Committee:	**Cabinet**	**Agenda Item**
Date:	**24 October 2013**	11
Title:	**Financial Outlook and 2014/15 Budget Strategy**	
Portfolio Holder:	**Councillor Robert Chambers**	Key decision: **No**

Summary

1. This report summarises the financial outlook for 2014/15 and asks Members to approve a strategy for drawing up the 2014/15 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 pre-review	Scrutiny Committee	26 November
Scrutiny review	Scrutiny Committee	6 February
Finalisation of budget proposals	Cabinet	18 February
Approval of final budget	Full Council	27 February

4. The report sets out an outlook for the next five years and suggests that cost savings and/or additional income of around £1.3 million need to be secured by 2018. A contribution towards this position of £0.3 million is suggested as being a required outcome from the 2014/15 budget.

Recommendations

5. The Cabinet is recommended to approve the 2014/15 Budget Strategy and key actions as set out in this report.

Financial Implications

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

Background Papers

7. 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.
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 2014/15

8. 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 having taken effect from 1 April. The local government finance system has radically altered such that Councils' funding depends directly on growth and prosperity in their local economies. Further adjustments are expected with additional substantial cuts in formula grant, and a proposed top slice of New Homes Bonus.

9. Firm numbers to inform the UDC budget will not be available until the Local Government Finance Settlement is published, anticipated for early 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.

10. The numbers in this report are based upon these interpretations and are therefore subject to change when the Settlement is published.

11. With that caveat in mind, the indications at this stage are that UDC has a stable budget outlook for 2014/15, in which an in-year surplus is forecasted. Extrapolations from 2015/16 onwards suggest that in-year budget deficits will arise.

12. The major uncertainty in the budget forecast is New Homes Bonus income which is £2m in 2013/14 and forecasted to be £2.6 million in 2014/15. This is a variable item and depends upon the number of new homes entering the Council Tax system. The Government's intentions for this funding stream are not clear with a proposed top slice to take effect from 2015/16 and no certainty about the scheme at all beyond 2016/17.

Budget Model

13. 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 2013/14 base budget as a starting point and one-off items removed. Assumptions about annual inflation for 2014/15 are used: Staff Pay 1%, Utilities 5%; Contractual indexation 3%; Price Inflation 2%.

    b) **Gross Service Income**: Again uses the 2013/14 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) **Universal Credit** – assumed that Housing Benefits expenditure and subsidy will start to phase out of the UDC budget in 2015/16 and this process to complete by 2017/18.

    d) **Service demand** – because of growing population and housing numbers, it is prudent to assume greater demand for council services such as refuse & recycling, revenues collection etc. A cumulative figure of £150,000 pa has been used.

£000	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Gross service expenditure	32,123	32,045	27,997	23,998	15,737	16,015
Gross service income	-23,490	-23,574	-19,497	-15,358	-7,072	-7,195
Service demand	-	150	300	450	600	750
Net service expenditure	**8,633**	**8,621**	**8,800**	**9,090**	**9,265**	**9,570**

    e) **Corporate items**: Pension Fund deficit payment – inflationary increase. Capital Financing Costs –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. LCTS subsidy and income sharing in line with the proposed scheme being considered by Cabinet today.

£000	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Pension Fund	488	512	538	565	593	623
Capital Financing	1,525	1,200	1,225	1,250	1,275	1,300
Collection Fund Balance	-6	0	0	0	0	0
Community Budgets	50	0	0	0	0	0
Recharge to HRA	-1,204	-1,029	-1,044	-1,062	-1,081	-1,100
Investment income	-50	-50	-50	-50	-50	-50
LCTS subsidy – majors	212	59	30	0	0	0
LCTS subsidy – parishes	194	194	194	194	194	194
Income sharing	-96	-96	-96	-96	-96	-96
Total corporate items	**1,209**	**790**	**797**	**801**	**835**	**871**

Government Funding Assumptions

f) **Specific grants**: Assumed no change to PFI, Homelessness and NNDR collection costs funding. Housing Benefits subsidy at 98% of expenditure, phased out from 2015/16. Benefits admin subsidy reduced to reflect onset of Universal Credit

g) **Council Tax Freeze Grant** – The Government has announced that Council Tax Freeze Grant awarded from 2013/14 onwards will continue to 2015/16, at the level of 1% which for UDC is approximately £50,000. Assuming that the Council freezes its Council Tax in 2014/15 and 2015/16, further awards will be made. It is possible that the awards will rolled into formula grant from 2016/17 onwards, but it is prudent not to assume that for the time being.

