MID SUFFOLK DISTRICT COUNCIL **Y/02/17**

From: Assistant Director - Corporate Resources	**Report Number: X/02/17**
To: Executive Committee	**Date of meeting: 9 January 2017**

DRAFT JOINT MEDIUM TERM FINANCIAL STRATEGY AND 2017/18 BUDGET

1. Purpose of Report

1.1 To consider the draft Joint Medium Term Financial Strategy (MTFS) and draft 2017/18 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 as set out in the Joint Strategic Plan.

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 2017/18 Budgets, including Council Tax and Council House rent levels.

2. Recommendations

2.1 That the draft Joint Medium Term Financial Strategy (MTFS) and Budget proposals set out in the report be endorsed, subject to further consideration at the February meeting for recommendation to Council.

2.2 That the final General Fund Budget for 2017/18 is based on a council tax increase 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 2017/18 to 2021/22 and draft HRA Budget for 2017/18 be agreed, subject to further consideration at the February Executive Committee meeting.

2.4 That rent increases under Pay to Stay for tenants with a household income above £60k is not introduced.

2.5 That the mandatory decrease of 1% in Council House rents, equivalent to an average rent reduction of £0.84 a week, as required by the Welfare Reform and Work Bill be implemented.

2.6 That garage rents be increased by 10% to provide some additional income to the HRA (an average increase of 74 pence per week per garage)

2.7 Sheltered Housing service charges to be increased by £4 per week for each scheme (set at £2 per week last year) to reduce subsidy by £80k

2.8 That the utility charges for sheltered tenants are not changed as they are in line with costs.

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 capital spend is reduced by £1.5m in 2017/18 and for each year in 2018/19 to 2021/22, to ensure Mid Suffolk stays within the debt cap for the 30 year Capital programme.

2.11 That the revised HRA Business Plan in Appendix D be noted.

2.12 That the proposed capital programme in Appendix C be agreed.

The Medium Term Financial Strategy (MTFS) and Budget will be subject to final determination by the Executive Committee and Council in February 2017.

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 Risk:- 5f – Failure of the Councils to become financially sustainable in response to funding changes. Key risks are as follows:

GENERAL FUND			
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 - 2	Bad - 3	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

GENERAL FUND			
Risk Description	**Likelihood**	**Impact**	**Mitigation Measures**
Failure to implement cost sharing protocol results in inaccurate or unfair allocation of shared costs and income.	Highly Unlikely - 1	Noticeable - 2	Assessment made for 2017/18 Budget, which will be reviewed further to ensure it is robust and accurate. Amend if circumstances change.
Uncertainty on the level of Business Rates income due to the volatility caused by vacant properties, growth levels and appeals	Unlikely – 2	Noticeable – 2	Finance, Shared Revenues Partnership, and Economic Development working closely to understand the Business Rates base, key rate payers along with appeal projections and horizon scanning
HRA			
Ongoing impacts of the Welfare and Funding Reforms could lead to unpreparedness for further changes.	Unlikely - 2	Bad - 3	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 spend retained RTB receipts within 4 year period, will lead to requirement to repay to Government with an additional 4% interest.	Unlikely - 2	Bad - 3	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 Housing & Planning Bill measures affecting council housing.
Council Housing self-financing results in a greater risk to investment and service delivery plans from inflation and other variables.	Unlikely - 2	Noticeable - 2	Inflation and interest rate assumptions have been modelled in the HRA business plan. Capital receipts and capital programme funding reviewed.

5.2 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.

6. Consultations

6.1 The HRA budget proposals will be presented to the Joint Housing Board meeting in January 2017.

7. Equality Analysis

7.1 Equality Analyses will be undertaken for any service areas where significant changes are proposed as a result of the above 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 2017/18 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 draft updated MTFS is attached at Appendix E 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 since 2014/15 mean that the Council is in a better position to withstand the reduction in government grant and achieve a balanced budget in 2017/18.

10.4 The details within the Joint MTFS show the funding surplus / pressures over the three years 2018/19 to 2020/21, the strongest financial position shows a surplus £0.4m, and the weakest financial position, a deficit of £1.0m 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 15 December.

10.5 In recognition of the changing landscape for local authorities, the Joint Strategic Plan has been reviewed and refreshed. 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 three years to support the transition to the different business model and this will continue during 2017/18. 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 proposed Budget for 2017/18 and endorse the draft 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.

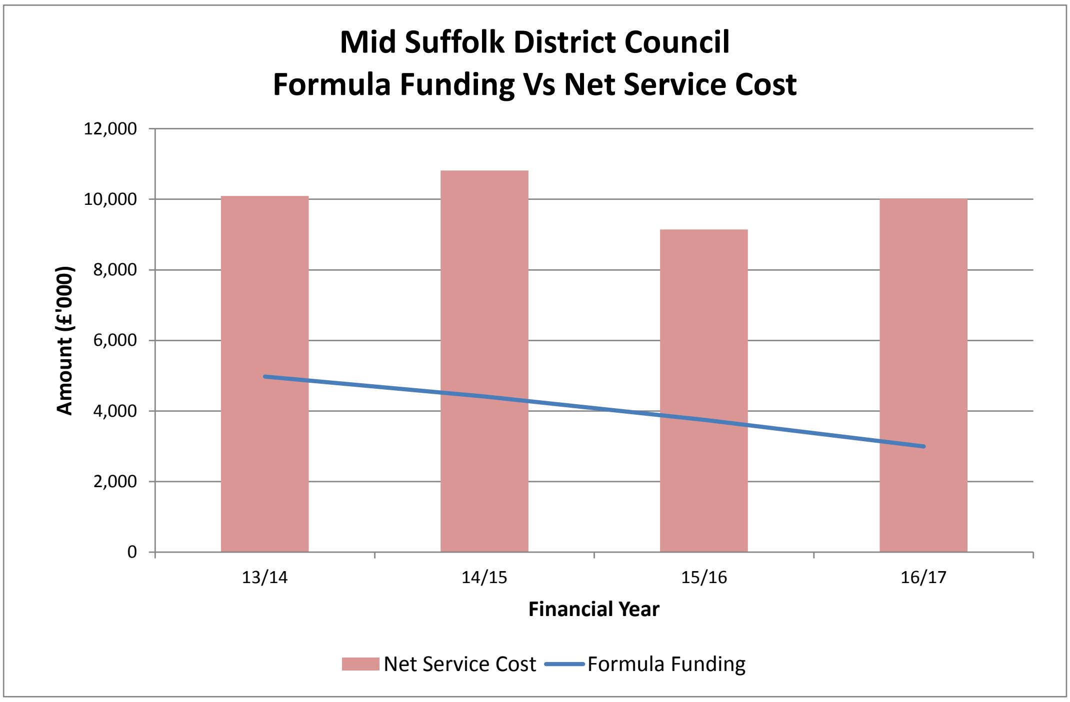
GENERAL FUND (GF)

