

## MID SUFFOLK DISTRICT COUNCIL

<b>From: Management Board</b>	<b>Report Number: Y/02/15</b>
<b>To: Executive Committee MSDC Scrutiny Committee</b>	<b>Date of meeting: 12 January 2015 28 January 2015</b>

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

#### 1. Purpose of Report

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

#### 2. Recommendations

- 2.1 That the draft Joint Medium Term Financial Strategy (MTFS) and Budget proposals set out in the report be endorsed subject to further consideration at the February meeting for recommendation to Council.
- 2.2 That the General Fund Budget for 2015/16 be based on:-
  - (a) A continuation of the funding strategy agreed for 2014/15 in order to deliver the Council's Transformation Programme and Strategic Priority outcomes;
  - (b) Linked to the above, investing an estimated £2m New Homes Bonus and Business Rates (section 31 Grant) as indicated in section 11.1 of the report;
  - (c) Either a council tax freeze or an increase in council tax of 5p per week for a Band D property to support the Council's overall financial position, which will be considered further at the February Executive committee meeting.
- 2.3 That the draft Housing Revenue Account (HRA) Investment Strategy 2015/16 to 2019/20 and draft HRA Budget for 2015/16 be agreed, subject to further consideration at the February Executive Committee meeting of either:-
  - (a) An increase of either 3% increase in Council House rents, equivalent to an average rent increase of £2.22 a week or;

(b) Such lower increase that relates to the 'limit rent' fixed by the Government for next year, which could be 2.7%, equivalent to an average rent increase of £2.00 a week.

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

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

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

### 3. Financial Implications

3.1 Detailed in the report.

### 4. Risk Management

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

<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.

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
Failure to implement cost sharing protocol results in inaccurate or unfair allocation of shared costs and income.	Very low	Noticeable	Assessment made for 2015/16 Budget, which will be reviewed further to ensure it is robust and accurate. Amend if circumstances change.
Council Housing self-financing results in a greater risk to investment and service delivery plans from inflation and other variables.	Unlikely	Noticeable	Inflation and interest rate assumptions have been modelled in the HRA business plan. Capital receipts and capital programme funding reviewed.
Failure to spend retained RTB receipts within 4 year period, will lead to requirement to repay to Government with an additional 4% interest.	Unlikely	Bad	Provision has been made in the updated HRA Investment Strategy to enable match funding and spend of RTB receipts.
The Government re-opens the HRA Self Financing Debt Settlement and the Council loses spending headroom or surplus revenue in the HRA	Probable	Bad	A financial plan which includes strategy for spending of surplus revenue and headroom which invests in priority outcomes. Continued lobbying by the Council, the LGA and other organisations.

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

## **5. Consultations**

- 5.1 The Budget proposals are based on the Council's strategic priorities, which were based on a comprehensive community engagement exercise in 2012.
- 5.2 Continuing consultation with all key stakeholders and engagement with communities will continue as Delivery Plans, individual projects and the MTFs are developed and implemented.
- 5.3 Consultation on the HRA proposals took place with the Tenants Forum on the 28 November 2014. Comments are below:-

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

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

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

## **6. Equality Analysis**

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

## **7. Shared Service / Partnership Implications**

7.1 The integration of senior management and Operational Delivery Teams has been completed.

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

7.3 The Budgets for 2015/16 reflect the estimated sharing of costs and savings between the two Councils. However, there are and will be ongoing differences in the detailed financial position of each Council's General Fund and HRA. There will be instances, therefore, when staff resources and money is focused on a specific priority in one Council.

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

## **8. STRATEGIC CONTEXT**

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

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

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

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

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

## 9. FINANCIAL POSITION

### General Fund

- 9.1 Funding arrangements for councils have changed significantly with Revenue Support Grant (currently £2.4m) being withdrawn over the next 4-5 years and Councils becoming reliant on Business Rates income and 'incentivised' funding such as the New Homes Bonus. Business rates and new homes growth will, therefore, be the main sources of income (plus other income generated locally) if we are to achieve a sustainable Budget in the years ahead.
- 9.2 Total estimated core funding (Revenue Support Grant + Baseline Business Rates) is reducing by a further 15% in 2015/16. This includes, in relation to the Revenue Support Grant (RSG) element, a further cut of £730k or 30%. 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 £51k to £83k.
- 9.3 Looking ahead to 2016/17 and beyond, the Government's indication is that Revenue Support Grant will reduce year on year and disappear by 2019 or 2020. The rate at which it will be withdrawn is uncertain and the projections in the draft Joint MTFS will have to be revised accordingly once more information becomes available e.g. following the planned Government spending review in 2015.

