BABERGH DISTRICT COUNCIL

To: Strategy Committee	Report Number: **N98**
From: Head of Corporate Resources and Head of Housing	Date of meeting: 16 January 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 agrees the draft Budget proposals set out in the report, be agreed, 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 Strategy Committee agrees the draft HRA Investment Strategy 2014/15 to 2018/19, be agreed, subject to further consideration at the February meeting. In addition:

(a) Recommend approval of the draft HRA Budget 2014/15 subject to final approval of the rent levels.

(b) 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.

(c) Recommending approval that the re-let of vacant HRA properties be at target rent levels.

2.4	That Strategy Committee recommends approval of the Council be recommended to approve the proposed capital programme in Appendix C.
2.5	That Strategy Committee note the 10 year revised HRA Business Plan in Appendix B be noted. The Budget will be subject to final determination by Strategy Committee and Council in February 2014.

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
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.

Risk Description	Likelihood	Impact	Mitigation Measures
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 subject to an annual HRA subsidy determination following Self Financing but now bears a greater risk from inflation and interest rate rises.	Unlikely	Noticeable	Inflation and interest rate 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.

4.2 A full risk assessment on the final Budget proposals will be included in the February report that will set out key risk areas of expenditure and income.

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 took place with the Tenants Forum on 10 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) will be held on 8 January 2014. Tenant Forum Members will also be invited to attend. The recommendation of JHB will be provided orally at Strategy Committee.

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 £2.8m) 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 around a further 13% in 2014/15. This includes, in relation to the Revenue Support Grant element, a further cut of nearly £600k or 21%. 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 within General Fund budgets.

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 1 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 CFR must not be exceeded.

9.8 HRA CFR levels are predicted to be £88.8m at 31 March 2014 providing borrowing headroom of £9.0m. New build/acquisitions funding within the Capital Programme 2014 – 2019 totals £4.9m and HRA reserve balances 2014 – 2019 are forecast at £14.7m. This will provide a total HRA Investment Fund contribution of £28.6m to deliver Members' strategic housing priorities and housing TEG outcomes.

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

General Fund

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 projects - Contribution to Transformation Fund:	
• Programme Development Resources	-1,000
• Strategic Priority and 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 The HRA Business Plan has been updated to reflect 2014/15 budgets and the updated capital programme. Business Plan revenue tables are attached at Appendix B and the Capital Programme attached at Appendix C.

12.4 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)	15.3
Borrowing Headroom	8.5
Total - HRA available for Investment	**28.7**
Total - HRA and NHB combined	**37.4**

* 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:

- Business Rates income to increase by inflation. Any growth would be additional
- 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 and 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	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 and Strategic Priority Projects	**10**

13.3 The table below (excluding NHB and the Transformation Fund) shows the potential balance on earmarked reserves at the end of 2014/15 based on known/estimated contributions and withdrawals. In addition to this there will be £1.15m in the General Fund general reserve/ working balance. Full details of these will be included in the final Budget report in February.

	£000
Estimated balance of earmarked reserves at 1 April 2014	**707**
Planned additions to earmarked reserves in 2014/15	20
Planned withdrawals in 2014/15	(250)
Estimated balance of earmarked reserves at 1 April 2015	**477**

13.4 The Budget for 2014/15 also allows for further transitional costs and savings relating to integration and transformation which will be met from earmarked reserves. It is estimated that there will be approximately £0.03m remaining in the earmarked reserve as at 31 March 2015 for future use.

Housing Revenue Account

13.5 The table below sets out the draft HRA budget for 2014/15, highlighting the variance from 2013/14.

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.

Housing Revenue Account Rents and Charges 2014/15

13.6 The Government's rent restructuring formula for annual rent increases has three separate elements: the Retail Price Index (RPI) at September 2013, a 0.5% top up and the effect of phasing the move between actual rents and convergence to target rents (higher housing association rent levels).

In summary the calculation is: last year's rent x RPI + 0.5% + (difference to target/rent convergence capped at £2.00 maximum increase).

Rent increases are further capped through the Housing Benefit Limit Rent which sets a restriction on the amount of housing benefit subsidy payable to each Local Authority, based on an average 'Limit Rent'. If a Local Authority's average rent exceeds the Limit Rent they will be expected to meet the shortfall between housing benefit subsidy and actual housing benefit payment levels.

