

Committee: Cabinet

Agenda Item

Date: 12 January 2016

9

Title: Financial Outlook and 2016/17 Budget Strategy

Portfolio Holder: Councillor Simon Howell

Key decision: No

Summary

1. This report summarises the financial outlook for 2016/17 through to 2020/21 and asks Members to approve a strategy for drawing up the 2016/17 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	9 February
Finalisation of budget proposals	Cabinet	16 February
Approval of final budget	Full Council	25 February

Recommendations

4. The Cabinet is recommended to approve the 2016/17 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.

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 2016/17 and beyond

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 this being the third year of localisation of business rates and council tax support. The basis of local government funding has radically altered such that Councils' funding depends directly on growth and prosperity in their local economies.
8. Following the announcement of the Autumn Statement on 25 November 2015 and the Local Government Finance Settlement (LGFS) on 17 December 2015 the Council is able to begin to prepare a budget for 2016/17. The LGFS is subject to consultation which closes on 15 January with final figures being confirmed in February therefore there is a possibility that the announced figures could change.
9. With that caveat in mind, the indications at this stage are that UDC has a stable budget outlook for 2016/17, in which an in-year surplus is forecasted.
10. There is major uncertainty in the five year forecast as the Government has commenced a consultation to radically reform New Homes Bonus (NHB). The proposals are varied and the implications potentially significant. The NHB figure for 2016/17 is confirmed at £4.279m.
11. On 11 January 2016 a Member briefing was held presenting all of the options and implications contained within the consultation document.
12. The consultation closes 15 March 2016 with the outcome expected to be announced during June 2016. Therefore this outlook and the subsequent Medium Term Financial Statement (MTFS) will be based on an assumption of NHB income that is affordable to the Government.
13. A more informed MTFS will be prepared for the September Cabinet meeting.
14. The next item on the agenda tonight is the recommended response to the NHB consultation.
15. This consultation is in line with the advice given to Members in the equivalent of this report in late 2014 when it said

'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.'

16. It is therefore prudent for the MTFs Reserve to be maintained at the current level as this will most likely be needed to balance the shortfall in Government grant, whilst actions are taken to reduce the overall budget requirement of the council.

Budget Model

17. 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 2015/16 base budget as a starting point and one-off items removed. Assumptions about annual inflation for 2015/16 are used: Staff Pay 1%, Utilities 3%; Contractual indexation 3%; Price Inflation 2%.
- b) **Gross Service Income:** Again uses the 2015/16 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** – assumes that Housing Benefits expenditure and subsidy will start to phase out of the UDC budget in 2016/17 and this process to complete by 2020/21.
- 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 £50,000 pa has been used.

£000	2016/17	2017/18	2018/19	2019/20	2020/21
Gross service expenditure	33,648	32,600	30,066	26,683	23,355
Gross service income	-23,833	-22,884	-20,221	-16,592	-13,015
Demand growth	0	50	100	150	200
Net service expenditure	9,815	9,766	9,945	10,241	10,540

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.

£000	2016/17	2017/18	2018/19	2019/20	2020/21
Capital financing costs	2,497	1,800	1,800	1,800	1,800
Pension fund - added years	94	102	127	152	577

Recharge to HRA	-1,666	-1,650	-1,650	-1,650	-1,650
Investment Income	-119	-120	-120	-120	-120
Total Corporate Items	806	132	157	182	607

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 2016/17. Benefits admin subsidy reduced to reflect onset of Universal Credit
- g) **Localisation of Business Rates** – A review of the Business Rates retention scheme was undertaken during the summer and a much more realistic approach has now been applied. The increased figure for 16/17 compared to future years is because the council has joined the Essex Business Rates Pool. The pool has to be approved by government each year and with 100% Business Rates retention commencing in 2020 there is no indication the pooling scheme will continue beyond 2016/17.

£000	2016/17	2017/18	2018/19	2019/20	2020/21
Business Rates Retention	-3,232	-2,573	-2,528	-2,482	-2,434

- h) **Formula Grant:** The Government has now given clear indication of the removal of formula grant (also known as Revenue Support Grant (RSG)). The grant will be phased out by the end of 2017/18.

£000	2016/17	2017/18	2018/19	2019/20	2020/21
Formula Grant	-684	-251	0	0	0

- i) **New Homes Bonus:** The model shows the announced figure for 2016/17 and then an assumed 'affordable' figure for central government for the remaining years of the plan

£000	2016/17	2017/18	2018/19	2019/20	2020/21
New Homes Bonus	-4,279	-1,936	-1,936	-1,936	-1,936

Council Tax

- j) The Administration has given informal guidance that UDC's Council Tax should be frozen in 2016/17. The Government announced in the Autumn Statement that the finances are based on an assumption that all councils will increase Council Tax by the maximum amount each year. Therefore the plan assumes a 2% annual increase from 2017/18. The Administration will be looking carefully at the Council's finances as the outcome of the NHB consultation is announced 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.

