

BABERGH DISTRICT COUNCIL

From: Management Board	Report Number: P90
To: Strategy Committee	Date of meeting: 15 January 2015

JOINT MEDIUM TERM FINANCIAL STRATEGY AND DRAFT 2015/16 BUDGET

Purpose of Report

- 1.1 To consider the Council's draft Joint Medium Term Financial Strategy (MTFS) and draft 2015/16 Budget, covering the General Fund, Council Housing and Capital Investment.
- 1.2 These reflect the challenges and opportunities facing the Council in the short and medium/long term, the new business model that is being put in place to address these and an investment strategy to deliver the Council's strategic priority outcomes – as set out in the Joint Strategic Plan that was published in 2014.
- 1.3 This report sets out, therefore, how the Council intends to use its available resources and funding to not only achieve the agreed strategic priority outcomes but also realign resources to them and undertake a programme of transformational activities and projects over the medium term.
- 1.4 To enable Members to determine key aspects of the 2015/16 Budgets, including Council Tax and Council House rent levels.

2. Recommendations

- 2.1 That the draft Joint Medium Term Financial Strategy (MTFS) and Budget proposals set out in the report be endorsed subject to further consideration at the February meeting for recommendation to Council.
- 2.2 That the final General Fund Budget for 2015/16 be based on:-
 - (a) A continuation of the funding strategy agreed for 2014/15 in order to deliver the Council's Transformation Programme and Strategic Priority outcomes;
 - (b) Linked to the above, using an estimated £2m from New Homes Bonus and Business Rates (section 31 Grant) received in 2015/16 to support the Budget, including Programme Development resources;
 - (c) No increase in Council Tax.
- 2.3 That the draft Housing Revenue Account (HRA) Investment Strategy 2015/16 to 2019/20 and draft HRA Budget for 2015/16 be agreed subject to further consideration at the February Strategy Committee meeting of either:-
 - (a) An increase of 3% increase in Council House rents, equivalent to an average rent increase of £2.68 a week or;

(b) Such lower increase that relates to the 'limit rent' fixed by the Government for next year, which could be 2.5%, equivalent to an average rent increase of £2.23 a week.

2.4 That the revised HRA Business Plan in Appendix B be noted.

2.5 That the proposed capital programme in Appendix C be agreed including the addition of a provisional sum of £25m for 'Other unspecified Delivery Plan projects'. This can then be allocated to investment proposals that meet the desired investment strategy returns and strategic priority outcomes.

The Medium Term Financial Strategy (MTFS) and Budget will be subject to final determination by the Strategy Committee and Council in February 2015.

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 income streams and return on investment required	Depends on decisions and actions taken	Potentially Bad	Clear priority outcomes and robust business cases for investment. New business model, target rate of return for investment and new funding models
Failure to plan and identify options to meet the medium term budget gap of both councils to minimise or avoid reductions in service provision.	Unlikely	Bad	As above plus Transformation Programme, a new MTFS, an Investment Strategy and the use of Priority Based Resourcing approach to resource alignment and allocation
Ongoing impacts of the Welfare and Funding Reforms could lead to unpreparedness for further changes.	Unlikely	Bad	Ensure adequate bad debt provision and that the Financial Inclusion Project seeks to mitigate the impact of the changes on residents, the Council's income streams and 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 2015/16 Budget, which will be reviewed further to ensure it is robust and accurate. Amend if circumstances change.
Council Housing self-financing results in a greater risk to investment and service delivery plans from inflation and other variables.	Unlikely	Noticeable	Inflation and interest rate assumptions have been modelled in the HRA business plan. Capital receipts and capital programme funding reviewed.
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 the updated 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 priority outcomes. Continued 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 the key risk areas of expenditure and income that are reflected in the Council's Budget.

5. Consultations

- 5.1 The Budget 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 Delivery Plans, individual projects and the MTFs are developed and implemented.
- 5.3 Consultation on the HRA proposals took place with the Tenants Forum on the 28 November 2014. Comments are below:

"It is appreciated that rent and charges increases are needed at a level which sustain forecast income levels to Housing Revenue Account Business Plans to support future investment in provision of additional homes, maintenance of homes and HRA assets and replace homes lost through Right to Buy sales "

Officers will attend a further meeting on the 6 January to present further information, a verbal update from this meeting will be provided to Members at Strategy Committee.

5.4 A meeting of the Joint Housing Board (JHB) took place on the 15 December 2014. The JHB generally support the overall Budget proposals.

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 has been completed.

7.2 The Joint Strategic Plan and MTFs determine and shape the Council's future plans and service provision, with regard to each Council's financial position.

7.3 The Budgets for 2015/16 reflect the estimated sharing of costs and savings 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 be instances, therefore, when staff resources and money is focused on a specific priority in one Council.

7.4 Actual staffing and other costs will 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 and Mid Suffolk District Councils have recognised the financial challenges facing them and the opportunities that exist. They have taken a number of key strategic decisions to enable them to secure financial sustainability in the medium and longer term including:-

- Integration, Shared Services and Collaboration on economic growth, new homes and jobs;
- Approval of a Joint Strategic Plan and strategic priorities that inform the establishment of a Plan and range of projects that will deliver the agreed strategic priority outcomes.

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

8.3 The Council recognised the changing funding landscape, the challenges and opportunities this creates in last year's Budget report. This is reflected in the draft Joint MTFs (attached at Appendix D) with the different financial positions of each Council and forecasts for future years set out.

- 8.4 We have also recognised that a proportion of available management, workforce and other resources need to be targeted to develop and deliver the delivery plans and transformation programme and that additional investment funding needs to be available for this and later years.
- 8.5 The 2014/15 Budget involved the creation of a Transformation Fund. This is being used in 2014/15 and any unused sum carried forward into 2015/16 to support delivery plans, projects and transformation. Due to the overall Budget position for 2015/16, only a very small addition to the fund is possible next year.
- 8.6 Each Council is being asked to agree the key aspects of the proposed Budget for 2015/16 and endorse the draft Joint MTFs, including the budget strategy, new business model and other associated matters in order to improve its ability to achieve a sustainable financial basis in the medium term. Without this strategy, which focuses on invest to save, grow and achieve outcomes, there is a very significant risk that each council will be unsustainable financially in the medium to longer term.

9. FINANCIAL POSITION

General Fund

- 9.1 Funding arrangements for councils have changed significantly with Revenue Support Grant (currently £2.2m) being withdrawn over the next 4-5 years and Councils becoming reliant on Business Rates income and 'incentivised' funding such as the New Homes Bonus. Business rates and new homes growth will, therefore, be the main sources of income (plus other income generated locally) if we are to achieve a sustainable Budget in the years ahead.
- 9.2 Total estimated core funding (Revenue Support Grant + Baseline Business Rates) is reducing by a further 15.7% in 2015/16. This includes, in relation to the Revenue Support Grant element, a further cut of £617k or 27%. Further details of the Government's provisional spending announcement on the 18 December 2014 are set out below:-
- Continuation of council tax freeze arrangements with grant equivalent to a 1% increase in council tax available and a 2% referendum threshold;
 - Cap of 2% on business rates multiplier. Retail relief and doubling of small business rate relief to continue – all funded by additional Section 31 grant;
 - Business rates funding now exceeds RSG. National New Homes Bonus top-slice of £950m from RSG;
 - The rural (SPARSE) services delivery grant, introduced last year, is to be continued into 2015/16 and increased from £27k to £43k.
- 9.3 Looking ahead to 2016/17 and beyond, the Government's indication is that Revenue Support Grant will reduce year on year and disappear by 2019 or 2020. The rate at which it will be withdrawn is uncertain and the projections in the draft Joint MTFs will have to be revised accordingly once more information becomes available e.g. following the planned Government spending review in 2015.

- 9.4 It must be emphasised that the total estimated core funding for next year and future years is not a fixed guaranteed amount as it is now dependent on variations in business rates income. This is carefully monitored and the volatility and risks, for example, rate relief for schools converting to academies and the level of appeals, will affect the amount of income received.
- 9.5 Current forecasts are that Babergh will need to save, generate income and produce a return on investments of around £4.3m over the next 4 years within the General Fund Budgets (discounting New Homes Bonus funding, which is temporary). The approaches and steps set out in the Joint Strategic Plan and draft Joint MTFs will look to address this funding gap and achieve medium term financial sustainability, which will involve challenges and tough decisions.

Council Housing - Housing Revenue Account (HRA)

- 9.6 There are also challenges and opportunities for the HRA, to make use of its resources wisely to ensure that:-
- Additional affordable homes are provided to meet demand and to re-provide homes lost through increased Right to Buy sales;
 - Existing homes are maintained to the Decent Homes Standard;
 - Support is provided for tenants to manage their finances, including the impact of Welfare Reforms.
- 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 £87.3m at 31 March 2015 providing borrowing headroom of £10.5m. New build/acquisitions funding within the Capital Programme 2015 – 2020 totals £14.2m and HRA reserve balances 2015 – 2020 are forecast at £ 11.4m. This will provide a total HRA Investment Fund contribution of £36.1m to deliver Members strategic housing priorities and outcomes (or, in relation to the HRA reserve balances, to set aside provision for future maturity debt repayment).
- 9.9 Aligned Strategic Priorities have been agreed by Elected Members. A Delivery Programme of key projects, to support delivery of the Aligned Priorities has also been agreed.
- 9.10 For example: Project 8 – Deliver New HRA Homes is where work supporting delivery of the Homes and Communities Agency (HCA) 27 new affordable homes, which will become new HRA assets sits. These new homes will deliver New Homes Bonus for the Council, additional rent and council tax, additional jobs and local businesses will benefit. All these factors will bring growth to our local economy.

10. Overall Financial and Budget Strategy (short and medium term)

- 10.1 This is set out in more detail in the draft Joint MTFs, which incorporates details, for example, of the following:-

- A new business model that focuses on reducing reliance on core government funding by investing to generate additional income and future growth;
- An 'Invest to Save' and 'Profit for Purpose' approach to investing temporary/one-off funding;
- Establishing and embedding a Priority Based Resources (PBR) approach to allocating and aligning resources to strategic priority outcomes and essential services. This is in progress and it is anticipated that the resulting decisions required by Members will be considered in the first 3-6 months of 2015.

10.2 In relation to Council Housing, the HRA Business Plan presents a very positive financial picture over the longer term (a thirty year period as required under the self-financing regime) but there are short to medium term challenges. These challenges can be met by following a policy of investment in existing or new homes, which is sustained by rental income and convergence with Housing Association rent levels and similar Council homes at equitable rent levels.

10.3 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 4-5 years, 2015/16 will be a year that provides the platform for change. Funding from both the General Fund and HRA need to be harnessed to support our Investment Strategy and income generation/savings approach in terms of:-

- Applying incentivised funding (e.g. New Homes Bonus) through a Transformation Fund to support transformational projects, activities and strategic planning that will deliver the council's priorities in the short and medium term;
- Meeting upfront infrastructure costs in relation to specific projects and development proposals;
- Developing new or improved income generating activities across all activities;
- Looking at new commissioning and delivery models for key services that will reduce costs in the medium to longer term.

11. Potential Resources available for Investment

General Fund

11.1 The draft Budget is summarised in Appendix A. Key information relating this and, specifically, the Transformation Fund, the use of New Homes Bonus (NHB) and unallocated Business Rates Income is set out below:-

- Core Budget increasing by almost £0.6m due to inflation and other cost pressures, offset by additional income from PV panels project and other savings;

- Government Funding (Revenue Support Grant + Baseline Business Rates) reducing by over £0.6m;
- Estimated Transformation Funds available in 2014/15 of £2.1m. Approximately £0.5m allocated to date. More will be allocated by the end of the financial year. Any sums not allocated will be carried forward to next year;
- Further NHB allocation of £1.6m for 2015/16. Use of £0.2m for fixed-term posts, agreed when ODT's created (allowance for extending these to 31 March 2016). Remaining £1.4m needed to support core budget, including Programme Development Resources;
- Potential Government Section 31 grant of an estimated £0.6m relating to business rates that is not used to support the Council's core Budget. A sum of £0.2m (as in 2014/15) to be transferred to the Business Rates Equalisation Reserve to protect against future uncertainties/losses and the remaining £0.4m to support core budget.