£000	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Council Tax Freeze Grant 2013/14	50	50	50	-	-	-
Council Tax Freeze Grant 2014/15	-	50	50	-	-	-
Council Tax Freeze Grant 2015/16	-	-	50	-	-	-
Total	**50**	**100**	**150**	-	-	-

h) **Localisation of Business Rates** – Under most foreseeable scenarios the amount retained by UDC shall be between £1.4m and £1.8m. The figures assumed in the model are based on incremental growth from the 2013/14 baseline position. In the event of gross revenue reduction e.g. because of the Diamond Hangar case, or additional discretionary rate relief being granted, the amount retained by the Council would reduce.

£000	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Retained business rates	1,356	1,401	1,443	1,486	1,531	1,577

i) **Formula Grant**: 2014/15 figure based on indicative sum published by DCLG in the late 2012, with a small reduction as indicated by material the Government published in Summer 2013. The same material indicated an approximate 33% cut for 2014/15. There is no information about subsequent years. The model assumes a 25% annual reduction so that Formula Grant reaches zero by 2019/20.

£000	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Formula Grant	2,038	1,573	1,022	767	511	256

j) **New Homes Bonus:** Assumes that the scheme will continue in line with the existing published methodology. The Council will be rewarded by around £1,456 pa for six years for each new home brought into the Council Tax system. There are two major uncertainties here. NHB is a six year scheme and the MTFS period goes beyond the sixth year. Secondly the Government has consulted on proposals to top slice NHB from 2015/16 to provide funding for LEPs. Two top slice rates were consulted upon, 35.1% and 18.9%. The model prudently assumes the higher level. Based upon predictions of Housing Growth consistent with the Local Plan Statement issued in October 2013, the estimated NHB funding is as follows:

				MTFS PERIOD				
£000	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
	2011/12	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
2011/12 award	714	714	714	714	714	714		
2012/13 award		534	534	534	534	534	534	
2013/14 award			794	794	794	794	794	794
2014/15 award				582	582	582	582	582
2015/16 award					403	403	403	403
2016/17 award						422	422	422
2017/18 award							762	762
2018/19 award								1,201
TOTAL NHB	**714**	**1,248**	**2,042**	**2,624**	**3,027**	**3,449**	**3,497**	**4,164**
Less 35.1% top slice					-1,062	-1,210	-1,227	-1,461
Net retained by UDC	**714**	**1,248**	**2,042**	**2,624**	**1,965**	**2,239**	**2,270**	**2,703**
	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast

Council Tax

k) the Administration has given informal guidance that UDC's Council Tax should be frozen in 2014/15 and 2015/16, and to plan on the basis of a 2% annual increase from 2016/17. 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, and additional income arising from reducing discounts on second homes and empty homes. These assumptions give rise to the forecasts below.

	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Tax Base	34,389	34,854	35,164	35,489	36,091	37,051
LCTS discounts	-2,550	-2,420	-2,320	-2,220	-2,220	-2,220
Extra taxbase from changing discounts	-	248	248	248	248	248
Tax Base (net)	**31,839**	**32,682**	**33,092**	**33,517**	**34,119**	**35,079**
UDC Band D **Planning assumptions**	**£145.95** **1% cut**	**£145.95** **Freeze**	**£145.95** **Freeze**	**£148.87** **+2%**	**£151.85** **+2%**	**£154.89** **+2%**
Council Tax income	**£4.647m**	**£4.770m**	**£4.830m**	**£4.990m**	**£5.181m**	**£5.433m**

Cumulative CPI inflation since April 2010 (date of last UDC Council Tax increase) to August 2013 (latest published inflation data) is 10.7%. Projecting this forward to April 2014 gives an estimated cumulative inflation from April 2010 to April 2014 of 12%. If a freeze is approved by the Council, the district Band D figure will have reduced by 1% during this period. This would represent a real terms reduction in the UDC precept of 11.6% since 2010.

(2010/11 Band D £147.42 + 12% = £165.11. £145.95 is 88.4% of £165.11. Real terms reduction therefore 11.6%.)

