieved. But this will mean an average rent increase which is higher than Government formula guidance this year.

13.18 However, if a higher than formula guidance increase is adopted for 2014/15, in future years the formula CPI + 1% can then be used to calculate rent increases. This will offer certainty to Members and tenants around future rent increase levels. It may also mitigate the effects that lower rents might have on those tenants in receipt of Housing Benefit at the time UC is introduced.

13.19 The options for rent increases 2014/15 are set out in the table below:

Table 1 - Options for Rent Increase 2014/15 Babergh				
	Option 1 (Baseline Position)	**Option 2**	**Option 3**	**Option 4**
Formula	Using RPI rent increase formula setting cap at £2. Target rent remaining @ 100% of expected level.	Using RPI rent increase formula setting cap at £10. Target rent remaining @ 100% of expected level.	Using RPI rent increase formula setting cap at £6. Target rent reduced by 0.5% to 99.5% of expected level.	Using RPI rent increase formula setting cap at £10. Target rent reduced by 0.75% to 99.25% of expected level.
Average Rent	£87.93	£90.14	£89.38	£88.78
Average Increase £'s	£4.75	£6.96	£6.20	£5.60
Average Increase %	5.72%	8.37%	7.46%	6.74%
Maximum Increase %	6.6%	17.9%	12.2%	15.0%
Net Loss to Business Plan (Inclusive of any potential rent rebate subsidy payment)	8 year loss = £2.285m 30 year loss = £15.773m	8 year loss = £358k 30 year loss = £500k	8 year gain = £15k 30 year loss = £1.5m	8 year loss = £903k 30 year loss = £7.2m
Potential Rent Rebate Subsidy Payment	8 year payment = £0	8 year payment = £1.5m	8 years = £59k	8 years = £0
Actual Rent Level v Target Rent Level	Number of properties where difference to Target Rent is: Less than £1 - 148 Less than £2 - 1956 Less than £3 - 689 Less than £4 - 415 Less than £5 - 100 Less than £6 - 67 Less than £7 - 43 More than £7 - 46	Number of properties where difference to Target Rent is: Less than £1 - 3453 Less than £2 - 4 Less than £3 - 1 Less than £4 - 1 Less than £5 - 1 Less than £6 - 1 Less than £7 - 2 More than £7 - 1	Number of properties where difference to Target Rent is: Less than £1 - 3351 Less than £2 - 60 Less than £3 - 29 Less than £4 - 11 Less than £5 - 6 Less than £6 - 1 Less than £7 - 1 More than £7 - 5	Number of properties where difference to Target Rent is: Less than £1 - 3448 Less than £2 - 8 Less than £3 - 2 Less than £4 - 1 Less than £5 - 1 Less than £6 - 1 Less than £7 - 2 More than £7 - 1
Objectives Met?	Minimise the impact of rent increases NB: No Rent Rebate Subsidy payment	Maintain income projections Maximise equity of rents NB: High level Rent Rebate Subsidy payment	Maintain income projections Maximise equity of rents NB: Rent Rebate Subsidy payment	Maximise equity of rents NB: Low level Rent Rebate Subsidy payment

13.20 The table below shows the number of properties and level of increase (£'s) for the Options for Rent Increase 2014/15.

Increase of less than £'s	Option 1 Number of properties	Option 2 Number of properties	Option 3 Number of properties	Option 4 Number of properties
2	0	0	0	2
3	9	2	9	14
4	444	18	94	434
5	1544	314	706	901
6	1464	728	840	963
7	3	882	854	600
8		701	576	316
9		517	183	93
10		107	200	67
11		80	2	40
12		60	0	33
Over 12		55	0	1

13.21 Through the Housing TEG Members have identified the following priority outcomes:

- Increase income from New Homes Bonus, Council Tax and rent.
- Increase the total number of homes within the two districts with emphasis on needs of older and younger people, size, quality, design, sustainability and affordability.
- Increase the level of economic activity through a house building programme, which will contribute towards growth in business rates income.
- Use our own resources/assets and influence to get what is seen to be the right sort of increase in supply of houses across the two districts.
- Social housing tenants to be supported through the welfare reform changes in order to ensure that they have housing that they can afford. This work will seek to mitigate the impact of welfare reform changes on tenants and the councils' rental income streams.