The net result of the above is that the total estimated balance of NHB and business rates Section 31 grant of £2.0m will be needed to fully fund the Core budget including programme development resources in 2015/16.

- 11.2 A summary of the potential amounts of NHB that could be received in future years is summarised below:-

	Minimum (based on historical growth) £m	With further 200 additional homes £m
2015/16	1.6	1.6 (fixed)
2016/17 (year 6 of scheme)*	2.0	2.2
2017/18	2.1	2.5
2018/19	2.2	2.8
Total	7.9	9.1

* After this, any scheme will be dependent on Government policy. The above assumes that it will continue for further years in some form but that years 1, 2 etc. will fall out, but this is obviously very uncertain.

- 11.3 Another possible scenario, however, is that no new allocations for the years 2017/18 onwards will be received in which case the amounts received each year would reduce, eventually disappearing, thus creating a difficult financial position. This has been referred to by some as a potentially very significant financial 'cliff-face'.

Housing Revenue Account

- 11.4 The HRA Business Plan has been updated to reflect changes in the 2015/16 revenue budgets and an updated capital programme. The revenue and capital budget forecasts for the next 30 years, based on two options relating to rent increases, either:-

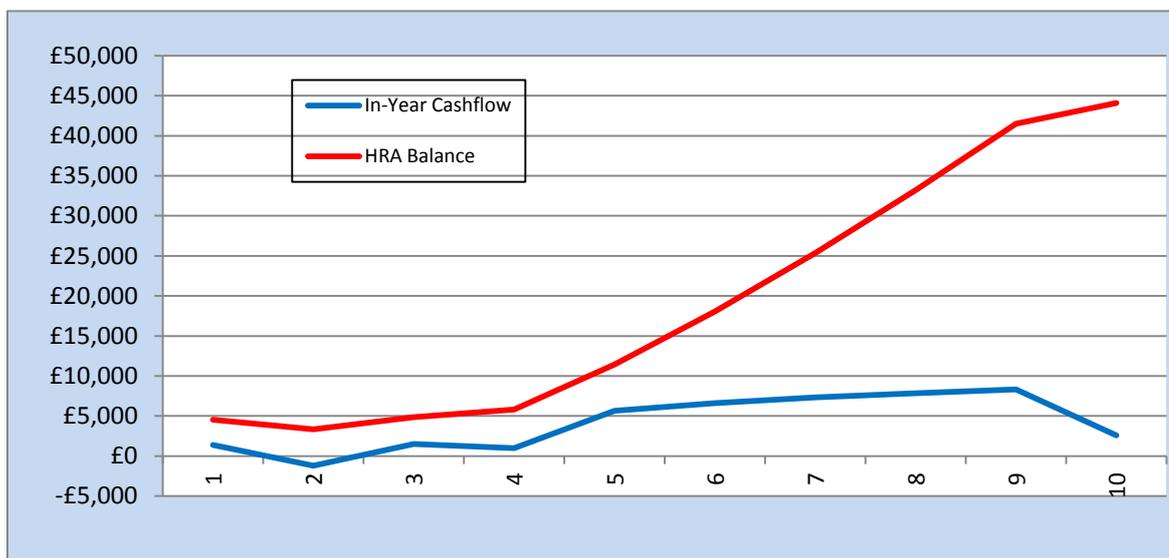
- An increase of 3% (as previously approved business plan) or;
- An increase of 2.5% (based on the potential 'limit rent' for benefit purposes set by the Government).

The business plans under each option are attached at Appendix B show additional detail for years 1-5.

11.5 A key aspect of the business plan is the revenue cash flow predicted over the coming years. Another important feature is the amount available for building new homes. Both are illustrated in the following graphs:-

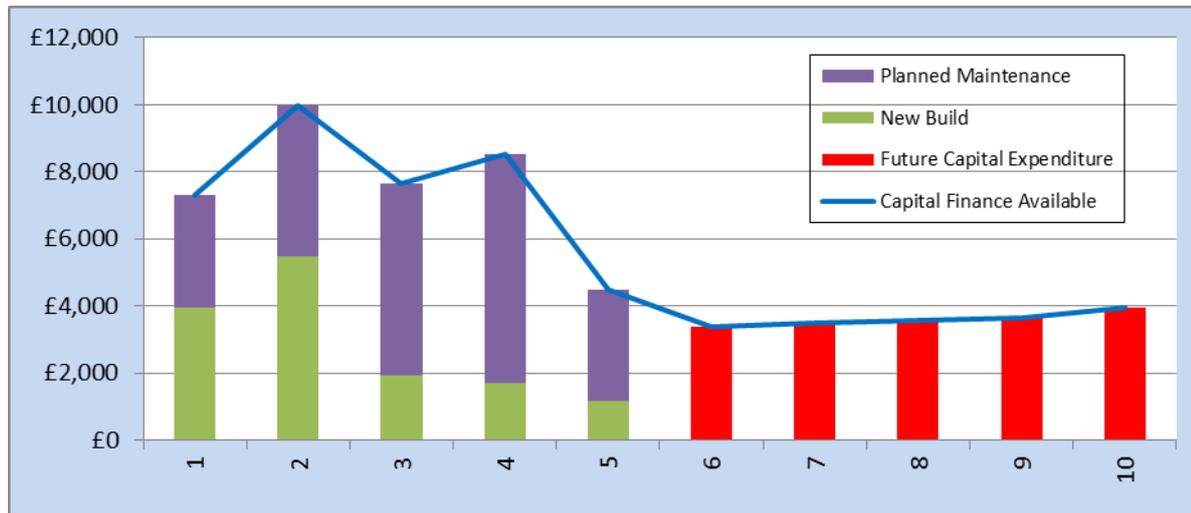
Graph A - Revenue cash flows from 2015/16 for 10 years

This graph shows reserve balances within the HRA increasing to approximately £44.1m by Year 10 (2024/25) based on annual rent increases of 3% as agreed in the previously approved HRA Business Plan. A rent increase of 2.5% would result in balances of £1m lower at £43.1m.



Graph B - Capital programme from 2015/16 for 10 years (based on a 3% rent increase)

This graph shows proposed Capital Programme expenditure and debt cap levels within the HRA Business Plan up to Year 10 (2015/16 to 2024/25).). The new build programme does not extend beyond year 5 and the future capital expenditure from year 6 onwards represents planned maintenance programmes. Graphs A and B are inter-dependent with revenue surpluses providing financial availability for investment in homes and improvement programmes.



12. 2015/16 Draft Budget

General Fund

12.1 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:-

- Expenditure and Income Budgets for 2015/16 have been re-assessed to reflect updated information, the estimated impact of the capital programme and borrowing and adjustments made for anomalies that have been identified in some 2014/15 Budgets (a number of these were reported to Members in the 2013/14 outturn and 2014/15 mid-year budget review);
- This has resulted in an overall increase in the 'Core' Budget of nearly £0.6m, which is more than anticipated;
- Baseline Business Rates income to increase by inflation, recognising that any further income will provide an additional funding source;
- Increased income from the Council Taxbase and a surplus on the Collection Fund (Note: No changes to the Local Council Tax Reduction Scheme are proposed – same as in 2014/15);
- No increase in council tax;
- Certain fees and charges, but excluding car parking, increased by 2%;
- The use of all of the 2015/16 New Homes Bonus allocation and a proportion of business rates Section 31 grant to fully fund the Core budget, including Programme development resources.

Note:

The Government is again making a grant available for those Councils that freeze council tax in 2015/16, which it is assumed will be based on 1% (equivalent to £49k p.a. for Babergh) payable for 2 years. It is also assumed that this money will then be consolidated into the Government's funding streams in the future (effectively, therefore, reducing as Revenue Support Grant is withdrawn).

- 12.2 The figures relating to the draft Budget 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 2014/15 and 2015/16 Budgets are summarised below:-

	£000
2014/15 Core Budget	9,859
Cost pressures - inflation and other changes in income and expenditure*	+1,288
Savings including restatement of 2014/15 base budgets in 2015/16	-695
Draft 2015/16 Budget	10,452

* Including £70k re. elections (funded from earmarked reserves) and additional £180k for capital financing costs. This also includes an uplift for pay and ICT costs, although the actual amounts will be the subject of a further review of the cost sharing arrangements between Babergh and Mid Suffolk. ICT costs reflect the significant change programme that is taking place.

- 12.3 In relation to earmarked reserves, the table below shows the potential balance on earmarked reserves at the end of 2014/15 based on known/estimated contributions and withdrawals (excluding any unspent money in the Transformation Fund). In addition to this there is £1.15m, the minimum approved level, in the General Fund reserve/working balance. Full details of these will be included in the Joint MTFS/final Budget report in February.

	£000
Estimated balance of earmarked reserves at 1 April 2015	1,481
Planned additions to earmarked reserves in 2015/16	+2,222
Planned withdrawals in 2015/16	-2,146
	1,557
Estimated balance of earmarked reserves at 1 April 2016	

- 12.4 An overall picture of the potential funding available for the Council's Investment Strategy, combining the potential minimum New Homes Bonus, Business Rates (same amount as 2015/16 of £0.4m) and the HRA funding that could be available over the next 4 years is set out below. This excludes the amount in the Transformation Fund in 2014/15:-

	£m
New Homes Bonus/Business Rates:	
2015/16	2.0
2016/17	2.4
2017/18	2.5
2018/19	2.6
Total – NHB/Business Rates	9.5
HRA:	
New Build Acquisitions	14.2
Reserves (HRA Balance)	5.8
Borrowing Headroom	14.1
Total - HRA available for Investment	34.1
Total – NHB, Business Rates and HRA combined	43.6

* Including any set aside for debt repayment provision

- 12.5 The Budget for 2015/16 also includes a small provision for any further transitional costs and savings relating to integration, which will be met from the earmarked reserves that were set aside for that purpose in 2012.

Council Housing - Housing Revenue Account (HRA)

Key Challenges

- 12.6 HRA Self-financing has provided significant opportunities for both Councils. The development of 27 new council homes supported by Homes and Communities Agency Grant funding is a good example of how the funds available within the HRA are being used differently. There are however, investment challenges. To address these challenges it is vital that decisions made reflect needs and opportunities locally and take account of the individual financial circumstances of the separate HRA's.

- 12.7 Right to Buy (RTB) sales for both councils have exceeded projections in business plans. In 2013/14 Babergh sold 20 against projections of 5 sales.

The money received from RTB sales can only be used as 30% towards the cost of a replacement home. The remaining 70% of the replacement cost has to be found from other HRA resources. As sales increase, it means that the level of match funding required (70%) increases. If the receipts are not spent within the 3 year period allowed, they have to be repaid to Government with 4% interest added.

- 12.8 The Government has applied a cap to the amount that Councils can borrow through the HRA. This means that borrowing levels are restricted. For both Councils, supporting spending of RTB receipts, building new council homes and investing in the maintenance and improvement of council homes is achievable within current borrowing headroom. However, bids for additional borrowing headroom can be made to the Government and we have just been notified that Babergh have successfully bid for £3.6m. Further details will be made available in due course.
- 12.9 Government guidance for annual rent increases has changed from an RPI based formula to CPI based. This change, which is likely to mean a reduction in rental income over 30 years, coupled with the Limit Rent restricts the Councils ability to increase rents to reflect local needs and circumstances.

What we are doing to address the challenges

- 12.10 Making best use of our assets – working within the Housing Asset Management Strategy and Housing Asset Management Group we are identifying high value, high cost, low demand properties for disposal at tenancy end. Funds will be ring fenced for investment in additional homes.
- 12.11 Conversion of a small number of social rents to affordable rent levels on change of tenancy to achieve HCA Grant criteria.
- 12.12 Working in partnership with Suffolk County Council to develop models to deliver specialist housing schemes – dementia care and supported housing for autism/learning difficulties on County land using HRA funding.

12.13 Seeking efficiencies and value for money in service delivery and reviewing our approach to repairs and maintenance/asset management services.

12.14 Taking a commercially minded approach to HRA business planning including, being flexible in our methodology for rent increases, reviewing and realigning capital programme expenditure and using our resources with partner's resources to create the right solutions for tenants and communities.

