BABERGH DISTRICT COUNCIL

To: Strategy Committee	**Report Number: R90**
From: Management Board	**Date of meeting: 4 February 2016**

JOINT MEDIUM TERM FINANCIAL STRATEGY AND 2016/17 BUDGET

1. Purpose of Report

1.1 To consider the Joint Medium Term Financial Strategy (MTFS) and 2016/17 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 business model that is being put in place to address these and an investment strategy to deliver the Council's strategic priority outcomes that will be set out in a refreshed Joint Strategic Plan, which is another item on today's agenda.

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 consider key aspects of the 2016/17 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 are approved.

2.2 That the final General Fund Budget for 2016/17 is based on an increase to Band D council tax of £5 to £148.86. This would be an increase of 9.6p per week or 3.5%.

2.3 That the Housing Revenue Account (HRA) Investment Strategy 2016/17 to 2020/21 and HRA Budget for 2016/17 be agreed.

2.4 That the mandatory decrease of 1% in Council House rents, equivalent to an average rent reduction of £0.92 a week as required by the Welfare Reform and Work Bill be implemented.

2.5 That an action plan be developed by the Head of Housing in consultation with the Tenants Forum, Joint Housing Board and elected Members to mitigate the impact of the legislative changes on the HRA and the strategic priorities.

2.6 That garage rents be increased by 10% to provide some additional income to the HRA (an increase of 76 pence per week).

2.7 That accommodation related service charges for sheltered tenants be increased by an average increase of £4.87 per week, including a cap of £2 per week on net charges increases for sheltered tenants.

2.8 That utility charges for sheltered tenants are reduced by 20%, representing an average reduction of £2.68 per week

2.9 That in principle, Right to Buy receipts should be retained to enable continued development and acquisition of new council dwellings.

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

2.11 That the capital programme in Appendix C be agreed.

3. Financial Implications

3.1 These are detailed in the report.

4. Legal Implications

4.1 These are detailed in the report

5. Risk Management

5.1 This report is most closely linked with the following Significant Business Risks. Key risks are set out below;

Risk Description	Likelihood	Impact	Mitigation Measures
Failure to plan and identify options to meet the medium term budget gap and savings or additional income not being realised.	Unlikely	Bad	Clear priority outcomes and robust business cases for investment plus use of the Transformation Fund to support the MTFS and an Investment Strategy. Further use of Priority Based Resourcing approach to align resources to priorities
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 Income Management Strategy 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 2016/17 Budget, which will be reviewed further to ensure it is robust and accurate. Amend if circumstances change.

Risk Description	Likelihood	Impact	Mitigation Measures
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 3 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, subject to the announcement of the details of the the Housing & Planning Bill measures affecting council housing.

5.2 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 I.

6. Consultations

6.1 Consultation on the HRA proposals took place with the Tenants Forum on the 9 December 2015. The members of the Tenants Forum were surprised by the measures introduced by the Housing & Planning Bill and the Welfare Reform and Work Bill, ie, 1% reduction in social housing rents, higher rents for households with an income greater than £30k and the requirement for local authorities to sell high value council houses to fund Right to Buy discounts for housing associations. The Forum members were supportive of the council's approach to meeting these challenges and keen to work with officers to find the best solutions.

6.2 A meeting of the Joint Housing Board (JHB) took place on the 14 December 2015. The JHB generally support the overall Budget proposals and agreed the recommendations to Strategy Committee as set out in 2.5, 2.6 and 2.9.

7. Equality Analysis

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

8. Shared Service / Partnership Implications

8.1 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.

8.2 The Budgets for 2016/17 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.

8.3 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.

9. Links to Joint Strategic Plan

9.1 Ensuring that the Council has the resources available is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan.

10. STRATEGIC CONTEXT

10.1 In recent years 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. This is continuing, so encouraging and supporting both business and housing growth is essential to the financial future of the Council.

10.2 The Council recognised the changing funding landscape, the challenges and opportunities this creates and has developed a Medium Term Financial Strategy (MTFS) that responds to this challenge. The updated MTFS is attached at Appendix D and continues the direction of travel of the councils in developing the business model to respond to the financial challenges.

10.3 The strategic response to those challenges, to ensure long term financial sustainability, is set out in six key actions:

(a) Aligning resources to the councils' refreshed strategic plan and essential services.

(b) Continuation of the shared service agenda, collaboration with others and transformation of service delivery.

(c) Behaving more commercially and generating additional income.

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

(e) Encouraging the use of digital interaction and transforming our approach to customer access.

(f) Taking advantage of new forms of local government finance (e.g. new homes bonus, business rates retention).

The actions that have been taken under this strategy, during 2014/15 and 2015/16, mean that the Council is in a better position to withstand the reduction in government grant and achieve a balanced budget in 2016/17.