- 9.4 It must be emphasised that the total estimated core funding for next year and future years is not a fixed guaranteed amount as it is now dependent on variations in business rates income. This is carefully monitored and the volatility and risks, for example, rate relief for schools converting to academies and the level of appeals, will affect the amount of income received.
- 9.5 Current forecasts are that Mid Suffolk will need to save, generate income and produce a return on investments of around £2.8m over the next 4 years within the General Fund Budget (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. Mid Suffolk's determination settlement payment was calculated at £57m. This was based on projected levels of income, expenditure and existing stock values and took HRA long term borrowing levels to £82m. A borrowing cap in the form of a Capital Financing Requirement (CFR) is set which must not be exceeded.
- 9.8 HRA CFR levels are predicted to be £86.7m at 31 March 2015 providing borrowing headroom of £4.1m. New build/acquisitions funding within the Capital Programme 2015 – 2020 totals £13.9m and HRA reserve balances 2015 – 2020 are forecast at £2.5m. Overall, this provides a total HRA Investment Fund of £20.5m 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 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) 65 new affordable homes, which will become new HRA assets sits. These new homes will deliver New Homes Bonus for the Council, additional rent and council tax, additional jobs and local businesses will benefit. All these factors will bring growth to our local economy.

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

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

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

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

10.3 It is recognised that, in order to deliver the outcomes that we want to achieve and rise to the financial challenge of continued reductions in revenue support grant over the next 4-5 years, 2015/16 will be a year that provides the platform for change. Funding from both the General Fund and HRA need to be harnessed to support our Investment Strategy and income generation/savings approach in terms of:-

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

## **11. Potential Resources available for Investment**

### **General Fund**

11.1 The draft Budget for 2015/16 is summarised in Appendix A. Key information relating this and, specifically, the Transformation Fund, the use of New Homes Bonus (NHB) and unallocated Business Rates Income is set out below:-

- Core Budget reducing by almost £0.4m – due to 2013/14 outturn savings being reflected and additional income from PV panels project;
- Government Funding (revenue Support Grant + Baseline Business Rates) reducing by £0.7m;

- Estimated Transformation Funds available in 2014/15 of £4.1m. Approximately £0.5m allocated to date. More will be allocated by the end of the financial year. Any sums not allocated will be carried forward to next year;
- Further NHB allocation of £2.2m for 2015/16. Use of £0.2m for fixed-term posts, agreed when ODT's created (allowance for extending these to 31 March 2016);
- Use of £0.3m to contribute towards Programme Development resources in the 2015/16 Budget i.e to design and implement projects in the Strategic Plan;
- Potential Government Section 31 grant of an estimated £0.5m relating to business rates that is not used to support the Council's core Budget. A sum of £0.2m (as in 2014/15) to be transferred to the Business Rates Equalisation Reserve to protect against future uncertainties/losses and the remaining £0.3m to be transferred to the Transformation Fund.

The net result of the above is an estimated balance of NHB and business rates Section 31 grant of £2.0m 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	2.2	2.2 (fixed)
2016/17 (year 6 of scheme)*	2.6	2.8
2017/18	2.6	3.0
2018/19	2.6	3.2
<b>Total</b>	<b>10.0</b>	<b>11.2</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:-



