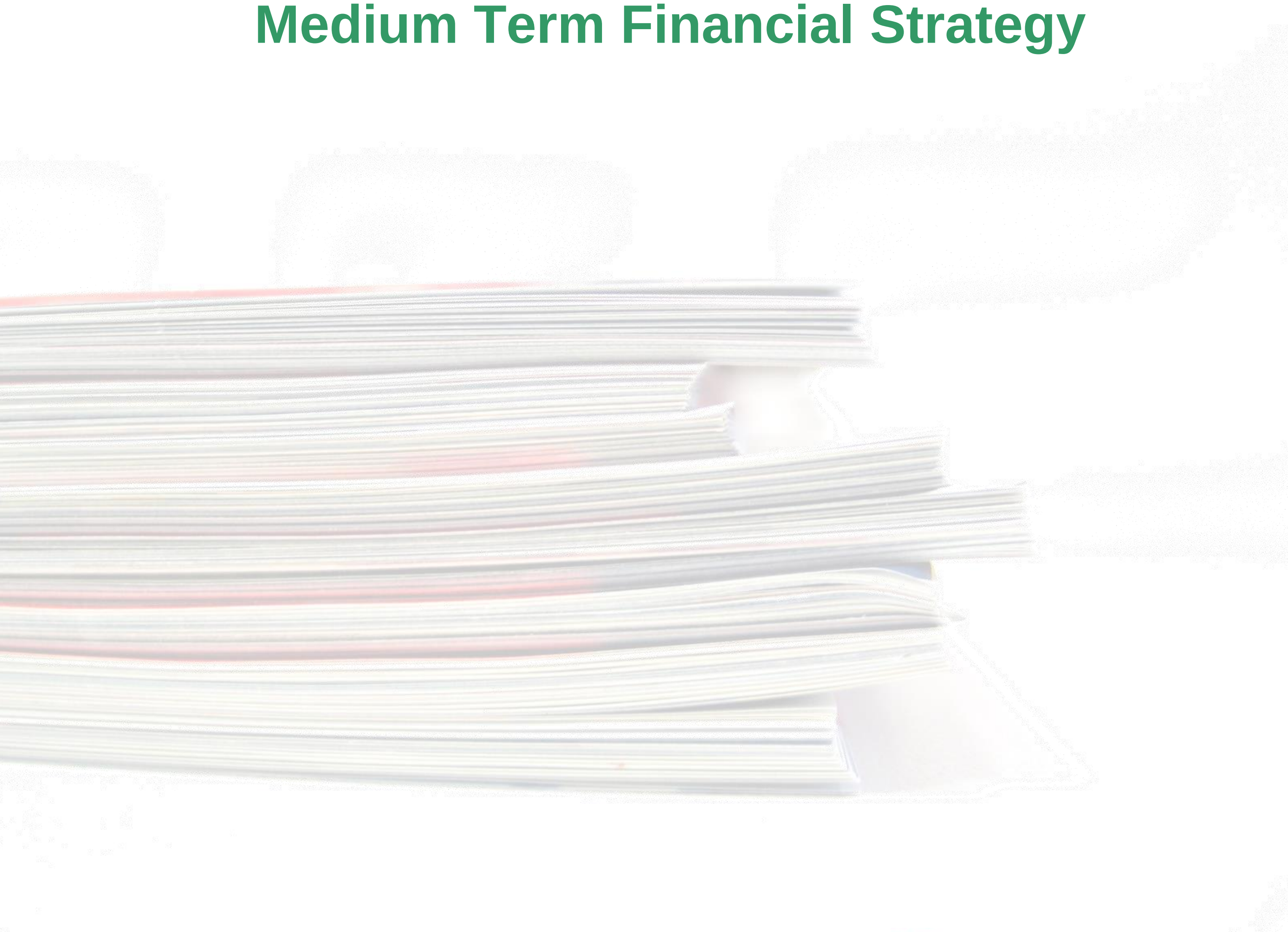
Uttlesford District Council

Medium Term Financial 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 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.

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 though confirmed at £4.279m.