10.4 The details within the Joint MTFS show the base budget pressures over the three years 2017/18 to 2019/20 and the level of resources that could be available to fund those pressures. This has been updated following the Local Government Finance Settlement announcement on 17 December. It shows that there could be a funding shortfall of £1.1m in 2017/18 rising to £2.7m by 2019/20.

10.5 In recognition of the changing landscape for local authorities, work has been underway to review and refresh the Joint Strategic Plan. The refreshed plan is another report on today's agenda. Complementing this has been a focussed management review to ensure that the Council has the right skills and capacity to support the MTFS.

10.6 The Transformation Fund has been supplemented with New Homes Bonus and business rates grant and used cautiously over the last two years to support the transition to the different business model and this will continue during 2016/17. It will also be used to fund staff that are involved in projects that support new ways of working.

10.7 Each Council is being asked to agree the key aspects of the Budget for 2016/17 and endorse the Joint MTFS in order to achieve a sustainable financial basis in the medium term. Without this strategy, which focuses on achieving outcomes, invest to save and generating income, there is a significant risk that each council will be unsustainable financially in the medium to longer term.

11. FINANCIAL POSITION

General Fund

11.1 Funding arrangements for councils have changed significantly with Revenue Support Grant (RSG, currently £1.6m) being substantially withdrawn over the next 2-3 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.

11.2 The Government published the provisional spending figures on the 17 December 2015. Details relating to Babergh's funding for 2016/17 are shown in section 13. Other key points from the announcement are set out below:-

- Continuation of the council tax referendum threshold at 2%;
- Potential additional council tax revenue from £5 referendum principle for districts with lower quartile Band D council tax levels (applicable for Babergh);
- A four year settlement is available, but the figures for 2017/18 and beyond will be conditional on councils publishing an efficiency plan (details awaited);
- Compensation for the 2% cap on the small business rates multiplier in 2014/15 and 2015/16 and doubling of small business rate relief to continue – all funded by additional Section 31 grant;
- National New Homes Bonus top-slice of £1,275m from RSG and £210m specific grant;
- Continuation of the rural (SPARSE) services delivery grant.

11.3 Looking ahead to 2017/18 and beyond, the Government's indication is that Revenue Support Grant will reduce year on year and disappear by 2019/20. The rate at which it is being withdrawn is greater than anticipated. The provisional figures show, that for Babergh, RSG will be only £204k in 2018/19.

11.4 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.

Council Housing - Housing Revenue Account (HRA)

11.5 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.

11.6 HRA CFR levels are predicted to be £85.8m at 31 March 2016 providing borrowing headroom of £10.3m. New build/acquisitions funding within the Capital Programme 2016 – 2020 totals £15.6m and HRA reserve balances 2016 – 2020 are forecast at £4.4m. This will provide a total HRA Investment Fund contribution of £30.3m 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).

11.7 Aligned Strategic Priorities have been agreed by Elected Members and key projects, to support delivery of the Aligned Priorities have also been agreed.

11.8 For example: Project 6 – Housing Delivery 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.

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

12.1 In order to address the budget gap, both in the short and medium term, the process adopted was to continue the priority based budget approach in "outcome focused" workshops to identify ideas for services that could be delivered more efficiently and effectively.

12.2 As well as these workshops finance worked closely with Corporate Managers to identify savings from their budgets with a view to achieving approximately 10% savings, this achieved a net total of £287k as some further budget pressures were also identified.

12.3 In addition to those savings identified in section 12.2 above, a further three types of savings were identified from these discussions:

- Budget saving ideas where there was some impact, but this could be managed amounting to £56k

- Budget saving and income generation ideas which have a service impact and were discussed with the Portfolio Holders amounting to £71k

- Financial planning ideas beyond 2016/17

Further details of the first two areas above are shown in Appendix F.

12.4 The current budget for 2015/16 relies on New Homes Bonus and business rates grant of £1.8m. The budget for 2016/17, after taking into account additional budgetary pressures including inflation and the above savings, the reliance has increase to £2.3m. A summary of the savings and pressures that show the movement from 2015/16 to 2016/17 can be found at Appendix E.

12.5 In relation to Council Housing, the HRA Business Plan presents a 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 have been exacerbated by the proposals announced in the Chancellor's July Budget:

- The Welfare Reform and Work Bill includes a requirement for all social landlords to reduce their rents by 1% each year from 2016 to 2019

- This Bill also proposes a reduction in the benefit cap for working age families from £26k to £20k

- The Housing and Planning Bill includes requirements for households with an income higher than £30k to be charged higher rents

- This Bill also requires councils to sell their high value council homes to fund Right to Buy discounts for housing association tenants

- The impact of these measures and the action required to mitigate them are described in section 14 of this report

12.6 It is recognised that, in order to deliver the outcomes that we want to achieve and rise to the financial challenge over the next 3-4 years, 2016/17 will be a year that will need to provide further change to the business model. 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 the 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;

- Reviewing the use of our assets and their contribution to the MTFS.

