

Committee: Cabinet

Agenda Item

Date: 20 November 2012

3

Title: Budget Strategy

Portfolio Holder: Councillor Robert Chambers

Key decision: **Yes**

Summary

1. This report summarises the financial outlook for 2013/14 and asks Members to approve a strategy for drawing up the 2013/14 budget.
2. The report also sets out the results of the public consultation on Council priorities.
3. Based upon the approved strategy officers will draw up a proposed budget for formal review by Members as follows:

Scrutiny review	Scrutiny Committee	7 February
Finalisation of budget proposals	Cabinet	19 February
Approval of final budget	Full Council	28 February

Recommendations

4. The Cabinet is recommended to approve the 2013/14 Budget Strategy and key actions as set out in this report.

Financial Implications

5. There are no direct financial implications arising from the recommendation.

Background Papers

6. None.

Impact

Communication/Consultation	Detailed in the report
Community Safety	None
Equalities	An EQIA will be prepared as part of developing budget proposals for approval.
Health and Safety	None
Human Rights/Legal Implications	It is a legal requirement to ensure a balanced budget.

Budget Strategy

Cabinet, 20 November 2012, item 3

Sustainability	The budget is to be set within the context of the Medium Term Financial Strategy which is designed to ensure stability and sustainability of budget decisions.
Ward-specific impacts	None
Workforce/Workplace	Some of the decisions made as part of the budget setting process could have implications for staff.

Financial Outlook for 2013/14

7. Budget planning this year is again characterised by uncertainty about Government funding and local government finance generally. Root and branch reform of the funding system continues apace with localisation of business rates and council tax support due to take effect from 1 April. Along with the now-established New Homes Bonus, the local government finance system is set to become a 'brave new world' whereby Councils' funding depends directly on growth and prosperity in their local economies.
8. Firm numbers to inform the UDC budget will not be available until the Local Government Finance Settlement is published, anticipated for mid-December. Meanwhile, during the Summer and Autumn the Government has issued various publications that enable their thinking to be interpreted and estimates to be made.
9. The numbers in this report are based upon these interpretations and are therefore subject to change when the Settlement is published.
10. With that caveat in mind, the indications at this stage are that UDC has a healthy budget outlook for 2013/14 and 2014/15 at least. Extrapolations beyond 2015/16 are encouraging but it should be noted that before 2015/16 there is likely to be a new Government Comprehensive Spending Review. In addition, the 2015 General Election provides additional uncertainty about the post-2015 period.
11. The principal reason for the encouraging outlook is that based upon the existing published New Homes Bonus methodology, and forecasts of housing growth within Uttlesford, the Council should receive a substantial amount of New Homes Bonus during the next few years. This will compensate for expected reductions in core Formula Grant, and are likely to deliver a net increase in Government funding for 2013/14. There are of course risks behind this assumption; the housing growth forecasts may prove to be optimistic, and the Government may amend the methodology.

Budget Strategy

Cabinet, 20 November 2012, item 3

Budget Model

12. To inform the financial outlook for UDC, a detailed budget model is used. The following are key assumptions used in the model.

- a) **Gross service expenditure:** Uses the 2012/13 base budget as a starting point and one-off items removed. Assumptions about annual inflation are used: Pay award 1%, Pensions 1% of salary; Utilities 5%; Contractual indexation 3%; Price Inflation 2%.
- b) **Gross Service Income:** Again uses the 2012/13 base budget as a starting point. Assumed price inflation 2% for fees and charges except where special arrangements apply e.g. car park charges and taxi licences.
- c) **Use of New Homes Bonus:** For 2012/13 the Council decided to make £708,000 available for one-off spending, including the Jubilee Fund and Ward Members budgets. These come out of the budget model from 2013/14 although it is considered likely that some use of New Homes Bonus will be made in future years.
- d) **Corporate items:** Pension Fund deficit payment – inflationary increase. Capital Financing Costs – increase in line with expected capital expenditure financing requirements. Investment income – nominal sum only due to continued low interest rates and prudent investment policy. Recharges to HRA – no change in methodology or amount recharged.
- e) **Local Council Tax Support** – Assumed costs in line with the proposed scheme being considered by Cabinet today. Council Tax Benefit and Government subsidy removed from the model, although there is a risk of residual adjustments.
- f) **Universal Credit** – no adjustments made in the budget model as yet pending clarity on the implications for UDC and the timings of any changes. Housing Benefits is expected to migrate to DWP between 2013-2017.