13.22 The table in Section 12.3 of this report sets out the potential investment funding which is available from the HRA to contribute to meeting TEG outcomes. The decision on the level of HRA rent increase this year (2014/15) will affect this and is vital to maintain future levels of income in line with the HRA Business Plan and to meet Investment Strategy targets.

13.23 The Council is currently commissioning (with other Suffolk councils) a strategic housing needs survey to assess what is required to meet the housing needs of people in Babergh. There are also 1183 people currently registered on the Gateway to Home Choice seeking social rented housing In Babergh. The council's ability to deliver new housing options for those people and to meet the wider Babergh need depends on maintaining income levels within the HRA. So the choice facing members is between increasing rents for existing tenants and releasing investment funds to build new homes to meet needs in the longer term.

Service Charges and Heating and Utilities

13.24 The HRA Budget has been set based on no change to the Supporting People Grant for 2014/15. The Council currently receives a block grant of £75,000. This is based on a 'snapshot' of the number of tenants in receipt of housing benefit on a given date. Suffolk County Council has advised officers that a review of Supporting People budgets will be undertaken during the 12 month period December 2013-2014. A saving in the region of 22% must be made. As yet we do not know the impact this will have on the amount of block grant received for sheltered housing. On this basis, the worst case scenario will require transitional funding from HRA reserves to meet any deficit in 2014/15 pending a wider review of the Council's provision of sheltered housing.

13.25 Other service charges have been reviewed which has resulted in an increase of 12%. The cost of out of hours and alarms monitoring has significantly increased following procurement of a new contract with a different provider.

13.26 72% of the Councils sheltered housing tenants receive part or full housing benefit to assist with paying their rent. Service charges, excluding utility costs are recoverable through housing benefit payment.

13.27 An overall increase of 1.44% is required for heating and utilities charges for 2014/15. Solar panels have been installed on 2 sheltered schemes. The saving generated has been extended to all sheltered scheme properties.

Housing Revenue Account Budget 2014/15

13.28 Table (a) below sets out the draft HRA budget for 2014/15, highlighting the variance from 2013/14 - based on Option 1 for rent increases. The budget will be subject to final change depending on Members decision on rent increase options. Table (b) illustrates the variances to income budgets and surplus balances based on Options 2 - 4.

Table (a) Using Option 1 Rent Increases

Housing Revenue Account Budget 2014/15				
		2013/14	**2014/15**	**Variance**
		£000	**£000**	**£000**
1	Dwelling Rent Income	(14,844)	(15,641)	(797)
2	Other Income	(928)	(962)	(34)
3	**Total Income**	**(15,772)**	**(16,603)**	**(831)**
4	Management and Other Costs	3,632	3,472	(160)
5	Bad Debt Provision	300	300	0
6	Repairs and Maintenance	2,252	2,380	128
7	Funding the Capital Programme	6,235	5,122	(1,113)
8	Interest Income	(12)	(12)	0
9	Borrowing / Financing Costs	2,940	2,904	(36)
10	**Total Expenditure**	**15,347**	**14,166**	**(1,181)**
11	**In-year Operating Surplus**	**(425)**	**(2,437)**	**(2,012)**
12	Net Transfer to Revenue Provision for Repayment of Borrowing	500	500	0
13	**Annual Cash Flow**	**75**	**(1,937)**	**(2,012)**
14	**Closing HRA Reserve 31st March**	**(1,000)**	***(2,937)**	**(1,937)**

*Working balance £1m. Remainder available for Strategic Priorities.