11 GF Financial Position

11.1 Funding arrangements for councils have changed significantly with Revenue Support Grant being substantially withdrawn. The Council has seen a 69% cumulative cut in revenue support grant over the four years since 2013/14.

11.2 The Council's service cost budget has remained fairly static over the same period, as various budget saving and income generating initiatives have meant that service levels could be maintained. The Council has also become more reliant on Business Rates income and 'incentivised' funding such as the New Homes Bonus to support the Council's service cost budget. Since New Homes Bonus was introduced in 2011/12 the Council has received £9m in total, most of which has been transferred to the Transformation Fund reserve, however in 2015/16 and 2016/17 an element of this was used to balance the budget.

11.3 The graph below shows the service cost budget since 2013/14 and the Revenue Support Grant including the business rates element of the formula funding, over the same period.



11.4 Total Formula Funding (Revenue Support Grant + Baseline Business Rates) is reducing by a further 17% in 2017/18. This includes, in relation to the Revenue Support Grant (RSG) element, a further cut of £547k or 60%. New Homes Bonus (NHB) is reducing from £2.641m to £2.028m. Further details of the Government's provisional spending announcement on the 15 December 2016 are set out below:-

- Continuation of the council tax referendum threshold at 2% for most authorities;
- All shire district councils and the lowest quartile of Police and Crime Commissioners will be able to increase council tax by the greater of 2% or £5;
- Parish and town councils will continue to not be subject to the council tax referendum
- Reduction in the number of years that a NHB payment is paid from 6 years currently to 5 years in 2017/18 and 4 years in 2018/19;
- NHB baseline for growth has been set at 0.4%, so only growth above that figure will receive a NHB payment in future;
- Continuation of the rural (SPARSE) services delivery grant;
- Full reimbursement from Government of the extension of the rural business rate relief to 100%. Mid Suffolk currently awards 50% discretionary relief on top of the 50% mandatory relief therefore there will be a financial benefit from this change. We are currently awaiting the new limits that will be effective from April 2017, therefore this has not been included within this report, but will be within the final budget report in February.

11.5 In order to receive certainty over the settlement numbers for the next three years from central government, councils were required to submit an efficiency plan. Mid Suffolk District Council took advantage of gaining certainty for the next three years by submitting the Medium Term Financial Strategy and Joint Strategic Plan by way of demonstrating that the Council has an efficiency plan.

11.6 Looking ahead to 2018/19 and beyond, the Government's indication is that Revenue Support Grant will reduce to £36k in 2018/19, followed by a tariff payable to central government of £337k in 2019/20 to redistribute the core funding and council tax generating capabilities to other councils across the country based on spending needs.

11.7 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.

11.8 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 the level of appeals, will affect the amount of income received.

12. GF 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 budget process for 2017/18 has involved several strands of work with the focus on maximising our income streams, continuing to make efficiencies and productivity savings and using new ways of working to be as cost effective as possible.

12.2 Finance has worked closely with Corporate Managers and reviewed each budget in detail and taken a zero based budget approach for each service, challenging budgets and focussing on the service needs rather than a historic view that has traditionally occurred.

12.3 The Corporate Manager for Finance and the Senior Business Partner have attended all the service team meetings to discuss the funding challenges and to explore and capture ideas they have for savings, efficiency and income generating ideas.

12.4 These suggestions along with a great deal of work that is already happening across the Councils on the Capital Investment Strategy, Public Realm Review, Leisure Strategy Review and the Public Access Transformation and Accommodation Review were reviewed at the relevant Portfolio Holder briefings. The items that have been included in the base budget are shown on Appendix B

12.5 Further work will continue on these and other initiatives during the year as set out in the draft Medium Term Financial Strategy (MTFS) at Appendix E, some of the strands that require further work at this stage are:

- Accommodation – the 2017/18 budget report includes the savings as per the business case report (C/70/16) approved at Council 22nd September. The costs and savings of the Public Access work will continue throughout the next 12 months and will be monitored and reported through the budget monitoring process. The final full year costs and savings will be incorporated in the 2018/19 budgets that will be set in February 2018.

- Public Realm Review – work is continuing on options appraisal through the Task and Finish Group. The decision on which option to pursue will be taken by members in 2017/18 and will be built into the 2018/19 budgets once this decision has been made.

- Leisure Review – work is progressing on the Leisure Review and at the time of preparing the budget for 2017/18 the Council has not reviewed or made decisions on any proposals. This work will continue and options will be considered toward the end of 2016/17 and into 2017/18.

12.6 Some key pieces of work during 2016/17 have contributed to the Council's financial sustainability over the short to medium term. The remainder of the £10m cash investment that was approved as part of the Councils Treasury Management Strategy is expected to be invested in the final quarter of 2016/17, the projected return from this is £149k per annum.