Draft Budget 2015/16

12.15 The table below sets out the draft HRA budget for 2015/16, highlighting the variance from 2014/15.

Description	2014/15 £000	2015/16 £000	Variance £000	Reason
Rent and other income	(16,796)	(16,987)	(191)	Based on a proposed average rent increase of 3%, offset by reduced number of properties overall, an increase in the voids allowance and 50% reduction in Supporting People funding. A 2.5% increase would reduce income by £78k
Bad Debt Provision	300	201	(99)	Bad debt levels can be reduced due to delay of Universal Credit and lower impact of welfare reform and other changes than anticipated
Interest	(12)	(24)	(12)	Increased due to increase in reserves
Total Net Income	(16,508)	(16,810)	(302)	
Repairs and Maintenance, Management and other costs	5,852	5,674	(178)	Reflects estimated pay budgets following integration and other changes in service requirements.
Capital Charges	2,904	2,860	(44)	Reflects interest costs on fixed rate long term loans
Revenue Contribution to Capital Programme	5,122	6,589	1,467	Increase in revenue contribution to capital programme to fund new homes and planned maintenance
Debt Repayment	500	500	0	
Total Expenditure	14,378	15,623	1,045	
In-year operating surplus	(2,130)	(1,187)	943	Surplus would reduce by £78k if there was a 2.5% rent increase

* Includes £200k major repairs allowance carried forward from 2014/15

12.16 A revised and updated HRA Business Plan is attached at Appendix B, based on annual rent increases of 3% and 2.5% also reflecting;

- HCA scheme development costs;
- Funding to support spend of RTB receipts and capital programme expenditure.

12.17 HRA Business Plans are viable over the next 5 years, indicate significant surpluses over the 30 year period and include the following additional assumptions for 2015/16 set out below.

Rent and Charges	
Service Charge Increase	+5%
Utilities Charges Increase/decrease	-8%

12.18 The currently approved HRA Business Plan assumed projected rent increases at 3%. This assumption was based on CPI being 2%. CPI in September 2014 was 1.2% but a 3% increase is needed to sustain investment plans, including new homes provision.

12.19 The Government restricts our ability to increase rents through applying a 'limit rent' this is the average rent level at which full housing benefit will be paid. If our average rent exceeds this amount then a payment has to be made to the Government to make up the difference.

12.20 Limit rent figures will be released at the end of January 2015. We anticipate that the range of rent increases shown above will enable us to decide on our maximum level of rent increase to support our business plans but keep our average rent level within the limit rent. The final decision with regard to the precise rent increase level will be proposed on issue of the limit rent.

Capital Programme Investment

General Fund

12.21 The draft capital programme is attached at Appendix C, which includes some updates compared to the current programme.

12.22 Additional delivery plan projects that involve capital investment (and potentially borrowing) are likely to be forthcoming during 2015/16 and it is important that there is provision in the Budget to enable the Council to proceed with these. These could involve substantial amounts of investment and borrowing but the precise projects and amounts involved are not yet known. It is important to include a provisional sum as part of the overall Budget strategy framework to:-

- Ensure there is an approved borrowing limit to fund the projects/investment (which has to be authorised by Council);
- Provide the flexibility, subject to a business case and rate of return on the investment, to fund appropriate projects over and above existing borrowing limits.

12.23 A provisional sum of £25m has, therefore, been included in the draft capital programme for 2015/16 for 'Other unspecified Delivery Plan projects' to be funded through prudential borrowing and which will achieve a rate of return to produce additional income. This can then be allocated to investment proposals/projects that meet the Joint Strategic Plan priority outcomes and the desired investment strategy rates of return.

12.24 Based on the above and subject to any final changes, indicative additional borrowing levels for the next 4 years, compared to 2014/15, for the General Fund (depending on capital receipts/asset disposal levels) are as follows:-

Year	£m
2014/15	4,368
2015/16	30,640
2016/17	2,927
2017/18	1,100
2018/19	1,030

* see section 12.22 and 12.23 above

12.25 These are significant amounts and the 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. The programme will be reviewed in 2015 as part of the approach to Priority Based Resourcing.

Council Housing - HRA

12.25 The proposed Capital Programme headlines for 2015 – 2020 are:-

Expenditure	£m
Housing Maintenance Programmes	22.5
New build (HCA programme)	6.8
RTB receipt funding	7.4
Total	36.7
Financing	
Capital receipts disposals and RTB receipts and HCA Grant	0.8
Revenue Contributions	35.9
Borrowing	0
Total	36.7
Remaining Borrowing Headroom available (31 March 2020)	14.8

12.26 In relation to debt repayment set asides, the HRA business plan is currently based on not setting aside any capital receipts towards debt on sold council houses or for maturity debt repayment in the longer-term. The position on this in relation to future HRA Business Plans is to be reviewed during 2015 with the Council's treasury advisors.

12.27 For both the General Fund and HRA, approval is sought to the projects and schemes in 2015/16, with the future items being subject to review and change annually.

13. Appendices

Title	Location
APPENDIX A – Draft General Fund Budget Summary 2015/16	Attached
APPENDIX B – Draft updated HRA Business Plan	Attached
APPENDIX C – Draft Capital Programmes	Attached
APPENDIX D – Draft Joint Medium Term Financial Strategy	Attached

15. Background Documents

Local Government Finance Settlement.

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Draft General Fund Budget Summary 2015/16

	2014/15 £000	2015/16 £000	Variation £000
Core Budget – spending on services	9,671	10,327	+656
Parish Council grants – Local Council Tax Scheme	188	125	-63
Total Core Budget	9,859	10,452	+593
Integration costs	250	49	-201
Transformation Fund - Delivery Plan projects*	2,122	28	-2,094
	12,231	10,529	-1,702
Funding:			
• Integration Reserve	250	49	-201
• Other Earmarked Reserves	0	95	+95
• New Homes Bonus – fixed term posts	208	208	-
• Transformation Fund - Delivery Plan projects	2,122	28	-2,094
• Transformation Fund – Programme Resources/Core Budget	779	1,766	+987
• Baseline Government Support - RSG	2,263	1,646	-617
• Baseline Government Support – Business Rates	1,905	1,941	+36
• Additional Business Rates Income	150	150	-
• Collection Fund Surplus/Deficit	100	94	-6
• Council Tax	4,454	4,552	+98
	12,231	10,529	-1,702

* Maximum available each year – actual expenditure will fall over 2 or more years

	2014/15 (revised) £000	2015/16 £000
Non-core/Transformation Funds:		
New Homes Bonus (see note below)	1,929	1,602
Business Rates (section 31 grant)	400	400
2013/14 and 2014/15 estimated outturn savings	424	-
TCA grant/MMI claim*	150	-
	2,903	2,002
Less: Use for programme development resources and temporary fixed term posts	-781	-1,974
Available for Delivery Plan projects	2,122	28

Note: 2014/15 includes prior year sums not allocated/used. A further sum could be added to this relating to savings NHB that was set aside as a 'safety net' for cost variations (approx. £0.5m) although this may be needed to cover cost variations in 2014/15

* In addition, £210k TCA received in relation to establishing a legal shared service with other Suffolk Councils. Excludes £3.35m Countywide TCA funding for wider collaborative working across Suffolk (Suffolk County Council lead accountable body)

HRA Business Plan updated 2015 - 2045

Babergh DC 30 Year Business Plan 3%										
Year	2015.16	2016.17	2017.18	2018.19	2019.20	2020-2025	2025-30	2030-35	2035-40	2040-45
£'000	1	2	3	4	5	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30
INCOME:										
Total Income	16,987	17,550	18,062	18,575	19,455	104,062	120,255	138,502	159,515	183,712
EXPENDITURE:										
General Management	-2,425	-2,475	-2,537	-2,601	-2,666	-14,362	-16,250	-18,385	-20,801	-23,534
Special Management	-1,029	-1,055	-1,081	-1,108	-1,136	-6,120	-6,925	-7,835	-8,864	-10,029
Bad Debt Provision	-201	-337	-347	-357	-374	-2,000	-2,313	-2,665	-3,072	-3,540
Responsive & Cyclical Repairs	-2,219	-2,288	-2,345	-2,404	-2,464	-13,350	-15,113	-17,099	-19,346	-21,889
Total Revenue Expenditure	-5,874	-6,156	-6,311	-6,470	-6,640	-35,833	-40,600	-45,985	-52,083	-58,992
Interest Paid	-2,860	-2,838	-2,817	-2,796	-2,767	-13,713	-12,155	-8,715	-1,512	70
Interest Received	24	39	65	90	145	2,459	5,328	7,273	9,254	16,887
Depreciation	-2,721	-2,792	-2,843	-2,895	-3,154	-16,930	-19,042	-21,417	-24,088	-27,090
Net Operating Income	5,555	5,802	6,156	6,504	7,040	40,046	53,785	69,658	91,085	114,587
APPROPRIATIONS:										
Revenue Provision (HRACFR)	-500	-500	-500	-500	0	0	0	0	0	0
Revenue Contribution to Capital	-3,668	-6,508	-4,142	-5,041	-1,404	-7,394	-11,780	-44,169	-53,402	-7,805
Total Appropriations	-4,168	-7,008	-4,642	-5,541	-1,404	-7,394	-11,780	-44,169	-53,402	-7,805
ANNUAL CASHFLOW	1,387	-1,206	1,514	963	5,635	32,652	42,005	25,489	37,683	106,782
Opening Balance	3,139	4,527	3,321	4,834	5,798	11,433	44,085	86,090	111,579	149,263
Closing Balance	4,527	3,321	4,834	5,798	11,433	44,085	86,090	111,579	149,263	256,044

Babergh DC 30 Year Business Plan 2.5%										
Year	2015.16	2016.17	2017.18	2018.19	2019.20	2020-2025	2025-30	2030-35	2035-40	2040-45
£'000	1	2	3	4	5	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30
INCOME:										
Total Income	16,909	17,470	17,980	18,490	19,366	103,587	119,706	137,869	158,785	182,872
EXPENDITURE:										
General Management	-2,425	-2,475	-2,537	-2,601	-2,666	-14,362	-16,250	-18,385	-20,801	-23,534
Special Management	-1,029	-1,055	-1,081	-1,108	-1,136	-6,120	-6,925	-7,835	-8,864	-10,029
Bad Debt Provision	-200	-336	-345	-355	-372	-1,990	-2,302	-2,653	-3,057	-3,523
Responsive & Cyclical Repairs	-2,219	-2,288	-2,345	-2,404	-2,464	-13,350	-15,113	-17,099	-19,346	-21,889
Total Revenue Expenditure	-5,873	-6,154	-6,309	-6,468	-6,638	-35,823	-40,589	-45,972	-52,069	-58,975
Interest Paid	-2,860	-2,838	-2,817	-2,796	-2,767	-13,713	-12,155	-8,715	-1,512	70
Interest Received	23	38	62	85	139	2,402	5,222	7,107	9,015	16,560
Depreciation	-2,721	-2,792	-2,843	-2,895	-3,154	-16,930	-19,042	-21,417	-24,088	-27,090
Net Operating Income	5,478	5,723	6,072	6,416	6,946	39,524	53,141	68,872	90,132	113,436
APPROPRIATIONS:										
Revenue Provision (HRACFR)	-500	-500	-500	-500	0	0	0	0	0	0
Revenue Contribution to Capital	-3,668	-6,508	-4,142	-5,041	-1,404	-7,394	-11,780	-44,169	-53,402	-7,805
Total Appropriations	-4,168	-7,008	-4,642	-5,541	-1,404	-7,394	-11,780	-44,169	-53,402	-7,805
ANNUAL CASHFLOW	1,310	-1,285	1,430	875	5,542	32,130	41,361	24,703	36,730	105,631
Opening Balance	3,139	4,449	3,164	4,594	5,469	11,011	43,141	84,502	109,205	145,935
Closing Balance	4,449	3,164	4,594	5,469	11,011	43,141	84,502	109,205	145,935	251,566

