BABERGH DISTRICT COUNCIL

From: Cabinet Member - Finance	**Report Number: BCa/17/42**
To: Cabinet	**Date of meeting: 11 January 2018**

DRAFT JOINT MEDIUM TERM FINANCIAL STRATEGY AND 2018/19 BUDGET

1. Purpose of Report

1.1 To consider the draft Joint Medium Term Financial Strategy (MTFS) and draft 2018/19 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 2018/19 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 2018/19 is based on an increase to Council Tax of £5 per annum (10p per week) for a Band D property, which is equivalent to 3.25%, to support the Council's overall financial position, which will be considered further at the February Cabinet meeting.

2.3 That the draft Housing Revenue Account (HRA) Investment Strategy 2018/19 to 2022/23 and draft HRA Budget for 2018/19 be agreed, subject to further consideration at the February Cabinet meeting.

2.4 That the mandatory decrease of 1% in Council House rents, equivalent to an average rent reduction of £0.90 a week as required by the Welfare Reform and Work Act be implemented

2.5 Sheltered Housing Supported people cost of £3 per week to be removed. Service charges to be increased by £5 per week for each scheme (set at £4 cap per week last year) meaning a net increase of £2 per week to tenants. This will reduce the subsidy by £30k.

2.6	Sheltered Housing utility charges are kept at the same level.
2.7	That in principle, Right to Buy receipts should be retained to enable continued development and acquisition of new council dwellings.
2.8	That garage rents are kept at the same level.
2.8	That the revised HRA Business Plan in Appendix D be noted.
2.9	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 Cabinet and Council in February 2018.

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 Councils' Significant Business Risks no. 5f. If we do not understand our financial position and respond in a timely and effective way, then we will be unable to deliver the entirety of the Joint Strategic Plan. The key risk at this stage is outlined below: -

GENERAL FUND			
Risk Description	**Likelihood**	**Impact**	**Mitigation Measures**
If the Council does not plan and identify options to meet the medium-term budget gap, then it will have a detrimental impact on the resources available to deliver services and the strategic priorities.	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.
HRA			
If we do not consider the ongoing impacts of the Welfare and Funding Reforms then it 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.

If there are increases in inflation and other variables, then Council Housing self-financing could result in a greater risk to investment and service delivery plans.	Unlikely - 2	Noticeable - 2	Inflation and interest rate assumptions have been modelled in the HRA business plan. Capital receipts and capital programme funding reviewed.
If we fail to spend retained RTB receipts within 3 year period, then it 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.

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 Consultation has taken place with the Senior Leadership Team and Corporate Managers.

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 2018/19 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 Government confirmed as part of the provisional finance settlement on 19 December, that they aim to increase business rates retention for all local authorities to 75% in 2020/21 to help meet the commitment to give local authorities more control over the money they raise locally. Babergh and Mid Suffolk along with the other five district councils in Suffolk and Suffolk County Council were one of the 10 new areas selected for the 100% business rates retention pilot in the 2018/2019.

10.3 The Fair Funding Review continues, with Government issuing a 12 week consultation that aims to implement a new system based on the consultation findings in 2020/21.

10.4 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.

10.5 The strategic response to those challenges, to ensure long term financial sustainability, is set out in seven 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).

(g) Business and Housing growth

The actions that have been taken under the strategy since 2014/15 mean that the Council is in a better position to withstand the reduction in government grant and deal with the additional cost pressures. Further work is needed in order to address the budget gap over the medium term.

10.6 The future funding of New Homes Bonus continues to remain an uncertainty, with this in mind, the intention is to strive for a position where the Council is no longer reliant on New Homes Bonus to balance the core budget.

10.7 The details within the Joint MTFS shows a cumulative funding pressure over the three years 2019/20 to 2021/22, of £2.2m. This has been updated following the Local Government Finance Settlement announcement on 19 December.

10.8 Each Council is being asked to agree the key aspects of the proposed Budget for 2018/19 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)