12.7 In November 2016 both Councils approved the three strands of the Assets and Investment Strategy, comprising investment (profit for purpose), regeneration and development, and asset management, in 2017/18 this is expected to generate £247k.

12.8 There are several assumptions within the MTFS that can significantly impact on the Councils financial position over the medium term, New Homes Bonus, Council Tax and Tax Base increase are some of the key assumptions. Within the MTFS at Appendix E we have modelled the strongest, medium and weakest financial positions and other assumptions. The budget gaps of each are as follows:

		2017/18 Cumulative Shortfall in Funding (Surplus funds) £000	**2018/19 Cumulative Shortfall in Funding (Surplus funds) £000**	**2019/20 Cumulative Shortfall in Funding (Surplus funds) £000**	**2020/21 Cumulative Shortfall in Funding (Surplus funds) £000**
Weakest Financial Position	Tax Base 0.8% Council Tax 0%	(1,596)	(550)	471	1,017
Medium Financial Position	Tax Base 1% Council Tax 2%	(1,596)	(806)	(116)	168
Strongest Financial Position	Tax Base 1.5% Council Tax £5	(1,596)	(901)	(368)	(445)

12.9 Council Tax income is set locally (within Government guidelines) and has an impact on the income the Council can generate. A 1% increase in Council Tax will generate an additional £57k per annum.

13. GF 2017/18 Draft Budget

13.1 The original budget surplus for 2017/18 as identified in the MTFS approved by Council in February 2016 was £1.1m, after taking into account additional budgetary pressures including inflation and the work outlined above, the revised surplus is £1.6m, which will be transferred to the Transformation Fund. A summary of savings and pressures can be found at Appendix B.

13.2 Part of the 2017/18 budget proposals is the allocation of £250k to support community capacity building. Details of how this money will be used will be developed before the start of the new financial year.

13.3 In order to achieve a balanced budget for 2017/18 Mid Suffolk has had to utilise £351k of the £2.028m of New Home Bonus expected in 2017/18 compared to £537k of the £2.6m received in 2016/17.This does not include the £250k to support community capacity building.

13.4 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 with further detail in Appendix B of which some of the key aspects are outlined below:-

- A Council Tax increase in the Band D Council Tax of 5p per week for a Band D property, which takes it to £161.97 and equates to a 1.64% increase;

- Car parking fees are not being increased for the seventh successive year in order to support Stowmarket Town Centre, but other fees and charges e.g. land charges will be increased by 3%.

- Insurance premiums are expected to increase by 2% based on the information provided by our brokers.

- For salaries we have assumed a 1% pay award and an increment for all staff that are eligible.

13.5 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 2016/17 and 2017/18 Budgets are summarised in Appendix B. In order to provide further details on the 2017/18 budget, a full breakdown can be found in the form of the Council's draft Budget Book attached at Appendix F.

13.6 In relation to earmarked reserves, the estimated balance of earmarked reserves at the end of 2017/18 is £11.9m, including the Transformation Fund balance of £9.3m. Further details of the earmarked reserves can be found in Appendix E attachment 5. In addition to this there is £1.052m, the minimum approved level, in the General Fund reserve/working balance.

14 GF Capital Programme Investments

14.1 The draft Capital Programme is attached at Appendix C.

14.2 A zero-based approach has been adopted for the preparation of the Capital Programme for 2017/18 to 2021/22, to ensure that resources are aimed at delivery of the Council's strategic priorities. The figures for 2018/19 to 2021/22 will be further validated before the final report in February.

HOUSING REVENUE ACCOUNT (HRA)

15 HRA Financial Position

15.1 The HRA Business Plan has been updated to reflect the impact of the 1% rent reduction required by the Chancellor of the Exchequer in 2016/17 for 4 years across the Plan's 30 year life. The Business Plan is attached at Appendix D and shows details for years 1-10.

15.2 The self-financing regime replaced the Housing Revenue Account subsidy system on 1 April 2012. Mid Suffolk's 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.

15.3 HRA Capital Financing Requirement levels are predicted to be £86.7m at 31 March 2017 providing borrowing headroom of £4.1m. New build/acquisitions funding within the Capital Programme 2017– 2021 totals £17.6m and HRA reserve balances 2017 – 2021 are forecast at £9.1m. This will provide a total HRA Investment Fund contribution of £30.8m to deliver Members' strategic housing priorities and outcomes.

15.4 The Joint Strategic Plan sets out clearly the Councils' aligned strategic priorities. The key housing projects supporting delivery of the priorities are outlined in the HRA Business Plan, which will be presented to Executive Committee in February 2017.

15.5 For example: The delivery of the Homes and Communities Agency (HCA) 65 new affordable homes, and the acquisition of 9 affordable homes (2015/16) which will become new HRA assets. These new homes will deliver New Homes Bonus for the Council, additional rent and council tax and local businesses will benefit. All these factors will bring growth to our local economy.

16 HRA Overall Financial and Budget Strategy (short and medium term)

16.1 The Mid Suffolk HRA Business Plan faces some challenges in the short and medium term. These challenges were exacerbated by the proposals announced in the Chancellor's July 2016 Budget:

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

- This Bill reduced the benefit cap for working age families from £23k to £20k

- The Housing and Planning Bill includes requirements for households with an income higher than £30k to be charged higher rents. However in the Autumn Statement 2016 this amount was amended to £60k and changed it from being a mandatory policy to discretionary.

- The Bill also requires councils to sell their high value council homes to fund Right to Buy discounts for housing association tenants. A letter from the Housing Minister following the Autumn Statement explained that the pilot scheme for housing association Right to Buy will be expanded. The government will fund the expanded scheme and the levy will not be brought in for 2017/18. Details of how the levy will be calculated are still unknown. On advice from the Chartered Institute of Housing, the draft budget does not include a figure for the levy.