Summary of Budget Model

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

£000	2013/14 budget	2014/15 forecast	2015/16 forecast	2016/17 forecast	2017/18 forecast	2018/19 forecast
Gross service expenditure	32,123	32,045	27,997	23,998	15,737	16,015
Gross service income	-23,490	-23,574	-19,497	-15,358	-7,072	-7,195
Demand growth	0	150	300	450	600	750
Net Service Expenditure	8,633	8,621	8,800	9,090	9,265	9,570
Corporate items (net)	1,209	790	797	801	835	871
Net council expenditure	**9,842**	**9,411**	**9,597**	**9,891**	**10,100**	**10,441**
Government funding						
Council Tax Freeze Grant	-50	-100	-150	0	0	0
Formula Grant	-2,038	-1,546	-1,022	-767	-511	-256
Business rates retention	-1,356	-1,401	-1,443	-1,486	-1,531	-1,577
New Homes Bonus	-2,042	-2,624	-1,965	-2,239	-2,270	-2,703
Other items (2013/14 one off)	-71	0	0	0	0	0
Total Government Funding	**-5,557**	**-5,671**	**-4,580**	**-4,492**	**-4,312**	**-4,536**
NET OPERATING EXPENDITURE	**4,285**	**3,740**	**5,017**	**5,399**	**5,788**	**5,905**
Net transfers to/(from) reserves	140	140	190	40	40	40
COUNCIL TAX REQUIREMENT	**4,425**	**3,880**	**5,207**	**5,439**	**5,828**	**5,945**
COUNCIL TAX INCOME	**-4,647**	**-4,770**	**-4,830**	**-4,990**	**-5,181**	**-5,433**
In year surplus(-) / deficit	**-222**	**-890**	**377**	**449**	**647**	**512**

15. The forecasts show:

- An in-year surplus of £0.9m for 2014/15
- An in year deficit of £0.4m-£0.6m in each year from 2015/16 onwards.

16. Projecting the model forward for a 10 year period (i.e. until 2023/24) suggests that the in year deficit grows each year and reaches approx £0.8m by the end of this period.

17. These figures represent a “best case” scenario. It is emphasised that all forecasts, in particular those about Government funding, are not based on firm information and figures from 2015 especially are (informed) conjecture. It is possible that there will be worse outcomes than those currently indicated. The surprise Government proposal to top slice New Homes Bonus is an example of how changes in the funding environment can suddenly occur. The model is unavoidably full of assumptions about the future and it is possible that some assumptions will prove, with hindsight, to be optimistic.

18. Alternative scenario planning, based mainly upon significantly downgrading the available Government funding, suggests that over the 5 year period covered by the MTFS, i.e. by 2018/19, an in year deficit of up to £1.3 million could open up.

19. Subject to further analysis and in particular, confirmation of the Local Government Finance Settlement, it is felt that the Council should prudently work to the assumption that a £1.3 million budget reduction over the next 5 years should form the basis of its financial planning.

20. Continuing the approach that has served the Council well in recent years, it would be sensible to make steady progress towards this sum in each financial year. To reach a cumulative budget reduction of £1.3 million by 2018/19, some progress would need to be made in 2014/15.

21. Accordingly, it is proposed that the 2014/15 budget should seek to identify budget reductions of around £0.3 million.

22. Budget reductions include the making of efficiency savings and the generation of additional income. Service reductions would need to be contemplated if efficiency savings and income generation were not sufficient to ensure a balanced budget and ongoing financial stability.

23. 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. Therefore any decision to incur additional costs e.g. service investment or to reduce income e.g. fees & charges reductions must be fully funded by sustainable cost savings and/or additional income elsewhere in the Council's budget.

24. Total General Fund reserves during this five year model are estimated to stay steady at around £6.5m-£7m. This excludes any in-year surpluses or deficits. A schedule of forecasted reserves balances is below.