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)** – The Government has announced that NHB will continue for the foreseeable future however a consultation has started on a review of the scheme. The funding envelope for NHB is being reduced from about £1,460 million to about £660 million with the 'saved' £800 million being diverted to Social Care. Clearly the consultation is aimed at reducing the amount of NHB paid to local authorities and as this council was one of the best performing in terms of NHB reward it is at most risk of a substantial cut in the future. Any change to the scheme will most likely commence in 2017/18.The Government has indicated that the preferred scheme is a 4 year one compared to the current 6 year. On the face of it this has a significant but manageable impact on the forecasts; however the 4 year scheme appears to be unaffordable in terms of the new funding envelope. Accordingly this plan is based on what the Council believes to be a realistic level of reward (£2million).

b) **Localisation of Business Rates** – The way in which the Council prepares estimates for the Localisation of Business Rates has been reviewed; what is felt to be a realistic, rather than a minimum, level of income has been included in the model. However timing of release of the provision for appeals which is governed by accounting principles and remains a challenge.

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. There is a high risk that the actual level of claims transferred to Universal Credit will be significantly lower than that expected, due to the large number of pensioner and other types of disregarded claims.

It is likely that the timing of the release of the localisation of business rates provision will mean that the Council can have reasonable confidence that in the next two financial years (2016/17 and 2017/18) its total income will exceed the forecasted budget. Thereafter the position is far less certain.

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 2016/17 base budget as a starting point and one-off items removed. Assumptions about annual inflation for 2016/17 are used: staff pay 1%; utilities 3%; contractual indexation 3% (unless specified otherwise); price inflation 2%.

b) **Gross Service Income**: Again uses the 2016/17 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 continue to phase out of the UDC budget in 2016/17 and this process to complete by 2020/21. This is shown by the reduction in Gross service expenditure and income.

d) **Service demand** – due to 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.

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Gross service expenditure	33,696	32,648	30,115	26,732	23,405	21,486
Gross service income	-23,800	-22,854	-20,194	-16,568	-12,993	-10,818
Demand growth	0	50	100	150	200	250
Net service expenditure	**9,896**	**9,844**	**10,021**	**10,314**	**10,612**	**10,918**

d) **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.

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Capital financing costs	2,498	1,800	1,800	1,800	1,800	1,800
Pension fund - added years	92	502	527	552	577	602
Recharge to HRA	-1,666	-1,650	-1,650	-1,650	-1,650	-1,650
Investment Income	-119	-120	-120	-120	-120	-120
Total Corporate Items	**805**	**532**	**557**	**582**	**607**	**632**

f) **Specific grants**: Assumed no change to PFI and Homelessness 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 previous 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.

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Business Rates Retention	-2,689	-5,000	-2,528	-2,482	-2,434	-2,434

h) Formula Grant: The Government has announced that Formula Grant (also known as Revenue Support Grant or RSG) will be phased out over a maximum of 4 years. For this Council the grant actually goes over 2 years.

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Formula Grant	-684	-251	0	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.

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
New Homes Bonus	-4,279	-1,936	-1,936	-1,936	-1,936	-1,936

Council Tax

The Administration has given instruction that UDC's Council Tax should be increased by 1% in 2016/17 and 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. These assumptions give rise to the forecasts on the table below.

	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**	**2021/22**
Tax Base	36,464	37,399	38,361	39,348	40,362	41,403
LCTS discounts	-2,013	-2,013	-2,013	-2,013	-2,013	-2,013
Tax Base (net)	**34,451**	**35,386**	**36,348**	**37,335**	**38,349**	**39,390**
UDC Band D	**£140.13**	**£142.93**	**£145.79**	**£148.71**	**£151.68**	**£154.71**
Planning assumptions	**1%**	**2%**	**2%**	**2%**	**2%**	**2%**
Council Tax income	**£4,827,584**	**£5,057,784**	**£5,299,109**	**£5,552,052**	**£5,816,743**	**£6,094,080**

Outcome of Budget Modelling

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Gross service expenditure	33,696	32,648	30,115	26,732	23,405	21,486
Gross service income	-23,800	-22,854	-20,194	-16,568	-12,993	-10,818
Demand growth	0	50	100	150	200	250
Net service expenditure	**9,896**	**9,844**	**10,021**	**10,314**	**10,612**	**10,918**
Capital financing costs	2,498	1,800	1,800	1,800	1,800	1,800
Pension fund - added years	92	502	527	552	577	602
Recharge to HRA	-1,666	-1,650	-1,650	-1,650	-1,650	-1,650
Investment Income	-119	-120	-120	-120	-120	-120
Total budget	**10,701**	**10,376**	**10,578**	**10,896**	**11,219**	**11,550**
Funding						
Business Rates Retention	-2,689	-5,000	-2,528	-2,482	-2,434	-2,434
Collection Fund Balance	-152	0	0	0	0	0
Formula Grant	-684	-251	0	0	0	0
New Homes Bonus	-4,279	-1,936	-1,936	-1,936	-1,936	-1,936
Total Funding	**-7,804**	**-7,187**	**-4,464**	**-4,418**	**-4,370**	**-4,370**
Net Operating Expenditure	**2,897**	**3,189**	**6,114**	**6,478**	**6,849**	**7,180**
Movement in Reserves	**1,931**	**-42**	**-44**	**-183**	**-75**	**0**
COUNCIL TAX REQUIREMENT	**4,828**	**3,147**	**6,070**	**6,295**	**6,774**	**7,180**
COUNCIL TAX INCOME	**-4,828**	**-5,058**	**-5,299**	**-5,552**	**-5,817**	**-6,094**
In year surplus (-) / deficit	**0**	**-1,911**	**771**	**743**	**957**	**1,086**