Government Funding Assumptions

- g) **Specific grants:** Assumed no change to PFI, Homelessness and NNDR collection costs funding. Benefits admin subsidy 5% annual cut. Housing Benefits subsidy at 98% of expenditure.
- h) **Council Tax Freeze Grant** – 2013/14 will be year 3 of 4 for the freeze grant triggered by freezing Council Tax in 2011/12. The freeze grant paid for freezing Council Tax in 2012/13 was a one off payment so falls out of the budget model. Freeze grant equivalent to a 1% rise will be paid for 2 years and has been built into the model due to the assumptions about Council Tax discussed below.

Budget Strategy

Cabinet, 20 November 2012, item 3

- i) **LCTS funding** – as per the indicative amount published by DCLG in the Summer.
- j) **Localisation of Business Rates** – As discussed in an earlier report to Cabinet, according to published formulae, under most foreseeable scenarios the amount retained by UDC shall be between £1.4m and £1.8m. The model prudently assumes the lower figure of £1.4m.
- k) **Formula Grant**: 2013/14 figure based on indicative sum published by DCLG in the late Summer. There is no information about subsequent years. The model assumes a 25% annual reduction so that Formula Grant reaches zero by 2017/18.
- l) **New Homes Bonus**: Assumes that the scheme will continue in line with the existing published methodology. The Council will be rewarded by around £1,500 pa for six years for each new home brought into the Council Tax system. The Government has published a document indicating that NHB funding will continue until at least 2020/21. Based upon predictions of Housing Growth reported to the LDF Working Group, the estimated NHB funding is as follows:

£000	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
2011/12 award	714	714	714	714	714	714	
2012/13 award		534	534	534	534	534	534
2013/14 award			782	782	782	782	782
2014/15 award				608	608	608	608
2015/16 award					627	627	627
2016/17 award						794	794
2017/18 award							878
TOTAL NHB	714	1,248	2,030	2,638	3,265	4,059	4,223
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast

Council Tax

- m) the Administration has given informal guidance that UDC's Council Tax should be reduced by 1% in 2013/14. No assumptions about future years have been made so the model is based on Council Tax being frozen from 2014/15. The Administration shall be looking carefully at the Council's finances during the next 2-3 years and will take appropriate and responsible decisions depending on the circumstances at the time. Taxbase assumptions are in line with housing growth forecasts and an estimate of LCTS discounts. These assumptions give rise to the forecasts below.

Budget Strategy

Cabinet, 20 November 2012, item 3

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Tax Base (gross)	33,732	34,253	34,658	35,076	35,605	36,190
LCTS discounts	-	-2,565	-2,595	-2,626	-2,666	-2,710
Tax Base (net)	33,732	31,688	32,063	32,450	32,939	33,480
UDC Band D	£147.42	£145.95	£145.95	£145.95	£145.95	£145.95
Planning assumptions	Freeze (no change since April 2010)	1% reduction	Freeze	Freeze	Freeze	Freeze
Council Tax income	£4.973m	£4.625m	£4.680m	£4.736m	£4.807m	£4.886m

Cumulative CPI inflation since April 2010 (date of last UDC Council Tax increase) to October 2012 (latest published inflation data) is 8.8%. Projecting this forward to April 2013 gives an estimated cumulative from April 2010 to April 2013 of 10%. If a 1% reduction is approved by the Council, this would represent a real terms reduction in the UDC precept of 11%.

In line with the recommendations in the LCTS Cabinet report, it is assumed that there will be no changes to Council Tax discounts for empty and second homes in 2013/14, but these will be reviewed with the intention of making changes in 2014/15.