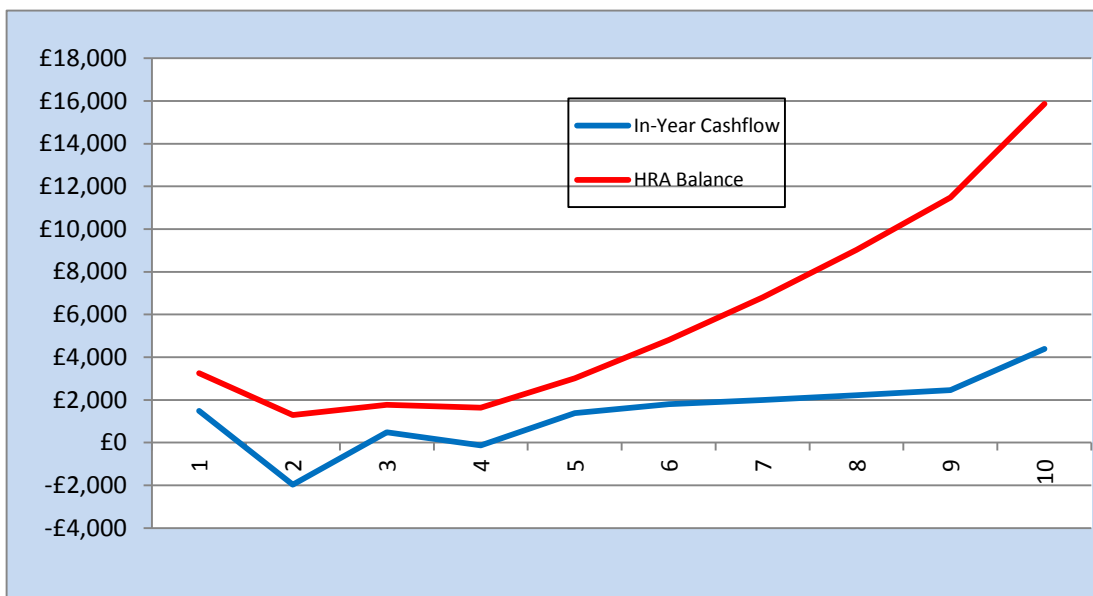
- An increase of 3% (as previously approved business plan) or;
- An increase of 2.7% (based on the potential 'limit rent' for benefit purposes set by the Government).

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

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

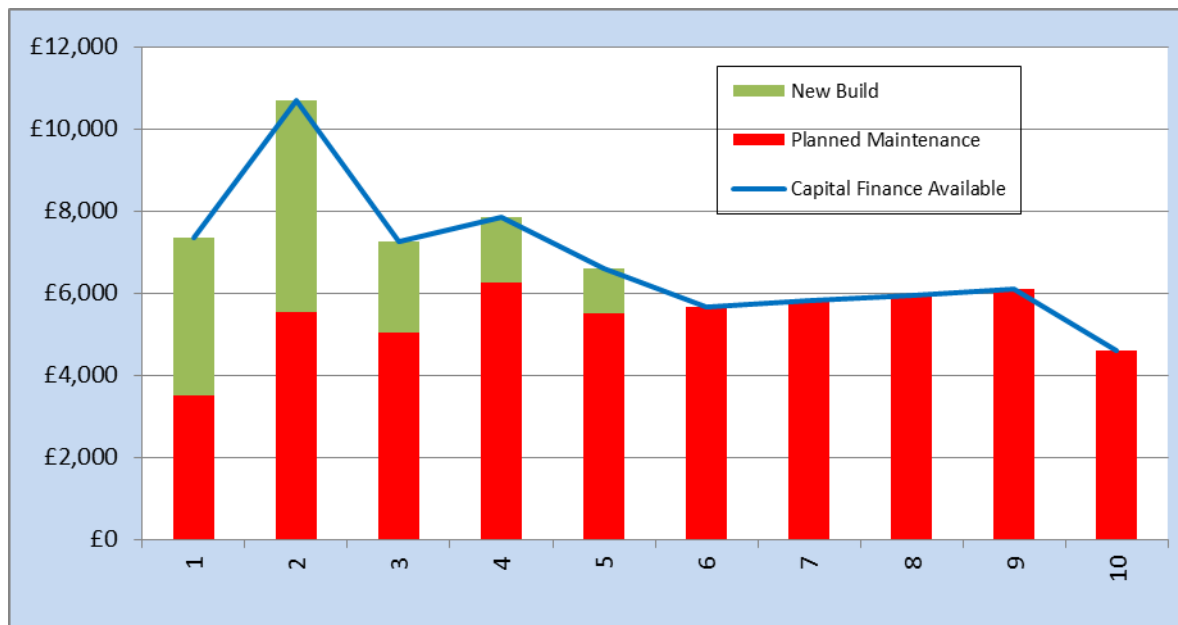
Graph A - Revenue cash flows from 2015/16 for 10 years

This graph shows reserve balances within the HRA increasing to approximately £15m 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 2.7% would result in balances of £0.5m lower at £14.5m.