Table (b) Using Options 2 – 4 Rent Increases

	Rental Income	In-year operating surplus
Option 2	16,727	3,523
Option 3	16,588	3,384
Option 4	16,476	3,272

Capital Programme

13.29 The draft capital programme is attached at Appendix C, which includes some changes compared to the current programme. The main changes on the General Fund are summarised below:

- Discretionary Housing Grants – increased from £100k pa to £200k pa from 2014/15 - to be allocated to Empty Homes Grant.
- Installation of PV panels in 2014/15 to Council Houses at an estimated cost to the General Fund of £4.5 million – this will only proceed if the outline business case produces an acceptable return in terms of cost and benefit

- Land assembly, property acquisition and regeneration opportunities - includes Sudbury but other opportunities are likely to arise in relation to TEG outcomes
- Carbon Reduction schemes – new budget of £50k pa from 2015/16 to 2018/19.
- Wheeled Bins - £40k in 2013/14 for the purchase of wheeled bins at the end of the lease term.
- Change in Disabled Facilities Grant Funding from 2015/16 – the Better Care Funding technical advice is that SCC will need to make provision for funding to be passported to Districts in future, although we may be required to build life time homes standards etc on new build. This is all tied up with older people's housing provision and the Housing TEG outcomes.

13.30 Based on this and subject to any final changes, indicative additional borrowing levels for the next 4 years for the General Fund (depending on capital receipts/asset disposal levels) are as follows:

Year	**£000**
2014/15	6,802*
2015/16	682
2016/17	2,915
2017/18	1,228

* Includes £4.5m for PV panels project subject to final approval following a detailed business case

13.31 These are significant amounts and annual costs of these levels of borrowing will have to be funded from future revenue budgets depending on interest rates volatility (interest rate rises are predicted from mid 2016) and the nature/level of additional external borrowing each year.

13.32 The draft HRA Capital Programme 2014 – 2019 is also included in Appendix C.

13.33 Approval is sought to the items in 2014/15, with the future items being included for illustrative purposes. The council housing programme, including the plans for the first five years will be agreed as part of the HRA Business Plan. These are illustrative figures and specific details will be worked up into full investment business cases as part of our Transformation Programme and delivery plan for the TEG outcomes.

13.34 The new HRA capital programme has been developed in the context of emerging TEG priorities. The key elements to the programme are:

- Continued funding to support delivery of the Babergh Decent Homes Standard.

- An increase in funding for new build and acquisitions programmes to £4.9m. The Government's reinvigoration of the Right to Buy has seen an increase in the number of Right to Buy sales, resulting in further loss of rental income. It is expected that sixteen sales will complete in the year 2013/14 against HRA Business Plan predictions of 5. The receipts from estimated sales have been included within the HRA Capital Programme 2014 - 19 to fund new build and acquisition of additional HRA homes. Match funding of 70% has to be found from another source to support acquisition of any additional home.

- £11.5m borrowing headroom available.

14. Appendices

Title	Location
APPENDIX A – General Fund Budget Summary 2014/15	Attached
APPENDIX B - General Fund Earmarked Reserves	Attached
APPENDIX C – HRA Business Plan updated 2014 - 2024	Attached
APPENDIX D – Capital Programme	Attached
APPENDIX E - Budget, Funding and Council Tax Requirements	Attached
APPENDIX F - Section 25 report on the robustness of estimates and adequacy of reserves	Attached

15. Background Documents

Local Government Finance Settlement.

Authorship:

Barry Hunter (01473) 825819
Corporate Manager - Finance barry.hunter@babergh.gov.uk

Lou Rawsthorne (01449) 724772
Corporate Manager - Housing Revenue Account Lou.rawsthorne@midsuffolk.gov.uk