13. Potential Resources available for Investment

General Fund

13.1 The Budget for 2016/17 is summarised in Appendix A and further information is shown in Appendices E and F. Key information relating to this is set out below:-

- Revenue Support Grant is reducing by £0.7m (40%) from £1.7m to £1.0m;
- Baseline business rates funding is only increasing by £16k (0.8%) from £1.941m to £1.957m;
- NHB allocation is increasing by £0.177m from £1.602m to £1.779m for 2016/17;
- Estimated Transformation Funds available at the end of 2015/16 of £2.0m;
- Potential Government Section 31 grant of an estimated £0.8m relating to business rates.

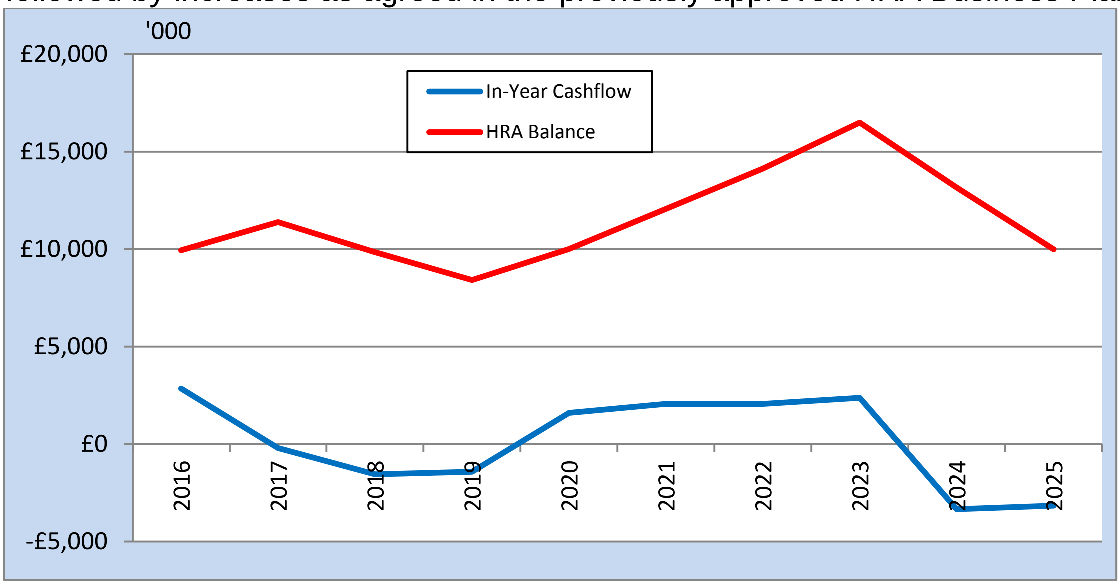
Housing Revenue Account

13.2 The HRA Business Plan has been updated to reflect the impact of the 1% rent reduction required by the Chancellor of the Exchequer both in 2016/17 and across the plan's 30 year life. The business plan is attached at Appendix B for years 1-10.

13.3 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:-

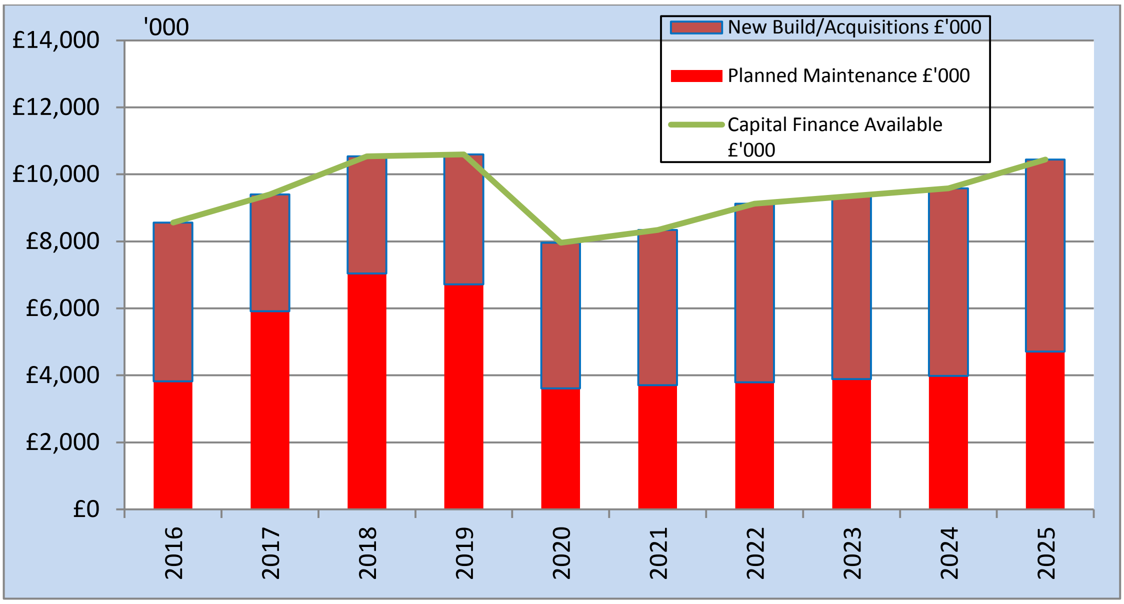
<u>Graph A - Revenue cash flows from 2016/17 for 10 years</u>