DRAFT CAPITAL PROGRAMME FOR 2014/15 TO 2018/19

BABERGH CAPITAL PROGRAMME	2014/15 Original Budget £'000	2014/15 Revised Budget inc Carry Forwards £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
General Fund						
Housing						
Mandatory Disabled Facilities Grant	357	249	350	350	350	350
Discretionary Housing Grants	263	247	313	150	150	150
Grants for Affordable Housing	50	329	100	100	100	100
Total Housing	670	825	763	600	600	600
Environmental Services						
Replacement Refuse Freighters - Joint Scheme	150	150	0	1,650	0	0
Recycling Bins	0	0	62	62	62	62
Total Environmental Services	150	150	62	1,712	62	62
Community Services						
Planned Maintenance / Enhancements - Car Parks	40	53	40	40	40	40
Street Parking Improvements	8	8	8	8	8	8
Planned Maintenance / Enhancements - Kingfisher	114	137	65	56	56	56
Planned Maint / Enhancements - Hadleigh Pool	25	48	25	25	25	25
Play Equipment	25	52	25	25	25	25
Broadband Development	50	50	0	0	0	0
Replacement CCTV Cameras	40	40	40	40	0	0
Community Development Grants	129	293	129	129	129	129
Total Community Services	431	681	332	323	283	283
Asset Management						
Planned Maint / Enhancements - Hadleigh HQ	35	56	35	35	35	35
Planned Maint / Enhancements - Other Corp Buildings	48	86	48	48	48	48
Carbon Reduction	135	235	50	50	50	50
Installation of PV Panels on Housing Stock	4,485	1,300	2,900	0	0	0
Total Asset Management	4,703	1,677	3,033	133	133	133
Corporate Services						
ICT costs related to joint working with Mid Suffolk	398	587	550	275	138	69
Regeneration Fund	1,520	1,330	1,250	300	300	300
Total Corporate Services	1,918	1,917	1,800	575	438	369
Other unspecified Delivery Plan Projects	0	0	25,000	0	0	0
TOTAL General Fund Capital Spend	7,872	5,250	30,990	3,343	1,516	1,447
General Fund Financing						
External Grants and contributions	227	472	285	350	350	350
Capital Receipts	843	410	65	66	66	67
Borrowing - unsupported	6,802	4,368	30,640	2,927	1,100	1,030
Total General Fund Capital Financing	7,872	5,250	30,990	3,343	1,516	1,447

Note: See section 12.22/23 of report relating to the £25m provision for unspecified projects

DRAFT CAPITAL PROGRAMME FOR 2014/15 TO 2018/19 (Continued)

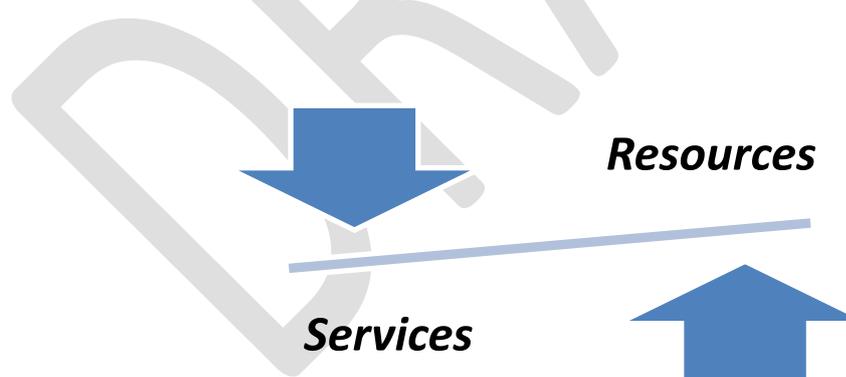
BABERGH CAPITAL PROGRAMME	2014/15 Original Budget	2014/15 Revised Budget inc Carry Forwards	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
Housing Revenue Account						
Planned Maintenance & Response						
Planned maintenance	2,968	4,751	2,581	3,531	4,360	4,968
Other programmes	1,310	1,412	683	724	897	1,187
Environmental Improvements	150	150	50	120	120	120
Horticulture and play equipment	70	70	31	33	50	60
New build acquisitions	-	-	554	2,080	1,945	1,709
New build programme	900	1,417	3,393	3,397	0	0
TOTAL HRA Capital Spend	5,398	7,800	7,292	9,885	7,372	8,044
HRA Financing						
External Grants and contributions	2,631	2,431	2,921	2,792	2,843	2,895
Capital Receipts	276	560	539	66	67	68
Revenue Contributions	2,491	4,809	3,832	7,027	4,462	5,081
Total HRA Capital Financing	5,398	7,800	7,292	9,885	7,372	8,044
TOTAL CAPITAL SPEND	13,270	13,050	38,282	13,228	8,888	9,491

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Joint Medium Term Financial Strategy (MTFS) and the Councils' New Business Model

2015/16 to 2018/19



Draft – December 2014
Final - February 2015

Contents

	<u>Page</u>
<i>Foreword from the Leaders of the councils</i>	3
1. <i>Summary - Key Points</i>	5-6
2. <i>Purpose of the MTFS</i>	7
3. <i>National economic context:</i>	
• <i>The UK economy</i>	8
• <i>The changing landscape of Local Government funding</i>	9-10
• <i>The Funding Gap</i>	10-12
4. <i>A New Business Model - Responding to the Financial Challenges and Opportunities:</i>	
• <i>The New Business Model</i>	13
• <i>Our Overall Strategic Response</i>	15-18
• <i>Links to Our Joint Strategic Plan</i>	18-19
5. <i>Investing in our strategic priorities and future:</i>	
• <i>Funding and Investment Opportunities</i>	20-21
• <i>Our Overall Delivery Plans</i>	22
6. <i>Summary of each Council's financial position:</i>	
• <i>Revenue Budget Strategy, Funding Position and Savings</i>	23-24
• <i>Capital Investment Strategy, Prudential Borrowing etc.</i>	24-27
<i>Glossary of terms</i>	28
<u>Appendices</u>	
A: <i>General Fund Revenue Budget summary/forecasts</i>	29
B: <i>Council Housing Revenue Account (HRA) Business Plan</i>	30
C: <i>Capital Summary – General Fund and Council Housing</i>	31
D: <i>Prudential Indicators – Borrowing and Investment</i>	32
E: <i>Earmarked Funds/Reserves</i>	33

Foreword from the Leaders of the Councils

We are delighted to introduce the Joint Medium Term Financial Strategy (MTFS) for Babergh and Mid Suffolk Councils, which covers the period 2015/16 to 2018/19.

The strategy sets out the approach that each Council will take to the delivery of its strategic priorities and the management of our finances over the next four years. Whilst we remain two sovereign councils, with two separate budgets and differences in our financial positions, there are many similarities in our approach to addressing the challenges we face and opportunities that exist.

We are working together to deliver common strategies and priorities and design new ways of working differently, although how these will apply to the different localities and communities may still vary. However, the councils continue to face considerable financial challenges as a result of uncertainty in the wider economy and constraints on public sector spending. At the same time though, there are also funding sources and opportunities that we must fully exploit as part of our new business model.

In this context, and like many other councils, we have to make a number of sometimes difficult and complex financial decisions. We are both confident that the two councils' budgets and approaches we are adopting represent a sound platform for the medium term, whilst we go about prioritising essential services and minimising any increase in council tax.

The key driver over the last few years has been the delivery of staff and service integration to serve both councils. This has already delivered significant savings across the two councils with the ongoing aim of designing services to maintain capacity and resilience to ensure that the need for budgetary savings does not dominate the agenda in a negative way.

However, the savings we have achieved from integration cannot continue to meet all of the financial challenges we face and changes in the funding model that now operates.

So, we will be adopting new ways of working that take advantage of the new forms of incentivised funding, new technologies and new opportunities that are available to councils. This will allow us to ensure we can meet the priorities set out in our Joint Strategic Plan and to continue to provide services within a financially constrained environment.

The vision, priorities and outcomes set out in our Joint Strategic Plan will shape and inform real choices about the allocation of resources in future. Some of the new ways of working will involve decisions about how our councils invest valuable resources (people, money and assets) in particular to aid economic growth.

We are also looking to adopt a mixed approach whereby we deliver some things directly but also empower communities far more to do things for themselves and develop solutions with others. The key to this is to engage with communities more and work through solutions together rather than in opposition to each other.

Everyone we work with and for should be aware of the councils' strategic plan and this strategy and that is why we are publishing it to inform our communities and partners of what the future holds.

Cllr. Jennie Jenkins
Leader
Babergh District Council

Cllr. Derrick Haley
Leader
Mid Suffolk District Council

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1. Summary – Key Points

1.1 The way we operate, our priorities and resources are changing dramatically. As part of this, we are developing:

- A new business model to enable us to respond to changes in Government funding that will support the delivery of strategic priority outcomes and medium term financial sustainability
- An investment strategy that maximises incentivised and other funding streams e.g. New Homes Bonus and Business Rates and that delivers additional income and savings in the future e.g. doing things on an 'Invest to Save' or 'Profit for Purpose' basis
- Achieving efficiencies and cost reductions, through collaborative working and getting the basics right
- A clear financial strategy, including a revenue budget and capital investment strategy that supports the above and sets out how we aim to tackle the Budget gap over the next 4 years.

1.2 The main contents of this document and key aspects of the business model, investment strategy and financial strategy include:

- The financial outlook and picture for the next 4 years i.e. how the general economic context, public sector spending constraints and the local strategic context impacts on what we do and how we do it
- Current forecasts, which will inevitably change over time, of what savings and additional income will be needed
- Our response to this, including aligning resources to the councils' new strategic plan priorities and essential services
- How we plan to transform service delivery, behave more commercially and adapt to the new funding arrangements and business model.

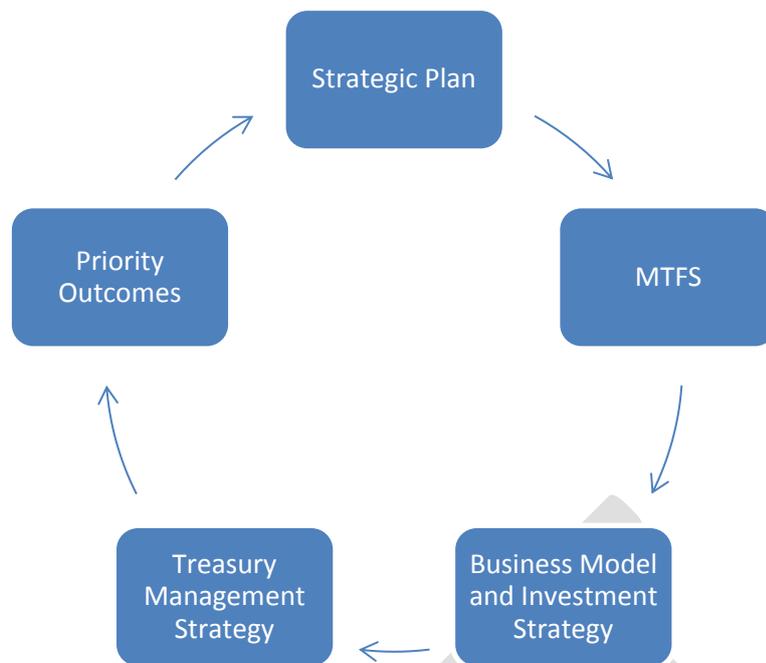
1.3 Key financial headlines:

- Funding through Revenue Support Grant from the Government, which currently stands at £4.6m across both councils, will reduce year on year and is likely to disappear by 2019 or 2020
- Due to annual cost pressures and other things that impact on the Budget of each council, we estimate that further savings/additional income of around £7m will be needed by 2018/19
- Babergh's financial position is showing a higher current and forecast funding gap so more action and intervention is likely to be needed to achieve financial sustainability in the medium term than for Mid Suffolk. Both councils will, however, need to transform what it does as the funding challenges are significant for both councils.
- Transformation Funds of around £6m are available currently to invest in changing our business model and generate economic growth
- New homes and economic growth will have to make a significant contribution towards this Budget gap

- Growth in Business Rates income and the Suffolk rates pooling arrangement could make an important contribution towards delivering the councils' strategic priorities and the financial strategy
- An Investment & Prudential Borrowing strategy that is based on 'Invest to Save' and 'Profit for Purpose' principles
- An overall strategy that focuses on providing new Housing, jobs and economic growth by working with communities and other partners.