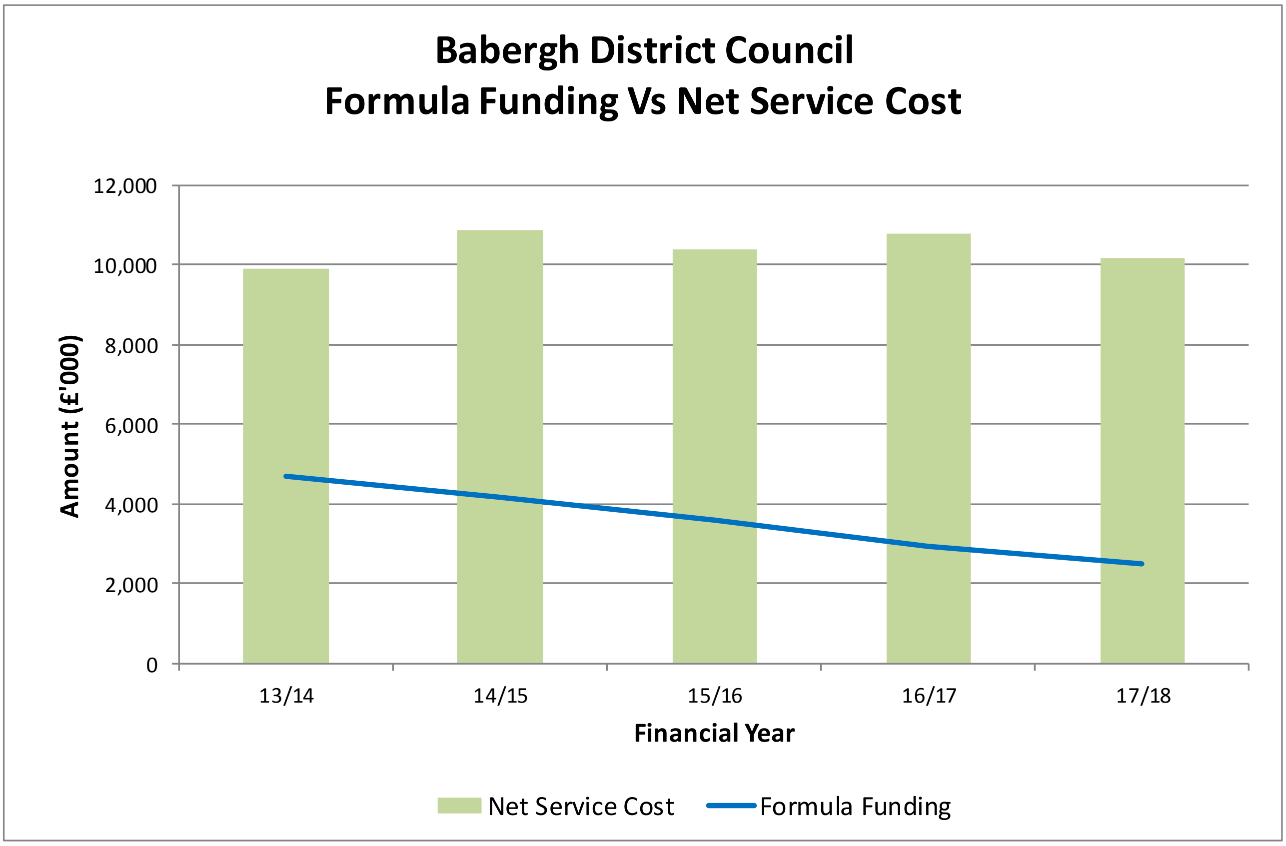
11 GF Financial Position

11.1 Funding arrangements for councils have changed significantly, Babergh have seen a 65% cumulative cut in revenue support grant over the four years from 2013/14 to 2017/18. Under the business rates pilot scheme, the council will no longer receive the Revenue Support Grant and the Rural Services Delivery Grant. These have been rolled up in the baseline business rates figure. The government has pledged that no authority will be adversely affected by the pilot and will adjust the tariff/top ups to deal with this. Further work will be undertaken to understand the full financial impact of this change and will be updated in the final budget report presented to Cabinet in February.

11.2 As part of the four-year settlement in 2015, the government indicated that a tariff would be payable to central government of £131k in 2019/20 to redistribute the core funding and council tax generating capabilities to other councils across the country based on spending needs. The Secretary of State has confirmed that the government will be looking at options for dealing with this, and will be consulting on proposals before next year's settlement.

11.3 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 become 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 in total £7.6m, most of which has been used to balance the budget and the rest transferred to the Transformation Fund reserve.

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



11.5 New Homes Bonus (NHB) is reducing from £1.212m to £865k. Further details of the Government's provisional spending announcement on the 19 December 2017 are set out below:-

- The council tax referendum threshold has been increased from 2% to 3% for most authorities for 2018/19 and 2019/20;

- shire district councils will be allowed increases of less than 3%, or up to and including £5, whichever is higher in 2018-19 and 2019-20;

- Parish and town councils will continue to not be subject to the council tax referendum

- Continuation, and an increase for 2018/19 only of the rural (SPARSE) services delivery grant;

11.6 Councils are 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. As indicated in paragraph 10.6 above the national total for NHB is reducing, so significant housing growth will need to be achieved to match historic income levels.

11.7 It must be emphasised that the Councils core funding is now predominantly business rates income, especially for Babergh, being part of the Suffolk pilot for 100% business rates retention in 2018/19. The Council now moves to a position where the 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, but this is a complex area and difficult to predict with any degree of certainty.

11.8 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.

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 2018/19 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 work as cost effectively as possible.

12.2 Finance has worked closely with Corporate Managers and reviewed each budget in detail and taken a zero based budget approach again for each service, challenging budgets and focussing on the service needs.

12.3 The Deputy Chief Executive along with the Assistant Director for Corporate Resources undertook a piece of work throughout the summer where they reviewed every budget, line by line with the Corporate Manager for Finance and the Senior Business Partner, challenging the budget and exploring opportunities for savings or income generating ideas. Senior Leadership Team provided further challenge and review to these suggestions, and this work along with detailed budget discussions with the Corporate Managers delivered savings for the 2018/19 budget and for future years. However, this review has also identified some cost pressures, a full list of the current changes from the 2017/18 budget to the 2018/19 budget can be found at Appendix B.

12.4 Further work will continue on other initiatives during the year as set out in the draft Medium Term Financial Strategy (MTFS) at Appendix E, one of the strands that require further work at this stage is the Leisure Review.

The Leisure, Sport and Physical Activity Strategy was adopted by the Council at the Cabinet meeting on 7 December 2017. Although no decision has been taken on additional financial implications two major investment projects will be considered by Babergh Cabinet early in 2018. If approved this could result in capital investment in 2018/19 and 2019/20 of approximately £3.2m. The proposals would see all capital repayments, principal and interest, being financed by South Suffolk Leisure Trust. In addition to the potential capital investment a further transformation bid for temporary resource to assist in implementing the LS&PA Strategy for 2018/19 of circa £60k across both Councils will be required.

