

## BABERGH DISTRICT COUNCIL

<b>From: Management Board</b>	<b>Report Number: P99</b>
<b>To: Strategy Committee</b>	<b>Date of meeting: 12 February 2015</b>

### JOINT MEDIUM TERM FINANCIAL STRATEGY AND 2015/16 BUDGET

#### 1. Purpose of Report

- 1.1 To consider the Council's Joint Medium Term Financial Strategy (MTFS) and 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 to Council

- 2.1 That the Joint Medium Term Financial Strategy (MTFS) and Budget proposals set out in the report be approved.
- 2.2 That the final General Fund Budget for 2015/16 is 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 £1.8m 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 Members agree the Housing Revenue Account (HRA) Investment Strategy 2015/16 to 2019/20 and HRA Budget for 2015/16, 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 Members agree the Capital Programme in Appendix E - General Fund for 2015/16 only and HRA for 2015/16 to 2018/19, including the addition of a provisional sum of £25m for potential investment opportunities. This can then be allocated to investment proposals that meet the desired investment strategy returns and strategic priority outcomes.

### 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:-

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
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.
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.

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
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 risk assessment by the Section 151 Officer on the General Fund Budget proposals and the adequacy of General Fund reserves, as required by statute is attached at Appendix F.

## **5. Consultations**

- 5.1 The 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 "*

- 5.4 A meeting of the Joint Housing Board (JHB) took place on the 15 December 2014 and 19 January 2015. The JHB recommend rent increase levels and general budget proposals to Strategy Committee.

## **6. Equality Analysis**

- 6.1 No significant service changes are proposed as a result of the budget for 2015/16, so an equality analysis is not required.

## **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 Joint MTFs (attached at Appendix G) 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 small addition to the fund is possible next year.

- 8.6 Each Council is being asked to agree the key aspects of the Budget for 2015/16 and endorse the 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 indications that the Revenue Support Grant (currently £2.3m) will be 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 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 in conjunction with the Business Rates Pool 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 either need to make cost savings, generate additional income and/or 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 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) was 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. The recent approval under Round 2 of the Housing Revenue Account Borrowing Programme will provide a further £3.6m capacity. New build/acquisitions funding within the Capital Programme 2015 – 2020 totals £16.2m and HRA reserve balances 2015 – 2020 are forecast at £9.9m. This will provide a total HRA Investment Fund contribution of £37.2m 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 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
  - 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 Budget is summarised in Appendix A. Key information relating to 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 £0.4m due to inflation and other cost pressures, offset by additional income from PV panels project and other savings. This position is better than outlined in the January report to Strategy Committee and is explained further in section 12.1;
  - Government Funding (Revenue Support Grant + Baseline Business Rates) reducing by over £0.6m;

- Estimated Transformation Funds available in 2014/15 of £2.0m. 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 and an estimated £0.6m Government Section 31 grant relating to business rates. Of this £2.2m, £0.2m will be for fixed-term posts, agreed when ODT's created (allowance for extending these to 31 March 2016)
- £1.6m will be used to contribute towards Programme Development resources in the 2015/16 Budget i.e. to design and implement projects in the Strategic Plan and £0.2m (as in 2014/15) will be transferred to the Business Rates Equalisation Reserve to protect against future uncertainties/losses.

The net result of the above is an estimated balance of NHB and business rates Section 31 grant of £0.2m that can be transferred to the Transformation Fund in 2015/16 for new projects/investment strategy

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

	<b>Minimum (based on historical growth) £m</b>	<b>With further 200 additional homes  £m</b>
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
<b>Total</b>	<b>7.9</b>	<b>9.1</b>

\* 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).