This graph shows reserve balances within the HRA being approximately £10.0m by Year 10 (2025/26) based on annual rent decrease of 1% for the next four years followed by increases as agreed in the previously approved HRA Business Plan



Graph B - Capital programme from 2016/17 for 10 years (based on a 1% rent reduction in years 1 to 4)

This graph shows proposed Capital Programme expenditure and availability of capital finance for the schemes within the HRA Business Plan up to Year 10 (2016/17 to 2025/26). The HCA new build programme does not extend beyond year 2, although significant investment continues through the Right to Buy replacement programme. Graphs A and B are inter-dependent with revenue surpluses providing financial availability for investment in homes and improvement programmes.



14. 2016/17 Budget

General Fund

14.1 A number of key assumptions have been made in formulating the General Fund Budget proposals. The overall picture is set out in Appendix A with further detail in Appendices E and F and some of the key aspects are outlined below:-

- Expenditure and Income budgets for 2016/17 have been re-assessed to reflect updated information and the estimated impact of the capital programme and borrowing;

- This has resulted in an overall decrease to the 'Core' Budget of £63k;

- Baseline Business Rates income to increase by 0.8% and additional benefit from the Suffolk pool of £22k, recognising that any further growth will provide additional income;

- Increased income from the Council Tax base and a surplus on the Collection Fund (Note: No changes to the Local Council Tax Reduction Scheme are proposed – same as in 2015/16);

- A council tax increase in the Band D, to take advantage of the fact that Babergh can raise Band D council tax by £5 without the need for a referendum because the council is in the lowest quartile nationally. This would be an increase of 9.6p per week or 3.5%.

- Certain fees and charges e.g. land charges, but excluding car parking, will be increased by 3%.

- Improved position of £188k from the January report as a result of changes in the balance in Shared Revenues Partnership (SRP) partner contributions, the additional council tax income and additional income from the Rural Services Delivery Grant.

14.2 The figures relating to the Budget shown in Appendix A are based on the provisional finance settlement. Subject to any minor amendments in the final settlement figures, the changes between the 2015/16 and 2016/17 Core Budgets are summarised below:-

	£000
2015/16 Core Budget	**10,138**
Cost pressures - inflation and other changes in income and expenditure	+1,186
Savings	-1,249
2016/17 Core Budget	**10,075**

14.3 In relation to earmarked reserves, the table below shows the potential balance on earmarked reserves at the end of 2016/17 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 the General Fund and HRA reserves are shown in Appendix G.

	£000
Estimated balance of earmarked reserves at 1 April 2016	**1,761**
Planned additions in 2016/17	+20
Planned withdrawals in 2016/17	0
Estimated balance of earmarked reserves at 1 April 2017	**1,781**

Council Housing - Housing Revenue Account (HRA)

Key Challenges

14.4 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.

14.5 These opportunities, however, are threatened by the proposals described in paragraph 12.5. The table in paragraph 14.14 sets out the HRA budget for 2016/17 and highlights the variances from the current year as a result of a 1% rent reduction (an average decrease of 92 pence per week for Babergh tenants).

14.6 It is important to understand that the 30 year HRA business plan was predicated on an annual rent increase of CPI + 1%, the formula agreed by the government in 2014. In business planning terms, the loss to the HRA is therefore greater than 1% per annum. The cumulative impact of the rent reduction results in a reduced income (against business plan projections) to the HRA as follows:

Year 1:	£0.3m
Years 1 to 4:	£4.5m
Years 1 to 10:	£18.1m

This will reduce the resources available to deliver services, to maintain and improve the existing housing stock and to develop new council housing.

14.7 A balanced budget has been achieved for 2016/17 by reducing both revenue and capital budgets (see table in 14.14). A fundamental review of the housing service will need to be undertaken during 2016/17 to identify savings, efficiencies and income generation opportunities that will achieve a sustainable business plan into the future. The review will need to examine:

- The criteria for disposal or redevelopment of existing council housing
- Service standards and performance
- Staffing levels
- New build programme and retention of Right to Buy receipts
- Our approach to HRA business planning including, reviewing and realigning housing stock condition data and capital programme expenditure and using our resources with partner’s resources to create the right solutions for tenants and communities.
- Reviewing our approach to repairs and maintenance/asset management services.