12.5 During 2017/18 work has progressed with CIFCo Capital Ltd which has been trading since June 2017. The Company purchased their first property investment in December 2017, and the £25m approved fund will be fully invested by December 2018. It is estimated that this will generate an additional £546k over the next four years. The decision taken in February 2017 to increase the Council Tax by £5 has enabled the Council to maintain the range of services it delivers.

12.6 The draft budget models an increase in Council Tax of £5 in 2018/19, this would generate an additional £196k.

13. GF 2018/19 Draft Budget

13.1 The summary at Appendix B shows the key changes between the 2017/18 and 2018/19 and across the period of the MTFS. Additional cost pressures in 2018/19 are £333k, as well as net service cost pressures of £1.664m, this has been offset by the work set out above in identifying savings of £1.626m.

13.2 In order to achieve a balanced budget for 2018/19 Babergh have had to utilise all of the £865k of New Homes Bonus in 2018/19 and £422k of the Transformation Fund – a total of £1.287m compared to £1.362m required in 2017/18. This will leave a small balance of £126k in the Transformation Fund.

13.3 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 £5 per annum (10p per week) for a Band D property, which takes it to £158.86 and equates to a 3.25% increase.

- Certain fees and charges e.g. rental income, water sampling have been increased by 3%.

- For salaries we have assumed a 2% pay award and an increment for all staff that are eligible.

13.4 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. In order to provide further details on the 2018/19 budget, a full breakdown can be found in the form of the Council's draft Budget Book attached at Appendix F.

13.5 In relation to earmarked reserves, the estimated balance of earmarked reserves at the end of 2018/19 is £1.3m, including the Transformation Fund balance of £126k. Further details of the earmarked reserves can be found in Appendix E. In addition to this there is £1.2m, the minimum approved level, in the General Fund reserve/working balance.

14 GF Capital Programme Investment

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 2018/19 to 2021/22, to ensure that resources are aimed at delivery of the Council's strategic priorities.

HOUSING REVENUE ACCOUNT (HRA)

15 HRA Financial Position

15.1 The HRA Business Plan has been updated to reflect the impact of an increase in rents from 2020/21 of Consumer Price Index CPI + 1%. This follows the current rent reduction, introduced by the Chancellor of the Exchequer in 2015/16. The Business Plan is attached at Appendix D and shows additional detail for years 1-10.

15.2 The self-financing regime replaced the old Housing Revenue Account subsidy system on 1 April 2012. Babergh's settlement payment was calculated at £83.6m based on projected income, expenditure and existing stock values. This took HRA long term borrowing to £89.6m.

15.3 HRA Capital Financing Requirement levels are predicted to be £86.6m at 31 March 2018 providing borrowing headroom of £11.2m. New build/acquisitions funding within the Capital Programme 2018 – 2022 totals £16m and HRA reserve balances 2018–2022 are forecast at £4.8m. This will provide a total HRA Investment Fund contribution of £32m 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).

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.

15.5 For example: The delivery of the Homes and Communities Agency (HCA) 27 new affordable homes between 2015/16 to 2017/18, and acquisition of 7 affordable homes (2016/17), 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 Babergh HRA Business Plan presents a positive financial picture over the longer term (a thirty-year period as required under the self-financing regime) but there are short to medium term challenges. These challenges were exacerbated by the proposals announced in the Chancellor's July 2016 Budget:

- The Welfare Reform and Work Act includes a requirement for all social landlords to reduce their rents by 1% each year from 2016 to 2019. However, the recent Government announcement that rents can be increased by CPI +1% for five years from 2020/21will reduce the impact of this on the 30-year plan.

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

- This Act 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 have not made it clear when the introduction of this levy may commence. Details of how the levy will be calculated are still unknown. On the advice of the Chartered Institute of Housing the 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

16.2 The Government proposal to cap housing benefit in the social housing sector at Local Housing Allowance (LHA) rates has been dropped. This is good news for our tenants, especially those under 35, as they would have been responsible to pay the difference between their rent and the LHA putting them at risk of rent arrears.

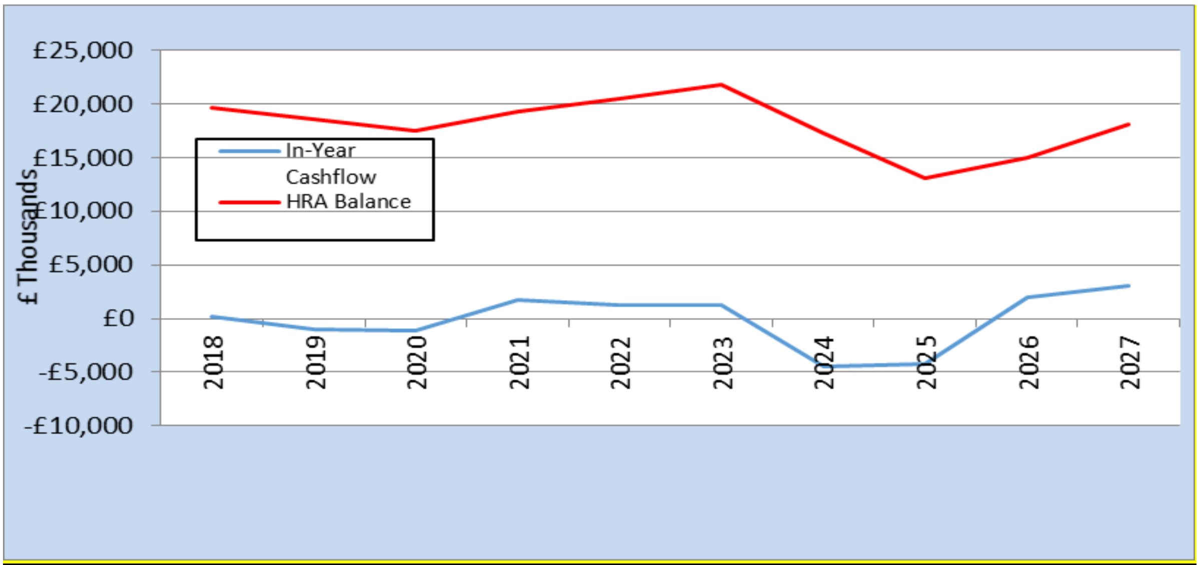
17. HRA Potential Resources Available for Investment