Summary of Budget Model

13. The above assumptions produce the following forecasts for the next five years:

Budget Strategy

Cabinet, 20 November 2012, item 3

£m	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	original	forecast	forecast	forecast	forecast	forecast
Gross service expenditure	33.464	30.102	30.970	31.971	32.853	33.855
Gross service income	-25.427	-21.995	-22.662	-23.283	-23.942	-24.633
Net service expenditure	8.037	8.107	8.308	8.688	8.911	9.222
Use of New Homes Bonus	0.708	0.040	0.000	0.000	0.000	0.000
Corporate items (net)	0.331	0.407	0.321	0.441	0.561	0.681
Net council expenditure	9.076	8.554	8.629	9.129	9.472	9.903
<u>Government funding</u>						
Council Tax Freeze Grant	-0.248	-0.173	-0.173	0.000	0.000	0.000
LCTS funding	0.000	-0.346	-0.346	-0.346	-0.346	-0.346
Formula Grant	-2.766	-1.195	-0.896	-0.598	-0.299	0.000
Business rates retention	0.000	-1.442	-1.442	-1.442	-1.442	-1.442
New Homes Bonus	-1.248	-1.874	-2.360	-2.862	-3.497	-3.628
Total Govt funding	-4.262	-5.030	-5.217	-5.248	-5.584	-5.416
NET OPERATING EXPENDITURE	4.814	3.524	3.412	3.881	3.888	4.487
Net transfers to/from(-) reserves	0.159	-0.263	0.040	-0.040	0.040	0.061
COUNCIL TAX REQUIREMENT	4.973	3.261	3.452	3.841	3.928	4.548
COUNCIL TAX	4.973	4.625	4.680	4.736	4.807	4.886
Surplus	0.000	1.364	1.228	0.895	0.879	0.338

Budget Strategy

Cabinet, 20 November 2012, item 3

14. The forecasts show:

- An in-year surplus of £1.36m for 2013/14
- A further in year surplus of around £1.23m for 2014/15
- Further in year surpluses from 2015/16 of £0.9m falling to £0.3m by 2017/18.

15. The in year surpluses arise because of the net increase in Government funding that is forecasted, and is directly attributable to New Homes Bonus and the forecasts around housing growth. Without this growth translating into NHB funding, net funding reductions would arise due primarily to expected cuts in Formula Grant.

16. It is emphasised yet again that all forecasts, in particular those about Government funding, are not based on firm information and figures from 2015 especially are (informed) conjecture.

17. By the sixth year of the New Homes Bonus scheme (2016/17) the amount of funding receivable will flatten off at around £3.5m. The total Government funding would also plateau off at that time. However, as the Council's costs increase due to inflationary pressure, the size of the in year surplus starts to fall, reaching £0.3m by 2017/18. Projecting that forward still further, the Council would be in an in-year deficit situation by 2020.

18. Because of the degree of estimation involved, and the longer term projections referred to in the proceeding paragraph, it will be absolutely essential to maintain strong financial discipline around all aspects of the Council's costs and income. The Council must ensure it is in a strong position to anticipate and adapt to funding outcomes that differ from what is currently assumed. The work to realise efficiency savings i.e. deliver equal or better outcomes for lower cost will continue.

19. All that being said, there is reasonable confidence about the prospects for the next two years at least and therefore the Council has an opportunity to make investments that having lasting value to the Council and the community it serves. The legacy left by decisions in the coming years could be significant.

20. Total General Fund reserves during this five year model are estimated to stay steady at around £5.4m-£5.5m. This excludes any in-year surpluses so the reserves balances will be higher if the Council decides not to fully commit the surpluses. A schedule of forecasted reserves balances is below.

Budget Strategy

Cabinet, 20 November 2012, item 3

31.3.2012	£000	31.3.2013	31.3.2014	31.3.2015	31.3.2016	31.3.2017	31.3.2018
1,181	Working Balance	1,214	1,214	1,214	1,214	1,214	1,235
1,430	Budget Equalization	1,251	1,251	1,251	1,251	1,251	1,251
17	Business Development	17	17	17	17	17	17
698	Change Management	372	372	372	372	372	372
-	Council Tax Freeze Grant	124	124	124	124	124	124
27	Elections	47	67	87	27	47	67
90	Emergency Response	90	90	90	90	90	90
100	Hardship Fund	100	100	100	100	100	100
75	Homelessness	65	85	105	125	145	165
121	Landsbanki Contingency	121	121	121	121	121	121
867	LGRR Contingency	966	754	754	754	754	754
102	Licensing	56	5	5	5	5	5
109	NHB Community Projects	-	-	-	-	-	-
214	NHB Contingency	784	744	744	744	744	744
500	Planning	413	413	413	413	413	413
10	Voluntary Sector Grants	-	-	-	-	-	-
200	Waste	56	56	56	56	56	56
5,741	TOTAL RESERVES	5,676	5,413	5,453	5,413	5,453	5,514