	2016/17	2017/18	2018/19	2019/20	2020/21
Tax Base	36,463.81	37,386	38,348	39,335	40,349
LCTS discounts	-2,013.06	-2,000	-2,000	-2,000	-2,000
Tax Base (net)	34,450.75	35,386	36,348	37,335	38,349
UDC Band D	£138.74	£141.51	£144.34	£147.23	£150.17
Planning assumptions	Freeze	+2%	+2%	+2%	+2%
Council Tax income	£4.780m	£5.008m	£5.246m	£5.497m	£5.759m

Summary of Budget Model

18. All of the above assumptions produce the following forecasts for the next five years:

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Gross service expenditure	33,648	32,600	30,066	26,683	23,355
Gross service income	-23,833	-22,884	-20,221	-16,592	-13,015
Demand growth	0	50	100	150	200
Net service expenditure	9,815	9,766	9,945	10,241	10,540
Capital financing costs	2,497	1,800	1,800	1,800	1,800
Pension fund - added years	94	502	527	552	577
Recharge to HRA	-1,666	-1,650	-1,650	-1,650	-1,650
Investment Income	-119	-120	-120	-120	-120
Total budget	10,621	10,298	10,502	10,823	11,147
Funding					
Business Rates Retention	-4,911	-2,573	-2,528	-2,482	-2,434
Council Tax Freeze Grant	0	0	0	0	0
Collection Fund Balance	-174	0	0	0	0
Section 106 Funding	0	0	0	0	0
Formula Grant	-684	-251	0	0	0
New Homes Bonus	-4,279	-1,936	-1,936	-1,936	-1,936
Total Funding	-10,048	-4,760	-4,464	-4,418	-4,370
Net Operating Expenditure	573	5,538	6,038	6,405	6,777
Movement in Reserves	-505	-29	-58	-169	-75
COUNCIL TAX REQUIREMENT	68	5,509	5,980	6,236	6,702

COUNCIL TAX INCOME	-4,780	-5,008	-5,246	-5,497	-5,759
In year surplus (-) / deficit	-4,712	501	734	739	943

19. The forecasts show:

- An in-year surplus of £4.712m for 2016/17
- An ever increasing deficit in from 2017/18 onwards.

20. Given the level of uncertainty around NHB it is wise to continue to look for efficiencies and savings, along with ways of increasing income, in readiness for challenges the Council may face in the future.

21. The Council is in the process of establishing a Special Purpose Vehicle (SPV). This is a wholly Council owned company which would look to maximise income from utilising surplus Council assets to provide commercial units and private housing which would be let at market rates. The Articles of Association would enable the vehicle to be the sole external delivery arm of the Council.

22. To establish this business it is likely that the Council will need to allocate between £5m - £7m to fund the initial development and/or purchase of suitable dwellings. The majority of this sum will be generated from the 2016/17 forecast surplus and use of the Strategic Initiatives Fund.

Public Consultation

23. For the previous four years the budget consultation has been based on the key actions contained within the Corporate Plan. However for 2016/17 the approach to this consultation was changed to try to improve the response rate.

24. In addition the council widened the scope of the consultation, using three streams

- a) A telephone survey undertaken by a professional market research company who contacted a profiled sample of Uttlesford residents. The company was commissioned to deliver 500 responses and in fact exceeded that with 533 responses.
- b) Open public consultation using an online questionnaire. Paper copies were also available at council office reception desks. In addition a face to face consultation was also carried out with staff available to answer questions at Great Dunmow Carnival and at Saffron Walden and Thaxted markets. This received 79 responses.
- c) The 450 members of the Uttlesford Citizens Panel. This received 208 responses.

25. This gives a total response of 820 compared to 196 in 2014.

26. The full analysis of the budget consultation is included as Appendix One. This report contains an executive summary, precis of the combined results of all the

survey streams and detailed results from each of the telephone, public and panel consultations. Very briefly, the people of Uttlesford would like their council to concentrate spending on collecting bins, planning how the district develops, sweeping the streets, supporting the elderly, working with police and preventing drugs use. They would rather the council spent less on providing car parks and funding Saffron Walden Museum. For next year they are of the opinion that Council Tax, or at least the Uttlesford portion of it, should remain at the same level.

Key actions and budget strategy for 2016/17

27. The following are the key actions and assumptions that will inform the 2016/17 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 2016/17.
- c) 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.
- d) To develop the new housing company and other income streams.
- e) 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.