17.1 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 2018/19 for 10 years

This graph shows reserve balances within the HRA increasing to approximately £18m by Year 10 (2027/28) based on annual rent reductions of 1% for the next two years followed by a rent increase of CPI +1% for five years from 2020/21.

Graph A

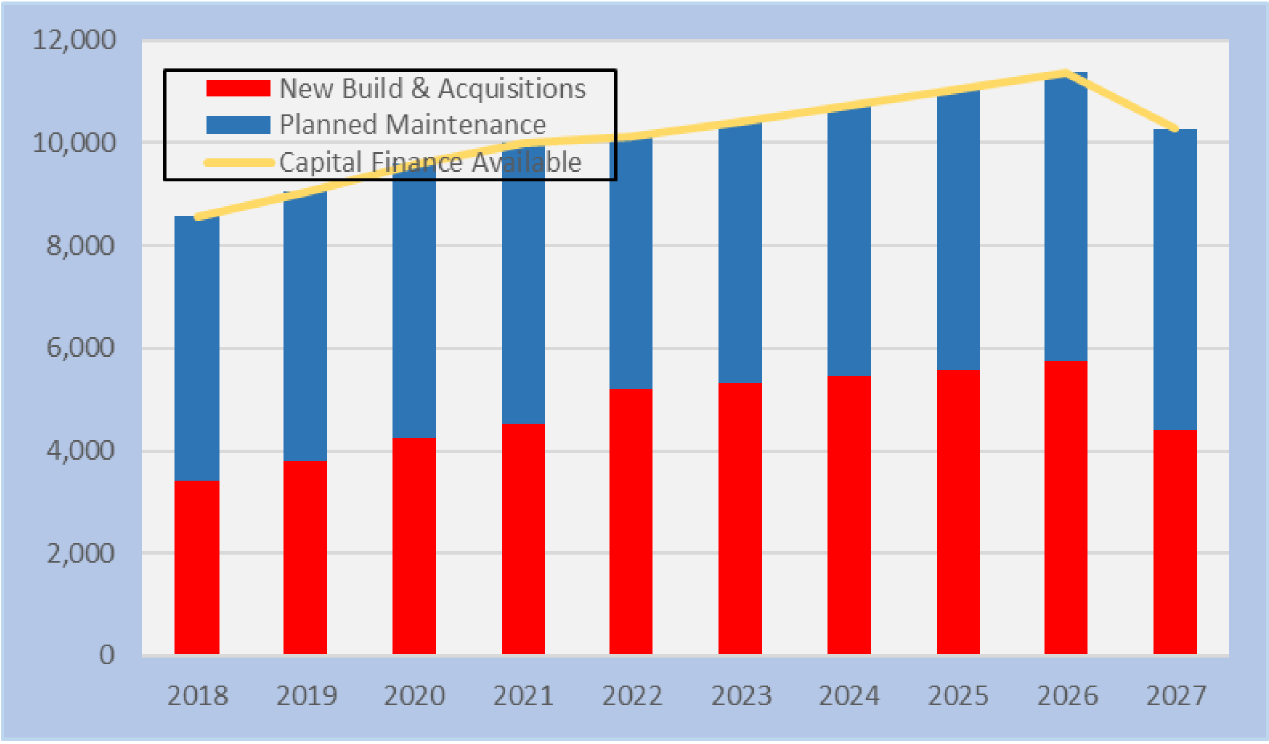


Graph B - Capital Programme from 2018/19 for 10 years (based on a 1% rent reduction in years 1 to 2 followed by a CPI +1% rent increase in years 3 to 10)

This graph shows proposed Capital Programme expenditure and debt cap levels within the HRA Business Plan up to Year 10 (2018/19 to 2027/28). The HCA new build programme does not extend beyond year 1, although significant investment continues through the Right to Buy replacement programme.

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

Graph B



18 HRA Key Challenges

18.1 HRA Self-financing has provided significant opportunities for Babergh. The development of 27 new council homes supported by Homes and Communities Agency Grant funding is a good example of how the funds available within the HRA are being used differently.

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 2018/19 and highlights the variances from the current year as a result of a 1% rent reduction (an average rent reduction of 90 pence per week for Babergh 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 was forecast to be £4.5m over years 2016/17 to 2019/20.

However, the recent announcement that Local Authorities can increase their rents by up to CPI +1% for five years from 2020/2021 has resulted in an impact of greater than 1% per annum. The cumulative impact of the rent increase results in a higher income (against business plan projections 2017/18) to the HRA as follows:

Years	Babergh
1 to 5	£1.0m
1 to 10	£5.4m
1 to 15	£10.7m

This will increase 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 2018/19 by reducing both revenue and capital budgets (see table in 19.1). A fundamental review of the housing service has been undertaken during 2017/18 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 and complaints handling

- New build programme and retention of Right to Buy receipts. A back to back contract with Orbit Housing is about to been completed which will provide 15 affordable rental homes and 12 Shared ownership at a cost of £3.2m. Iceni Homes have been appointed to look into development opportunities to enable us to deliver our affordable housing programme.