Appendix A

General Fund Core Budget Summary 2014/15

	2013/14 £'000	2014/15 £'000	Change £'000
Net Service Spend	9,828	9,837	+9
Integration and Transformation Transition costs (funded from earmarked reserves)	-250	-250	-
CORE (day to day) service costs	**9,578**	**9,587**	**+9**
Capital Charges	+383	+464	+81
	9,961	**10,051**	**+90**
Assumed Savings			
Paybill / vacancy management	-50	-50	-
Procurement	-100	-100	-
Non staff integration savings	-100	-100	-
Assumed other savings/underspend	-96	-75	+21
'Core' Budget	**9,615**	**9,726**	**+121**
Strategic Planning/Transformation #	-	10	+10
	9,615	**9,736**	**+121**
Funding			
Core Government Funding (excl. NHB)	4,546	3,974*	-572
One off funding in 2013/14 (MMI, Use of General and Earmarked Reserves)	457	0	-457
Council Tax (incl. Collection Fund Surplus)	4,369	4,554	+185
New Homes Bonus:			
- Strategic Planning/Transformation Projects #	0	1,000	+1,000
- To fund realigned/temporary staff	243	208	-35
	9,615	**9,736**	**+121**

Contribution towards permanent staff time spent on Strategic Planning and Transformation Projects. In addition, up to £0.8m available for further Strategic Priority, Transformation & invest to Save Projects (See section 12.1 of the report).

* Includes Council Tax Freeze Grant 2014/15 of £49k - which would be received for 2 years (to be consolidated and continued but subject to annual RSG reductions).

An overall summary of income and grants, comparing 2014/15 with 2013/14, is summarised below:

	2013/14 £000	**2014/15 £000**
RSG	2,877*	2,256**
Business Rates	1,869	1,905
Less: LCTR grants to parishes	-215	-187
Net core funding	4,531#	3,974
Council Tax (incl. collection surplus)	4,369	4,554
Sub Total	**8,900**	**8,528**
NHB	856	1,215
Total	**9,756**	**9,743**

* Includes £20k rural efficiency grant and £49k Council Tax freeze Grant 2013/14

Original Budget was £15k more than this. Review business rates income at year end

** Includes £49k Council Tax freeze Grant 2014/15

Appendix B

General Fund Earmarked Reserves

	31 March 2013 £000	Addition/ (use) in 2013/14 £000	31 March 2014 £000	Addition/ (use) in 2014/15 £000	31 March 2015 £000
Integration	533	-250	283	-250	33
Welfare Reforms	64	-3	61		61
Elections	20	+20	40	+20	60
Green Initiatives	25		25	-25	0
Recycling consortium	55	-55	0		
Section 106 (part only)	292		292		292
MMI settlement	150	-150	0		0
Sub- Total	**1,139**	**-438**	**701**	**-255**	**446**
New Homes Bonus/Transformation Fund (incl. TCA grant) #	791	+543	1,334	-837	497
2012/13 Budget carry forwards	192	-192	0		0
Total	**2,122**	**-87**	**2,035**	**-1,092**	**943**

Subject to actual use and expenditure each year.