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

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



## 12. 2015/16 Draft Budget

### General Fund

12.1 A number of key assumptions have been made in formulating the draft General Fund Budget proposals. The overall picture is set out in Appendix A and some of the key aspects are outlined below:-

- Expenditure and Income budgets for 2015/16 have been re-assessed to reflect updated information, the estimated impact of the capital programme and borrowing and adjustments made for anomalies that have been identified in some 2014/15 Budgets (a number of these were identified in the 2013/14 outturn and 2014/15 mid-year budget review reports to Members);
- This has resulted in an overall reduction in the 'Core' Budget (including Programme Delivery Resources) of £0.36m, which is very welcome;
- Baseline Business Rates income to increase by 2%, recognising that any further income will provide an additional funding source;
- The use of New Homes Bonus and the Transformation Fund for investment in the Transformation Programme;
- Increased income from the Council Taxbase and a surplus on the Collection Fund (Note: No changes to the Local Council Tax Reduction Scheme are proposed – same as in 2014/15);
- Either a council tax freeze or an increase in the Band D council tax of no more than 5p per week for a Band D property, which is less than RPI inflation and equates to a 1.7% increase;
- Certain fees and charges, but excluding car parking, increased by 2%.

Note:

The Government is again making a grant available for those Councils that freeze council tax in 2015/16, which will again be based on 1% (equivalent to £56k p.a. for Mid Suffolk) payable for 2 years. This money will then be consolidated into the Government's funding streams in the future (effectively, therefore, reducing as Revenue Support Grant is withdrawn). A 5p a week council tax increase will maintain the council taxbase and result in additional income of £35k a year.

- 12.2 The figures relating to the draft Budget shown in Appendix A are provisional and are still being reviewed. They will be finalised for the February Budget report. Subject to this, the key changes between the 2014/15 and 2015/16 Budgets are summarised below:

	<b>£000</b>
<b>2014/15 Core Budget</b>	<b>10,331</b>
Cost pressures - inflation and other changes in income and expenditure*	+662
Savings including restatement of 2014/15 base budgets in 2015/16	-1,025
<b>Draft 2015/16 Budget</b>	<b>9,968</b>

\* Including £84k re. elections (funded from earmarked reserves) and additional £179k for capital financing costs.

In addition to this, there is the Transformation Fund to pay for Strategic Priority, Transformation and Invest to Save Projects – see Appendix A.

- 12.3 In relation to earmarked reserves, the table below and 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 £1.052m, the minimum approved level, in the General Fund reserve/working balance. Full details of these will be included in the final Budget report in February.

	<b>£000</b>
Estimated balance of earmarked reserves at 1 April 2015	<b>2,436</b>
Planned additions to earmarked reserves in 2015/16	+2,831
Planned withdrawals in 2015/16	-2,735
Estimated balance of earmarked reserves at 1 April 2016	<b>2,532</b>

- 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 £0.3m) and the HRA funding that could be available over the next 4 years is set out below. This excludes the amount in the Transformation Fund in 2014/15:

	£m
<b>New Homes Bonus/Business Rates:</b>	
2015/16	2.5
2016/17	2.9
2017/18	2.9
2018/19	2.9
<b>Total – NHB/Business Rates</b>	<b>11.2</b>
<b>HRA:</b>	
New Build Acquisitions	13.9
Reserves (HRA Balance)	2.5*
Borrowing Headroom	4.1
<b>Total - HRA available for Investment</b>	<b>20.5</b>

<b>Total – NHB, Business Rates and HRA combined</b>	<b>31.7</b>
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\* 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. It is estimated that there will be approximately £0.3m remaining in the earmarked reserve as at 31 March 2015, which could be transferred to the Transformation Fund or used for other purposes.

### **Council Housing - Housing Revenue Account (HRA)**

#### **Key Challenges**

- 12.6 HRA Self-financing provides significant opportunities. The development of 65 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 Council's HRA.
- 12.7 Right to Buy (RTB) sales have exceeded projections in business plans. In 2013/14 Mid Suffolk sold 26 homes 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. For Mid Suffolk £6.2m is needed up to 2018/19. If the receipts are not spent within the 3 year period allowed, they have to be repaid to Government with 4% interest added.
- 12.8 The Government has applied a cap to the amount that Councils can borrow through the HRA. This means that borrowing levels are restricted. For both Councils, supporting spending of RTB receipts, building new council homes and investing in the maintenance and improvement of council homes is achievable within current borrowing headroom. However, bids for additional borrowing headroom can be made to the Government and we have just been notified that Mid Suffolk have successfully bid for £2.9m. Further details will be made available in due course.