2. Purpose of the MTFS

- 2.1 This Medium Term Financial Strategy (MTFS) provides a high-level assessment of the financial resources required to deliver the councils' strategic priorities and essential services over the next 4 years. It sets out how the councils can generate and use these resources within the financial context and constraints likely to be faced.
- 2.2 Like all local authorities, Babergh and Mid Suffolk's MTFS is influenced by national government policy, funding changes and Government spending announcements.
- 2.3 The Government have not yet announced detailed spending plans for the financial years 2016/17 onwards. This MTFS therefore is subject to these and any other factors and uncertainties that will affect the overall strategy and detailed actions.
- 2.4 It must be stressed that we are two sovereign councils, with two separate budgets - as shown in the 'summary of our financial position' section of this document. There are, however similarities in our approach to meeting the financial challenges.
- 2.5 We are therefore working together to build common strategies, and to share learning from one another in designing new approaches, although how these approaches apply to the different localities and communities in Babergh and Mid Suffolk, may still vary.
- 2.6 There are key links between the MTFS and other plans and strategies and a coherent joined up approach to each of these is essential:



3. National Economic Context

The UK economy

- 3.1 The UK economy has gained momentum through 2014, GDP growth is stronger and there are early signs that growth is balanced across the main sectors of the economy.
- 3.2 The factors which impinged on UK growth are abating, but external risks remain. The Bank of England projects growth of 3.5% in 2014, 2.9% in 2015 and 2.6% for each of the following two years. This outlook is significantly better than previous forecasts and puts the UK ahead of other economies in Europe.
- 3.3 CPI annual inflation for October 2014 was 1.3% (RPI 2.3%). The Bank of England's latest near-term outlook for inflation is materially lower than previously. A rapid return of CPI to its 2% target is not expected and there is a risk of CPI falling below 1%.; projections show it returning to 2% only towards the very end of the 2 year forecast period. Although they are not permanent, the forces subduing inflation today are likely to persist for some time.
- 3.4 Monetary policy has a critical role to play in supporting the economy with the Monetary Policy Committee (MPC) continuing to maintain Bank Rate at 0.5%. Markets still expect the Bank Rate to increase, but to a more limited extent and at a more gradual pace than they did previously. Our treasury advisors forecast that it is expected that this will change during 2015 but is likely to only increase by small margins:

Sept 15 - 0.75% → Mar 16 - 1% → Sept 16 - 1.25% → Dec 17 - 1.75%

Government borrowing and spending

- 3.5 The Government's continuing intention to reduce the UK's current budget deficit and level of debt, through public spending control, is well documented.
- 3.6 The Chancellor's Autumn Statement in December 2014 made it clear that the austerity programme to reduce the structural deficit will need to continue, and on the same trajectory for a number of years. This statement along with the continued commitment to protect services such as the National Health Service, education and support for social care, will almost certainly continue the pressure on the local government sector's overall national budget and potentially hit district councils harder than others – as has been the case in the past.
- 3.7 Future borrowing and spending will be affected by general economic conditions and Government priorities, which could also depend on the General Election result in May 2015. The Councils will have to review the impact of the planned spending review in 2015 following the election.

The changing landscape of local government funding

- 3.8 There is now a new era in the way that local government is funded. The Government has introduced:
- Incentivised Funding - New Homes Bonus introduced in 2011 and other bids for funding increasing such as Transformation Challenge Awards
 - The Business Rates Retention Scheme and Local Council Tax Reduction Scheme in April 2013
 - Council Housing – the HRA self-financing regime, ending the housing subsidy system and giving more freedom and flexibilities to councils.
- 3.9 Core funding from Revenue Support Grant is reducing year on year and is expected to disappear by 2019 or 2020. Councils are likely, therefore, to become reliant on locally generated income and incentivised funding over the next 4-5 years.
- 3.10 Council tax income continues to be the main source of funding, in total value, for councils. Decisions around freezes or any annual increases are an important part of the financial strategy.
- 3.11 Other key income sources, in addition to the (significantly reducing) Revenue Support Grant, are as follows and these funds are predicated on the two councils following through on their growth strategy and policies:
- Business Rates Retention

Business rates retention will affect councils, as future changes to the level of business rates yield now directly impact on council funding levels, with both the risks and rewards of business rate growth (or contraction) being shared between central government, and local authorities - 40% retained by district councils.

In order to help manage this risk, and to maximise the potential amount of business rates that are retained within Suffolk, Suffolk County Council and each Suffolk district/borough council (other than Suffolk Coastal in 2015/16) have entered into a business rates pooling arrangement where a percentage of the business rates collected by each councils goes into a single pool. The financial benefits are shared between councils and a proportion used to support collaborative ventures that will achieve economic growth in the region.

- New Homes Bonus

The New Homes Bonus (NHB) scheme provides local councils with funding that can be used on any council activity or service (it is not ring-fenced for housing). Both Babergh and Mid Suffolk have put most of the money received to date into a Transformation Fund, to deliver the outcomes and priorities set out in the Joint Strategic Plan.

Growth in the number of new homes built compared to the current/historic annual levels is one of the key drivers of the council's new business model. Current levels of new homes will not meet the forecast funding gaps over the next 4-5 years.

The amount received is based on the national average council tax band on each additional property built in the council's area, or on each long-term empty property that is brought back into use, and is paid for the following six years. New homes also increase the Council Taxbase.

The assumptions in this MTFS is that NHB will continue beyond 2016/17 (but flatten out as each annual 6 year funding period comes to an end and is replaced with a new year) and continue to be funded by central government taking this off revenue support grant ('top slicing') or by retaining a proportion of Business Rate monies that otherwise would be available locally.

- Additional Income

We must, wherever possible, generate as much additional income as we can from our activities and 'Invest to Save' in our future in order to achieve funding levels that will deliver our strategic priorities and essential services.

We will do this by using the Transformation Funds as one-off money to do things differently, better and enter into more commercial ventures e.g. private rented sector, borrowing to invest to generate 'profit for purpose' and other new ways of doing business better.

The degree of success of this approach is absolutely paramount to future funding and service provision as, without this additional income, cuts to services or service standards will be needed over the next few years.

The Funding Gap

3.12 A number of scenarios have been modelled, based on different assumptions and these will be reviewed and updated over time, specifically when the Government's next spending review is completed in 2015.

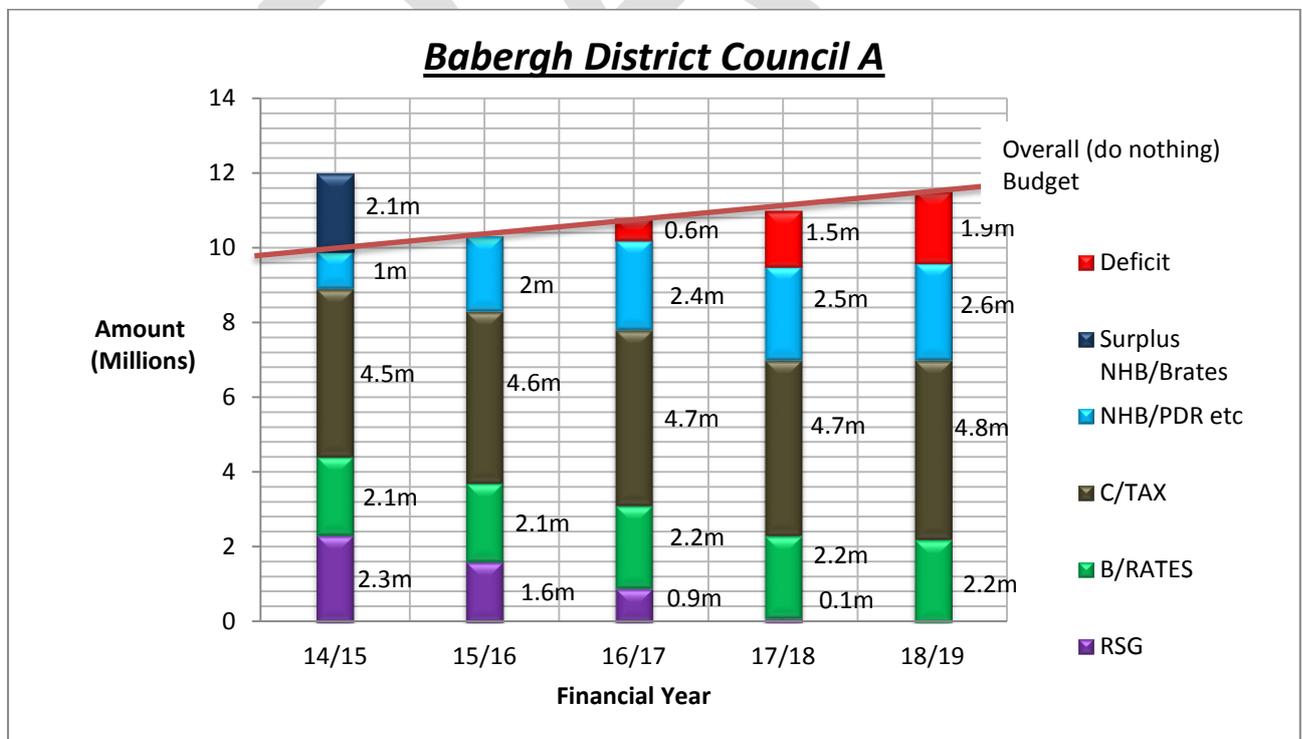
3.13 The following charts illustrate the different forms of funding and how these are likely to change over the next 4 years under two scenarios:

A - Shows the use of funding and the annual deficits (the funding gap) if we do nothing i.e. growth continues at recent historic rates

B - shows the use of funding and the impact on annual deficits (the funding gap) if we generate additional income and make savings/cost reductions totalling 5% of the net annual Budget of approx. £10m and build 200 more homes a year.

Based on scenario B, this would result in annual funding gaps being addressed (other than in 2018/19 for Babergh), but there would still be a reliance on new homes bonus income and Section 31 business rates grant. Further steps to increase income and/or reduce costs would still, therefore, be needed as part of the transformation programme in order to achieve medium term financial sustainability.

These forecasts will change over time as the Council's plans develop and respond to Government policy and funding decisions and announcements.