Appendix C

HRA Business Plan updated 2014 – 2024 Option 1

Year	2014.15	2015.16	2016.17	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24
£'000	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
INCOME:										
Rental Income	15,853	16,234	16,624	17,023	17,472	18,319	18,492	19,024	19,572	20,135
Void Losses	-174	-178	-182	-187	-192	-201	-203	-209	-215	-221
Service Charges	570	585	599	614	630	645	662	678	695	712
Non-Dwelling Income	194	199	204	209	214	219	225	230	236	242
Grants & Other Income	159	163	167	172	176	180	185	189	194	199
Total Income	**16,603**	**17,003**	**17,412**	**17,831**	**18,300**	**19,163**	**19,360**	**19,913**	**20,482**	**21,068**
EXPENDITURE:										
General Management	-1,936	-1,984	-2,034	-2,085	-2,137	-2,190	-2,245	-2,301	-2,359	-2,418
Special Management	-1,430	-1,466	-1,502	-1,540	-1,578	-1,618	-1,658	-1,700	-1,742	-1,786
Other Management	-106	-109	-111	-114	-117	-120	-123	-126	-129	-132
Bad Debt Provision	-300	-324	-331	-339	-348	-365	-369	-379	-390	-401
Responsive & Cyclical Repairs	-2,380	-2,440	-2,501	-2,563	-2,628	-2,693	-2,761	-2,830	-2,900	-2,973
Total Revenue Expenditure	**-6,152**	**-6,322**	**-6,480**	**-6,641**	**-6,808**	**-6,986**	**-7,155**	**-7,335**	**-7,520**	**-7,710**
Interest Paid	-2,904	-2,896	-2,871	-2,846	-2,825	-2,810	-2,793	-2,780	-2,779	-2,779
Interest Received	12	38	88	135	192	248	309	378	465	568
Depreciation	-2,631	-2,700	-2,750	-2,800	-2,850	-3,117	-3,191	-3,267	-3,345	-3,424
Net Operating Income	**4,927**	**5,122**	**5,399**	**5,678**	**6,009**	**6,497**	**6,530**	**6,909**	**7,303**	**7,721**
APPROPRIATIONS:										
Revenue Provision (HRACFR)	-500	-500	-500	-500	-500	0	0	0	0	0
Revenue Contribution to Capital	-2,491	-2,905	-2,397	-2,466	-2,460	-2,926	-2,806	-2,454	-1,429	-1,468
Total Appropriations	**-2,991**	**-3,405**	**-2,897**	**-2,966**	**-2,960**	**-2,926**	**-2,806**	**-2,454**	**-1,429**	**-1,468**
ANNUAL CASHFLOW	**1,937**	**1,717**	**2,502**	**2,712**	**3,049**	**3,571**	**3,725**	**4,454**	**5,874**	**6,253**
Opening Balance	1,000	2,937	4,653	7,156	9,838	12,916	16,487	20,212	24,666	30,541
Closing Balance	**2,937**	**4,653**	**7,156**	**9,868**	**12,916**	**16,487**	**20,212**	**24,666**	**30,541**	**36,794**

APPENDIX D

DRAFT CAPITAL PROGRAMME FOR 2014/15 TO 2017/18

Babergh District Council Proposed Capital Programme for 2013/14 to 2017/18

	2013/14 Budget £'000	2014/15 Budget £'000	2015/16 Budget £'000	2016/17 Budget £'000	2017/18 Budget £'000
General Fund					
Housing					
Mandatory Disabled Facilities Grant	276	357	350	350	350
Discretionary Housing Grants	60	263	200	200	200
Grants for Affordable Housing	279	50	50	50	50
Installation of PV Panels on Housing Stock	-	4,485	-	-	-
Total Housing	**615**	**5,155**	**600**	**600**	**600**
Environmental Services					
Replacement Refuse Freighters - Joint Scheme	245	150	-	1,650	-
Purchase of Wheeled Bins	40	-	-	-	-
Air Quality Management	2	-	-	-	-
Total Waste and Environmental Services	**287**	**150**	**-**	**1,650**	**-**
Community Services					
Planned Maintenance / Enhancements - Car Parks	58	40	40	40	40
Street Parking Improvements	8	8	8	8	8
Planned Maintenance / Enhancements - Kingfisher	196	114	65	56	56
Planned Maint / Enhancements - Hadleigh Pool	57	25	25	25	25
Play Equipment	28	25	25	25	25
Broadband Development	-	50	-	-	-
Replacement CCTV Cameras	-	40	45	45	-
Community Development Grants	259	129	129	129	129
Total Cultural and Community Services	**606**	**431**	**337**	**328**	**283**
Contracts and Property					
Planned Maint / Enhancements - Hadleigh HQ	58	35	35	35	35
Planned Maint / Enhancements - Other Corp Buildings	60	48	48	48	48
Carbon Reduction	164	135	50	50	50
Total Contracts and Property	**282**	**218**	**133**	**133**	**133**
Corporate Services					
ICT - 2013/14 Schemes	88	-	-	-	-
ICT - Hardware / Software (incl joint working with MSDC)	464	398	255	180	175
Land assembly, property acquisition and regeneration opportunities	330	1,520	300	300	300
Total Corporate Services	**882**	**1,918**	**555**	**480**	**475**
Total General Fund Capital Spend	**2,672**	**7,872**	**1,625**	**3,191**	**1,491**
General Fund Financing					
External grants and contributions	465	227	227	227	227
Capital Receipts	355	843	716	49	36
Borrowing - unsupported	1,852	6,802	682	2,915	1,228
Total General Fund Financing	**2,672**	**7,872**	**1,625**	**3,191**	**1,491**