12.9 Government guidance for annual rent increases has changed from an RPI based formula to CPI based. This change, which is likely to mean a reduction in rental income over 30 years, coupled with the Limit Rent restricts the Councils ability to increase rents to reflect local needs and circumstances.

### What we are doing to address the challenges

12.10 Making best use of our assets – working within the Housing Asset Management Strategy and Housing Asset Management Group we are identifying high value, high cost, low demand properties for disposal at tenancy end. Funds will be ring fenced for investment in additional homes.

12.11 Conversion of a small number of social rents to affordable rent levels on change of tenancy to achieve HCA Grant criteria.

12.12 Working in partnership with Suffolk County Council to develop models to deliver specialist housing schemes – dementia care and supported housing for autism/learning difficulties on County land using HRA funding.

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

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

### Draft Budget 2015/16

12.15 The table below sets out the draft HRA budget for 2015/16, based on a 3% rent increase, highlighting the variance from 2014/15.

Description	2014/15 £000	2015/16 £000	Variance £000	Reason
Rent and other income	(15,433)	(15,774)	(341)	Based on a proposed average rent increase of 3%, offset by reduced property numbers and a reduction in Supporting People Grant. A 2.7% increase would reduce income by £42k
Bad Debt Provision	355	201	(154)	Bad debt levels can be reduced due to delay of Universal Credit and lower impact of welfare reform and other changes than anticipated
Interest	(8)	(19)	(11)	Increased due to increase in reserves
<b>Total Net Income</b>	<b>(15,086)</b>	<b>(15,592)</b>	<b>(506)</b>	
Repairs and Maintenance, Management and other costs	6,077	6,104	27	Reflects estimated pay budgets following integration and other changes in service requirements.
Capital Charges	3,440	3,217	(223)	Reflects interest costs on fixed rate long term loans
Revenue Contribution to Capital Programme	5,327	6,031*	704	Capital programme funded by Major Repairs, Reserves, Grants and Receipts and then a call on revenue balances
<b>Total Expenditure</b>	<b>14,844</b>	<b>15,352</b>	<b>508</b>	
In-year operating surplus	(242)	(240)	2	Surplus would reduce by £42k if there was a 2.7% increase

\* includes £1,337k major repairs allowance carried forward from 2014/15

12.16 Revised and updated HRA Business Plans are attached at Appendix B, based on annual rent increases of 2.7% and 3% and also reflecting:-

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

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

Rent and Charges	
Service Charge Increase	+3.75%
Utilities Charges Increase/decrease	-5.1%

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

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

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

## **Capital Programme Investment**

### **General Fund**

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

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

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

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

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

<b>Year</b>	<b>£m</b>
2014/15	6,591
2015/16	28,676*
2016/17	3,720
2017/18	1,532
2018/19	1,504

\* 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 income/rate of return generated to offset these costs and contribute towards the funding gap. The capital 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	21.1
New build (HCA programme)	5.0
RTB receipt funding	6.2
<b>Total</b>	<b>32.3</b>
<b>Financing</b>	
Capital receipts disposals and RTB receipts and HCA Grant	2.5
Revenue Contributions	27.5
Borrowing	2.3
<b>Total</b>	<b>32.3</b>
Borrowing Headroom (31 March 2020)	3.3

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

### 13. Appendices

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

### 14. Background Documents

Local Government Finance Settlement.

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**Draft General Fund Budget Summary 2015/16**

	2014/15 £000	2015/16 £000	Variation £000
Core Budget – spending on services	10,199	9,877	-322
Parish Council grants – Local Council Tax Scheme	132	91	-41
<b>Total Core Budget</b>	<b>10,331</b>	<b>9,968</b>	<b>-363</b>
Integration costs	250	49	-201
Transformation Fund - Delivery Plan projects*	3,134	2,023	-1,111
	<b>13,715</b>	<b>12,040</b>	<b>-1,675</b>
<b>Funding:</b>			
• Integration Reserve	250	49	-201
• Other Earmarked Reserves	107	166	+59
• New Homes Bonus – fixed term posts	208	208	-
• Transformation Fund - Delivery Plan projects	3,134	2,023	-1,111
• Transformation Fund – Programme Resources	158	290	+132
• Baseline Government Support - RSG	2,383	1,689	-694
• Baseline Government Support – Business Rates	2,025	2,064	+39
• Collection Fund Surplus/Deficit	181	91	-90
• Council Tax	5,269	5,460	+191
	<b>13,715</b>	<b>12,040</b>	<b>-1,675</b>

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

**Note:** The above includes a Council Tax increase of 5p a week. If there was no increase, RSG would increase by £56k and Council Tax income reduce by £91k, an overall net reduction in income of £35k, which would reduce the Transformation Fund money available for Delivery Plan projects.