13.7 The rent convergence model is not mandatory and is issued as guidance. Local Authorities have freedom to set rent increases above or below convergence formula and meet any housing benefit subsidy shortfall from the HRA.

13.8 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 council rent against a 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

13.9 The Governments calculation of Self-Financing settlement figures and Babergh's ability to repay HRA Self-Financing debt was based on projected rental income streams over thirty years, which used the convergence formula set out in paragraph 13.6 above.

13.10 From 2015/16 the Government has changed its guidance for calculation of rent increases. The new formula is based on the Consumer Price Index (CPI) at September and a top up of 1%. The element which enables Councils to complete the move to target rents has been removed. This formula, if applied, impacts on the rent receipts predicted in the HRA business plan.

13.11 Information has not been issued about how a 'Limit Rent' (explained in paragraph 13.6 above) will be applied from 2015/16. However, the Government has made it clear through Welfare Reforms that the intention is to reduce Welfare Benefits spend, so it would be sensible to assume a type of limit rent will be used to control rent increases.

13.12 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 the number of radiators and kitchen cupboards etc within a property. Therefore the percentage rent increase applied using the formula varies from property to property.

13.13 Babergh's rents are approximately 8 years from target rent levels. The change from RPI to CPI formula means these properties 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.

13.14 The loss of income is estimated in the table below. In line 1 the figures are indicative of the rental loss incurred for all non target rent properties. In line 2 the figures show the rental loss reduced by moving any new tenancies to target rents on re-let.

	Yr 2015/16	Yrs 2016/17 – 2020/21	Yrs 2021/22 – 2026/27	Total
Loss of forecast income Option 1 (a)	£0.301m	£1.684m	£2.433m	£4.418m
Loss of forecast income Option 1 (b)	£0.265m	£1.302m	£1.430m	£2.997m

13.15 The Government's reinvigoration of the Right to Buy has seen an increase in the number of Babergh Right to Buy sales, resulting in further loss of rental income. It is expected that fourteen sales will complete in the year 2013/14 against HRA Business Plan predictions of 5. To help fund some of the lost rental income, 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.

13.16 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.

13.17 The table in Section 12.4 of this report sets out the 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) is vital to maintain future levels of income in line with the HRA Business Plan and to meet Investment Strategy targets.

13.18 The potential loss of rental income could be recovered by moving a higher number of rents to target levels in 2014/15. This can be achieved by increasing the convergence element cap from £2 to a higher amount. Examples are shown in the table below:

Options for rent increase	Details	Average Rent Increase	Maximum increase	(Loss)/gain of forecast income	Estimated Housing Benefit Limit payment
Option 1 (a)	Adopts the RPI based formula for rent increases in 2014/15 plus convergence element capped at £2 and uses CPI formula in subsequent years.	5.72% (£4.75)	6.6%	(£301k)	£0.00
Option 1 (b)	Is as 1 (a) but additionally takes any terminated tenancies to target rents on re-let.	5.72% (£4.75)	6.6%	(£265k)	£0.00
Option 2 (a) 81% at target rent	Adopts the RPI formula but increases the convergence cap to £5 enable convergence of rents before the move to CPI formula.	8.07% (£6.71)	10.8%	£336k 14/15 £401k 15/16	£100k
Option 2(b) 99.4% at target rent	Adopts the RPI formula but increases the convergence cap to £10 enable convergence of rents before the move to CPI formula	8.37%	17.9%	£380k 14/15 £404k 15/16	£105k

13.19 Option 2 (a) moves a higher number of properties to target rent levels, protecting against the loss of income as shown in the table in section 12.14. This option provides a net gain in income in 2014/15 and forward into future years. A further rent increase option will be modelled, between option 1 (a) and 2 (a), which seeks to maintain projected HRA Business Plan income levels, protecting current tenants against excessive increases but continuing to create capacity within the HRA for investment in additional homes to meet housing demand within the district. This will be presented to Members of Strategy Committee in February.

Service Charges and Heating and Utilities

13.20 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.

13.21 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.

13.22 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.

13.23 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.

Capital Programme

13.24 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 provison and the Housing TEG outcomes.

13.25 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
2013/14	1,952
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

13.26 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.

13.27 The draft HRA Capital Programme 2014-2019 is also included in Appendix C.

13.28 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.