- The impact of these measures and the action required to mitigate them are described in section 18.4 of this report

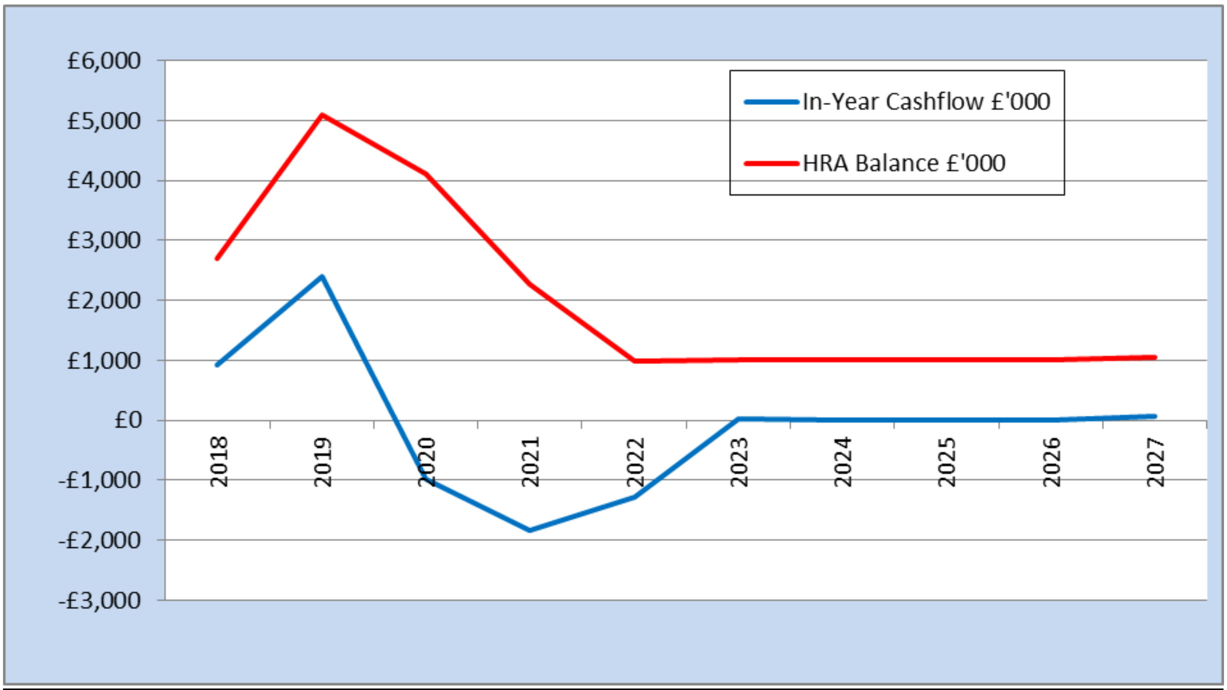
17 HRA Potential Resources Available for Investment

17.1 A key aspect of the HRA 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 reducing to approximately £1m by Year 10 (2026/27) based on annual rent reductions of 1% for the next three years.

<u>Graph A</u>



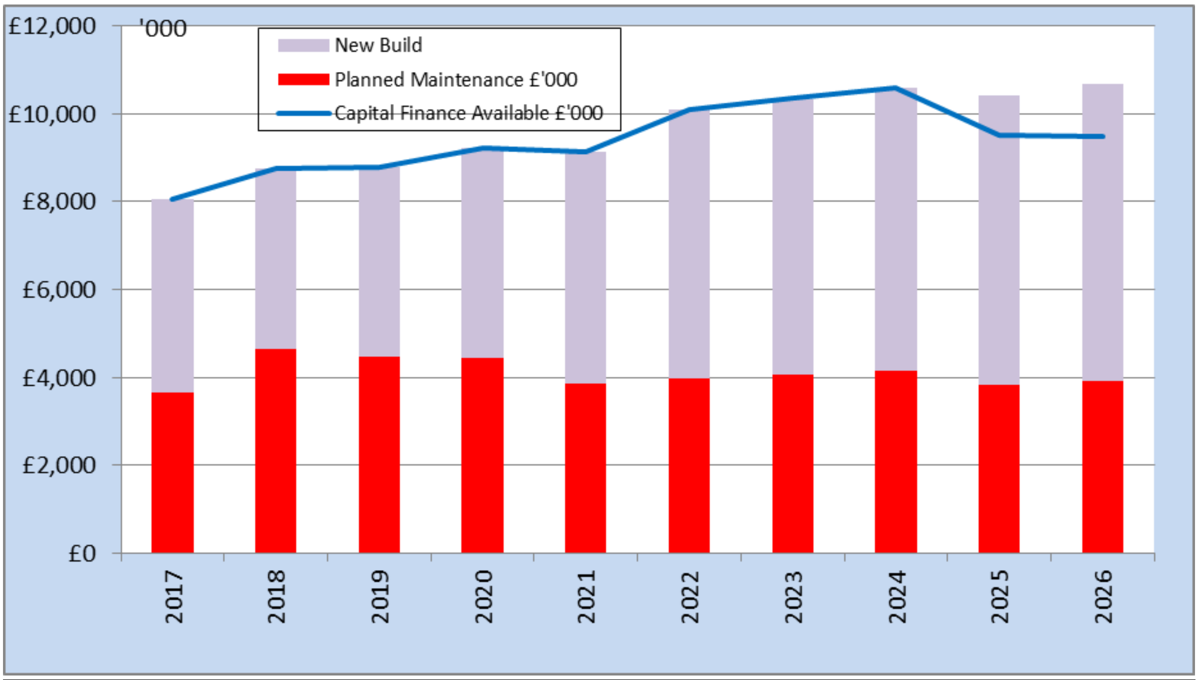
<u>Graph B - Capital Programme from 2017/18 for 10 years (based on a 1% rent reduction in years 2 to 4 and £1.5m Capital spend reduction in 2017/18)</u>

Graph B shows proposed Capital Programme expenditure and debt cap levels within the HRA Business Plan up to Year 10 (2017/18 to 2026/27) including a £1.5m reduction in 2017/18. The graph shows that from 2024 onwards there is not enough finance available to cover capital expenditure.