	2014/15 (revised) £000	2015/16 £000
<b>Non-core/Transformation Funds:</b>		
New Homes Bonus (see note below)	2,908	2,221
Business Rates (section 31 grant)	300	300
2013/14 and 2014/15 estimated outturn savings	1,170	-
TCA grant*	83	-
	4,461	2,521
Less: Use for programme development resources and temporary fixed term posts	-366	- 498
<b>Available for Delivery Plan projects</b>	<b>4,095</b>	<b>2,023</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) and unused integration reserves (estimated currently at £0.3m)

\* In addition, £210k 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>Mid Suffolk 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>15,774</b>	<b>16,180</b>	<b>16,664</b>	<b>17,140</b>	<b>17,938</b>	<b>95,948</b>	<b>110,754</b>	<b>127,432</b>	<b>146,620</b>	<b>168,697</b>
<b>EXPENDITURE:</b>										
General Management	-1,983	-2,024	-2,074	-2,126	-2,180	-11,743	-13,286	-15,032	-17,007	-19,242
Special Management	-1,129	-1,157	-1,186	-1,216	-1,246	-6,713	-7,595	-8,593	-9,722	-11,000
Bad Debt Provision	-201	-263	-271	-279	-293	-1,564	-1,808	-2,084	-2,401	-2,767
Responsive & Cyclical Repairs	-2,993	-3,085	-3,162	-3,241	-3,322	-17,946	-20,315	-22,984	-26,004	-29,421
<b>Total Revenue Expenditure</b>	<b>-6,306</b>	<b>-6,529</b>	<b>-6,693</b>	<b>-6,862</b>	<b>-7,040</b>	<b>-37,965</b>	<b>-43,003</b>	<b>-48,692</b>	<b>-55,134</b>	<b>-62,430</b>
Interest Paid	-3,217	-3,220	-3,196	-3,199	-3,309	-16,781	-17,872	-19,234	-20,445	-21,429
Interest Received	19	23	24	27	36	669	2,355	5,148	8,229	12,063
Depreciation	-3,407	-3,495	-3,580	-3,666	-3,753	-20,147	-22,657	-25,478	-28,650	-32,215
<b>Net Operating Income</b>	<b>2,864</b>	<b>2,959</b>	<b>3,217</b>	<b>3,440</b>	<b>3,872</b>	<b>21,723</b>	<b>29,577</b>	<b>39,176</b>	<b>50,620</b>	<b>64,687</b>
<b>APPROPRIATIONS:</b>										
Revenue Provision (HRACFR)	0	0	0	0	0	0	0	0	0	0
Revenue Contribution to Capital	-1,287	-5,020	-2,803	-3,634	-2,564	-9,244	-2,815	-1,742	-12,249	-11,182
<b>Total Appropriations</b>	<b>-1,287</b>	<b>-5,020</b>	<b>-2,803</b>	<b>-3,634</b>	<b>-2,564</b>	<b>-9,244</b>	<b>-2,815</b>	<b>-1,742</b>	<b>-12,249</b>	<b>-11,182</b>
<b>ANNUAL CASHFLOW</b>	<b>1,577</b>	<b>-2,062</b>	<b>414</b>	<b>-194</b>	<b>1,308</b>	<b>12,479</b>	<b>26,762</b>	<b>37,435</b>	<b>38,370</b>	<b>53,505</b>
Opening Balance	1,466	3,043	981	1,395	1,202	2,510	14,989	41,751	79,186	117,556

