

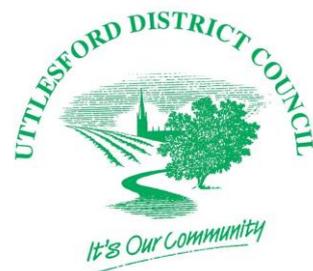


Uttlesford District Council

Financial Outlook and 2015/16 Budget Strategy



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Financial Outlook

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 localisation of business rates following the general election.

Firm numbers to inform the 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.

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

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 (NHB)** – This is the major uncertainty in the budget forecast; 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 parties range 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. 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** – whilst some change to the current scheme is expected, it is assumed that it will not be significant. The scheme has a “safety net” element so unless this is removed or significantly reduced, 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's budget as the forecasted reduction in the Working Balance Reserve is entirely due to the fact that the council budget will reduce following the introduction of Universal Credit.

Taking all of this into account, the indications at this stage are that the council 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 localisation of Business Rates will not change before 2017/18, then 2016/17 will also show an in-year surplus. Thereafter the position is far less certain.

Public Consultation

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.

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

The results of the survey were analysed using a rating system which weighted the responses selected by residents. Rating is a system particularly recommended by Snap Surveys following the introduction of Version 11 of their software earlier in 2014. This system is used to collate the majority of the council's general survey work throughout the year and was employed on the analysis of the current Council Spending Survey results.

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"

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.

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.

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.

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”.

The full version of the consultation report can be found on the Uttlesford District Council website at www.uttlesford.gov.uk/finance

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.

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.

Budget Model

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 2014/15 base budget as a starting point and one-off items removed. Assumptions about annual inflation for 2015/16 are used: staff pay 2.2%; utilities 5%; contractual indexation 2.5% (unless specified otherwise); price inflation 2%.
- b) **Gross Service Income:** Again uses the 2014/15 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 and recycling, revenues collection, etc. A cumulative figure of £50,000 pa has been used.

£000	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
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
Service demand	0	50	100	150	200	250
Net service expenditure	9,355	9,974	10,372	10,849	11,348	11,885

- 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.

£000	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Pension Fund	1,212	107	107	507	532	557
Capital Financing	1,780	1,600	1,342	1,104	1,515	1,509
Collection Fund Balance	-256	0	0	0	0	0
Recharge to HRA	-1,403	-1,450	-1,450	-1,450	-1,450	-1,450
Investment income	-55	-50	-50	-50	-50	-50
Total corporate items	1,278	207	-51	111	547	566

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 2015/16 a further award will be made. It is possible that the awards will be rolled into formula grant from 2016/17 onwards, but as this has not been confirmed it is prudent not to assume that for the time being.

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

- h) **Localisation of Business Rates** – Under most foreseeable scenarios the amount retained by UDC shall be between £1.3m and £1.5m. The figures assumed in the model are based on incremental growth from the 2014/15 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	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Retained business rates	1,279	1,360	1,387	1,415	1,443	1,472

- i) **Formula Grant:** 2015/16 figure based on indicative sum published by DCLG in late 2013. The model assumes Formula Grant is nil by 2019/20 and is profiled accordingly.

£000	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Formula Grant	1,643	1,155	750	500	250	0

- 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. Based upon predictions of housing growth consistent with the latest Local Plan Statement the estimated NHB funding is as shown on the next page.

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MTFS PERIOD									
£000	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
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				835	835	835	835	835	835
2015/16 provisional					592	592	592	592	592
2016/17 provisional						551	551	551	551
2017/18 provisional							837	837	837
2018/19 provisional								1,265	1,265
2019/20 provisional									1,270
TOTAL NHB	714	1,248	2,042	2,877	3,469	4,020	4,143	4,874	5,350

Council Tax

- k) The Administration has given informal guidance that UDC's Council Tax should be frozen in 2015/16 and 2016/17, thereafter to plan on the basis of a 2% annual increase from 2017/18. The Administration shall be looking carefully at the council's finances during the next 2 to 3 years and will take appropriate and responsible decisions depending on the circumstances at the time. Tax base 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

Financial Outlook and 2015/16 Budget Strategy

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%.)

Outcome of Budget Modelling

	Outturn 2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £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

* The £50,000 of Council Tax Freeze Grant for 2015/16 is incorporated in the income figure of £25,519. The £100,000 is the 2nd and 3rd years of the 2013/14 and 2014/15 awards.

Financial Outlook and 2015/16 Budget Strategy

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.

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

As set out on page 3 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 funding).

a) 10% cut

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £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 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £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 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £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.

Financial Outlook and 2015/16 Budget Strategy

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.

At the time of writing, the Administration has not yet 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 funding. Once the new funding position is known a revised plan for that surplus can be established.

This is a risk-based approach, given that the uncertainties arising from the General Election are too many to reasonably try to quantify. Having reserves of at least £2m will enable the worst case scenario identified on the previous page to be managed.

Because of the degree of estimation involved and the longer term projections referred to in the preceding 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.

Reserves

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 below.

£000	31.3.2014 Actual	31.3.2015 Forecast	31.3.2016 Forecast	31.3.2017 Forecast	31.3.2018 Forecast	31.3.2019 Forecast	31.3.2020 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.

A review of reserves, their purpose, risks and lifespan is scheduled as part of the 2015/16 budget setting process. This will enable the creation of a Reserves Strategy.

Housing Revenue Account

2015/16 shall be the fourth year of self-financing. The HRA 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.

The key issues for 2015/16 will be:

- ensuring that delivery of the HRA 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 to deliver the plan.

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 2015/16

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.