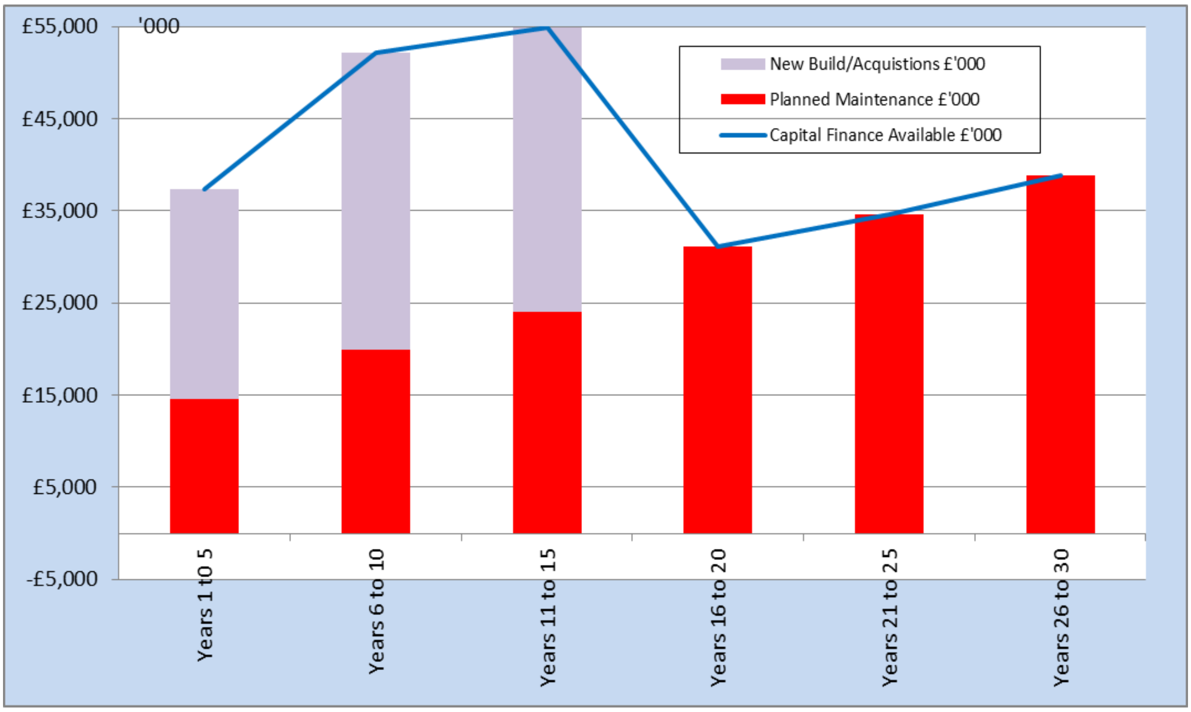
Graph C depicts how much finance would be available over the 30 year plan if the capital spend was reduced by £1.5m from 2018/19 to 2021/22.

Graphs A and B are inter-dependent with revenue surpluses providing financial availability for investment in homes and improvement programmes.

Graph B



Graph C



18 HRA Key Challenges

18.1 HRA Self-financing has provided significant opportunities for Mid Suffolk. The development of 38 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.

18.2 These opportunities, however, are threatened by the proposals described in paragraph 16.1. The table in paragraph 19.1 sets out the draft HRA budget for 2017/18 and highlights the variances from the current year as a result of a 1% rent reduction (an average decrease of 84 pence per week for Mid Suffolk tenants).

18.3 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:	£4.0m
Years 1 to 10:	£15.6m

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

18.4 A balanced budget has been achieved for 2017/18 by reducing both revenue and capital budgets (see table in 19.1). A fundamental review of the housing service has been undertaken during 2016/17 to identify savings, efficiencies and income generation opportunities that will achieve a sustainable business plan into the future. The review has examined:

- Performance management measures.

- A review of garages was commenced to identify their condition and whether there are redevelopment opportunities on the sites or if they should be demolished and replaced with parking bays. 25 sites were identified as having development potential. These are being further explored by the Investment & Development team who will report to the Joint Housing Board early in the new year.

- Our approach to HRA business planning includes reviewing and realigning housing stock condition data and capital programme expenditure. Our current stock condition data is six years old. A project is underway to renew the data to enable an evidence based programme of capital works to be designed for 2017/18 and the following two years. In the meantime, all non-essential work has been ceased. We believe a fresh sample stock condition survey will be required in 2019/20. A contingency amount, based on the HRA Business Plan model, has been put into the 2017/18 Budget and 4 year MTFS 2017/18 and will be allocated against the relevant areas of spend once the Capital Programme is completed.

- The Sheltered Housing Review concluded that some schemes which are difficult to let should be ‘de-sheltered’ ahead of a predicted reduction in Housing Related Support funding.

- Reviewing the existing Capital Projects Team (formerly part of the Asset Management Team) and Private Sector Housing Team has brought them together in one team called Property Services. This has led to a change in the approach to the way the work is being carried out and how the teams were structured to introduce a more efficient and consistent way of working. The new structure will be in place by March 2017.

- Councillors approved the formation of a new Babergh and Mid Suffolk Building Services (BMBS) which will carry out responsive repairs and programmes works. The BMBS business plan forecasts a surplus in year two of trading (2018/19). The back office team structure is currently under review, along with the Property Services team.

- A new HRA Accounting Team was set up following the appointment of a Professional Lead HRA Accountant in July 2016. A review of the Budget setting and monitoring process, financial controls, support required by Corporate Managers and the Assistant Director and Capital spend will be completed by March 2017.