Babergh District Council Proposed HRA Capital Programme for 2014/15 to 2018/19

	2014/15 Budget £'000	2015/16 Budget £'000	2016/17 Budget £'000	2017/18 Budget £'000	2018/19 Budget £'000
Housing Revenue Account					
Housing Maintenance					
Planned maintenance	2,968	3,333	3,051	3,123	3,123
Other programmes	1,110	896	749	797	797
New build programme	900	1,000	1,000	1,000	1,000
Property acquisition	-	-	-	-	-
Environmental Improvements	150	150	120	120	120
Horticulture and play equipment	70	91	93	93	93
Disabled Facilities work	200	201	200	200	200
Total HRA Capital Spend	**5,398**	**5,671**	**5,213**	**5,333**	**5,333**
HRA Financing					
Major Repairs Reserve	2,631	2,700	2,750	2,800	2,850
Capital Receipts	276	66	66	67	23
Revenue Contributions (balance)	2,491	2,905	2,397	2,466	2,460
Total HRA Capital Spend	**5,398**	**5,671**	**5,213**	**5,333**	**5,333**
CFR	**88,348**	**87,848**	**87,348**	**86,848**	**86,348**
CFR Debt cap	**97,849**	**97,849**	**97,849**	**97,849**	**97,849**
Under/ (over) debt cap	**9,501**	**10,001**	**10,501**	**11,001**	**11,501**

Opening CFR	88,848	88,348	87,848	87,348	86,848
New Borrowing	-	-	-	-	-
VRP (Voluntary Revenue Provision)	- 500	- 500	- 500	- 500	- 500
Closing CFR	**88,348**	**87,848**	**87,348**	**86,848**	**86,348**

Budget, Funding and Council Tax Requirements

1. The precept requirements of Parish / Town Councils must be aggregated with the requirement of this authority to arrive at an average Council Tax figure for the district / parish purposes. This figure however is totally hypothetical and will not be paid by any taxpayer (other than by coincidence). A schedule of the precept requirements from Parish / Town Councils will be reported to Council on 27 February.

2. The County and the Police and Crime Commissioner's precept requirements are added to this.

3. The legally required calculation is set out below:

   1) The General Fund Budget requirement for the District Council purposes in 2014/15 will be based on no increase to Council Tax

   2) The County Council precept requirement is expected to be £1,126.53 for a Band D property in 2014/15 – no increase on the previous year.

   3) The Police and Crime Commissioner's precept requirement is still to be determined. At the time of preparing this report, it is understood that the Police and Crime Commissioner will be considering the option of no increase in Council Tax - currently a Band D Council Tax of £166.77.

   4) At the time of preparing this report, not all Parish / Town Councils have supplied formal notification of their 2014/15 precept. The final figures will be reported to Council**.**

4. Babergh is a billing authority and collects council tax and non-domestic rates on behalf of the other precepting authorities i.e. Suffolk County Council, Suffolk Police and Crime Commissioner and Parish / Town Councils. The dates that monies collected are paid over to the County Council, and the Police and Crime Commissioner ("precept dates") need to be formally agreed under Regulation 5(i) of the Local Authorities (Funds) (England) Regulations 1992.