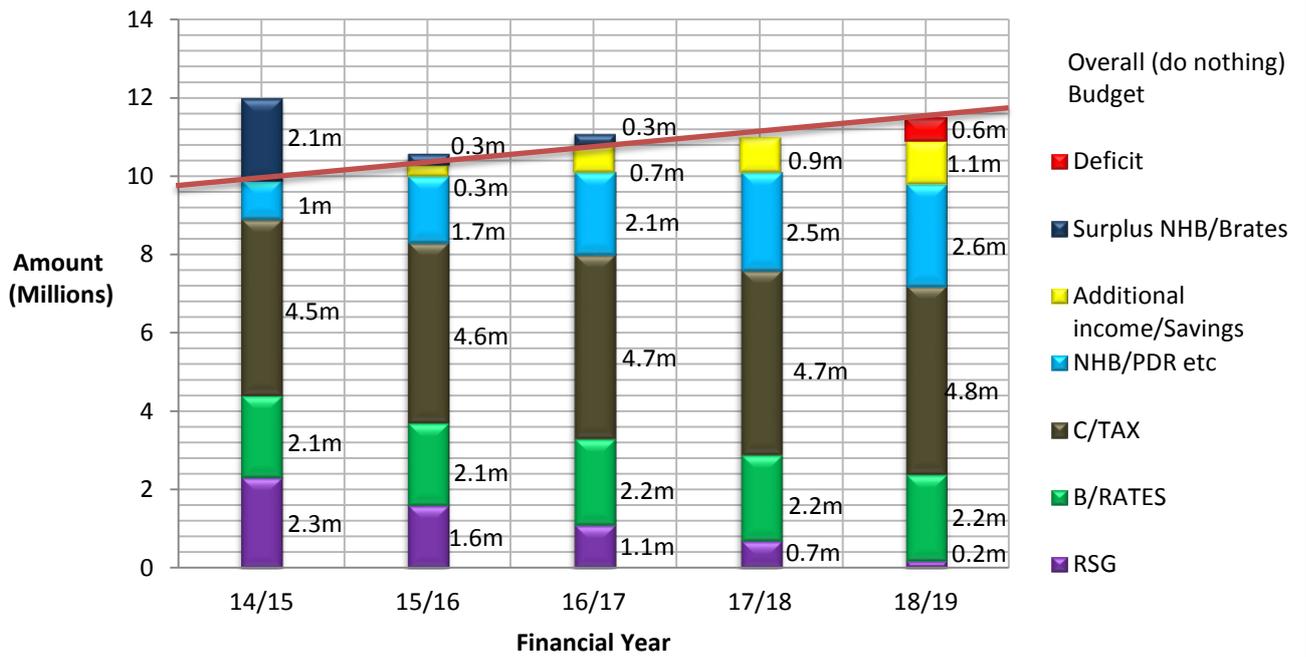


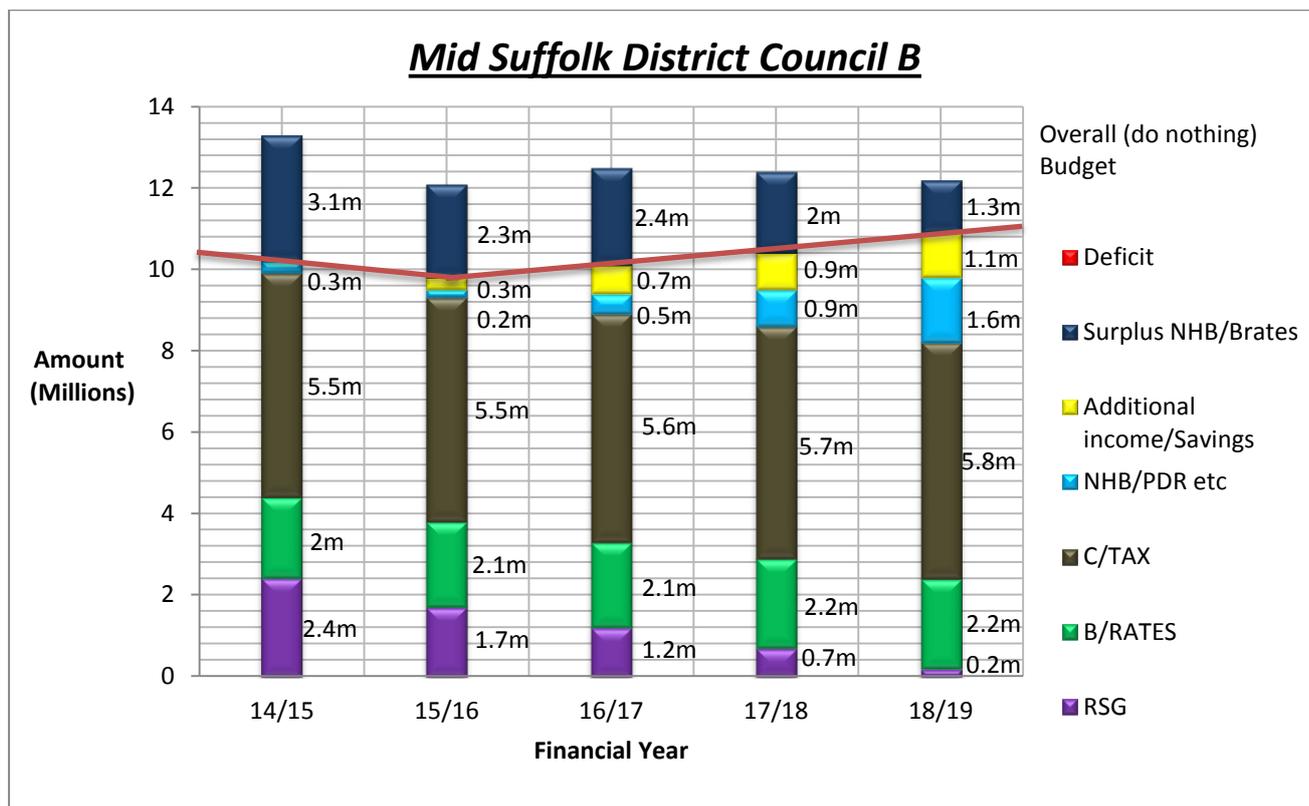
Overall (do nothing)
Budget

Mid Suffolk District Council A



Babergh District Council B





4. A new Business Model - Responding to the financial challenges and opportunities

- 4.1 The Government's new arrangements for funding local government present local authorities with a higher degree of uncertainty and risk than the previous arrangements. On the other hand, local authorities are now more able to control the level of funding they receive, due to the links to new commercial or housing development that they encourage and incentivise in their local areas. This presents Babergh and Mid Suffolk with both challenges and opportunities.
- 4.2 In terms of challenges, core Government funding is reducing with the expectation that Revenue Support Grant, which currently amounts to £4.6m across both councils, will disappear over the next 4-5 years.
- 4.3 Both Councils' financial position is based on each of our differing financial circumstances, local demand and opportunities. It is also all about our policies and strategies that affect growth, income, our approaches to service provision and a lot more.
- 4.4 We need to get these things right as part of our new business model, plans and engagement with the communities we serve. Understanding and operating this new business model is key to future success and financial sustainability.
- 4.5 The 'summary of our financial positions' section of this document details each council's individual financial standing. The following section provides an overview of the local context in which both councils need to operate.

A new business model

4.6 In high level terms, this comprises:

- Maximising income and one-off/temporary/ongoing incentivised funding
- Using this one off/temporary money to generate ongoing funding and income streams
- Not simply monitoring and managing resources and what we spend but 'resource weaving' to make sure that the funds that are available work together, complement each other and produce the maximum outcomes across different activities
- Exploring and seizing new opportunities and ventures that are new and innovative and that will deliver a rate of return on investment that supports the MTFS
- Being more commercial, using prudential borrowing and other available funding to deliver 'profit for purpose' and new income streams.

For the new business model to be a success will require a strong commitment to this new way of working, a radical change in thinking for Members and Officers and decisions that will deliver what is required.

4.7 In practical terms, this will mean achieving further efficiencies and making sure what we do is effective and has impact, managing demands on our services from residents (including a commitment to channel shift) and spending only on things that achieve our strategic priorities and essential services.

How we are responding to the changes

4.8 The reduction and shift to incentivised funding instead of the more certain core funding that has been received in the past requires a broad strategic response and business model. This includes, for example, targeting our funding to deliver new sources of income and increase output of homes and businesses.

4.9 So, capital and one off funds are critical and need to be linked into our future delivery plans (including Council Housing funds because a proportion of growth is dependent on these and external funding e.g. from the HCA for new homes).

4.10 Linked to this, we are adopting a Priority Based Resourcing (PBR) approach to aligning and using future resources. As we go through successive PBR processes and change the way we analyse what we are spending our money on – then we will be able to analyse/split our core spend into:

1. Corporate core (the things we have to do/provide to just keep the Councils running) - which we will seek to minimise.
2. Costs of things we must do – essential/statutory services which we will make more efficient and cost effective.

3. Costs of things that achieve our priorities (some of which will generate new sources of funding e.g. growth).
4. Pure income generating activities.
- 4.11 In order to make the shift – we need to invest in capacity and use funds set aside for transformation (standing at £6.8m across both councils currently) to create capacity to manage and deliver this change activity. In addition, we plan explicitly to use some of this to fund some specific transformation projects e.g. maximising use of digital technology, public access and our customers’ experience, which are the big critical enabling issues.
- 4.12 We need to create the capacity and skills in the organisation to deliver on all fronts simultaneously - so some of that spend needs to be on delivery capacity, where it is needed. This is about getting the basics right as well as our transformation programme.

Our Overall Strategic Response

- 4.13 The changing business model has led us to embark on a transformation programme to address the challenges we face and the opportunities
- 4.14 Based on the issues and approaches set out in the previous section and whilst recognising that Babergh and Mid Suffolk are separate councils with their own individual budgets and requirements, the councils’ joint response to the challenges we face and the opportunities we need to grasp are based on six key actions:
 1. Aligning resources to the councils’ new strategic plan and essential services.
 2. Continuation of the shared service agenda, collaboration with others and transformation of service delivery.
 3. Behaving more commercially and generating additional income.
 4. Considering new funding models (e.g. acting as an investor).
 5. Encouraging the use of digital approaches for customer access.
 6. Taking advantage of new forms of local government finance (e.g. new homes bonus, business rates retention).
- 4.15 Further details on each key action are provided below:

Aligning resources to the councils’ new strategic plan and essential services
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So far both councils have addressed the need for financial savings by sharing the burden across a range of services and meeting savings ‘targets’ for different parts of the council by reducing budgets (including ‘salami slicing’) cutting out waste, joint procurement and partnership work and reducing staff levels.

In this MTFS, the councils will instead allocate their individual resources in line with the joint priorities set out in the Strategic Plan 2014-19 and to essential services. We will use what we call a 'Priority Based Resourcing' approach to do this.

We will identify key areas of the councils' current activities which could be approached differently and others that could be scaled back. We will also focus on further opportunities for the generation of additional income.

Future Budgets and resource allocation will look at both high priority and lower priority activities, and challenge whether the councils should continue with certain activities either at all, or in their current form?

The MTFS links to the changing role of local government from direct provision and a reactive approach to an enabling and preventing one. This will start to inform the allocation of each councils' available resources and the strategy is based on two key assumptions:

- Changing needs – challenging the presumption of public services' role as meeting needs rather than developing and working with people and assets within communities
- Preventing and reducing demand – there are fewer resources and a history of rising demands on public services; we cannot resolve this challenge by trying to do the same things with less money.

<p style="text-align: center;">Continuation of the shared service agenda, collaboration with others and transformation of service delivery</p>

Integration has already delivered significant savings for the two councils, which is in addition to local savings made by each council alone.

However, there is now a need for a more radical transformation of how we operate and what we do (or don't do).

Also, sharing services has to be wider than just the two councils. A key part in achieving the shift in thinking and working will be the importance of working differently not just across the whole of Suffolk but also our partners (statutory, private, community, voluntary and not-for profit). We are building new working relationships where influence is more important than control.

As part of a Suffolk-wide bid, significant Transformation Challenge Award (TCA) Funding of £3.6m (plus flexibility on using capital receipts) for further collaborative working across Suffolk to change the way we do things and to provide a joint legal service between Suffolk district/borough councils.

Behaving more commercially and generating additional income

A key theme running through the work needed to deliver our outcomes is behaving more commercially. The need for thinking and acting more commercially and understanding that this has a significant part to play in delivering a sustainable MTFS.

The two councils cannot continue to behave in all areas as if they are monopoly providers of services, as this is no longer sustainable in the current or future funding climate. This future MTFS therefore relies far more on commercial behaviours being adopted in a number of areas of the councils' business.

Considering new funding models (e.g. acting as an investor)

Both councils have a long tradition of investing in their communities and look to continue to do so, in support of the delivery of their shared strategic priorities, and in particular to aid economic growth across the two districts.

Limited capital and revenue reserves and increased pressure on external funding mean that the councils may want to consider investing away from the traditional funding models such as using its own reserves. Instead focus is now on the use of:

- Prudential borrowing, securing a rate of return of this
- Joint ventures, sharing the investment required
- 'Invest to Save' - investing incentivised funding.

In order to generate new cash into the authorities means that borrowing, in order to create additional income, is something that both councils will explore.

Prudential borrowing can be used to achieve our strategic objectives. The use of borrowing (with no security to a particular council asset) is both flexible and relatively straightforward.

Increased investment through borrowing is likely over the medium to long term for both authorities if we are to deliver both additional income (through a rate of return on the investment) and strategic priority outcomes. Each investment opportunity/project will need careful assessment of the risks and benefits, the affordability of the annual borrowing costs, the estimated rate of return and the associated risks.

There are two costs associated with borrowing:

- annual servicing of the debt – the interest payable on the loan; and
- annual repayment of the loan/capital – effectively through a minimum revenue provision (MRP).

Currently, these would be in the region of 4.5% interest (based on a Public Works Loan Board –PWLB, rate over 25 years) and 4% MRP. In order to assess each project on an equal and consistent basis, a target 5% additional internal rate of return (IRR) is considered appropriate in addition to the cost of borrowing (in this case, 13.5% (4.5% + 4% + 5%). Naturally a change in interest rate or MRP rate would change the overall target rate of IRR.

So, for example, we would look for a £10m investment generating a £0.5m a year return.

The choice of funding model for each investment opportunity/project will be based on their individual merits and the financial return/costs associated, including the comparison to the agreed target internal rate of return and overall risk exposure as part of each business case assessment. Any decision to invest or borrow would be subject to full scrutiny by councillors, through the usual democratic process.

Encouraging the use of digital forms for customer access

The implementation of our Customer Access Strategy is an important part of our next phase of development and is inextricably linked to the need for commercial thinking and wider savings programme. Customer Services, and the way that other services interact with it, must have a clear approach to manage demand and to reduce overheads through encouraging people to self-serve online.