- Leaseholders service charges are being reviewed to identify the gap between costs incurred and the amount recharged. This is currently ongoing and will be completed in 2017/18 as part of the Home Ownership Review project, so any increase in income identified has not been put into the 2017/18 Budget.

18.5 **Garage rents** – these are not controlled by the same regime as council house rents. Members therefore have the option to impose a rent increase and may wish to take the opportunity to raise additional income through this route. Table 1 provides details of the additional income generated by a range of rent increases:

Table 1

Increase	Average increase per garage per week	Additional income per annum
	Pence	£
CPI + 1% (1.90%)	14	8,068
5% Increase	37	21,216
10% Increase	74	42,484

18.6 **Sheltered housing** - Mid Suffolk currently subsidises sheltered service charges from the HRA by approximately £100k each year. The new pressures of rent reduction and the high value asset levy make this subsidy unsustainable. A review of the service charges is being undertaken by an external resource to identify the costs that should be recharged. Workings show the following amounts of additional income if each tenant was charged: -

Weekly/Annual	Total additional income at £4 increase per week	Total additional income at £3 increase per week	Total additional income at £2.50
Weekly Total	1,544	1,158	965
Annual Total	80,288	60,216	50,180

18.7 Utility charges were reduced by 20% last year and these are now in line with the energy costs (£213k cost vs £217k utility charge) so no change is required in 2017/18

HRA New Build programme and retention of Right to Buy receipts

18.8 Right to Buy (RTB) sales have exceeded projections in business plans. In 2015/16 Mid Suffolk sold 32 homes against original projections of 26 sales prior to the policy of reinvigorating RTB and "1-4-1" re-provision.

18.9 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% above the base rate interest added.

18.10 The Government has applied a cap to the amount that Councils can borrow through the HRA. This means that borrowing levels are artificially restricted. The supported spending of RTB receipts, building new council homes and investing in the maintenance and improvement of council homes is still achievable within current borrowing headroom in the next 4 years. However, 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. The rescinding of the mandatory pay to stay policy referred to in 16.1 will go some way to mitigating this risk as it was predicted that more tenants would want to buy their homes if the rent was increased.

19 HRA Draft Budget 2017/18

19.1 The table below sets out the draft HRA budget for 2017/18, based on a 1% rent decrease, highlighting the variance from 2016/17.

Description	2016/17 £000	2017/18 £000	Variance £000	Reason
Rent and other income	(15,424)	(15,561)	(137)	Based on a proposed average rent decrease of 1%. Offset by increase in affordable rents, decrease in void days and changes in service charges and garage rents
Bad Debt Provision	75	75	0	Universal Credit has been delayed until Feb 2018 so we can keep this at the same level.
Interest	(15)	(24)	(9)	
Total Net Income	(15,364)	(15,510)	(146)	
Repairs and Maintenance, Management and other costs	6,070	5,939	(131)	Reflects decrease in salaries based on averages of staff being made redundant due to restructuring of Sheltered Accommodation Property Services. There have also been savings in transport costs, Council Tax on void properties and equipment.

Description	2016/17 £000	2017/18 £000	Variance £000	Reason
Capital Charges	3,017	3,042	25	Reflects interest costs on long term loans.
Depreciation	3,406	3,406	0	
Revenue Contribution to Capital Programme	3,733	3,597	(136)	Reflects a small decrease due to reduction in Capital Programme spend which is funded by Major Repairs Reserves, Grants and Receipts and then a call on revenue balances
Total Expenditure	16,226	15,984	(242)	
In-year operating (surplus)/deficit	862	474	(388)	
Year-end transfer to/from reserves	(862)	(474)	388	
Total	0	0	0	

19.2 A revised and updated HRA Business Plan is attached at Appendix D, based on annual rent increases of -1% and also reflecting:-

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

19.3 HRA Business Plans are currently viable over the next 8 years only; and shortfalls in the available funding then continue for some 11 years before returning to surplus over the remaining 30 year period. This is an improvement on 2016/17 by 4 years due to the predicted underspend of £2.4m this year and the £1.5m reduction on spend in 2017/18. However, further work needs to be done to review capital expenditure programmes for 2018/19 to 2021/22 to reduce effects of the 1% rent reduction.

19.4 The established rent formula empowers Government to restrict our ability to increase rents through applying a ‘limit rent’ (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. Limit rent figures will be released at the end of January 2017. This could still have an impact on rent levels in addition to the mandatory 1% reduction.

20 HRA Capital Programme Investment

20.1 The draft Capital Programme is attached at Appendix C. This does not include any projections for High Value Asset Levy at present.

20.2 The proposed Capital Programme headlines for 2017/18 – 2020/21 are:-

Expenditure	**£m**
Housing Maintenance Programmes	**17.2**
New build (HCA programme)	**0.7**
RTB receipt funding	**16.9**
Total	**34.8**
Financing	
Capital receipts disposals and RTB receipts and HCA Grant	**12.2**
Revenue Contributions	**22.6**
Borrowing	**0**
Total	**34.8**
Remaining Borrowing Headroom available (31 March 2021)	**4.8**

21. Appendices

Title	**Location**
Appendix A – Draft General Fund Budget Summary 2017/18	Attached
Appendix B – Movement of service cost budget year on year	Attached
Appendix C – Draft Capital Programmes	Attached
Appendix D – Draft updated HRA Business Plan	Attached
Appendix E – Draft Joint Medium Term Financial Strategy	Attached
Appendix F – Draft Budget Book 2017/18	Attached

22. Background Documents

Local Government Finance Settlement.