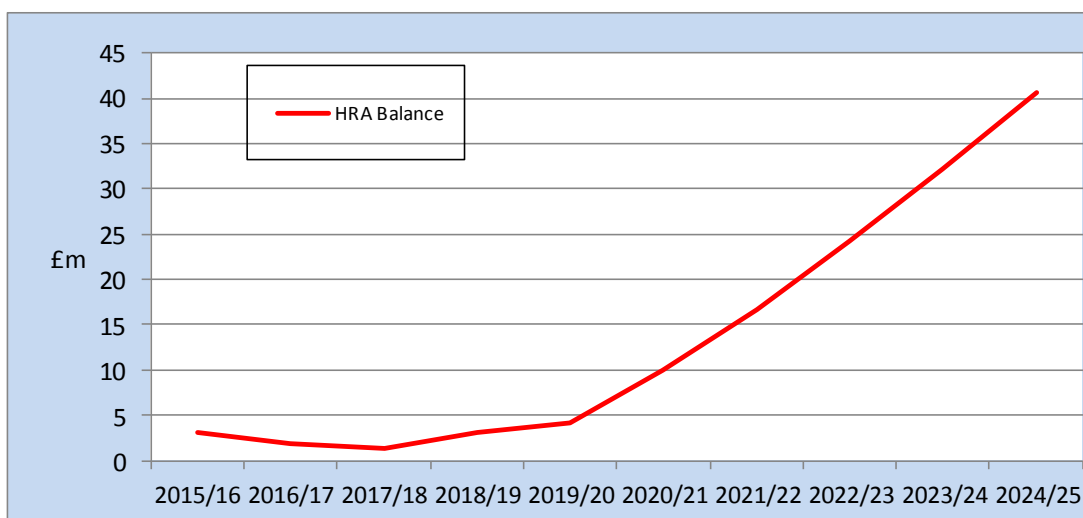


The business plan for the 3% option is attached at Appendix B and shows additional detail for years 1-5.

- 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:-

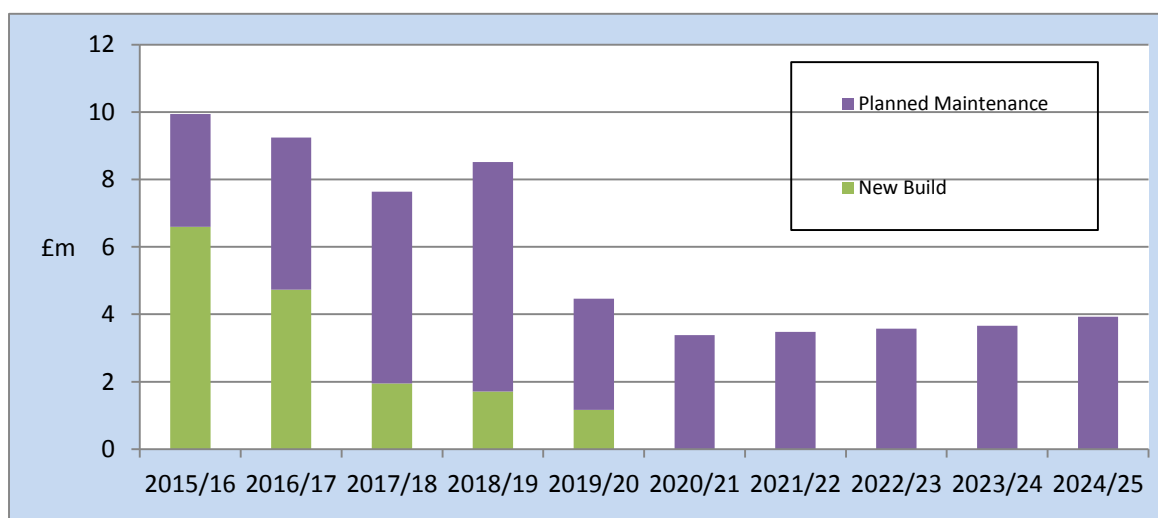
Graph A - Revenue cash flows from 2015/16 for 10 years

This graph shows reserve balances within the HRA increasing to approximately £40.7m 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.



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

This graph shows proposed Capital Programme expenditure 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 Budget

### General Fund

12.1 A number of key assumptions have been made in formulating the 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 £0.4m, which is more than anticipated, but better than reported in January by £0.2m. Work has been continuing on the budget with additional savings being found in staffing, inflation, revenues and benefits, capital financing charges and the joint waste contract;
- 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 i.e. it will be the same as in 2014/15);
- No increase in council tax;
- Certain fees and charges, but excluding car parking, increased by 2%. A new scale of fees and allowances for the conduct of elections will be in place from April 2015 to align Babergh and Mid Suffolk;
- The use of most of the 2015/16 New Homes Bonus allocation and a proportion of business rates Section 31 grant to fund the Core budget, including Programme development resources.
- Refer to Appendix D for further details relating to funding and Council Tax Requirements

#### 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 key changes between the 2014/15 and 2015/16 Budgets are summarised below:-

	<b>£000</b>
<b>2014/15 Core Budget</b>	<b>9,859</b>
Cost pressures - inflation and other changes in income and expenditure*	+1,203
Savings including restatement of 2014/15 base budgets in 2015/16	-798
<b>2015/16 Budget</b>	<b>10,264</b>

\* Including £70k re. elections and £25k re. green initiatives (both funded from earmarked reserves) and additional £136k 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.