* The 16/17 budget has a surplus of £2.436m which is included in the movement of reserves figure and is allocated to the Strategic Initiatives Fund (SIF).

Sufficient reserves should be maintained to cover the eventualities that may arise from 2018/19. The Council should proactively look for service savings and cost-sharing options. 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 increase from £6.2m to £10.0m. This excludes any in-year surpluses or deficits. A schedule of forecasted reserves balances is set out below.

£000	31.3.2015 Actual	31.3.2016 Forecast	2016/17 change	31.3.2017 Forecast	31.3.2018 Forecast	31.3.2019 Forecast	31.3.2020 Forecast
USABLE RESERVES							
Financial management Reserves							
MTFS Reserve	1,000	1,000	0	1,000	1,000	1,000	1,000
Transformation Reserve	1,000	960	0	960	960	960	960
Contingency Reserves							
Emergency Response	40	40	0	40	40	40	40
Service Reserves							
New waste depot site	1,500	600	-600	0	0	0	0
Planning	1,141	1,063	0	1,063	1,063	1,063	1,063
Waste Management	379	130	70	200	200	200	200
Homelessness	40	40	0	40	40	40	40
Economic Development	244	194	0	194	194	194	194
Elections	95	25	25	50	75	100	25
Strategic Initiatives Fund/SPV	600	3,987	2,468	6,455	6,455	6,455	6,455
Access Fund	200	0	0	0	0	0	0
TOTAL USABLE RESERVES	**6,239**	**8,039**	**1,963**	**10,002**	**10,027**	**10,052**	**9,977**
RING-FENCED RESERVES							
Working Balance	1,282	1,200	34	1,234	1,167	1,098	890
Business Rates Reserve	3,670	520	-20	500	500	0	500
Licensing Reserve	31	16	-16	0	0	0	0
DWP Reserve	259	100	-50	50	0	0	0
TOTAL RING-FENCED RESERVES	**5,242**	**1,836**	**-52**	**1,784**	**1,667**	**1,098**	**1,390**
TOTAL RESERVES	**11,481**	**9,875**		**11,786**	**11,694**	**11,150**	**11,367**

* The forecast underspend for 2017/18 is not shown in the 5 year Reserves Strategy above nor however are the identified shortfalls in the following years.

It will be necessary to revisit the Reserves Strategy once the outcome of the New Homes Bonus consultation is known. It is likely that the following reserves will be established during 2016/17

- New Homes Bonus Contingency Reserve – depending upon the outcome of the consultation, it may be necessary to establish a reserve to offset risks around the loss of NHB following planning permission granted on appeal.
- Special Purpose Vehicle Reserve – to enable the formation and funding of the wholly owned company. The reserve will be established once the Articles of Association are agreed at Cabinet. The reserve will be funded from the Strategic Initiatives Fund.
- Pension Deficit Reserve – to enable the council to make a three year advance payment to the pension fund at a discounted rate.

Housing Revenue Account

2016/17 shall be the fifth year of self-financing. The HRA Business Plan, re-written in January 2016, sets out estimates of revenue headroom and how this will be invested.

A number of financial assumptions, including interest rates, rent setting, void rates, bad debt levels and repair costs have been used in the Business Plan. These and other assumptions will be kept under review to ensure that the plan remains a robust tool in the delivery of the council's priorities.

An HRA investment programme has been developed based on these financial assumptions. Alongside investment in existing stock and new housing, a range of actions are planned to deliver value for money service improvements.

The key issues for the HRA 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.

Equally, as the Council progresses with its development plans it may be necessary to re-profile the debt so as to enable this work to continue. Timing around interest rates and requirements is critical and the Council will be working closely with its financial advisers to maximise the opportunity for the Council.