5. Established practice is for payments to be made in 12 equal instalments on the 15th of each month or the next banking day if the 15th falls on a weekend or bank holiday. Accordingly the precept dates applicable for 2014/15 are expected to be as follows:

15 April 2014	15 May 2014	16 June 2014	15 July 2014
15 August 2014	15 September 2014	15 October 2014	17 November 2014
16 December 2014	15 January 2015	16 February 2015	16 March 2015

Section 25 report on the robustness of estimates and adequacy of reserves

1. Background

1.1 Section 25 of the Local Government Act 2003 requires Councils, when setting its annual General Fund Budget and level of Council Tax, to take account of a report from its Section 151 Officer on the robustness of estimates and adequacy of reserves. This report fulfils that requirement for the setting of the Budget and Council Tax for 2014/15.

1.2 This is to ensure that when deciding on its Budget for a financial year, Members are made aware of any issues of risk and uncertainty, or any other concerns by the Chief Financial Officer (CFO). The local authority is also expected to ensure that its budget provides for a prudent level of reserves to be maintained.

1.3 The CFO has assessed that the minimum safe contingency level of unearmarked General Fund working balance/general reserve is £1.15m (slightly less than the £1.2m agreed for 2013/14).

1.4 Section 26 of the Act empowers the Secretary of State to set a minimum level of reserves for which a local authority must provide in setting its budget. Section 26 would only be invoked as a fallback in circumstances in which a local authority does not act prudently, disregards the advice of its CFO and is heading for financial difficulty. The Section 151 Officer and Members, therefore have a responsibility to ensure in considering the Budget that:

- It is realistic and achievable and that appropriate arrangements have been adopted in formulating it
- It is based on clearly understood and sound assumptions and links to the delivery of the Council's strategic priorities
- It includes an appropriate statement on the use of reserves and the adequacy of these.

2. Basis of Advice for Section 25 Report

2.1 In forming the advice for this year's Section 25 report, the CFO has considered the following:

- The requirement established in the Council's Medium Term Financial Strategy (MTFS) to ensure that a safe contingency level of reserves is maintained
- The degree to which the Council's financial plans are aligned to the Council's statutory obligations, local priorities and policy objectives
- The adequacy of the information systems underpinning the Council's financial management processes
- Risks associated with the Council's activities, as identified within the Significant Business Risks Register

- The level of earmarked reserves and unearmarked reserves within the General Fund and the degree to which uncertainties exist within the proposed 2014/15 budget.

3. Robustness of Estimates

3.1 In terms of the overall approach to financial planning and setting the budget, the following aspects increase confidence in the robustness of estimates:

- Cost pressures and variations in key areas of income and expenditure have been carefully considered and reflected in the Budget
- Key assumptions have been made and updated during the Budget process to reflect the changing economic position and latest information
- Existing and new risks and uncertainties have been identified and carefully considered
- Detailed scrutiny, review and challenge of budgets by finance officers and Corporate Managers
- The Scrutiny Committee has reviewed the proposed Budget for 2014/15 and their views are provided with the Budget report.

3.2 No Budget can, however, be completely free from risk and these are still prevalent in the ongoing financial climate. Babergh's integration and transformation plans (with Mid Suffolk) also require assumptions to be made. This means that the Budget will always have a certain amount of uncertainty. The following are the main areas identified:

- **Government Funding** - The Council's funding now includes a reliance on business rates income and other 'incentivised' funding such as the New Homes Bonus. Councils now retain 50% of what is collected. The risks of bad debts and other losses on collection as well as the impact of rating appeals, therefore, affect the Council's income. An allowance has been made for these, but the actual amount of income could be higher or lower than this. The Council has included the amount reflected in the Government's 'baseline assessment' in the 2014/15 Budget but the actual amount of income could be lower - or higher (High Risk)
- **Welfare Reforms, Benefits and Council Tax Reductions** –The Budget for 2014/15 assumes that current caseloads will only increase slightly throughout next year. An allowance is included in the Budget to deal with non-collection of Council Tax, including any losses as a result of the new Local Council Tax Support Scheme. (High/Medium Risk)
- **Capital Financing Costs** - These are influenced by variable factors such as cash flow, variations in the capital programme, interest rates, availability of capital receipts and other sources of capital funding and borrowing/financing costs. (Medium Risk)