- A number of Council landholdings such as underutilised open space, garage sites and severed gardens are currently being assessed by the Investment and Development Team and could be added to the pipeline subject to their suitability.

- Our approach to HRA business planning includes, reviewing and realigning housing stock condition data and capital programme expenditure. The data has been reviewed and Ridge have been appointed to carry out a stock condition survey on 24% of housing stock by the end of February 2018 to enable us to produce a robust 30-year capital programme. A contingency amount, based on £1,300 per property, has been put into the 2018/19 Budget and 4-year MTFS 2018/19. Once the capital programme is completed the budget will be allocated against the relevant areas of spend.

- The Sheltered Housing Review concluded that some schemes which are difficult to let would be 'de-sheltered' ahead of a predicted reduction in Housing Related Support funding, this work has now been completed. The business plan has been amended to reflect the reduction in expenses and service charge income following the de-sheltering of properties in April 2017, as well as the loss of the Supporting People Grant of £42k from Suffolk County Council (SCC) from April 2018.

- Councillors approved the formation of a new Babergh & Mid Suffolk Building Services (BMBS) team, which carries out responsive repairs and programmed works. The BMBS business plan forecasts a surplus within five years of its implementation.

- The HRA Accounting Team are implementing a robust budget setting and monitoring process together with financial controls.

- Leaseholders service charges have been reviewed to identify the gap between costs incurred and the amount recharged. Completion of this work allows us to increase income over the next three years to bring us to a cost neutral position.

18.5 **Sheltered housing -** Babergh District Council has historically subsidised sheltered service charges from the HRA by approximately £400k each year. The new pressures of rent reduction and removal of the Housing Related Support Grant from Suffolk County Council of £42k from April 2018 make this subsidy unsustainable in the long term.

To reduce the subsidy from the HRA, we propose the following:

- to increase service charges for sheltered residents, which are eligible for housing benefit, by £5 per week from April 2018,
- that the Housing Related Support charge of £3 per week, which is an ineligible cost for housing benefit purposes, is removed from April 2018.

This will mean that all residents, whether they be self-payers or not, will only see a net increase of £2 per week in 2018/19 in comparison to the £4 increase in 2017/18

18.6 **Garage rents** – It is proposed that following a number of significant increases in garages rents, it is not sustainable to continue with further increase in 2018/19. This would make garages undesirable as a result we propose to maintain garage rents at current levels.

HRA New build programme and retention of Right to Buy receipts

18.7 Right to Buy (RTB) sales for both councils have been less than projections in business plans. In 2016/17 Babergh sold 26 against original projections of 24 sales.

18.8 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.

18.9 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. 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; although the announcement that we can increase rent by a maximum of CPI +1% for five years from 2020/21 will help to mitigate this risk.

19 HRA Draft Budget 2018/19

19.1 The table below sets out the draft HRA budget for 2018/19, based on a 1% rent decrease, highlighting the variance from 2017/18.

Description	2017/18 £000	2018/19 £000	Variance £000	Reason
Rent and other income	(16,717)	(16,645)	(72)	Based on a proposed average rent decrease of 1%. Offset by increase in number of affordable homes, and service charges
Bad Debt Provision	115	155	(40)	Universal Credit is being implemented during 2017/18, so the

Description	2017/18 £000	2018/19 £000	Variance £000	Reason
				provision has been increased to reflect the likelihood of additional rent arrears and bad debts.
Interest	(16)	(15)	(1)	
Total Net Income	**(16,618)**	**(16,504)**	**(114)**	
Repairs and Maintenance, Management and other costs	5,203	6,074	(571)	Reflects a review of all costs including BMBS following higher than expected increases in material costs.
Capital Charges	2,803	2,847	(44)	Reflects interest costs on fixed rate long term loans which has increased following a correction to the interest rates. This has been partially offset by the £500k paid against debt.
Revenue Contribution to Capital Programme	5,605	4,124	1,481	RCCO is used to cover capital spend once the Major Repairs Allowance has been used. As capital spend is budgeted to be lower in 2018/19 the RCCO requirement has also reduced.
Depreciation	2,735	2,721	14	
Debt Repayment	500	500	0	
Total Expenditure	**17,146**	**16,150**	**997**	
In-year operating (surplus)/deficit	527	(238)	(766)	Reflects reduction in Capital spend financing requirements which is offset by increases in Repairs and maintenance costs and reduction in rental income
Year-end transfer to/(from) reserves	(527)	238	766	
Total	**0**	**0**	**0**	

19.2 A revised and updated HRA Business Plan is attached at Appendix D, based on annual rent reduction of 1% until 2019/20 then increasing by CPI +1% from 2020/21 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 30-year business plan with Treasury debt forecast to be reduce to £1.1m in year 19 before rising to £12.1m in year 25 after taking out a new Treasury loan of £11.1m.

19.4 The established rent formula empowers Government to restrict our ability to increase rents through applying a ‘limit rent’ this is the average rent level at which full housing benefit will be paid. If our average rent exceeds this amount then a payment has to be made to the Government to make up the difference. Limit rent figures will be released at the end of January 2018. This could still have an impact on rent levels in addition to the -1% change required.