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

	<b>NHB</b>	<b>Business Rates Grant</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>New Homes Bonus/Business Rates:</b>			
2015/16	1.6	0.4	2.0
2016/17	2.0	0.4	2.4
2017/18	2.1	0.4	2.5
2018/19	2.2	0.4	2.6
<b>Total – NHB/Business Rates</b>	<b>7.9</b>	<b>1.6</b>	<b>9.5</b>
<b>HRA:</b>			
New Build Acquisitions			16.2
Reserves (HRA Balance)			4.1
Borrowing Headroom			17.7
<b>Total - HRA available for Investment</b>			<b>38.0</b>
<b>Total – NHB, Business Rates and HRA combined</b>			<b>47.5</b>

\* 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 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.
- 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.

### Budget 2015/16

12.15 The table below sets out the 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)	(16)	(4)	
<b>Total Net Income</b>	<b>(16,508)</b>	<b>(16,802)</b>	<b>(294)</b>	
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	9,241	4,119	Increase in revenue contribution to capital programme to fund new homes and planned maintenance
Debt Repayment	500	500	0	
<b>Total Expenditure</b>	<b>14,378</b>	<b>18,275</b>	<b>3,897</b>	
In-year operating (surplus)/deficit	(2,130)	1,473	3,603	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 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 are still awaited at the time of writing. 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 capital programme is attached at Appendix E, which includes some updates compared to the current programme.
- 12.22 Delivery plan projects that identify capital investment opportunities (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 with final plans being approved by Strategy Committee and Council. 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 capital programme for 2015/16 for potential investment opportunities 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, 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:-

<b>Year</b>	<b>£m</b>
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**

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

<b>Expenditure</b>	<b>£m</b>
Housing Maintenance Programmes	23.6
New build (HCA programme)	3.4
New build (Additional borrowing)	5.3
RTB receipt funding	7.5
<b>Total</b>	<b>39.8</b>
<b>Financing</b>	
Capital receipts disposals and RTB receipts and HCA Grant	0.8
Revenue Contributions	35.4
Borrowing	3.6
<b>Total</b>	<b>39.8</b>
Remaining Borrowing Headroom available (31 March 2020)	14.8

12.27 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.

12.28 For the General Fund approval is sought to the projects and schemes in 2015/16 only and for the HRA for all four year from 2015/16 onwards, with the future items being subject to review and change annually.

### 13. Appendices

<b>Title</b>	<b>Location</b>
APPENDIX A – General Fund Budget Summary 2015/16	Attached
APPENDIX B – updated HRA Business Plan	Attached
APPENDIX C – General Fund Earmarked Reserves	Attached
APPENDIX D – Budget Funding and Council Tax Requirements	Attached
APPENDIX E – Capital Programmes	Attached
APPENDIX F – Robustness and Adequacy of Reserves	Attached
APPENDIX G – Joint Medium Term Financial Strategy	Attached

### 15. Background Documents

Local Government Finance Settlement.  
Joint MTFs and Draft 2015/16 Budget (Strategy Committee) P90

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**General Fund Budget Summary 2015/16**

	<b>2014/15 £000</b>	<b>2015/16 £000</b>	<b>Variation £000</b>
Core Budget – spending on services	9,671	10,139	+468
Parish Council grants – Local Council Tax Scheme	188	125	-63
<b>Total Core Budget</b>	<b>9,859</b>	<b>10,264</b>	<b>+405</b>
Integration costs	250	49	-201
Transformation Fund - Delivery Plan projects*	1,916	216	-1,906
	<b>12,025</b>	<b>10,529</b>	<b>-1,496</b>
<b>Funding:</b>			
• Integration Reserve	250	49	-201
• Other Earmarked Reserves	0	95	+95
• New Homes Bonus – fixed term posts	208	208	-
• Transformation Fund - Delivery Plan projects	1,916	216	-1,700
• Transformation Fund – Programme Resources/Core Budget	779	1,578	+799
• 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
	<b>12,025</b>	<b>10,529</b>	<b>-1,496</b>