14.8 Reducing energy costs will enable utility charges for sheltered housing tenants to be reduced by 20%, an average of £2.68 per week – see recommendation 2.8.

14.9 Babergh District Council has historically subsidised sheltered service charges from the HRA by approximately £200k each year. The new pressures of rent reduction and the high value asset levy make this subsidy unsustainable. An average increase of £4.87 per week, including a cap of £2 per week on net charges increases for sheltered tenants, will reduce the subsidy by £81k. When offset against the rent reduction and the decrease in utility costs, sheltered tenants will see an average increase in their overall charges of £1.26 per week – see recommendation 2.7.

14.10 The Joint Housing Board has proposed an increase in garage rents of 10% to mitigate the reduction in rental income on dwellings. This would raise an additional £17k for the HRA at a cost of 76 pence per week for garage tenants.

New build programme and retention of Right to Buy receipts

14.11 Right to Buy (RTB) sales for both councils have exceeded projections in business plans. In 2014/15 Babergh sold 23 against original projections of 5 sales.

14.12 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 above the base rate.

14.13 The Government has applied a cap to the amount that Councils can borrow through the HRA. This means that borrowing levels are restricted. This time last year, we were able to say that supporting spending of RTB receipts, building new council homes and investing in the maintenance and improvement of council homes was achievable within current borrowing headroom. Now, the 1% rent reduction and the proposed high value dwellings levy threaten to make finding the 70% match funding for Right to Buy receipts unsustainable. This could be further exacerbated by higher rents for tenants with higher incomes, potentially increasing Right to Buy sales.

Budget 2016/17

14.14 The table below sets out the HRA budget for 2016/17, based on a 1% rent decrease, highlighting the variance from 2015/16.

Description	**2015/16 £000**	**2016/17 £000**	**Variance £000**	**Reason**
Rent and other income	(16,940)	(16,842)	98	Based on a proposed average rent decrease of 1%. Offset by decrease in void days and changes in service charges
Bad Debt Provision	201	75	(126)	Bad debt levels can be reduced due to delay of Universal Credit and lower impact of welfare reform and other changes than anticipated
Interest	(15)	(15)	0	
Total Net Income	(16,754)	(16,782)	(28)	
Repairs and Maintenance, Management and other costs	5,674	5,355	(319)	Reflects review of all costs.
Capital Charges	2,860	2,824	(36)	Reflects interest costs on fixed rate long term loans
Revenue Contribution to Capital Programme	9,241	5,261	(3,980)	No additional revenue funding for the capital programme required beyond Major Repairs Allowance
Debt Repayment	500	500	0	
Total Expenditure	18,275	13,940	(4,335)	
In-year operating (surplus)/deficit	1,521	(2,842)	(4,363)	
Year-end transfer to/from reserves	(1,521)	2,842	4,363	
Total	0	0	0	

14.15 A revised and updated HRA Business Plan is attached at Appendix B, based on annual rent reduction of 1% also reflecting;

- HCA scheme development costs;

- Funding to support spend of RTB receipts and capital programme expenditure.

14.16 The currently approved HRA Business Plan assumed projected rent increases at 3%. This assumption was based on CPI being 2%. CPI in September 2015 was -1% but a 3% increase is needed to sustain investment plans, including new homes provision therefore an adjustment to capital programmes will be required in future years.

14.17 The established rent formula empowers Government to restrict 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.

14.18 Limit rent figures will be released at the end of January 2016. This could still have an impact on rent levels in addition to the -1% change required.

Capital Programme Investment

General Fund

14.19 The capital programme is attached at Appendix C.

14.20 A zero-based approach has been adopted for the preparation of the capital programme for 2016/17 to 2020/21, to ensure that resources are aimed at delivering the council’s strategic priorities. This has resulted in a significant reduction in the proposed programme.

Council Housing - HRA

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

Expenditure	**£m**
Housing Maintenance Programmes	**28.2**
New build (HCA programme)	**3.2**
RTB receipt funding	**12.5**
Total	**43.9**
Financing	
Capital receipts disposals and RTB receipts and HCA Grant	**5.1**
Revenue Contributions	**38.8**
Borrowing	**0**
Total	**43.9**
Remaining Borrowing Headroom available (31 March 2020)	**16.8**

15. Appendices

Title	Location
APPENDIX A – General Fund Budget Summary and Transformation Earmarked Reserve 2016/17	Attached
APPENDIX B – updated HRA Business Plan	Attached
APPENDIX C – Capital Programmes	Attached
APPENDIX D – Joint Medium Term Financial Strategy	Attached
APPENDIX E – 2016/17 Summary of Major Budget Changes	Attached
APPENDIX F – Further Detail of Savings	Attached
APPENDIX G – General Fund and HRA Earmarked Reserves	Attached
APPENDIX H – Budget, Funding and Council Tax Requirements	Attached
APPENDIX I – Robustness of Estimates and Adequacy of Reserves	Attached

16. Background Documents

Local Government Finance Settlement.