20 HRA Capital Programme Investment

20.1 The draft Capital Programme is attached at Appendix C.

20.2 The proposed Capital Programme headlines for 2018 – 2021 are:-

Expenditure	**£m**
Housing Maintenance Programmes	**21.2**
New build (HCA programme)	**0.1**
RTB receipt funding	**15.9**
Total	**37.2**
Financing	
Capital receipts disposals and RTB receipts and HCA Grant	**17**
Revenue Contributions	**20.2**
Borrowing	**0**
Total	**37.2**
Remaining Borrowing Headroom available (31 March 2021)	**13.2**

21. Appendices

Title	**Location**
Appendix A – Draft General Fund Budget Summary 2018/19	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 2018/19	Attached

22. Background Documents

Local Government Finance Settlement.

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Appendix A

Draft General Fund Budget Summary 2018/19

GENERAL FUND REVENUE BUDGET SUMMARY

		2017/18 £'000	2018/19 £'000	Movement £'000
1	Employee Costs	8,027	8,032	6
2	Premises	851	825	(26)
3	Supplies & Services	3,441	3,492	51
4	Transport	182	278	96
5	Contracts	4,108	4,249	141
6	Third Party Payments	20,202	20,202	(0)
7	Income	(26,238)	(27,521)	(1,283)
8	Charge to HRA	(1,138)	(1,119)	19
9	Charge to Capital	(407)	(227)	180
10	Capital Financing Charges	920	1,561	641
11	Investment Income	(922)	(1,392)	(470)
12	Transfers to Reserves			
	(a) New Homes Bonus	1,212	866	(346)
	(b) S31 Business Rates Grant	650	797	147
	(c) Other	23	27	4
	Net Service Cost	**10,913**	**10,071**	**(841)**
13	Transformation Fund - Staffing (NHB)	(484)	(50)	434
14	Transformation Fund - Delivery Plan Projects (NHB)	-	-	-
15	Transfers from Reserves - earmarked		(432)	(432)
16	S31 Grant	(650)	(797)	(147)
17	New Homes Bonus remaining	(712)	-	712
18	Deficit / (Surplus) on Collection fund	(40)	(12)	28
19	Revenue Support Grant (RSG)	(504)	-	504
20	Baseline business rates	(1,997)	(2,443)	(446)
21	Business rates – growth/pooling benefit	(109)	(206)	(97)
22	Business rates – 17/18 collection fund deficit		371	371
23	Transition Grant	(22)	-	22
24	Rural Services Support Grant	(182)	-	182
25	Council Tax	(5,000)	(5,214)	(214)
	Total Funding	**(9,701)**	**(8,783)**	**917**
26	Shortfall in funding / (Surplus Funds)	**1,212**	**1,287**	**77**
	Minimum New Homes Bonus available	**-**	**(866)**	**(866)**

	2017/18	2018/19	Movement
Council Tax Base	(32,489)	(32,822)	(333)
Council Tax for Band D Property	153.86	158.86	5.00
Council Tax	**(4,999)**	**(5,214)**	**(215)**

Appendix B

Movement of service cost budget year on year

BABERGH - MOVEMENT YEAR ON YEAR	17/18 to 18/19 £000
Net Service Cost previous year	**9,700**
Cost Pressures	
Inflation	
Employees - 2% pay award	165
Employees - increments	102
Other Employee costs	1
Contracts	42
Supplies & Services	7
Insurance Premiums	5
Business Rates	12
Sub total cost pressure	**333**
Other increases to net service cost	
BMS Invest	
Staff costs	41
Communities	
Car Park income - revision of budgets (including ECNs)	58
Strong and Safe Communities - staff costs	37
Street and Major Road Cleanisng - recycling performance payments	26
Business Rates - car parks	15
Domestic Homicide Review	12
Corporate Resources	
Reduction to HB Admin Subsidy Grant	26
Organisational Development inc Health and Safety - staff costs	25
Phased reduction of general savings	20
Shared Revenues Partnership contract increase	20
Borehamgate - reduction in rental income (empty units)	14
Reduction to income received for Credit Card charges.	6
Customer Services	
Customer Services - staff costs	7
Contribution to Sudbury Customer Access Point	4
Environment and Commercial Partnerships	
Net reduction to Building Control Income	61
Waste - recycling performance payments	39
Trade Waste Income (net) including glass collection service cost	25
Environmental Protection - legal expenses	6
Housing	
Homelessness - staff costs (funded from grants)	115
Law & Governance	
Governance - staff costs (including Scanners)	44
Information Management - staff costs (re-allocation of time chnarged to Capital)	39
Shared Legal Services (net) including staff costs	35
Internal Audit - staff costs	6
Planning for Growth	
Community Housing Fund inc fixed term post for 2 years (funded from grant in earmarked reserves)	95
Development Management - staff costs (funded from 20% inc to planning fees)	95
Property Services	
Hadleigh HQ security costs	114
Belle Vue House - reduction in rental income	19
Wenham Depot - includes reduction to rental income	12
PV Panels - cleaning and repairs / maintenance	6
Other Cost Pressures	
Minimum Revenue Provision	322
Recharge to Capital (can be offset in part by capital projects - staff costs below)	180
Other items (net)	70
SLT staff costs	25
Recharge to HRA	19
Modern Apprentice Levy - net cost	14
Interest payable / receivable	6
Pooled Funds income (net of management fees)	6
Sub total other increases to net service cost	**1,664**