**Mid Suffolk DC 30 Year Business Plan 2.7%**

Year	2015.16	2016.17	2017.18	2018.19	2019.20	2020-2025	2025-30	2030-35	2035-40	2040-45
£'000	1	2	3	4	5	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30
<b>INCOME:</b>										
<b>Total Income</b>	<b>15,732</b>	<b>16,137</b>	<b>16,620</b>	<b>17,095</b>	<b>17,890</b>	<b>95,696</b>	<b>110,462</b>	<b>127,095</b>	<b>146,233</b>	<b>168,250</b>
<b>EXPENDITURE:</b>										
General Management	-1,983	-2,024	-2,074	-2,126	-2,180	-11,743	-13,286	-15,032	-17,007	-19,242
Special Management	-1,129	-1,157	-1,186	-1,216	-1,246	-6,712	-7,595	-8,593	-9,722	-11,000
Bad Debt Provision	-200	-262	-270	-278	-292	-1,559	-1,803	-2,078	-2,394	-2,759
Responsive & Cyclical Repairs	-2,993	-3,085	-3,162	-3,241	-3,322	-17,946	-20,315	-22,984	-26,004	-29,421
<b>Total Revenue Expenditure</b>	<b>-6,305</b>	<b>-6,528</b>	<b>-6,693</b>	<b>-6,861</b>	<b>-7,039</b>	<b>-37,960</b>	<b>-42,998</b>	<b>-48,686</b>	<b>-55,127</b>	<b>-62,422</b>
Interest Paid	-3,217	-3,221	-3,200	-3,203	-3,313	-16,802	-17,893	-19,255	-20,467	-21,450
Interest Received	19	23	23	26	34	644	2,304	5,063	8,103	11,888
Depreciation	-3,407	-3,495	-3,580	-3,666	-3,753	-20,147	-22,657	-25,478	-28,650	-32,215
<b>Net Operating Income</b>	<b>2,823</b>	<b>2,916</b>	<b>3,171</b>	<b>3,391</b>	<b>3,820</b>	<b>21,431</b>	<b>29,217</b>	<b>38,739</b>	<b>50,092</b>	<b>64,052</b>
<b>APPROPRIATIONS:</b>										
Revenue Provision (HRACFR)	0	0	0	0	0	0	0	0	0	0
Revenue Contribution to Capital	-1,287	-4,935	-2,803	-3,634	-2,564	-9,244	-2,815	-1,742	-12,249	-11,182
<b>Total Appropriations</b>	<b>-1,287</b>	<b>-4,935</b>	<b>-2,803</b>	<b>-3,634</b>	<b>-2,564</b>	<b>-9,244</b>	<b>-2,815</b>	<b>-1,742</b>	<b>-12,249</b>	<b>-11,182</b>
<b>ANNUAL CASHFLOW</b>	<b>1,536</b>	<b>-2,019</b>	<b>367</b>	<b>-243</b>	<b>1,256</b>	<b>12,186</b>	<b>26,402</b>	<b>36,998</b>	<b>37,843</b>	<b>52,870</b>
Opening Balance	1,466	3,002	982	1,350	1,107	2,363	14,549	40,952	77,949	115,792
<b>Closing Balance</b>	<b>3,002</b>	<b>982</b>	<b>1,350</b>	<b>1,107</b>	<b>2,363</b>	<b>14,549</b>	<b>40,952</b>	<b>77,949</b>	<b>115,792</b>	<b>168,662</b>