This will enable us to:

- establish a single view of customer transactions and history;
- enable customers to do more of their business with the council online;
- enable partnership working between other councils.

There will always be some customers who cannot access our services online – whether because they have limited access to the internet, or because they are unfamiliar with this technology. These customers will always be able to reach us in the traditional way. Our goal, though, is to encourage those people who can do their business with us online to do so.

In addition to making customer contact easier to handle, this solution can automate many of the duplicated tasks council employees normally perform when handling customer contact, thereby reducing call times and improving the quality of service.

Redesigning our services and customer access is a significant and ambitious programme of work for both councils that will serve as a catalyst to drive wider organisational change. We do not underestimate the scale of this project.

Taking advantage of new forms of local government finance (e.g. new homes bonus, challenge award funds, business rate retention)

These new forms of local government finance have now become the key sources of income for councils and it is assumed that will be the case in future. The councils will therefore take the opportunity to grow our own funding through a strong, and growing, local economy alongside the skills, housing and infrastructure to sustain it.

Links to our Joint Strategic Plan

4.16 The above actions are all linked to our '*Smaller, Swifter, Smarter*' philosophy that is set out in our joint Strategic Plan, which encompasses:

- **Growing the local economy, jobs and homes** - to maximise our income from New Homes Bonus, business rates, rents and council tax revenue through encouraging local sustainable economic and housing growth and being "open for business"
- **Priority-based resourcing** - to ensure that all our financial and human resources are targeted on our priorities and outcomes and are used efficiently and effectively to ensure maximum impact
- **Transformation and innovation** – to transform the way that we work in order to reduce our costs or achieve more with our available resources by doing things in new and different ways
- **A business like and commercial approach** – to be more business-like and to invest in commercial ways of working to maximise social, economic, environmental or financial return on our investment
- **Investing to save and grow** - to refocus our expenditure and investment and to deploy our human resources to, generate savings or grow our income – to use a project costing and benefit capture methodology to enable us to monitor our performance in this area
- **Sharing and collaborating** - to look for and develop opportunities to increase income or derive savings through working with others
- **Strategic commissioning** - to commission services strategically so that where we are not delivering services or undertaking our activities within the councils our partners and contractors are focused on and rewarded for achieving our strategic priorities and outcomes as well as providing value for money
- **Demand management** - to understand the cause of costs or income associated with the demands that our organisations face and to work with others to reduce these costs or increase income

5. Investing in Our Strategic Priorities and future

- 5.1 This is our key focus, to ensure the councils and our communities thrive together. Linked to the new business model, we will invest to deliver better outcomes and aim to generate additional income.

Funding and Investment Opportunities

- 5.2 We can do this both through prudential borrowing and using our Transformation Funds to support our delivery plans, new funding models and innovative/different ways of working. We have set aside £6.8m in the Transformation Fund in 2014/15.
- 5.3 An illustration of the New Homes Bonus that would be received over the next 4 years, based on past historic growth of around 800 homes per annum across both councils and growth assumptions (and depending on how the bonus will continue in future years, which depends on Government policy) is shown below:

Year	Babergh		Mid Suffolk	
	Past Historic growth continues £m	Additional 200 homes a year £m	Past Historic growth continues £m	Additional 200 homes a year £m
2015/16	1.6	1.6	2.2	2.2
2016/17	2.0	2.2	2.6	2.8
2017/18	2.1	2.5	2.6	3.0
2018/19	2.2	2.8	2.6	3.2
Total	7.9	9.1	10.0	11.2

(There are risks and great uncertainty about this funding continuing beyond 2016/17 and the bonus could stop or reduce from 2017/18 onwards.)

- 5.4 The growth increases indicated above illustrate that this increase (+ the additional council tax income would only make modest inroads on the funding gap of £7m, although our overall investment and income generation strategy and delivery plan projects are also expected to contribute towards the funding gap.
- 5.5 We would need to dramatically increase the number of new homes to make good the funding gap or make a significant contribution towards it. In very simple terms, each new home or empty home returned to use results in between £1,000 and £1,200 being received by the councils. So, bridging the funding gap of nearly £7m, taking into account additional council tax, would need over 5,000 more homes over the next 4 years.
- 5.6 Growing this funding is, therefore, paramount but is dependent on communities, the councils and others working together. It also depends on the wider housing economy, labour and material supply/shortages.

- 5.7 In relation to the potential for additional business rates income, this will depend on economic growth and variations in the annual rate yield. This would add to the amount of funding available for transformation and projects, which would contribute towards the funding gap.
- 5.8 In relation to future prudential borrowing, our delivery and investment plans are still to be worked up and finalised but significant borrowing and investment could deliver much needed additional income streams.

Council Housing Funds

- 5.9 In relation to Council Housing, the Housing Revenue Account (HRA) Business Plans present a very positive financial picture over the longer term (a thirty year period as required under the self-financing regime) but there are short to medium term challenges.
- 5.10 These challenges can be met by following a policy of investment in existing or new homes, which is sustained by rental income and convergence with Housing Association rent levels and similar Council homes at equitable rent levels. In addition, we aim to:
- Make best use of our assets – working within the Housing Asset Management Strategy and Housing Asset Management Group we are identifying high value, high cost, low demand properties for disposal at tenancy end. Funds will be ring fenced for investment in additional homes
 - Convert a small number of social rents to affordable rent levels on change of tenancy to achieve HCA Grant criteria
 - Working in partnership with Suffolk County Council, develop models to deliver specialist housing schemes – dementia care and supported housing for autism/learning difficulties on County land using HRA funding
 - Seek efficiencies and value for money in service delivery and reviewing our approach to repairs and maintenance/asset management services
 - Take a commercially minded approach to HRA business planning including, being flexible in our methodology for rent increases, reviewing and realigning capital programme expenditure and using our resources with partner's resources to create the right solutions for tenants and communities.
- 5.11 The Government has applied a cap to the amount that Councils can borrow through the HRA. This means that borrowing levels are restricted. For both Councils, supporting spending of RTB receipts, building new council homes and investing in the maintenance and improvement of council homes is achievable within current borrowing headroom.
- 5.12 Currently, the estimated funds to support our housing investment strategy are:
- Borrowing headroom within the Government's overall debt cap, which is higher for Babergh than Mid Suffolk (Babergh £11.4m; Mid Suffolk £4.1m)

- Surplus annual funds from the HRA for investment in new and existing homes due to the new self-financing freedoms given to councils.

5.13 The forecast position on available investment funds (over the next 4 years) relating to the above is summarised below:

Year	Babergh £m	Mid Suffolk £m
2015/16	18.1	7.4
2016/17	17.9	4.5
2017/18	20.4	5.0
2018/19	22.1	4.8

5.14 Appendix B sets out further details of the current HRA Business Plan, with detailed figures for the next 5 years and summarised forecasts over the following 20 years (in 5 year tranches).

Our Overall Delivery Plans

5.15 We have developed an ambitious set of projects and an overall delivery plan to reflect our strategic priorities, investment and funding strategies. This will change over time but some examples of the projects that link to the 'invest to save' and 'profit for purpose' business model in order to provide potential revenue generation are provided below. These will be subject to business cases and cost benefit appraisals:

- *Providing New Homes, including delivering outcomes on strategic sites*
- *Develop market towns*
- *Strategic asset management framework – acquisitions, disposals and asset utilisation through collaborative working*
- *Community Infrastructure Levy*
- *Renewal Energy Programme e.g. PV Panels on Council properties*
- *Private Sector Rented Housing*
- *New Waste and Recycling initiatives*

6. Summary of our financial positions

Revenue Budget Strategy

6.1 The approach taken to financial management over the period of the Medium Term Financial Strategy (MTFS) seeks to achieve the following objectives:

- keeping council tax low and at an affordable level;
- deliver the necessary savings to continue to live within our means;
- continuously improve efficiency by transforming the ways of working;
- ensure that the financial strategy is not reliant on contributions from essential minimum working balances; and
- maximising revenue from our assets and investment.

Key aspects of the funding position and the MTFS forecasts

- 6.2 There are limitations on the degree and to which both Councils can produce medium term financial projections as there are huge uncertainties.
- 6.3 It is important to remember that these financial forecasts have been produced within a dynamic financial environment, based on ever changing assumptions and that they will be subject to significant change over time. Having regard to these variables and uncertainties, the revenue position for each council as currently forecast is summarised in the table below and detailed further in Appendix A.
- 6.4 Although there are similarities in each council's financial position, both now and in the future, there are also differences. Based on the draft 2015/16 Budget for each council, Babergh's financial position is showing a higher current and forecast Budget gap so more action and intervention is likely to be needed to achieve financial sustainability in the medium term than for Mid Suffolk. Both councils will, however, need to transform what it does as the funding challenges are significant for both councils.

Annual savings required to achieve a balanced budget (without reliance on New Homes bonus)

Annual savings	Babergh £m	Mid Suffolk £m	Combined £m
2015/16	1.6	0.1	1.7
2016/17	2.8 (+1.2)	1.0 (+0.9)	3.8 (+2.1)
2017/18	3.5 (+0.7)	2.0 (+1.0)	5.5 (+1.7)
2018/19	4.3 (+0.8)	2.8 (+0.8)	7.1 (+1.6)

- 6.5 Both councils medium term financial projections include the following key budget assumptions, detailed below. Budget assumptions will continue to be reviewed and updated as economic indicators change.

Key assumptions in the MTFS:

Type of Expenditure	2015/16		2016/17		2017/18		2018/19	
	BDC	MSDC	BDC	MSDC	BDC	MSDC	BDC	MSDC
General Inflation/utilities	2%		3%		3%		3%	
Fees and Charges	2%		2%		2%		2%	
Employee pay increase	2.2%		3%		3%		3%	
Employer's pension contrn. based on actuarial valuation	18.4%	17.7%	18.4%	17.7%	18.4%	17.7%	18.4%	17.7%
Allowance for general underspends/savings (incl. vacancy savings) - approx. 2.5% of Budget	£250k		£250k		£250k		£250k	
Transport Fuel	2%		3%		3%		3%	
Return on Investments	0.75%		1.25%		1.5%		1.75%	
Grant reduction as % of RSG (reducing balance)	-£0.7m		-£0.5m		-£0.5m		-£0.5m	

General Fund minimum working balance

- 6.6 Each council is required to maintain adequate financial reserves to meet the needs of the authority. The reserves we hold can be classified as either working balances – known as the general fund balance, or as specific reserves which are earmarked for a particular purpose – known as earmarked reserves.
- 6.7 The councils each hold general fund balances as a contingency to cover the cost of unexpected expenditure or events during the year. The council's policies regarding the level of general fund are as follows, to hold a balance of:
- £1.05m for Mid Suffolk; and
 - £1.15m for Babergh
- 6.8 These amounts equate to approx. 10% to 12% of net 'core' expenditure at the 2014/15 Budget level.

Capital Investment Strategy - Summary position

- 6.9 Appendix C shows the current 4 year planned capital programme for 2015/16 to 2018/19, together with information on the funding of that expenditure (i.e. borrowing, grants and contributions, use of earmarked revenue reserves and usable capital receipts reserve).
- 6.10 We have not yet finalised, however, the new projects that will result from our new Investment Strategy will be added to the capital programme in 2015 and future years, based on the new funding and business model. In the interim, we have added a provisional sum of £25m to each council's 2015/16 programme for potential projects and prudential borrowing relating to these.

Capital Investment – Alternative sources of funding

- 6.11 Both councils have a long tradition of investing in their communities. Depleting capital and revenue reserves and increased pressure on external funding pots mean that the Councils will use new funding options to invest in the future.
- 6.12 Focus is, therefore, now on the use of;
- Investment that secures a rate of return of the Councils' funds/borrowing;
 - Joint ventures, sharing the investment required; or
 - Borrowing, introducing new funds into the Council.
- 6.13 Investment opportunities will be subject to a business case and risk assessment to ensure that the decision to implement the project is sound and that the Council can not only afford the long terms implications of each project but that it also maximises returns within manageable risk.

- 6.14 With this in mind, each business case that comes forward will aim for a 5% minimum internal rate of return over and above the cost of borrowing/other costs.

