

Committee: Cabinet

Agenda Item

Date: 4 December 2014

7

Title: Financial Outlook and 2015/16 Budget Strategy

Portfolio Holder: Councillor Robert Chambers

Key decision: No

Summary

1. This report summarises the financial outlook for 2015/16 and asks Members to approve the strategy for drawing up the 2015/16 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:

Pre-Scrutiny review	Scrutiny Committee	25 November 2014
Cabinet	Cabinet	4 December 2014
Scrutiny review	Scrutiny Committee	10 February 2015
Finalisation of budget proposals	Cabinet	17 February 2015
Approval of final budget	Full Council	26 February 2015

4. The attached strategy sets out the financial outlook for the next five years and suggests that the Council should prudently work to the assumption that the position for 2015/16 and 2016/17 are as set out, but for following years sufficient reserves should be maintained to cover the eventualities that may arise from the 2015 General Election. The council should continue to look for service savings and cost sharing option.

Recommendations

5. The Cabinet is recommended to approve the Financial Outlook and 2015/16 Budget Strategy.

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.

8. Attached is the Financial Outlook and 2015/16 Budget Strategy document. The document was presented to the Scrutiny Committee for pre-scrutiny on 25 November and a verbal update will be provided to Cabinet by the Chairman of that Committee
9. The main elements of the strategy are that
 - a) 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 2013. 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 to both New Homes Bonus and Business Rates Retention following the General Election in 2015.
 - b) 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.
 - c) The numbers in this report are based upon these interpretations and are therefore subject to change when the Settlement is published.
 - d) The major uncertainty in the budget forecast is New Homes Bonus income which is £2.9m in 2014/15 and forecasted to be £3.4 million in 2015/16. This is a variable item and depends upon the number of new homes entering the Council Tax system. The format of the scheme in future years will be determined by the result of the general election next year. Terminology being used by the main party's ranges from 'reform' to 'scrapping' there is little or no talk of it staying in the current format. Whatever the outcome of the

election there is a high risk that the amount of funding received by this council will be significantly reduced. It is unlikely that any revision to the scheme will take place before 2017/18 and it is on this assumption that the model is based.

- e) The indications at this stage are that UDC has a stable budget outlook for 2015/16, in which an in-year surplus is forecasted. Assuming that the criteria for both New Homes Bonus and the Business Rates Retention Scheme remain the same 2016/17 will also show an in-year surplus. Thereafter the position is less certain.

Council Tax

- f) The Administration has given informal guidance that UDC's Council Tax should be frozen in 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.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Tax Base	34,854	35,164	35,489	36,091	37,051	38,062
LCTS discounts	-2,420	-2,320	-2,220	-2,220	-2,220	-2,220
Extra taxbase from changing discounts	248	248	248	248	248	248
Tax Base (net)	32,826	33,361	33,824	34,547	35,665	36,482
UDC Band D	£143.03	£143.03	£143.03	£145.89	£148.81	£151.79
Planning assumptions	- 2%	Freeze	Freeze	+2%	+2%	+2%
Council Tax income	£4.695m	£4.772m	£4.838m	£5.040m	£5.307m	£5.538m

Cumulative CPI inflation since April 2010 (date of last UDC Council Tax increase) to August 2014 (latest published inflation data) is 12.35%. Projecting this forward to April 2015 gives an estimated cumulative inflation from April 2010 to April 2015 of 12.5%. If a freeze is approved by the Council, the district Band D figure will have reduced by 3% during this period. This would represent a real terms reduction in the UDC precept of 13.8% since 2010.

(2010/11 Band D £147.42 + 12.5% = £165.85. £143.03 is 86.2% of £165.85. Real terms reduction therefore of 13.8%.)