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Appendix A

General Fund Budget Summary and Transformation Earmarked Reserve 2016/17

	2015/16 £000	2016/17 £000	Variation £000
Core Budget – spending on services	10,138	10,075	-63
Parish Council grants – Local Council Tax Scheme	125	63	-62
Total Core Budget	**10,263**	**10,138**	**-125**
Integration costs	49		-49
Transformation Fund - Delivery Plan projects*	217	2,000	1,783
	10,529	**12,138**	**1,609**
Funding:			
• Integration Reserve	49		-49
• Other Earmarked Reserves	95		-95
• New Homes Bonus – fixed term posts	208		-208
• Transformation Fund - Delivery Plan projects (Staffing)		427	427
• Transformation Fund - Delivery Plan projects	217	2,000	1,783
• Transformation Fund - Core Budget	1,577	1,837	260
• Baseline Government Support - RSG	1,646	992	-654
• Baseline Government Support – Business Rates	1,941	1,957	16
• Baseline Government Support – Rural Services Delivery Grant		56	56
• Additional Business Rates Income	150	22	-128
• Collection Fund Surplus/Deficit	94	80	-14
• Council Tax	4,552	4,767	215
	10,529	**12,138**	**1,609**

* sum available for investment from in year NHB allocation and business rates grants

Movement in Transformation Fund Reserve

	2016/17 £000
Transformation Funds	
Estimated balance of Transformation Funds at 1 April 2016	**1,983**
Income - New Homes Bonus	1,779
Income - S31 Business Rates Grant	783
	4,545
Utilisation - core budget	-1,837
Utilisation – Delivery Plan Projects (Staffing)	-427
Use of transformation fund for investment in 2016/17	-2,000
Estimated balance balance at 31 March 2017	**281**

HRA Business Plan updated 2016 – 2026

Appendix B

Babergh District Council

Year	2016.17	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26
£'000	1	2	3	4	5	6	7	8	9	10
INCOME:										
Total Income	16,842	16,885	16,754	16,939	17,168	17,721	18,313	18,923	19,554	20,578
EXPENDITURE:										
General Management	-2,217	-2,272	-2,329	-2,387	-2,447	-2,508	-2,571	-2,635	-2,701	-2,769
Special Management	-1,096	-1,123	-1,151	-1,180	-1,210	-1,240	-1,271	-1,303	-1,335	-1,368
Bad Debt Provision	-75	-75	-75	-75	-76	-79	-82	-84	-87	-92
Responsive & Cyclical Repairs	-2,042	-2,093	-2,145	-2,199	-2,254	-2,318	-2,376	-2,436	-2,497	-2,559
Total Revenue Expenditure	-5,430	-5,564	-5,700	-5,842	-5,987	-6,145	-6,300	-6,458	-6,620	-6,788
Interest Paid	-2,824	-2,798	-2,772	-2,727	-2,697	-2,671	-2,653	-2,636	-2,618	-2,432
Interest Received	15	74	98	86	87	118	153	190	182	127
Depreciation	-2,721	-3,415	-3,410	-3,406	-3,490	-3,576	-3,667	-3,762	-3,860	-3,965
Net Operating Income	5,881	5,182	4,970	5,049	5,082	5,447	5,845	6,257	6,638	7,520
APPROPRIATIONS:										
Revenue Provision (HRACFR)	-500	-500	-500	0	0	0	0	0	0	0
Revenue Contribution to Capital	-2,540	-4,895	-6,026	-6,472	-3,484	-3,394	-3,787	-3,880	-9,974	-10,687
Total Appropriations	-3,040	-5,395	-6,526	-6,472	-3,484	-3,394	-3,787	-3,880	-9,974	-10,687
ANNUAL CASHFLOW	2,841	-213	-1,555	-1,423	1,598	2,053	2,058	2,377	-3,336	-3,168
Opening Balance	1,398	4,239	4,026	2,471	1,048	2,646	4,699	6,757	9,134	5,798
Closing Balance	4,239	4,026	2,471	1,048	2,646	4,699	6,757	9,134	5,798	2,630
Other HRA Reserve Balance	4,043	4,043	4,043	4,043	4,043	4,043	4,043	4,043	4,043	4,043