13.29 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 and in addition £8.5m borrowing headroom available in 2014/15. Using Right to Buy receipts, capital receipts from other asset sales and increased revenue contribution to capital funding through savings to revenue budgets.

14. Appendices

Title	Location
APPENDIX A – Draft General Fund Budget Summary 2014/15	Attached
APPENDIX B – HRA Business Plan updated 2014 - 2024	Attached
APPENDIX C – Draft Capital Programme	Attached

15. Background Documents

Local Government Finance Settlement.

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Appendix A

Draft General Fund Core Budget Summary 2014/15

	2013/14 £'000	2014/15 £'000	Change £'000
Net Service Spend	9,828	9,827	-1
Integration and Transformation Transition costs (funded from earmarked reserves)	-250	-250	-
CORE (day to day) service costs	**9,578**	**9,577**	**-1**
Capital Charges	+383	+474	+91
	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**	**+111**
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, which will result in £10k funding for investment in the actual 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).

Appendix B

HRA Business Plan updated 2014 - 2024

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	15,860	16,241	16,631	17,030	17,479	18,327	18,500	19,033	19,580	20,144
Void Losses	-174	-178	-182	-187	-192	-201	-203	-209	-215	-221
Service Charges	717	457	469	480	492	505	517	530	543	557
Non-Dwelling Income	177	181	186	190	195	200	205	210	215	221
Grants & Other Income	24	24	25	25	26	27	27	28	29	30
Total Income	**16,603**	**16,726**	**17,128**	**17,540**	**18,001**	**18,857**	**19,047**	**19,592**	**20,153**	**20,730**
EXPENDITURE:										
General Management	-2,550	-1,497	-1,534	-1,572	-1,612	-1,652	-1,693	-1,735	-1,779	-1,823
Special Management	-896	-918	-941	-964	-989	-1,013	-1,039	-1,065	-1,091	-1,118
Other Management	-26	-27	-27	-28	-29	-29	-30	-31	-32	-32
Bad Debt Provision	-300	-324	-331	-339	-348	-365	-369	-379	-390	-401
Responsive & Cyclical Repairs	-2,380	-2,648	-2,715	-2,782	-2,852	-2,923	-2,996	-3,071	-3,148	-3,227
Total Revenue Expenditure	**-6,152**	**-5,414**	**-5,548**	**-5,686**	**-5,829**	**-5,983**	**-6,127**	**-6,281**	**-6,440**	**-6,602**
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	48	113	172	244	312	387	469	570	687
Depreciation	-2,631	-2,700	-2,750	-2,800	-2,850	-3,117	-3,191	-3,267	-3,345	-3,424
Net Operating Income	**5,530**	**5,763**	**6,071**	**6,379**	**6,741**	**7,259**	**7,323**	**7,733**	**8,160**	**8,611**
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	**2,613**	**2,358**	**3,175**	**3,413**	**3,781**	**4,332**	**4,517**	**5,278**	**6,731**	**7,143**
Opening Balance	1,000	2,937	5,295	8,470	11,883	15,664	19,996	24,513	29,792	36,523
Closing Balance	**2,937**	**5,295**	**8,470**	**11,883**	**15,664**	**19,996**	**24,513**	**29,792**	**36,523**	**43,666**

APPENDIX C

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 2013/14 to 2017/18

	2014/15 Budget £'000	2015/16 Budget £'000	2016/17 Budget £'000	2017/18 Budget £'000
Housing Revenue Account				
Housing Maintenance				
Planned maintenance	2,968	3,333	3,051	3,123
Other programmes	1,110	896	749	797
New build programme	900	1,000	1,000	1,000
Property acquisition	-	-	-	-
Environmental Improvements	150	150	120	120
Horticulture and play equipment	70	91	93	93
Disabled Facilities work	200	201	200	200
Total HRA Capital Spend	**5,398**	**5,671**	**5,213**	**5,333**
HRA Financing				
Major Repairs Reserve	2,631	2,700	2,750	2,800
Capital Receipts	276	66	107	67
Revenue Contributions (balance)	2,491	2,905	2,356	2,466
Total HRA Capital Spend	**5,398**	**5,671**	**5,213**	**5,333**
CFR	**88,348**	**87,848**	**87,348**	**86,848**
CFR Debt cap	**97,849**	**97,849**	**97,849**	**97,849**
Under/ (over) debt cap	**9,501**	**10,001**	**10,501**	**11,001**

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