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

	<b>2014/15 (revised) £000</b>	<b>2015/16 £000</b>
<b>Non-core/Transformation Funds:</b>		
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	-
	<b>2,903</b>	<b>2,002</b>
Less: Use for programme development resources and temporary fixed term posts	-987	-1,786
<b>Available for Delivery Plan projects</b>	<b>1,916</b>	<b>216</b>

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**

<b>Babergh DC 30 Year Business Plan 3%</b>										
<b>Year</b>	<b>2015.16</b>	<b>2016.17</b>	<b>2017.18</b>	<b>2018.19</b>	<b>2019.20</b>	<b>2020-2025</b>	<b>2025-30</b>	<b>2030-35</b>	<b>2035-40</b>	<b>2040-45</b>
<b>£'000</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>Years 6-10</b>	<b>Years 11-15</b>	<b>Years 16-20</b>	<b>Years 21-25</b>	<b>Years 26-30</b>
<b>INCOME:</b>										
<b>Total Income</b>	<b>16,987</b>	<b>17,550</b>	<b>18,245</b>	<b>18,762</b>	<b>19,648</b>	<b>105,120</b>	<b>121,481</b>	<b>139,923</b>	<b>161,162</b>	<b>185,622</b>
<b>EXPENDITURE:</b>										
General Management	-2,375	-2,424	-2,485	-2,547	-2,611	-14,065	-15,913	-18,004	-20,370	-23,047
Special Management	-1,079	-1,106	-1,134	-1,162	-1,191	-6,418	-7,261	-8,215	-9,295	-10,516
Bad Debt Provision	-201	-337	-349	-359	-376	-2,011	-2,326	-2,681	-3,090	-3,562
Responsive & Cyclical Repairs	-2,219	-2,293	-2,351	-2,409	-2,470	-13,391	-15,162	-17,154	-19,409	-21,959
<b>Total Revenue Expenditure</b>	<b>-5,874</b>	<b>-6,161</b>	<b>-6,318</b>	<b>-6,477</b>	<b>-6,647</b>	<b>-35,885</b>	<b>-40,663</b>	<b>-46,055</b>	<b>-52,164</b>	<b>-59,084</b>
Interest Paid	-2,860	-2,838	-2,817	-2,796	-2,767	-13,713	-12,155	-8,715	-1,512	70
Interest Received	16	16	35	61	119	2,370	5,324	7,372	9,479	17,271
Depreciation	-2,721	-2,800	-2,851	-2,902	-3,162	-16,973	-19,091	-21,472	-24,150	-27,161
<b>Net Operating Income</b>	<b>5,547</b>	<b>5,767</b>	<b>6,294</b>	<b>6,648</b>	<b>7,191</b>	<b>40,919</b>	<b>54,896</b>	<b>71,052</b>	<b>92,815</b>	<b>116,718</b>
<b>APPROPRIATIONS:</b>										
Revenue Provision (HRACFR)	-500	-500	-500	-500	0	0	0	0	0	0
Revenue Contribution to Capital	-6,320	-5,756	-4,135	-5,033	-1,396	-7,367	-11,779	-44,224	-53,440	-7,881
<b>Total Appropriations</b>	<b>-6,820</b>	<b>-6,256</b>	<b>-4,635</b>	<b>-5,533</b>	<b>-1,396</b>	<b>-7,367</b>	<b>-11,779</b>	<b>-44,224</b>	<b>-53,440</b>	<b>-7,881</b>
<b>ANNUAL CASHFLOW</b>	<b>-1,272</b>	<b>-489</b>	<b>1,659</b>	<b>1,115</b>	<b>5,795</b>	<b>33,552</b>	<b>43,117</b>	<b>26,828</b>	<b>39,375</b>	<b>108,837</b>
Opening Balance	3,139	1,867	1,378	3,037	4,152	9,947	43,499	86,616	113,444	152,819
<b>Closing Balance</b>	<b>1,867</b>	<b>1,378</b>	<b>3,037</b>	<b>4,152</b>	<b>9,947</b>	<b>43,499</b>	<b>86,616</b>	<b>113,444</b>	<b>152,819</b>	<b>261,657</b>