Council Housing

- 6.15 The proposed Capital Programme headlines for 2015 – 2020 are:

Expenditure	Babergh £m	Mid Suffolk £m
Housing Maintenance Programmes	22.5	25.7
New build (HCA programme)	6.8	5.0
RTB receipt funding	7.4	8.9
Total	36.7	39.6
Financing		
Capital receipts disposals and RTB receipts and HCA Grant	0.8	3.0
Revenue Contributions	35.9	35.8
Borrowing	0	0.8
Total	36.7	39.6
Remaining Borrowing Headroom (31/03/20)	14.8	3.3

- 6.16 In relation to debt repayment set asides, the HRA business plans are currently based on not setting aside any capital receipts towards debt on sold council houses or for maturity debt repayment in the longer-term. The position on this in relation to future HRA Business Plans is to be reviewed during 2015 with the Council's treasury advisors.

Treasury Management Strategy

- 6.17 Each Council's capital and revenue budget plans inform the development of their Treasury Management and Investment Strategies, which are agreed annually as part of its budget setting report. The Treasury Management Strategy sets out borrowing forecasts/limits and who the Council can invest with.
- 6.18 We have reviewed the strategy to align to the Joint Strategic Plan, Our Delivery Plans, this MTFs and the new business model. Prudential Indicators relating to the current Treasury Management Strategy are shown in Appendix F.

Prudential Borrowing

- 6.19 Councils can borrow to provide new assets, invest in community facilities and services and maintain assets. They can also borrow to invest in new funding models that will both provide new assets and deliver a rate of return. This is part of the new business model that is being adopted.

Investment will only be made were it delivers the councils' strategic plan priority outcomes and an agreed rate of return.

- 6.20 Specific investment plans will be reflected in future Budgets and capital investment programmes. Whilst these are being worked up, each council has included £25m in the 2015/16 capital programme to cover potential schemes next year. Further sums can be added to future years as part of the annual financial planning process.

Managing Risks

- 6.21 In setting the revenue and capital budgets, both councils take account of the key financial risks that may affect their plans but there is increasing future uncertainty as a result of the changes that are taking place and the new business model.
- 6.22 An awareness of the potential risks and the robustness of the budget estimates informs decisions about the level of working balances needed – in order to provide assurance that the councils have sufficient contingency reserves to meet unforeseen fluctuations and changes.

Capital Receipts

- 6.23 An important part of the funding arrangements for the capital programme is the disposal of surplus assets. Asset disposals have been affected by the recession and the current estimated level of income from asset disposals over the period 2015/16 to 2018/19 is limited.
- 6.24 In line with the business model, a more active asset management, disposal and acquisition and strategy is being adopted to support the MTFS.

Earmarked Reserves

- 6.25 The councils each hold earmarked reserves, which are earmarked for a particular purpose and are set aside in order to meet known or predicted future expenditure in relation to that purpose.
- 6.26 The level of earmarked reserves at the end of 2014/15 is expected to be as follows:
- £2.5m for Mid Suffolk; and
 - £1.6m for Babergh

The planned additions and use of these reserves over the period covered by this strategy is shown in Appendix E.

Glossary of Terms

DRAFT

General Fund Revenue Budget Summary/Forecasts - Babergh

(Note: the forecasts for 2016/17 onwards are illustrative and actual budgets will be reviewed and determined by the Council annually).

Line	Description	2014/15 Budget £000	2015/16 Budget £000	2016/17 Forecast £000	2017/18 Forecast £000	2018/19 Forecast £000
1a	Core Budget	9,671	10,327	10,750	11,042	11,542
1b	Grants to parishes (LCTS)	188	125	62	0	0
2	Integration costs	250	49	0	0	0
3	Transformation Fund - Delivery Plan Projects	2122	28	0	0	0
4	Total Planned Net Expenditure	12,231	10,529	10,812	11,042	11,542
	Funding Deficit			416	959	1,695
	Savings required (NHB discounted as temporary)					
5	2016/17			(2,817)		
6	2017/18				(3,460)	
7	2018/19					(4,296)
	Funding:					
8	Integration Reserve	(250)	(49)	0	0	0
9	Other Earmarked Reserves	0	(95)	0	0	0
10	New Homes Bonus – fixed term posts	(208)	(208)	(208)	0	0
11	Transformation Fund - Delivery Plan projects	(2,122)	(28)	0	0	0
12	Transformation Fund - Programme Resources & Core Budget	(779)	(1,766)	(2,193)	(2,501)	(2,601)
13	Government Support					
	(a) Baseline Business Rates	(1,905)	(1,941)	(1,998)	(2,048)	(2,099)
	(b) B/Rates – growth/pooling benefit	(150)	(150)	(150)	(150)	(150)
	(c) Revenue Support Grant	(2,263)	(1,645)	(1,127)	(644)	(187)
14	Collection Fund (surplus) /deficit	(100)	(94)	(100)	(50)	(50)
15	Council Tax	(4,454)	(4,552)	(4,620)	(4,690)	(4,760)
16	Total Funding	(12,231)	(10,529)	(10,396)	(10,083)	(9,847)
17	Council Taxbase		+2.2%	+1.5%	+1.5%	+1.5%
18	Band D Council Tax	£143.86	£143.86	TBA	TBA	TBA

Line 3 - Allocated each year – but actual expenditure will take place over 2 or more years

Line 13 (c) - Includes council tax freeze grants of £213k in 2014/15, which will cease after 2015/16 and could result in a lower RSG levels in 2016/17 onwards than indicated

Council Housing Revenue Account (HRA) Business Plan – Babergh

Babergh DC 30 Year Business Plan 3%										
Year	2015.16	2016.17	2017.18	2018.19	2019.20	2020-2025	2025-30	2030-35	2035-40	2040-45
£'000	1	2	3	4	5	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30
INCOME:										
Total Income	16,987	17,550	18,062	18,575	19,455	104,062	120,255	138,502	159,515	183,712
EXPENDITURE:										
General Management	-2,425	-2,475	-2,537	-2,601	-2,666	-14,362	-16,250	-18,385	-20,801	-23,534
Special Management	-1,029	-1,055	-1,081	-1,108	-1,136	-6,120	-6,925	-7,835	-8,864	-10,029
Bad Debt Provision	-201	-337	-347	-357	-374	-2,000	-2,313	-2,665	-3,072	-3,540
Responsive & Cyclical Repairs	-2,219	-2,288	-2,345	-2,404	-2,464	-13,350	-15,113	-17,099	-19,346	-21,889
Total Revenue Expenditure	-5,874	-6,156	-6,311	-6,470	-6,640	-35,833	-40,600	-45,985	-52,083	-58,992
Interest Paid	-2,860	-2,838	-2,817	-2,796	-2,767	-13,713	-12,155	-8,715	-1,512	70
Interest Received	24	39	65	90	145	2,459	5,328	7,273	9,254	16,887
Depreciation	-2,721	-2,792	-2,843	-2,895	-3,154	-16,930	-19,042	-21,417	-24,088	-27,090
Net Operating Income	5,555	5,802	6,156	6,504	7,040	40,046	53,785	69,658	91,085	114,587
APPROPRIATIONS:										
Revenue Provision (HRACFR)	-500	-500	-500	-500	0	0	0	0	0	0
Revenue Contribution to Capital	-3,668	-6,508	-4,142	-5,041	-1,404	-7,394	-11,780	-44,169	-53,402	-7,805
Total Appropriations	-4,168	-7,008	-4,642	-5,541	-1,404	-7,394	-11,780	-44,169	-53,402	-7,805
ANNUAL CASHFLOW	1,387	-1,206	1,514	963	5,635	32,652	42,005	25,489	37,683	106,782
Opening Balance	3,139	4,527	3,321	4,834	5,798	11,433	44,085	86,090	111,579	149,263
Closing Balance	4,527	3,321	4,834	5,798	11,433	44,085	86,090	111,579	149,263	256,044

Capital Summary – General Fund and Council Housing – Babergh

BABERGH CAPITAL PROGRAMME	2014/15 Original Budget £'000	2014/15 Revised Budget inc Carry Forwards £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
General Fund						
Housing						
Mandatory Disabled Facilities Grant	357	249	350	350	350	350
Discretionary Housing Grants	263	247	313	150	150	150
Grants for Affordable Housing	50	329	100	100	100	100
Total Housing	670	825	763	600	600	600
Environmental Services						
Replacement Refuse Freighters - Joint Scheme	150	150	0	1,650	0	0
Recycling Bins	0	0	62	62	62	62
Total Environmental Services	150	150	62	1,712	62	62
Community Services						
Planned Maintenance / Enhancements - Car Parks	40	53	40	40	40	40
Street Parking Improvements	8	8	8	8	8	8
Planned Maintenance / Enhancements - Kingfisher	114	137	65	56	56	56
Planned Maint / Enhancements - Hadleigh Pool	25	48	25	25	25	25
Play Equipment	25	52	25	25	25	25
Broadband Development	50	50	0	0	0	0
Replacement CCTV Cameras	40	40	40	40	0	0
Community Development Grants	129	293	129	129	129	129
Total Community Services	431	681	332	323	283	283
Asset Management						
Planned Maint / Enhancements - Hadleigh HQ	35	56	35	35	35	35
Planned Maint / Enhancements - Other Corp Buildings	48	86	48	48	48	48
Carbon Reduction	135	235	50	50	50	50
Installation of PV Panels on Housing Stock	4,485	1,300	2,900	0	0	0
Total Asset Management	4,703	1,677	3,033	133	133	133
Corporate Services						
ICT costs related to joint working with Mid Suffolk	398	587	550	275	138	69
Regeneration Fund	1,520	1,330	1,250	300	300	300
Total Corporate Services	1,918	1,917	1,800	575	438	369
Other unspecified Delivery Plan Projects	0	0	25,000	0	0	0
TOTAL General Fund Capital Spend	7,872	5,250	30,990	3,343	1,516	1,447
General Fund Financing						
External Grants and contributions	227	472	285	350	350	350
Capital Receipts	843	410	65	66	66	67
Borrowing - unsupported	6,802	4,368	30,640	2,927	1,100	1,030
Total General Fund Capital Financing	7,872	5,250	30,990	3,343	1,516	1,447

Appendix C (Continued)

Capital Summary – General Fund and Council Housing – Babergh

BABERGH CAPITAL PROGRAMME	2014/15 Original Budget £'000	2014/15 Revised Budget inc Carry Forwards £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Housing Revenue Account						
Planned Maintenance & Response						
Planned maintenance	2,968	4,751	2,581	3,531	4,360	4,968
Other programmes	1,310	1,412	683	724	897	1,187
Environmental Improvements	150	150	50	120	120	120
Horticulture and play equipment	70	70	31	33	50	60
New build acquisitions	-	-	554	2,080	1,945	1,709
New build programme	900	1,417	3,393	3,397	0	0
TOTAL HRA Capital Spend	5,398	7,800	7,292	9,885	7,372	8,044
HRA Financing						
External Grants and contributions	2,631	2,431	2,921	2,792	2,843	2,895
Capital Receipts	276	560	539	66	67	68
Revenue Contributions	2,491	4,809	3,832	7,027	4,462	5,081
Total HRA Capital Financing	5,398	7,800	7,292	9,885	7,372	8,044
TOTAL CAPITAL SPEND	13,270	13,050	38,282	13,228	8,888	9,491

Prudential Indicators – Borrowing and Investment – Babergh

To be added following review by Joint Audit & Standards Committee on the 19 January 2015

DRAFT

Earmarked Funds/Reserves – Babergh

	31/03/2014		2014/15		31/03/2015		2015/16		31/03/2016
		Add'n	Use	Tfr		Add'n	Use	Tfr	
GF Working Balance	1,015				1,015				1,015
Babergh Integration	299		-250		49		-49		0
Welfare Benefit Reform	64				64				64
Elections	40	20			60	20	-70		10
Green Initiatives	25				25		-25		0
Recycling Consortium (BDC Share)	108				108				108
S.106	270				270				270
Government Grants	208				208				208
NHB	0			497	497				497
Transformation Fund	1,993	1,215	-2,711	-497	0	2,002	-2,002		0
Equalisation of Business Rates	0	200			200	200			400
Carry Forwards	199		-199		0				0
GF Exc Working Balance	3,206	1,435	-3,160	0	1,481	2,222	-2,146	0	1,557
Total Reserves inc Working Balance	4,221	1,435	-3,160	0	2,496	2,222	-2,146	0	2,572

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