Summary of Budget Forecasts

10. The strategy produces the following forecasts for the next five years:

	Outturn					
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000	£000
Gross service expenditure	34,275	35,443	31,772	25,106	19,787	18,811
Gross service income	-24,920	-25,519	-21,500	-14,407	-8,639	-7,176
Demand growth	0	50	100	150	200	250
Net service expenditure	9,355	9,974	10,372	10,849	11,348	11,885
Capital financing costs	1,780	1,600	1,342	1,104	1,515	1,509
Pension fund deficit	1,212	107	107	507	532	557
Recharge to HRA	-1,403	-1,450	-1,450	-1,450	-1,450	-1,450
Other corporate items	-311	-50	-50	-50	-50	-50
Total budget	10,633	10,181	10,321	10,960	11,895	12,451
Funding						
Business Rates Retention	-1,279	-1,360	-1,387	-1,415	-1,443	-1,472
Council Tax Freeze Grant*	-50	-100	0	0	0	0
DCLG - Other Funding	-44	0	0	0	0	0
Flood Support Scheme	-27	0	0	0	0	0
Formula Grant	-1,643	-1,155	-750	-500	-250	0
New Homes Bonus	-2,877	-3,469	-4,020	-4,143	-4,874	-5,350
Total Funding	-5,920	-6,084	-6,157	-6,058	-6,567	-6,822
Net Operating Expenditure	4,713	4,097	4,164	4,902	5,328	5,629
Movement in Reserves	-319	-93	-239	-260	-193	-109
COUNCIL TAX REQUIREMENT	4,394	3,937	3,934	4,772	5,198	5,519
COUNCIL TAX INCOME	-4,695	-4,772	-4,838	-5,040	-5,307	-5,538
In year surplus (-) / deficit	-301	-768	-913	-398	-172	-18

11. The forecasts show:

- An in-year surplus of £768,000 for 2015/16 and £913,000 for 2016/17
- Significantly decreasing in-year surplus for each of the following three years.

12. 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 2016 especially are (informed) conjecture. The model is unavoidably full of assumptions about the future which obviously may prove to be correct, optimistic or pessimistic.

13. The strategy also looks at potential implications of a cut in NHB funding following reform or replacement.

14. As set out in the report it is highly likely that New Homes Bonus will at best be reformed and at worst scrapped and replaced with an alternative form of formula grant. Below are the effects of a 10%, 20% and 30% cut in NHB from 2017/18 (whilst this refers to NHB it should be interpreted as a cut in government grant).

a) 10% cut

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000	£000
In year surplus (-) / deficit	-301	-768	-913	-398	-172	-18
10% cut in NHB	0	0	0	415	488	535
Revised surplus (-) / deficit	-301	-768	-913	17	316	517

b) 20% cut

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000	£000
In year surplus (-) / deficit	-301	-768	-913	-398	-172	-18
20% cut in NHB	0	0	0	829	975	1070
Revised surplus (-) / deficit	-301	-768	-913	431	803	1,052

c) 30% cut

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000	£000
In year surplus (-) / deficit	-301	-768	-913	-398	-172	-18
30% cut in NHB	0	0	0	1,243	1,463	1,605
Revised surplus (-) / deficit	-301	-768	-913	845	1,291	1,587

The red highlighted areas are shortfalls in budget which would have to be met from service savings in the long term, covered by use of reserves in the shorter term. For clarity, taking a 20% cut in grant would mean savings required of £431,000 in 2017/18, an additional £803,000 in 2018/19 and a further £1,052,000 in 2019/20.

15. 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 the position for 2015/16 and 2016/17 are as set out in this report, but for following years sufficient reserves should be maintained to cover the eventualities that may arise from the 2015 General Election. The council should continue to look for service savings and cost sharing options as opportunities arise.
16. Whilst at present the Administration has not set out its plan for using the 2015/16 surplus, the forecast surplus in 2016/17 should be set aside to cover any reduction in government grant. Once the new funding position is known a revised plan for that surplus can be established.
17. This is a risk based approach given that the uncertainties arising from the General Election are too many to reasonably try and quantify. Having sufficient identified reserves of at least £2m will enable the worst case scenario identified above to be managed.
18. Because of the degree of estimation involved, and the longer term projections referred to in the proceeding paragraphs, 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.
19. Total General Fund usable reserves during this five year model are estimated to reduce from £7m to £5.6m. This excludes any in-year surpluses or deficits. A schedule of forecasted reserves balances is set out on the following page.