**General Fund Earmarked Reserves**

	<b>31 March 2014 £000</b>	<b>Add'n in 14/15</b>	<b>Use In 14/15</b>	<b>31 March 2015 £000</b>	<b>Add'n in 15/16</b>	<b>Use in 15/16</b>	<b>31 March 2016 £000</b>
Integration	299		-250	49		-49	0
Welfare Benefit Reforms	64			64			64
Elections	40	20		60	20	-70	10
Green Initiatives	25			25		-25	0
Recycling Consortium (BDC Share)	108			108			108
Other service specific funds:  Planning, Housing, Waste and other services/activities*	278			278			278
<b>Sub- Total</b>	<b>1,014</b>	<b>20</b>	<b>-250</b>	<b>784</b>	<b>20</b>	<b>-144</b>	<b>660</b>
New Homes Bonus #	497			497			497
Transformation Fund #	1,496	1,215	-2,711	0	2,002	-2,002	0
Equalisation of Business Rates	0	200		200	200		400
2013/14 Budget carry forwards	199		-199	0			0
<b>Total</b>	<b>3,206</b>	<b>1,435</b>	<b>-3,160</b>	<b>1,481</b>	<b>2,222</b>	<b>-2,146</b>	<b>1,557</b>

\* To be reviewed and reallocated as appropriate to strategic priority outcomes at the end of the financial year.

# Subject to actual use and expenditure each year.

**Budget, Funding and Council Tax Requirements**

1. The precept requirements of Parish / Town Councils must be aggregated with the requirement of this authority to arrive at an average Council Tax figure for the district / parish purposes. This figure however is totally hypothetical and will not be paid by any taxpayer (other than by coincidence). A schedule of the precept requirements from Parish / Town Councils will be reported to Council on 24 February.
2. The County and the Police and Crime Commissioner's precept requirements are added to this.
3. The legally required calculation is set out below:
  - 1) The General Fund Budget requirement for the District Council purposes in 2015/16 will be based on no increase to council tax
  - 2) The County Council precept requirement is expected to be £1,126.53 for a Band D property in 2015/16 – no increase on the previous year.
  - 3) The Police and Crime Commissioner's precept requirement is still to be determined.
  - 4) At the time of preparing this report, not all Parish / Town Councils have supplied formal notification of their 2015/16 precept. The final figures will be reported to Council.
4. Babergh is a billing authority and collects council tax and non-domestic rates on behalf of the other precepting authorities i.e. Suffolk County Council, Suffolk Police and Crime Commissioner and Parish / Town Councils. The dates that monies collected are paid over to the County Council, and the Police and Crime Commissioner ("precept dates") need to be formally agreed under Regulation 5(i) of the Local Authorities (Funds) (England) Regulations 1992.
5. Established practice is for payments to be made in 12 equal instalments on the 15<sup>th</sup> of each month or the next banking day if the 15<sup>th</sup> falls on a weekend or bank holiday. Accordingly the precept dates applicable for 2015/16 are expected to be as follows:

15 April 2015	15 May 2015	16 June 2015	15 July 2015
17 August 2015	15 September 2015	15 October 2015	16 November 2015
15 December 2015	15 January 2016	15 February 2016	15 March 2016