Appendix B

Actions to offset increases to net service cost	
Inflation - income	(23)
Communities	
Public Realm - staff costs	(25)
Increase to fees for dog & litter bin emptying	(2)
Corporate Resources	
Management Review Savings	(160)
Commissioning and Procurement - staff costs	(14)
External Audit Fees	(11)
Corporate Training	(10)
Stationery	(8)
I-Trent	(7)
Finance - staff costs	(5)
Contracted services (Vertas)	(3)
Customer Services	
ICT costs - server room, printers, general savings	(56)
ICT - staff costs	(30)
Environment and Commercial Partnerships	
Reduction of payments to third parties for Bring sites - Glass & Textile recycling	(20)
Building Control - staff costs	(18)
Garden Waste Income (net)	(12)
Energy Proficiency Certificates (SAPs) income	(4)
Income for Food Hygiene Rating System rescore visits	(1)
Housing	
Homelessness - flexible support and new burden grants	(191)
Law and Governance	
Alignment of Chairman's expenses	(7)
Course conference fees for members	(4)
Impact of the Boundary Review	
Planning for Growth	
Planning fee income - 20% price increase	(120)
Planning fee income - volume increase	(110)
Reduction of License costs for UNIFORM	(39)
CIL 5% to cover administration costs	(11)
Property Services	
Capital Projects - staff costs	(107)
East House running costs	(9)
Other Savings	
Removal of Transformation Funded Posts	(367)
CIFCO	(138)
Increase vacancy management contingency to 2.5%	(88)
Accommodation - All Together	(23)
Tansfer to reserves	(5)
Sub total actions	**(1,626)**
Total Net Service Cost movement	**371**
New Net Service Cost	**10,072**

Appendix B

BABERGH - MOVEMENT YEAR ON YEAR	17/18 to 18/19 £000
Funding previous year	**(9,700)**
Cost Pressures	
Movement in Reserves	568
Removal of Revenue Support Grant (RSG) - now included within baseline Business Rates	504
Business Rates - collection fund deficit 2017/18	371
Removal of Rural Services Support Grant (RSDG) - now included within baseline Business Rates	182
Change to Council Tax Collection fund surplus	28
Removal of Transition Grant	22
Sub total cost pressure	**1,675**
Savings / Actions to increase funding	
Business Rates - baseline (now includes RSG & RSDG)	(446)
Business Rates - pooling benefit	(97)
RSG - tariff	-
Council Tax (£5 increase to Band D)	(196)
Growth in taxbase	(20)
Sub total savings /actions to increase funding	**(758)**
New Year Funding	**(8,784)**
Annual Budget (surplus)/deficit	**1,288**

Appendix C

DRAFT CAPITAL PROGRAMME FOR 2018/19 to 2021/22

General Fund

BABERGH CAPITAL PROGRAMME 2018/19 - 2021/22 GENERAL FUND	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	TOTAL BUDGET (over 4 years) £'000	Capital Receipts £'000	Revenue Contributions to Capital £'000	Reserves £'000	Government Grants £'000	S106 £'000	Borrowing £'000	Total Financing £'000
Supported Living												
Mandatory Disabled Facilities Grant	409	409	409	409	**1,637**				1,637			**1,637**
Discretionary Housing Grants	100	100	100	100	**400**						400	**400**
Empty Homes Grant	100	100	100	100	**400**						400	**400**
Total Supported Living	**609**	**609**	**609**	**609**	**2,437**	**0**	**0**	**0**	**1,637**	**0**	**800**	**2,437**
Strategic Housing												
Grants for Affordable Housing	100	100	100	100	**400**						400	**400**
Total Strategic Housing	**100**	**100**	**100**	**100**	**400**	**0**	**0**	**0**	**0**	**0**	**400**	**400**
Environment and Projects												
Replacement Refuse Freighters - Joint Scheme	185	185	185	0	**555**						555	**555**
Recycling Bins	65	65	65	65	**260**						260	**260**
Total Environment and Projects	**250**	**250**	**250**	**65**	**815**	**0**	**0**	**0**	**0**	**0**	**815**	**815**
Communities and Public Access												
Community Development Grants	117	117	117	117	**468**						468	**468**
Play Equipment	50	50	50	50	**200**						200	**200**
Planned Maintenance / Enhancements - Car Parks	36	38	35	35	**144**						144	**144**
Total Community Services	**203**	**205**	**202**	**202**	**812**	**0**	**0**	**0**	**0**	**0**	**812**	**812**

Appendix C

DRAFT CAPITAL PROGRAMME FOR 2018/19 to 2020/21

General Fund

BABERGH CAPITAL PROGRAMME 2018/19 - 2021/22 GENERAL FUND	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	TOTAL BUDGET (over 4 years) £'000	Capital Receipts £'000	Revenue Contributions to Capital £'000	Reserves £'000	Government Grants £'000	S106 £'000	Borrowing £'000	Total Financing £'000
Leisure Contracts												
Kingfisher Leisure Centre - plant and other capital	145	40	50	50	**285**						285	**285**
Hadleigh Sports & Swimming Pool - General	0	50	50	50	**150**						150	**150**
Total Leisure Contracts	**145**	**90**	**100**	**100**	**435**	**0**	**0**	**0**	**0**	**0**	**435**	**435**
Capital Projects												
Planned Maint / Enhancements - Other Corp Buildings	48	48	48	48	**192**						192	**192**
Total Capital Projects	**48**	**48**	**48**	**48**	**192**	**0**	**0**	**0**	**0**	**0**	**192**	**192**
Investment and Commercial Delivery												
Land assembly, property acquisition and regeneration opportunities	2,973	2,973	2,973	2,973	**11,892**						11,892	**11,892**
Total Investment and Commercial Delivery	**2,973**	**2,973**	**2,973**	**2,973**	**11,892**	**0**	**0**	**0**	**0**	**0**	**11,892**	**11,892**
Corporate Resources												
ICT - Hardware / Software costs	200	200	200	200	**800**						800	**800**
Total Corporate Resources	**200**	**200**	**200**	**200**	**800**	**0**	**0**	**0**	**0**	**0**	**800**	**800**
Total General Fund Capital Spend	**4,528**	**4,475**	**4,482**	**4,297**	**17,783**	**0**	**0**	**0**	**1,637**	**0**	**16,146**	**17,783**
Total Capital Spend	**13,103**	**13,520**	**14,081**	**14,302**	**55,007**	**2,746**	**20,243**	**14,235**	**1,637**	**0**	**16,146**	**55,007**