£000	31.3.2014	31.3.2015	31.3.2016	31.3.2017	31.3.2018	31.3.2019	31.3.2020
	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Working Balance	1214	1,214	1,281	1,122	842	629	580
USABLE RESERVES							
<u>Financial management Reserves</u>							
Budget Equalization	1416	668	668	668	668	668	668
Change Management	923	923	923	923	923	923	923
Council Tax Freeze Grant	174	225	225	225	225	225	225
Budget Slippage Reserve	28	28	28	28	28	28	28
<u>Contingency Reserves</u>							
LGRR Contingency	1385	1,458	1,358	1,258	1,258	1,258	1,258
Emergency Response	140	140	140	140	140	140	140
Municipal Mutual Insurance	51	51	51	51	51	51	51
NHB Contingency	790	632	632	632	632	632	632
<u>Service Reserves</u>							
Planning	935	952	952	952	952	952	952
Neighbourhood Front Runners	57	57	57	57	57	57	57
Waste Management	300	300	300	300	300	300	300
Homelessness	101	84	84	84	84	84	84
Economic Development	220	170	170	170	170	170	170
Licensing	47	22	22	22	22	22	22
Elections	67	87	27	47	67	87	27
Hardship Fund	100	100	100	100	100	100	100
NHB Community Projects	15	15	0	0	0	0	0
Strategic Initiatives Fund	0	318	0	0	0	0	0
Access Fund	0	200	0	0	0	0	0
TOTAL USABLE RESERVES*	6,749	6,430	5,737	5,657	5,677	5,697	5,637

* Excludes Working Balance.

20. A review of reserves, their purpose, risks and lifespan is scheduled as part of the 2015/16 budget setting process.

Public Consultation

21. This is the fourth 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 in the council's magazine *Uttlesford Life* and, as part of the authority's drive towards channel shift, the 2014 survey was also available through an online questionnaire which was publicised on the website and in press releases. A small number of additional copies of *Uttlesford Life* 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 even if they had lost their original issue of the magazine. 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. 196 people responded to the survey, the results are detailed below.
22. Questions posed in the 2014 budget consultation are similar to those asked in previous years and take account of the council's long term strategy as promoted in the Corporate Plan 2014-19. Residents were asked to indicate their preferences for the three priority areas that they felt the council should be concentrating on, based on a list of the key corporate objectives. An additional option was provided to permit consultees to record an objection to the council pursuing any of the aforementioned priority options.

Results

23. The results of the survey were analysed using a rating system which weighted the responses selected by residents.
24. A rating system is an appropriate analysis tool for the Council Spending Survey since the same area of spending might have been chosen by different respondents at a different level of priority; more weight is thus given to that selection if it is selected as the highest priority than if the same spending area is still chosen as priority, but at a lower level. Consequently, a fair analysis is achieved by allocating three points to each vote for the highest priority, two points to each vote for the second highest priority and one point to each vote for the third highest priority. The consequent results appear in the following table:

Priority	Spending Area
Highest priority	[A] "Keep Council Tax as low as possible while maintaining or improving services and providing support to the vulnerable"
Second highest	[G] "Work with Essex County Council to ensure our roads are maintained to a good standard"
Third highest	[B] "Continue with sound financial management to ensure the council remains financially stable"
Don't do	[K] "Work with the owners of Stansted Airport to ensure economic and social benefits while maintaining vigilance against a second runway"