APPENDIX C

CAPITAL PROGRAMME FOR 2016/17 TO 2019/20

BABERGH CAPITAL PROGRAMME 2016/17	2015/16 Original Budget £'000	2015/16 Revised Budget inc Carry Forwards £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
General Fund						
Housing						
Mandatory Disabled Facilities Grant	350	329	300	300	300	300
Discretionary Housing Grants inc empty homes	313	100	100	100	100	100
Empty Homes (loan)		150	100	100	100	100
Energy Efficiency Grants		9				
Grants for Affordable Housing	100	288	100	100	100	100
Total Housing	**763**	**876**	**600**	**600**	**600**	**600**
Environmental Services						
Replacement Refuse Freighters - Joint Scheme			1,868			185
Recycling Bins	62	62	62	56	50	45
Refuse Freighters - glass collection (Transformation Funded)			30			
Recycling Bins - glass collection (Transformation Funded)			12			
Planned Maintenance / Enhancements - Car Parks	40	37	30	40	40	40
Play Equipment	25	79	50	25	25	25
Total Environmental Services	**127**	**178**	**2,052**	**121**	**115**	**295**
Community Services						
Planned Maintenance / Enhancements - Kingfisher	65	287	56	56	56	56
Planned Maint / Enhancements - Hadleigh Pool	25	60	25	25	25	25
Broadband Development	0	50				
Replacement CCTV cameras	40	40				
Street Parking Improvement	8					
Community Development Grants	129	355	129	129	129	129
Total Community Services	**267**	**792**	**210**	**210**	**210**	**210**
Asset Management						
Planned Maint / Enhancements - Hadleigh HQ	35	59	25	35	35	35
Planned Maint / Enhancements - Other Corp Buildings	48	84	33	48	48	48
Carbon Reduction	50	31	34	50	50	50
Hadleigh Community Facility	0	9				
Installation of PV panels on Housing stock	2,900	3098				
Total Asset Management	**3,033**	**3,281**	**92**	**133**	**133**	**133**
Corporate Services						
ICT costs related to joint working with Mid Suffolk	550	600	335	215	215	50
Land assembly, property acquisition and regeneration opportunities	1,250	2,898				
Total Corporate Services	**1,800**	**3,498**	**335**	**215**	**215**	**50**
Delivery Programme Investment Opportunities	**25,000**	**25,000**				
TOTAL General Fund Capital Spend	**30,990**	**33,625**	**3,289**	**1,279**	**1,273**	**1,288**
General Fund Financing						
External Grants and contributions	285	335	300	300	300	300
Transformation Funding			42			
Capital Receipts	66	216	66	67	68	68
Borrowing - unsupported	30,639	33,074	2,881	912	905	920
Revenue Contributions						
Total General Fund Capital Financing	**30,990**	**33,625**	**3,289**	**1,279**	**1,273**	**1,288**

CAPITAL PROGRAMME FOR 2016/17 TO 2019/20 (Continued)

BABERGH CAPITAL PROGRAMME 2016/17	2015/16 Original Budget £'000	2015/16 Revised Budget inc Carry Forwards £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Housing Revenue Account						
Planned Maintenance & Response						
Planned maintenance	2,581	3,721	2,779	4,360	4,968	4,664
Other programmes	683	2,166	625	897	1,187	1,042
Environmental Improvements	50	50	90	120	120	120
Horticulture and play equipment	31	101	33	50	60	55
Disabled Adpatations		200	200	200	200	200
Acquisitions - Housing Stock	5,200	640	2,080	3,040	3,200	3,520
New build programme	1,400	249	2,613	295	53	-
TOTAL HRA Capital Spend	**9,945**	**7,127**	**8,420**	**8,962**	**9,788**	**9,601**
HRA Financing						
External Grants and contributions	2,921		407			
Capital Receipts	539	120	839	66		
New Build Additional Capital receipts		257	561	586	352	237
Capital Slippage Reserves		1,661				
Borrowing - unsupported						
Revenue Contributions	6,485	5,089	6,613	8,310	9,436	9,364
Total HRA Capital Financing	**9,945**	**7,127**	**8,420**	**8,962**	**9,788**	**9,601**
TOTAL CAPITAL SPEND	**40,935**	**40,752**	**11,709**	**10,241**	**11,061**	**10,889**

Note: the new build acquisitions and new build budgets for 2017-18 onwards will be set on the basis of what the business plan will allow when the other HRA capital budgets have been agreed.