Public Consultation

21. In July 2012 consultation on the Council's budget priorities was completed.

This is the second year that a consultation asking for residents' views on the headline priorities for setting the budget has been run primarily through a questionnaire distributed to every household in the district as part of the council's magazine *Uttlesford Life*. Additional opinion was sought from members of the e-citizens panel via an online version of the survey. The results are summarised below, and detailed in the attached appendix.

Priority	Spending Area
Highest priority	[A] "Continuing with sound financial management to ensure continued stability of the council and its services in difficult times"
Second highest	[D] "Reducing crime and antisocial behaviour in partnership with the police and others"
Third highest	[E] "Keeping our streets and open spaces clean"
Don't do	[B] "Giving responsibility to local communities to run services where appropriate"

22. There is a statutory requirement to undertake business ratepayers consultation which as in previous shall be via correspondence with the key business representative groups in Uttlesford. This has added importance due to Localisation of Business Rates although only 4% of business rates collected will be retained by UDC.

Budget Strategy

Cabinet, 20 November 2012, item 3

Housing Revenue Account

23. Self financing was implemented this year and a new Business Plan is in place. The Business Plan sets out estimates of revenue headroom and how this will be invested, including improvements to the Council's housing stock, and new build including the development of Mead Court and garden sites.

24. The key issues for 2013/14 will be:

- ensuring that delivery of the Business Plan is on course
- maintaining clear plans which demonstrate how headroom is to be used.
- implementation of new UDC rent setting policy and ensuring that income is maximised where appropriate
- monitoring the effects of Right To Buy invigoration
- ensuring that the Housing Service has the capacity deliver the Plan.

25. In the event of slippage in the use of revenue headroom the Council will need to consider whether to pay off a proportion of the £88.4m debt it has been required to take on under the self-financing reform. The debt has been structured so that it is repaid in years 6 to 30 i.e. from 2017/18 to 2041/42 however up to £10m can be paid off early without financial penalty.

Key actions and budget strategy for 2013/14

26. The following are the key actions and assumptions that will inform the 2012/13 budget process

- a) To take account of budget consultation results when drawing up budget proposals.
- b) Views of the business community will be sought.
- c) To update the Corporate Plan and align financial resources to support the priorities it sets out.
- d) Financial discipline to be maintained, and Strategic Solutions efficiency savings workstreams to continue.
- e) To plan on the basis that the UDC Council Tax will reduce by 1% in 2013/14.
- f) To develop a plan for the use of New Homes Bonus funding.
- g) To maintain, and seek opportunities to enhance, support for the voluntary sector.

Budget Strategy

Cabinet, 20 November 2012, item 3

- h) To implement the Local Council Tax Support scheme, and other benefit reforms as they fall due, including Universal Credit.
- i) Not to review second homes and empty homes Council Tax discounts for 2013/14, but to plan to review them for 2014/15.
- j) Continue to implement the HRA Business Plan.
- k) Unless there is a significant change in circumstances, not to require any cuts in services to make financial savings, although efficiency savings will continue to be sought.
- l) Each line in the budget will be scrutinised by the responsible senior manager and service accountant with subsequent review by the Assistant Chief Executive - Finance and Corporate Management Team.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Changes in circumstances and/or new information becomes available that affects the assumptions in the budget strategy	2 (inherent risk of variability in any budget model)	3 (sums involved are potentially significant)	<p>A detailed risk assessment will be prepared and incorporated with budget approval papers in February.</p> <p>The Working Balance is to be maintained at a minimum safe contingency level.</p> <p>Medium Term Financial Strategy outlines clear criteria for decision making.</p>

1 = Little or no risk or impact

2 = Some risk or impact – action may be necessary.

3 = Significant risk or impact – action required

4 = Near certainty of risk occurring, catastrophic effect or failure of project.