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

MID SUFFOLK CAPITAL PROGRAMME 2014/15	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>General Fund</b>						
<b>Private Sector Housing</b>						
Mandatory Disabled Facilities Grant	288	503	288	288	288	288
Discretionary Housing Grants	250	732	250	250	250	250
Grants for Affordable Housing	250	1,172	250	250	250	250
Eric Jones House	0	25	0	0	0	0
<b>Total Private Sector Housing</b>	<b>788</b>	<b>2,432</b>	<b>788</b>	<b>788</b>	<b>788</b>	<b>788</b>
<b>Environmental Services</b>						
Replacement Refuse Freighters - Joint Scheme	150	150	0	1,800	0	0
Streetcare - Vehicles and Plant Renewals	224	224	190	119	117	125
Waste - Vehicles and Plant Renewals	0	14	0	0	0	0
Recycling Bins	80	86	88	88	88	88
Play Equipment	0	0	25	25	25	25
Car Parks - Vehicles and Equipment Renewals	11	39	36	0	0	0
Countryside - Pikes Meadow	0	30	0	0	0	0
Needham Lake & Mill Meadows Car Parks	0	20	0	0	0	0
<b>Total Environmental Services</b>	<b>465</b>	<b>563</b>	<b>339</b>	<b>2,032</b>	<b>230</b>	<b>238</b>
<b>Community Services</b>						
Planned Maintenance / Enhancements - Car Parks	20	20	20	20	20	20
MSLC - Fitness Equipment	0	6	0	112	0	0
Countryside - Replacement Vehicles	0	16	0	10	0	0
Community Fund projects - Grants	240	453	240	240	240	240
Community Fund projects - Grants (Contribution from Transformation Fund)	0	200	0	0	0	0
Playworld Refurbishment	0	200	0	0	0	0
Community Development Vehicle	0	19	0	0	0	0
Stowmarket Leisure Centre	385	385	0	0	0	0
Stradbroke Pool - new water heating system	165	165	0	0	0	0
Stradbroke Pool - PV panels	80	80	0	0	0	0
Stowmarket Regeneration	0	8	0	0	0	0
<b>Total Community Services</b>	<b>890</b>	<b>1,552</b>	<b>260</b>	<b>382</b>	<b>260</b>	<b>260</b>
<b>Asset Management</b>						
Needham Market - Replacement Telephone System	80	80	0	0	0	0
Needham Market - Replacement Roof tiles	0	0	0	75	0	0
Needham Market - Equipment Renewals	0	0	20	20	20	20
Planned Maintenance - Corporate Buildings	100	100	100	100	100	100
Carbon Reduction	100	150	100	100	50	50
Housing Stock Solar PV Project	3,180	1,300	1,700	0	0	0
<b>Total Asset Management</b>	<b>3,460</b>	<b>1,630</b>	<b>1,920</b>	<b>295</b>	<b>170</b>	<b>170</b>
<b>Corporate Services</b>						
ICT costs related to joint working with Babergh	410	615	550	275	138	69
Regeneration Fund	300	600	300	300	300	300
<b>Total Corporate Services</b>	<b>710</b>	<b>1,215</b>	<b>850</b>	<b>575</b>	<b>438</b>	<b>369</b>
<b>Other unspecified Delivery Plan Projects</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>6,313</b>	<b>7,392</b>	<b>29,157</b>	<b>4,072</b>	<b>1,886</b>	<b>1,825</b>
<b>General Fund Financing</b>						
External Grants and contributions	215	215	243	288	288	288
New Homes Bonus / Transformation	50	200	0	0	0	0
Capital Receipts	74	386	238	64	66	33
Borrowing - unsupported	5,464	6,591	28,676	3,720	1,532	1,504
Revenue Contributions	510	0	0	0	0	0
<b>Total General Fund Capital Financing</b>	<b>6,313</b>	<b>7,392</b>	<b>29,157</b>	<b>4,072</b>	<b>1,886</b>	<b>1,825</b>

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

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

<b>MID SUFFOLK CAPITAL PROGRAMME 2014/15</b>	<b>2014/15 Original Budget</b>	<b>2014/15 Revised Budget inc Carry Forwards</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Housing Revenue Account</b>						
<b>Planned Maintenance &amp; Response</b>						
Mid Suffolk Decent Homes Standard	4,824	4,824	3,413	4,641	4,268	5,631
Vehicle Replacement	93	93	0	0	333	0
Environmental Improvements & Sewerage Treatment Works	160	342	75	70	180	175
Unity Redevelopment	300	300	20	697	0	0
Total mobile	0	100	0	0	0	0
New build acquisitions	-	-	890	3,064	2,224	1,609
New Build	900	1,530	2,938	2,090	0	0
<b>TOTAL HRA Capital Spend</b>	<b>6,277</b>	<b>7,189</b>	<b>7,336</b>	<b>10,562</b>	<b>7,005</b>	<b>7,415</b>
<b>HRA Financing</b>						
External Grants and contributions	2,734	3,018	5,322	3,350	3,076	1,659
Capital Receipts	446	1,292	460	460	459	349
Borrowing	0	0	0	1,288	0	0
New build additional capital receipts	270	52	267	919	667	483
Revenue Contributions	2,827	2,827	1,287	4,545	2,803	3,315
<b>Total HRA Capital Spend</b>	<b>6,277</b>	<b>7,189</b>	<b>7,336</b>	<b>10,562</b>	<b>7,005</b>	<b>5,806</b>
<b>TOTAL CAPITAL SPEND</b>	<b>12,590</b>	<b>14,581</b>	<b>36,493</b>	<b>14,634</b>	<b>8,890</b>	<b>9,240</b>