25. These results demonstrate that amongst respondents to the spending consultation there was a marked preference for “Keep[ing] Council Tax as low as possible while maintaining or improving services and providing support to the vulnerable”. This spending area scored highest using the rating scale, with a total of 239 points out of a total weighted score across *all* of the spending areas of 1,161 (20.59%). This represents a change from the previous three years when “continuing with sound financial management” had been consistently selected as the primary direction of travel for the council’s budgetary provision¹. The result is perhaps indicative of an overall appreciation of the council’s current financial stability and approbation for the established policies of cutting Council Tax by 1% in 2013/14 and by a further 2% in 2014/15.
26. Caring for the local transport infrastructure formed the headline view for the second highest spending priority. Using the rating system to analyse the results, “Work with Essex County Council to ensure our roads are maintained to a good standard” scored 182 points out of a possible 1,161 (15.68%). The same ranking was attributed to this spending area by the results of the 2013 survey. However, then it was jointly tied with concerns over the provision of affordable housing. In 2014, that option (rendered as question F in the survey - “Provide affordable housing for local people through a robust Local Plan”) had slipped down in its ranking and scored only 10.85% using weighted scores.
27. All of the spending areas listed in the survey were chosen by consultees at all three levels of priority. “Continu[ing] with sound financial management to ensure the council remains financially stable” came in with the third highest figure when using weighted scores, since it had also been chosen by a significant proportion of survey participants as either their highest or second highest spending priority. Although no longer in the “highest priority” position, which it had occupied during the previous three years, these results indicate it remains a matter of importance to residents who chose to participate in this year’s survey.
28. Respondee were also offered the option to select a category of spending where they considered the council should be curtailing resources. Since consultees were only asked to select one category, using a rated system to analyse results would not be appropriate. The results used are thus straight percentage scores. In 2013, there was a marked opinion by 25.9% that the council should not be allocating funds to “Work more closely with the business community to benefit the local economy”. In 2014, though, only 5.3% voiced concern over comparable initiatives rendered in the survey as option I - “Encourage business growth in West Essex ...”. Instead there was a demonstrable shift of opinion by 28% of respondees that the council should not be devoting resources to “Work with the owners of Stansted Airport to ensure economic and social benefits while maintaining vigilance against a second runway”.
29. The full version of the consultation report can be found on the Uttlesford District Council website at www.uttlesford.gov.uk/finance

¹ In 2013 36.7% indicating that they felt this area of spending should be the council’s highest priority. This was a continuation of the trend, though with a slight decrease, established in 2011 and 2012 when 51.8% and 45.7% so rated this option.

30. There is a statutory requirement to undertake business ratepayers consultation which as in previous years will be undertaken during November/December via correspondence with the key business representative groups in Uttlesford.

Housing Revenue Account

31. 2015/16 shall be the fourth 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.

32. The key issues for 2015/16 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.

33. 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.

Main Assumptions

34. When preparing this document a number of significant assumptions have been made. For clarity these are set out below along with potential consequences if the assumptions prove to be incorrect

- a) New Home Bonus** – It is assumed that no change to the current scheme will take place before 2017/18. If in fact changes are made to 2016/17 i.e. the first full year of a new government then the forecast surplus will be significantly smaller.
- b) Localisation of Business Rates** – it is assumed that there will be no significant change to the current scheme. The scheme has a “safety net” element so unless this is removed potential impact on the council budget is limited.
- c) Universal Credit** – It is assumed that Universal Credit will be implemented on the current timescales. If there is any delay this will have a significant impact on the council budget as the forecast reduction in the Working

Balance Reserve is entirely down to the reducing council budget following the introduction of Universal Credit.

Key actions and budget strategy for 2015/16

35. The following are the key actions and assumptions that will inform the 2015/16 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 2015/16.
- c) To maintain, and seek opportunities to enhance, support for the voluntary sector.
- d) 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.
- e) To introduce and implement a new Reserves Strategy that takes account of areas of priority.
- f) To strive to achieve better accuracy at the time of annual budget setting (the council is currently forecasting to spend 97.2% of the 2014/15 outturn budget).
- g) Continue to implement the HRA Business Plan.

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.