**CAPITAL PROGRAMME FOR 2014/15 TO 2018/19**

<b>BABERGH CAPITAL PROGRAMME</b>	<b>2014/15 Original Budget £'000</b>	<b>2014/15 Revised Budget inc Carry Forwards £'000</b>	<b>2015/16 £'000</b>	<b>2016/17 £'000</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>
<b>General Fund</b>						
<b>Housing</b>						
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
<b>Total Housing</b>	<b>670</b>	<b>825</b>	<b>763</b>	<b>600</b>	<b>600</b>	<b>600</b>
<b>Environmental Services</b>						
Replacement Refuse Freighters - Joint Scheme	150	150	0	1,650	0	0
Recycling Bins	0	0	62	62	62	62
<b>Total Environmental Services</b>	<b>150</b>	<b>150</b>	<b>62</b>	<b>1,712</b>	<b>62</b>	<b>62</b>
<b>Community Services</b>						
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
<b>Total Community Services</b>	<b>431</b>	<b>681</b>	<b>332</b>	<b>323</b>	<b>283</b>	<b>283</b>
<b>Asset Management</b>						
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
<b>Total Asset Management</b>	<b>4,703</b>	<b>1,677</b>	<b>3,033</b>	<b>133</b>	<b>133</b>	<b>133</b>
<b>Corporate Services</b>						
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
<b>Total Corporate Services</b>	<b>1,918</b>	<b>1,917</b>	<b>1,800</b>	<b>575</b>	<b>438</b>	<b>369</b>
<b>Delivery Programme Investment Opportunities</b>	<b>0</b>	<b>0</b>	<b>25,000</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL General Fund Capital Spend</b>	<b>7,872</b>	<b>5,250</b>	<b>30,990</b>	<b>3,343</b>	<b>1,516</b>	<b>1,447</b>
<b>General Fund Financing</b>						
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
<b>Total General Fund Capital Financing</b>	<b>7,872</b>	<b>5,250</b>	<b>30,990</b>	<b>3,343</b>	<b>1,516</b>	<b>1,447</b>

Note: See section 12.22/23 of report relating to the £25m provision for delivery programme investment opportunities

## Appendix E

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
<b>Housing Revenue Account</b>						
<b>Planned Maintenance &amp; Response</b>						
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	-	-	5,754	2,080	1,945	1,709
New build programme	900	1,417	3,393	3,397	0	0
<b>TOTAL HRA Capital Spend</b>	<b>5,398</b>	<b>7,800</b>	<b>12,492</b>	<b>9,885</b>	<b>7,372</b>	<b>8,044</b>
<b>HRA Financing</b>						
External Grants and contributions	2,631	2,431	2,921	2,792	2,843	2,895
Capital Receipts	276	560	539	66	67	68
Borrowing	-	-	1,790	1,790	-	-
Revenue Contributions	2,491	4,809	7,242	5,237	4,462	5,081
<b>Total HRA Capital Financing</b>	<b>5,398</b>	<b>7,800</b>	<b>12,492</b>	<b>9,885</b>	<b>7,372</b>	<b>8,044</b>
<b>TOTAL CAPITAL SPEND</b>	<b>13,270</b>	<b>13,050</b>	<b>43,482</b>	<b>13,228</b>	<b>8,888</b>	<b>9,491</b>

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

### **1. Background**

- 1.1 Section 25 of the Local Government Act 2003 requires Councils, when setting its annual General Fund Budget and level of Council Tax, to take account of a report from its Section 151 Officer on the robustness of estimates and adequacy of reserves. This report fulfils that requirement for the setting of the Budget and Council Tax for 2015/16.
- 1.2 This is to ensure that when deciding on its Budget for a financial year, Members are made aware of any issues of risk and uncertainty, or any other concerns by the Chief Financial Officer (CFO). The local authority is also expected to ensure that its budget provides for a prudent level of reserves to be maintained.
- 1.3 The CFO has assessed that the minimum safe contingency level of unearmarked General Fund working balance/general reserve is £1.15m (the same figure as 2014/15).
- 1.4 Section 26 of the Act empowers the Secretary of State to set a minimum level of reserves for which a local authority must provide in setting its budget. Section 26 would only be invoked as a fallback in circumstances in which a local authority does not act prudently, disregards the advice of its CFO and is heading for financial difficulty. The Section 151 Officer and Members, therefore have a responsibility to ensure in considering the Budget that:
- It is realistic and achievable and that appropriate arrangements have been adopted in formulating it
  - It is based on clearly understood and sound assumptions and links to the delivery of the Council's strategic priorities
  - It includes an appropriate statement on the use of reserves and the adequacy of these.