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Appendix A

Draft General Fund Budget Summary 2017/18

GENERAL FUND REVENUE BUDGET SUMMARY

		2016/17 £'000	2017/18 £'000
1	Employee Costs	8,544	8,683
2	Premises	773	794
3	Supplies & Services	5,348	4,050
4	Transport	331	335
5	Contracts	3,020	3,078
6	Third Party	17,420	16,964
7	Income	(23,081)	(25,439)
	Service Cost	**12,356**	**8,464**
8	Transfers to HRA / Capital (recharge model)	(1,223)	(1,298)
9	Capital charges & Investment Income	675	65
10	Transfers to Reserves	110	2,726
	Net Service Cost	**11,918**	**9,959**
11	Transformation Fund - Staffing (NHB)	(427)	(430)
12	Transformation Fund - Delivery Plan projects (NHB)	(2,000)	-
13	Transformation Fund - Community Capacity Building (NHB)	-	(250)
14	Transfers from Reserves - earmarked	(82)	(82)
15	S31 Grant	-	(600)
16	New Homes Bonus remaining	(110)	(1,347)
	Budget Requirement	**9,299**	**7,249**
17	Deficit / (Surplus) on Collection fund	(120)	(89)
18	Revenue Support Grant (RSG)	(918)	(371)
19	Business Rates	(2,160)	(2,203)
20	Transition Grant	(39)	(39)
21	Rural Services Support Grant	(430)	(347)
	Council Tax	**5,631**	**4,201**
22	**Shortfall in funding / (Surplus Funds)**	**(0)**	**(1,596)**

	2016/17	2017/18
Council Tax Base	(35,336)	(35,786)
Council Tax for Band D Property	159.36	161.97
Council Tax	**(5,631)**	**(5,796)**

Appendix B

Movement of Service Cost budget year on year

MID SUFFOLK - MOVEMENT YEAR ON YEAR		16/17 to 17/18 £000
Net Service Cost previous year		**11,919**
Cost Pressures		
Inflation		
Employees		85
Contracts		66
Premises		2
Supplies & Services		5
Other		1
Financially Sustainable Councils		
Employee costs including increments		406
Pension fund deficit (1% increase for the next 3 years)		54
Insurance Premiums		36
Business rates		32
Sub total cost pressure		**686**
Other increases to net service cost		
Agree where growth goes		
Strategic Planning		24
Communities embrace new homes growth		
Development Management - (net) fee income plus legal and consultancy fees		73
Digital by Design		
ICT & Information Management - change to SCC contract (offset by staffing costs)		35
Organisational Development - transfer of Payroll services to SCC		14
Environment		
Car Parks - income shortfall		80
Financially Sustainable Councils		
Revenues and Benefits - adjustment to bad debt provision		114
VAT, District Valuers and Treasury Management consultancy		22
Shared legal Team		21
Modern Apprentices		15
Senior Leadership Team - corporate subscriptions		12
Banking Charges		10
Other changes		12
Strengthened and clear governance to enable delivery		
Members Allowances (SRA)		15
Targeted grants and funding to support Community Capacity Building		250
Waste		
Recycling credits		
Leisure		
Contract costs		28
Sub total other increases to net service cost		**724**
Actions to offset increases to net service cost		
Inflation - income		(21)
Removal of £2m for Delivery Plan projects		(2,000)
Engage with and support businesses to thrive		
Open for Business		(15)
Environment		
Public Realm - waste disposal costs		(104)
Financially Sustainable Councils		
Investment income (net) Holding Company	Initiative	(247)
Change to Minimum Revenue Provision (MRP)		(222)
Investment income (net) Pooled Funds	Initiative	(149)
Increase in charge to HRA / Capital		(85)
SRP contract reduction		(82)
Accommodation review	Initiative	(69)
Other HQ savings		(30)
Removal of grants to Parishes		(45)
Building Control - fee income		(45)
Photocopying costs		(20)
Movement in Resaves (Transfers to)		(11)
Communications		(15)
Increase to CDC Charge		(12)
Sustainable environment - misc supplies & services / Suffolk Climate Change Partnership		(18)
Other changes		(18)
Property investment to generate income and regenerate local areas		
PV panel income - feed in tariff		(87)
Targeted grants and funding to support Community Capacity Building		
Community grants		(10)
Waste		
Garden waste income		(67)
Sub total actions		**(3,370)**
Total Net Service Cost movement		**(1,960)**
New Net Service Cost		**9,959**

Appendix C

DRAFT CAPITAL PROGRAMME FOR 2017/18 TO 2020/21

GENERAL FUND

MID SUFFOLK CAPITAL PROGRAMME 2017/18 - 2020/21 GENERAL FUND	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	TOTAL BUDGET (over 4 years) £'000	Capital Receipts £'000	Reserves £'000	Government Grants £'000	S106 £'000	Borrowing £'000	Total Financing £'000
Supported Living											
Mandatory Disabled Facilities Grant	300	300	300	300	**1,200**			1,076		124	**1,200**
Discretionary Housing Grants	100	100	100	100	**400**					400	**400**
Empty Homes Grant	100	100	100	100	**400**					400	**400**
Total Supported Living	**500**	**500**	**500**	**500**	**2,000**	**0**	**0**	**1,076**	**0**	**924**	**2,000**
Strategic Planning											
Grants for Affordable Housing	250	250	250	250	**1,000**					1,000	**1,000**
Total Strategic Planning	**250**	**250**	**250**	**250**	**1,000**	**0**	**0**	**0**	**0**	**1,000**	**1,000**
Environment and Projects											
Replacement Refuse Freighters - Joint Scheme	170	0	170	170	**510**					510	**510**
Recycling Bins	100	100	100	100	**400**					400	**400**
Total Environmental Services	**270**	**100**	**270**	**270**	**910**	**0**	**0**	**0**	**0**	**910**	**910**
Communities and Public Access											
Planned Maintenance / Enhancements - Car Parks	204	162	125	109	**599**					599	**599**
Streetcare - Vehicles and Plant Renewals	44	44	44	44	**176**					176	**176**
Play Equipment	20	20	20	20	**80**					80	**80**
Community Development Grants	189	189	189	189	**756**					756	**756**
Total Communities and Public Access	**457**	**415**	**378**	**362**	**1,611**	**0**	**0**	**0**	**0**	**1,611**	**1,611**
Leisure Contracts											
Stowmarket Leisure Centre - PV panels	0	0	0	0	**0**						**0**
Stowmarket Leisure Centre - structural repairs	43	0	0	0	**43**					43	**43**
Total Leisure Contracts	**43**	**0**	**0**	**0**	**43**	**0**	**0**	**0**	**0**	**43**	**43**