Appendix C

DRAFT CAPITAL PROGRAMME FOR 2018/19 to 2020/21

HRA

BABERGH CAPITAL PROGRAMME 2018/19 - 2021/22 HOUSING REVENUE ACCOUNT	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	TOTAL BUDGET (over 4 years) £'000	Capital Receipts £'000	Revenue Contributions to Capital £'000	Reserves £'000	Government Grants £'000	S106 £'000	Borrowing £'000	Total Financing £'000
Housing Maintenance												
Planned maintenance	4,587	4,782	4,888	5,006	**19,262**		9,802	9,460				**19,262**
ICT Projects	300	200	200	200	**900**		900					**900**
Environmental Improvements	50	50	50	50	**200**		200					**200**
Disabled Facilities work	200	200	200	200	**800**		800					**800**
Horticulture and play equipment	23	23	23	23	**92**		92					**92**
New build programme inc acquisitions	3,415	3,791	4,239	4,526	**15,970**	2,746	8,449	4,775				**15,970**
Total HRA Capital Spend	**8,575**	**9,045**	**9,599**	**10,005**	**37,224**	**2,746**	**20,243**	**14,235**	**0**	**0**	**0**	**37,224**

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.

HRA Business Plan updated 2018/19 – 2027/28 **Appendix D**

Year	2018.19	2019.20	2020.21	2021.22	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28
£'000	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
INCOME:										
Rental Income	(15,986)	(15,855)	(16,405)	(17,001)	(17,649)	(18,351)	(19,080)	(19,644)	(20,225)	(20,794)
Void Losses	149	147	153	158	164	171	177	183	188	193
Service Charges	(585)	(585)	(585)	(585)	(604)	(624)	(645)	(666)	(688)	(711)
Non-Dwelling Income	(201)	(201)	(201)	(201)	(208)	(214)	(222)	(229)	(236)	(244)
Grants & Other Income	(22)	(39)	(39)	(39)	(41)	(42)	(43)	(45)	(46)	(48)
Total Income	**(16,645)**	**(16,532)**	**(17,077)**	**(17,668)**	**(18,338)**	**(19,061)**	**(19,812)**	**(20,401)**	**(21,007)**	**(21,604)**
EXPENDITURE:										
General Management	2,586	2,430	2,503	2,578	2,663	2,751	2,842	2,935	3,032	3,132
Special Management	935	907	937	969	1,001	1,034	1,068	1,103	1,140	1,177
Other Management	400	398	341	220	154	159	164	170	175	181
Bad Debt Provision	155	193	200	165	127	132	137	196	202	208
Responsive & Cyclical Repairs	2,153	2,326	2,329	2,396	2,482	2,564	2,649	2,736	2,826	2,919
Total Revenue Expenditure	**6,229**	**6,254**	**6,310**	**6,328**	**6,427**	**6,640**	**6,860**	**7,141**	**7,375**	**7,618**
Interest Paid	2,847	2,829	2,809	2,795	2,794	2,793	2,792	2,623	2,450	2,450
Interest Received	(15)	(14)	(14)	(14)	(20)	(21)	(20)	(15)	(14)	(17)
Depreciation	2,721	2,721	2,721	2,789	2,789	2,789	2,789	2,789	2,789	2,789
Net Operating Income	**(4,863)**	**(4,743)**	**(5,251)**	**(5,770)**	**(6,348)**	**(6,861)**	**(7,391)**	**(7,864)**	**(8,407)**	**(8,764)**
APPROPRIATIONS:										
Revenue Provision (HRACFR)	500	0	0	0	0	0	0	0	0	0
Revenue Contribution to Capital	4,124	5,796	6,332	3,991	5,090	5,603	11,876	12,085	6,448	5,735
Total Appropriations	**4,624**	**5,796**	**6,332**	**3,991**	**5,090**	**5,603**	**11,876**	**12,085**	**6,448**	**5,735**
ANNUAL CASHFLOW	**(239)**	**1,053**	**1,081**	**(1,779)**	**(1,258)**	**(1,258)**	**4,485**	**4,221**	**(1,959)**	**(3,029)**
Opening Balance	(7,306)	(7,545)	(6,492)	(5,411)	(7,191)	(8,449)	(9,706)	(5,221)	(1,000)	(2,960)
Closing Balance	**(7,545)**	**(6,492)**	**(5,411)**	**(7,191)**	**(8,449)**	**(9,706)**	**(5,221)**	**(1,000)**	**(2,960)**	**(5,989)**

Note: The £6m increase in RCCO in 2024.25 and 2025.26 is due to a predicted additional payment on the loan