APPENDIX E

2016/17 Summary of Major Budget Changes

Babergh District Council	**£,000**
Revenue 2016/17 Budget	**£,000**
2015/16 Base reliance on NHB and business rates grants	1,787
2016/17 Pressures	
Inflationary increases - expenditure	73
Reduction in Government grants	699
Business rates growth and pooling benefit	112
Pay changes incl pension and pay award	557
Movement in reserves	93
Movement on collection fund surplus	14
Change in Minimum revenue provision	16
Other changes	304
Actions in place	
Inflationary increases - income	(47)
Increase in investment Interest	(280)
Reduction in Interest payable	(65)
Revised allocation of SRP costs to partner councils	(84)
Growth in taxbase	(54)
Parish Grants	(63)
Increase in charge to HRA	(59)
PV Feed in tariff income	(234)
Further Actions	
Efficiencies	
- Savings	(414)
- Cost Pressures	127
Savings proposals (See Appendix F)	(127)
1.95% Council Tax increase	(90)
2016/17 Base reliance on NHB and business rates grants	**2,265**
Options for funding	
New Homes Bonus	(1,779)
S31 Grant	(783)
	(2,562)
Transfer to Transformation Fund	(297)

Further Detail of Savings

Service Area	Amount £'000	Description
Governance	-16.0	Staffing structure to be changed in 2016/17
Licensing	-5.0	Increase fees for Taxi/Private Hire licences (not changed since 2010)
Waste	-30.0	Increase brown bin subscription by £2.50 to £47.50
Waste	-10.0	Increase bulky waste charge by £10 to £38.50
Housing	-4.7	Minor team change
Healthy Communities	-32.0	Removal of specialist sports development services including research and support of major sporting events in the district. One-off pieces of work will be funded through the Transformation Fund.
Strong Communities	-29.0	10% reduction in community grants. We will work with the communities to enable them to source their own external funding.
Total	**-126.7**	

APPENDIX G

EARMARKED RESERVES

GENERAL

	Balance at 31 March 2015 £000	Transfers Out £000	Transfers In £000	Est Balance at 31 March 2016 £000	Transfers Out £000	Transfers In £000	Est Balance at 31 March 2017 £000
General Fund:							
Slippage Carry Forwards	144	(144)		-			-
Babergh/Mid Suffolk Integration	45			45			45
Business Rates Equalisation	573			573			573
Government Grants	282			282			282
New Homes Bonus	497			497			497
Welfare Benefits Reform	64			64			64
S.106 Agreements	270			270			270
Elections Fund	60	(70)	20	10		20	30
Planning Enforcement	20			20			20
Green Initiatives	25	(25)		-			-
Total General Fund	1,980	(239)	20	1,761	-	20	1,781
Transformation Fund	1,737	(1,928)	2,174	1,983	(4,265)	2,562	281

HRA

	Balance at 31 March 2015 £000	Transfers Out £000	Transfers In £000	Est Balance at 31 March 2016 £000	Transfers Out £000	Transfers In £000	Est Balance at 31 March 2017 £000
HRA:							
Working Blaance	1,015		3,703	4,718		2,840	7,558
Capital Slippage	1,661	(1,661)		-			-
Strategic Priorities	4,043			4,043			4,043
Total HRA	6,719	(1,661)	3,703	8,761	-	2,840	11,601

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 23 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 2016/17 will be based on an increase to Council Tax of 9.6p per week for a Band D property which is the equivalent to 3.5%. The Council plans to take advantage of the fact that it can raise council tax by £5 without the need for a referendum because it is in the lowest quartile nationally.

   2) The County Council precept requirement is £1,126.53 for a Band D property in 2015/16. The requirement for 2016/17 is still to be determined.

   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 2016/17 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^{th} of each month or the next banking day if the 15^{th} falls on a weekend or bank holiday. Accordingly the precept dates applicable for 2016/17 are expected to be as follows:

15 April 2016	16 May 2016	16 June 2016	18 July 2016
17 August 2016	15 September 2016	17 October 2016	16 November 2016
15 December 2016	16 January 2017	15 February 2017	15 March 2017

APPENDIX I

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 2016/17.

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 2015/16).

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 2016/17 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, Heads of Service and Corporate Managers
- The Scrutiny Committee has reviewed the proposed Budget for 2016/17 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 2016/17 Budget, but the actual amount of income could be lower - or higher (High Risk)
- **Welfare Reforms, Benefits and Council Tax Reductions** –The Budget for 2016/17 assumes that current caseloads will continue throughout next year. The impact of the introduction of Universal Credit on the Shared Revenues Partnership workload is still largely unknown. Further roll-out will take place during 2016/17. (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 2016/17 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)

- **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. 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 (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)

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 2016/17 Budget. This is partly based on the understanding that there are further sums available in earmarked reserves that will not be fully spent during 2016/17 as set out below.

4.4 Levels of earmarked reserves (excluding those relating to the Housing Revenue Account, but including the Transformation Fund) are forecast to be £3.7m as at 31 March 2016. The level of earmarked reserves as at the 31 March 2017 will depend on the extent to which the New Homes Bonus money that is transferred to the Transformation Fund is spent in 2016/17. The Transformation Fund is supporting the Council's delivery programme in 2016/17.

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)

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