### **2. Basis of Advice for Section 25 Report**

- 2.1 In forming the advice for this year's Section 25 report, the CFO has considered the following:
- The requirement established in the Council's Medium Term Financial Strategy (MTFS) to ensure that a safe contingency level of reserves is maintained
  - The degree to which the Council's financial plans are aligned to the Council's statutory obligations, local priorities and policy objectives
  - The adequacy of the information systems underpinning the Council's financial management processes
  - Risks associated with the Council's activities, as identified within the Significant Business Risks Register

- The level of earmarked reserves and unearmarked reserves within the General Fund and the degree to which uncertainties exist within the proposed 2015/16 budget.

### 3. Robustness of Estimates

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

- Cost pressures and variations in key areas of income and expenditure have been carefully considered and reflected in the Budget
- Key assumptions have been made and updated during the Budget process to reflect the changing economic position and latest information
- Existing and new risks and uncertainties have been identified and carefully considered
- Detailed scrutiny, review and challenge of budgets by finance officers and Corporate Managers
- The Scrutiny Committee has reviewed the proposed Budget for 2015/16 and their views are provided with the Budget report.

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

- **Government Funding** - The Council's funding now includes a reliance on business rates income and other 'incentivised' funding such as the New Homes Bonus. Councils now retain 50% of the business rates that are collected. The risks of bad debts and other losses on collection as well as the impact of rating appeals, therefore, affect the Council's income. An allowance has been made for these, but the actual amount of income could be higher or lower than this. The Council has included the amount reflected in the Government's 'baseline assessment', plus an element from being part of the Suffolk Pool in the 2015/16 Budget, but the actual amount of income could be lower - or higher (High Risk)
- **Welfare Reforms, Benefits and Council Tax Reductions** –The Budget for 2015/16 assumes that current caseloads will continue throughout next year. An allowance is included in the Budget to deal with non-collection of Council Tax, including any losses as a result of the new Local Council Tax Support Scheme. (High/Medium Risk)
- **Capital Financing Costs** - These are influenced by variable factors such as cash flow, variations in the capital programme, interest rates, availability of capital receipts and other sources of capital funding and borrowing/financing costs. (Medium Risk)



- **Income** - Whilst the Budget for 2015/16 has been prepared on the basis of trying to ensure that income estimates are realistic and achievable, with specific allowances for increased or reduced income on specific services, it is unknown as to how the economy and customer demand will fare during next year. The amounts included in the Budget are therefore uncertain and variances may occur. (Medium Risk)
- **Inflation and Other Cost Pressures** – Allowances for inflation have been made on some budgets including major contracts, where there is a contractual requirement to do so. (Low Risk)
- **Integration with Mid Suffolk District Council** – The integrated staffing structure was completed in 2013/14 with cost sharing arrangements put in place between the two councils. There are still uncertainties relating to this though and actual staffing costs will be influenced by the strategic priority projects undertaken for each council, which could impact on the Budget and the amounts to be met from the Transformation Fund (High Risk)
- **Other savings** - There are also allowances for additional savings and from joint procurement and contracts. The level of savings that will be actually saved is uncertain (Medium Risk).

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

#### 4 Adequacy of Reserves

- 4.1 There is no available guidance on the minimum level of reserves that should be maintained. Each authority should determine a prudent level of reserves based upon their own circumstances, risk and uncertainties. Regard has been had to guidance that has been issued to CFO's, the risks and uncertainties faced.
- 4.2 The Medium Term Financial Strategy (MTFS) states that the Council is required to maintain adequate financial reserves to meet the needs of the authority. This is the General Reserve and provides a safe level of contingency.
- 4.3 The CFO's opinion is that the minimum level of unearmarked reserves should, for the time being, be maintained at the current level of £1.15m without increasing the risk to the Council. This represents 11% of the annual General Fund Budget, which is relatively low compared to a number of councils but is seen as acceptable, so no action is required as part of the 2015/16 Budget. This is partly based on the understanding that there are further sums available in earmarked reserves that will not be fully spent during 2015/16 as set out below.

4.4 Levels of earmarked reserves (excluding those relating to the Housing Revenue Account) are forecast to be £1.5m as at 31 March 2015. The level of earmarked reserves as at the 31 March 2016 will depend on the extent to which the New Homes Bonus money that is transferred to the Transformation Fund is spent in 2015/16. The Transformation Fund is supporting the Council's delivery programme in 2015/16.

## **5. Background Documents**

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

Katherine Steel

Head of Corporate Resources

(Section 151 Officer)