Appendix C

DRAFT CAPITAL PROGRAMME FOR 2017/18 TO 2020/21

GENERAL FUND

MID SUFFOLK CAPITAL PROGRAMME 2017/18 - 2020/21 GENERAL FUND	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	TOTAL BUDGET (over 4 years) £'000	Capital Receipts £'000	Reserves £'000	Government Grants £'000	S106 £'000	Borrowing £'000	Total Financing £'000
Capital Projects											
HQ - Equipment Renewals	20	0	0	0	**20**					20	**20**
Planned Maintenance - Corporate Buildings	82	80	80	80	**322**					322	**322**
Carbon Reduction	50	50	50	50	**200**					200	**200**
Total Capital Projects	**152**	**130**	**130**	**130**	**542**	**0**	**0**	**0**	**0**	**542**	**542**
Investment and Commercial Delivery											
Open for Business	30	30	30	30	**120**					120	**120**
Land assembly, property acquisition and regeneration opportunities	1,925	1,925	1,925	1,925	**7,700**					7,700	**7,700**
Total Investment and Commercial Delivery	**1,955**	**1,955**	**1,955**	**1,955**	**7,820**	**0**	**0**	**0**	**0**	**7,820**	**7,820**
Corporate Resources											
ICT - Hardware / Software costs	763	200	200	200	**1,363**	95				1,268	**1,363**
Total Corporate resources	**763**	**200**	**200**	**200**	**1,363**	**95**	**0**	**0**	**0**	**1,268**	**1,363**
Delivery Programme Investment Opportunities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total General Fund Capital Spend	**4,389**	**3,550**	**3,683**	**3,667**	**15,288**	**95**	**0**	**1,076**	**0**	**14,118**	**15,289**
Total Capital Spend	**12,426**	**12,295**	**12,469**	**12,873**	**50,062**	**95**	**0**	**1,076**	**0**	**14,118**	**15,289**

Appendix C

DRAFT CAPITAL PROGRAMME FOR 2017/18 TO 2020/21

HRA

MID SUFFOLK CAPITAL PROGRAMME 2017/18 - 2020/21 HOUSING REVENUE ACCOUNT	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	TOTAL BUDGET (over 4 years) £'000	Capital Receipts £'000	Reserves £'000	Revenue Contributions £000's	Government Grants £'000	S106 £'000	Borrowing £'000	Total Financing £'000
Capital Projects												
Planned maintenance	3,321	4,391	4,288	4,248	**16,248**			16,248				**16,248**
ICT Projects	85	0	0	0	**85**			85				**85**
Environmental Improvements	40	40	40	40	**160**			160				**160**
Disabled Facilities work	200	200	150	150	**700**			700				**700**
New build programme inc acquisitions	4,391	4,114	4,308	4,768	**17,581**	2,996	9,147	5,323	115			**17,581**
Total HRA Capital Spend	**8,037**	**8,745**	**8,786**	**9,206**	**34,774**	**2,996**	**9,147**	**22,516**	**115**	**0**	**0**	**34,774**

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 D

HRA Business Plan updated 2017 – 2027

Year	2017.18	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27
£'000	1	2	3	4	5	6	7	8	9	10
INCOME:										
Total Income	**15,561**	**15,518**	**15,458**	**15,863**	**16,295**	**16,756**	**17,241**	**17,741**	**18,254**	**18,817**
EXPENDITURE:										
General Management	-1,361	-1,943	-1,992	-2,041	-2,092	-2,145	-2,198	-2,253	-2,310	-2,367
Special Management	-1,185	-1,214	-1,245	-1,276	-1,308	-1,340	-1,374	-1,408	-1,443	-1,480
Bad Debt Provision	-75	-74	-74	-76	-78	-80	-82	-85	-87	-90
Responsive & Cyclical Repairs	-3,394	-3,344	-3,512	-3,688	-3,894	-3,992	-4,092	-4,194	-4,299	-4,406
Total Revenue Expenditure	**-6,014**	**-6,576**	**-6,822**	**-7,081**	**-7,372**	**-7,557**	**-7,746**	**-7,940**	**-8,139**	**-8,343**
Interest Paid	-3,042	-3,164	-3,263	-3,286	-3,279	-3,301	-3,381	-3,460	-3,520	-3,708
Interest Received	23	62	82	53	27	17	17	17	17	17
Depreciation	-3,407	-3,445	-3,445	-3,445	-3,531	-3,619	-3,710	-3,803	-3,898	-3,899
Net Operating Income	**3,122**	**2,395**	**2,011**	**2,103**	**2,140**	**2,296**	**2,421**	**2,554**	**2,714**	**2,885**
APPROPRIATIONS:										
Revenue Contribution to Capital	-3,597	0	-1,661	-3,951	-3,350	-2,279	-2,424	-2,557	-2,712	-2,825
Total Appropriations	**-3,597**	**0**	**-1,661**	**-3,951**	**-3,350**	**-2,279**	**-2,424**	**-2,557**	**-2,712**	**-2,825**
ANNUAL CASHFLOW	**-475**	**2,395**	**350**	**-1,848**	**-1,210**	**17**	**-3**	**-2**	**2**	**59**
Opening Balance	1,775	1,301	3,696	4,045	2,197	987	1,004	1,001	999	1,001
Closing Balance	**1,301**	**3,696**	**4,045**	**2,197**	**987**	**1,004**	**1,001**	**999**	**1,001**	**1,060**

Note: RCCO is £0 in 2018/19 as Capital expenditure is fully covered by MRR