31.3.2013 Actual	£000	31.3.2014 Forecast	31.3.2015 Forecast	31.3.2016 Forecast	31.3.2017 Forecast	31.3.2017 Forecast	31.3.2018 Forecast	31.3.2019 Forecast
1,214	Working Balance	1,214	1,214	1,214	1,214	1,214	1,214	1,214
	Financial management reserves							
1,251	Budget Equalization	1,473	1,473	1,473	1,473	1,473	1,473	1,473
587	Change Management	524	524	524	524	524	524	524
124	Council Tax Freeze Grant	124	224	374	374	374	374	374
	Contingency reserves							
962	LGRR Contingency	725	725	725	725	725	725	725
165	Landsbanki Contingency	165	165	165	165	165	165	165
90	Emergency response	90	90	90	90	90	90	90
51	Municipal Mutual Insurance	51	51	51	51	51	51	51
830	NHB Contingency	790	790	790	790	790	790	790
	Service reserves							
266	Planning	724	724	724	724	724	724	724
66	Neighbourhood Front Runners	75	75	75	75	75	75	75
79	Waste Management	186	186	186	186	186	186	186
81	Homelessness	101	121	141	161	181	201	221
117	Economic Development	117	117	117	117	117	117	117
63	Licensing	25	25	25	25	25	25	25
47	Elections	67	87	107	127	147	167	187
100	Hardship Fund	100	100	100	100	100	100	100
26	NHB Community Projects	26	26	26	26	26	26	26
6,119	**TOTAL RESERVES**	**6,577**	**6,717**	**6,907**	**6,947**	**6,987**	**7,027**	**7,067**

Public Consultation

25. This is the third year that a consultation asking for residents' views on the headline priorities for setting the budget has been run. Information about the budget setting process and the survey was distributed to every household in the district as part of the council's magazine *Uttlesford Life*. Breaking with previous practice and as part of the authority's drive towards channel shift, the 2013 survey was available primarily through an online questionnaire rather than as a printed sheet included with the magazine. A small number of printed copies, though, were distributed to libraries and the council's CIC points across the district to ensure that all residents would have a chance to taking part. A copy of the survey was not, this year, included in the summer Citizens Panel questionnaire as it was considered that panellists could respond independently. The results are detailed below.

26. Questions posed in the 2013 budget consultation are similar to those asked in previous years and take account of the council's long term strategy as promulgated in the Corporate Plan 2013-18. Amongst respondents to the budget consultation there was a marked preference for "Continuing with sound financial management to ensure continued stability of the council and its services in difficult times" with 37% indicating that they felt this area of spending should be the council's highest priority. This is a continuation of the trend, though with a slight decrease, established in 2011 and 2012 when 52% and 46% respectively selected the same option. The headline view for the second highest spending priority was jointly tied between "Providing affordable housing for local people"

and “Work[ing] with Essex County Council to provide the condition of the district’s roads”. Both options received a 20% opinion rating. This stands in contrast to the previous years when crime reduction was rated as the second most important objective for spending. Interestingly, of those who selected a third highest priority, a further 18% again considered that working with the County Council on road issues should be of importance.

27. Respondees were also offered the option to select a category of spending where they considered the council should be curtailing resources. In 2012 almost a quarter of those who expressed an opinion (23%), selected that “Giving responsibility to local communities to run services where appropriate” should not be a priority area for council consideration. For 2013, though, there was a marked opinion by 26% that the council should not be allocating funds to “Work more closely with the business community to benefit the local economy”.

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	[C] “Providing affordable housing for local people” and [H] “Work with Essex County Council to improve the condition of the district's roads”
Third highest	[H] “Work with Essex County Council to improve the condition of the district's roads”
Don’t do	[I] “Work more closely with the business community to benefit the local economy”

28. 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.

Housing Revenue Account

29. 2014/15 shall be the third year of self financing. 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.

30. The key issues for 2014/15 will be:

- ensuring that delivery of the Business Plan is on course
- maintaining clear plans which demonstrate how headroom is to be used.

- applying 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.

31. 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 2014/15

32. The following are the key actions and assumptions that will inform the 2014/15 budget process

    a) To take account of budget consultation results when drawing up budget proposals.

    b) To plan on the basis that the UDC Council Tax will be frozen for 2014/15.

    c) To make progress towards savings & income targets set out in the Medium Term Financial Strategy, with a guideline target figure of £0.3 million for 2014/15.

    d) To implement planned changes to Council Tax Discounts and the LCTS scheme, subject to Council approval.

    e) To implement a new policy for discretionary business rates relief.

    f) To maintain, and seek opportunities to enhance, support for the voluntary sector.

    g) 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.

    h) To develop a new strategy for the financing of capital expenditure, which optimises the revenue budget position over the medium to longer term.

    i) Continue to implement the HRA Business Plan.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Changes in circumstances and/or	2 (inherent risk of	3 (sums involved are	A detailed risk assessment will be

new information becomes available that affects the assumptions in the budget strategy	variability in any budget model)	potentially significant)	prepared and incorporated with budget approval papers in February. The Working Balance is to be maintained at a minimum safe contingency level. Medium Term Financial Strategy outlines clear criteria for decision making.

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.