- **Income -** Whilst the Budget for 2014/15 has been prepared on the basis of trying to ensure that income estimates are realistic and achievable, with specific allowances for increased or reduced income on specific services, it is unknown as to how the economy and customer demand will fare during next year. The amounts included in the Budget are therefore uncertain and variances may occur. (Medium Risk)
- **Inflation and Other Cost Pressures** – Allowances for inflation have been made on some budgets including major contracts, where there is a contractual requirement to do so. Where appropriate, higher inflation allowances have been made for major contracts where multi-cost indexing mechanisms apply that reflect energy, fuel and other costs. (Low Risk)
- **Integration with Mid Suffolk District Council** - The Section 151 Officers of Babergh and Mid Suffolk have prepared estimates based on the business case approved in late 2011 and the latest information on the potential costs and savings across the two councils relating to the integration and transformation plans. Some further staffing integration savings are anticipated in 2014/15 and an assessment has been made on these and the cost sharing arrangements between the two councils. There are uncertainties relating to this though and actual staffing costs will be influenced by the transformation and strategic priority projects undertaken for each council, which could impact on the Budget and the amounts to be met from New Homes Bonus and revenue reserves. Some New Homes Bonus has been set aside for 2014/15 to deal with any fluctuations (High Risk)
- **Other savings** - There are also allowances for additional savings and from joint procurement and contracts. The level of savings that will be actually saved is uncertain (Medium Risk).

3.3 Taking all of the above into consideration, the Section 151 Officer's opinion is that the Council's Budget and estimates are reasonable but cannot be absolutely robust, so a full assurance cannot be given that there will be no unforeseen adverse variances. This is an expected and acceptable situation for any organisation that is dealing with a large number of variables and going through a radical integration and transformation programme. Also, the general economic situation continues to impact on expenditure and income. Provided that the minimum safe level of reserves is maintained, any variations arising as a result of lack of robustness in the estimates should be manageable.

4 Adequacy of Reserves

4.1 There is no available guidance on the minimum level of reserves that should be maintained. Each authority should determine a prudent level of reserves based upon their own circumstances, risk and uncertainties. Regard has been had to guidance that has been issued to CFO's, the risks and uncertainties faced.

4.2 The CFO's opinion is that the minimum level of unearmarked reserves should, for the time being, be maintained at the current level of £1.15m without increasing the risk to the Council. This represents nearly 12% of the annual General Fund Budget, which is relatively low compared to a number of councils but is seen as acceptable.

4.3 The Council's unearmarked reserves are forecast to be just above this level as at 31 March 2015, which is seen as acceptable and no action is required as part of the 2014/15 Budget. This is partly based on the understanding that there is a further cushion of £0.5m relating to New Homes Bonus that is not being allocated to the Council's spending plans as part of the 2014/15 Investment Strategy. Further consideration should be given to the policy as part of the review of the Medium Term Financial Strategy.

4.4 Levels of earmarked reserves (excluding those relating to the Housing Revenue Account) are forecast to be £2m as at 31 March 2014, which includes £1.3m New Homes Bonus. The level of earmarked reserves as at the 31 March 2015 will depend on the extent to which the New Homes Bonus money that is to be transferred to a Transformation Fund is spent in 2014/15.

4.5 These levels of earmarked reserves will support the Council's transformation programme in 2014/15 although these are relatively modest in relation to the potential medium term investment plans that may be required. Further consideration will be required as to how New Homes Bonus allocations in future years will be used to support the transformation programme, meet any future costs relating to this and achieve income generation.

5. Background Documents

Local Government Act 2003; Guidance Note on Local Authority Reserves and Balances – CIPFA 2003; Medium Term Financial Strategy

Authorship:
Barry Hunter
Corporate Manager – Financial Services
(Babergh Section 151 Officer)

Tel: 01473 825819
Email:
barry.hunter@babergh.gov.uk