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 fourth 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. The provisional settlement was announced on the 14th December 2016. The Council is facing ever decreasing funding allocations, the phasing out of Revenue Support Grant by 2018/19, transition grant ending in 2018/19, reduction in Rural Services Delivery Grant in 2018/19 and significant reductions in New Homes Bonus.

A consultation on the proposed settlement is in progress and Uttlesford has submitted a response, along with this, The Rural Services Network are lobbying the Government to address the shortfall in funding that rural districts are facing and the inequity of this compared to Urban areas. The consultation closes on 13th January 2017.

There continues to be much uncertainty in the five year forecast as the Government consultations for both New Homes Bonus and 100% Business Rates Retention continue. The proposals are varied and the implications potentially significant.

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.

Four Year Settlement

In the 2016/17 settlement Government offered all authorities the option to 'sign up' for a four year funding deal. This was to give authorities certainty and clarity over future years funding streams. The Council formally accepted the offer in October 2016, as part of this we were required to produce an efficiency plan.

The efficiency plan was submitted to Cabinet in October 2016 and a link to this is included later in this document.

New Home Bonus (NHB)

The NHB figure for 2017/18 was £3.772m in the provisional settlement on the 14th December. The Government has announced that NHB will continue for the immediate future; a consultation was undertaken on a review of the scheme in 2016, Uttlesford submitted a response. The Government's target set in the 2017/18 settlement was to reduce total payments from £1.5bn to £900m by 2019/20. The pressure on social care has meant the reductions have been moved forward with a planned reduction of £250m in 2017/18 to create the new adult social care fund. The outcomes from the consultation were expected in June 2016, these were received as part of the provisional statement in December. The provisional amendments are detailed below;

1. Legacy payments will reduce from 6 years to 5 years in 2017/18 and then to 4 years in 2018/19.

2. A 'deadweight' factor or national baseline will be introduced in 2017/18; NHB allocations will include a reduction for natural growth of 0.4%. This means that payments are made only on the increase in the number of houses which are above the national baseline (average national growth). This equates to approximately 149 properties per year.

3. The consultation also included proposals for no or reduced payments to authorities where houses are built following a successful appeal and where an authority does not have an approved Local Plan. These elements have been deferred pending further consultation in 2017/18.

Localisation of Business Rates

The way in which the Council prepares estimates for the Localisation of Business Rates is under further review; this is due to the 2017 revaluation which is where the government adjusts the value of business rates to reflect changes in the property market. The last revaluation was carried out in 2010.

At revaluation the multipliers are also revised, which often means that individual businesses do not always see an increase in their business rates. To calculate the 'net collectable income' on business rates the following calculation applies;

Rateable value x multiplier = business rates payable.

The extension of current reliefs and the introduction of new reliefs also raise concerns, these have previously been funded through the section 31 grant, it is confirmed that this will continue for 2017/18 but there have been no indication of whether this will continue in future years. The Rural Rate Relief has been extended from 50% to 100%, to bring it in line with Small Business Relief and the introduction of relief for Fibre Broadband.

In previous years the section 31 grant (funding to reimburse the Council for statutory rate reliefs) was outside of the calculation of the councils 'net collectable income', this grant is now included in our income and levy calculation.

Appeals continue to be a challenge, although the financial risk has now reduced with any new appeals being subject to the new process of 'check, challenge and appeal', must be submitted within 3 months of the billing period and the back dating period being limited to April 2017.

There is still a significant level of historic appeals outstanding with the Valuation Office and these are subject to back dating to April 2010. The highest risk appeal the council faced was Stansted Airport and this was settled in 2016/17.

The introduction of 100% Business Rates Retention is still expected to be implemented in 2019/20, although this is yet to be confirmed. The MTFS assumes a consistent level of Business Rates income for the 5 years as Government have said that the move to 100% retention will be fiscally neutral. The key questions that need to be confirmed are;

- What extra responsibilities LA's will be required to take on?
- Will the appeals risk continue to be managed locally or will there be a central pot?
- What will be included in the Local and Central lists?

Universal Credit

The full rollout of Universal Credit has been delayed; the transfer of all working age claimants from Housing Benefit to Universal Credit is now expected to be April 2022. If there is any further delay this will have an 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 rollout 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.

Budget Model

To inform the financial outlook for UDC, a detailed budget model is used. The following are key assumptions used in the model.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Gross service expenditure	35,423	33,209	30,569	27,390	24,461
Gross service income	(23,973)	(22,345)	(19,611)	(16,142)	(12,911)
Demand growth	0	0	50	100	150
Net Service expenditure	**11,450**	**10,864**	**11,008**	**11,348**	**11,700**

a) **Gross service expenditure**: Uses the 2016/17 base budget as a starting point and one-off items have been removed. Assumptions about annual inflation for 2017/18 are used: staff pay 1%; pension 1.1%; 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 of 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 2017/18 and Universal Credit to be implemented in full by 2022/23. This is shown by the Gross service expenditure and income reducing year on year.

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 from 2018/19.

e) **Specific grants**: Housing Benefits subsidy at 98% of expenditure. Benefits admin subsidy being reduced to reflect rollout of Universal Credit.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Capital financing costs	1,861	1,962	2,120	1,805	1,717
Pension fund - added years	92	92	92	92	92
Pension Fund - Deficit	770	0	0	830	0
Apprenticeship Levy	51	52	53	54	56
Recharge to HRA/Corporate Core	(1,800)	(1,836)	(1,873)	(1,910)	(1,948)
Investment Income	(65)	(66)	(66)	(67)	(68)
Efficiencies and Income Opportunities	(200)	0	0	0	0
Total Corporate expenditure	**709**	**204**	**326**	**804**	**(151)**

f) **Corporate items**:

- Capital Financing Costs – are in line with the projected capital programme's financing requirements. The increased financing costs from 2019/20 relate to a new IT capital project and full details can be found in the Capital Programme report.
- Pension Fund deficit payment – tri-annual payment, where a discount is given for a 3 year upfront payment.
- Apprenticeship Levy – all employers with salary costs greater than £3m are required to pay a mandatory levy of 0.5% through the PAYE system.
- Investment income – nominal sum only due to continued low interest rates and prudent investment policy.
- Recharges to HRA – no change in methodology, based on actual costs of central services and corporate core.

f) **Efficiencies and Income Opportunities:** the savings identified are taken from the efficiency plan the Council was required to submit as part of the four year settlement. The Council is actively exploring options for investment projects to increase the ability to generate new sources of income. The savings identified are based around three core areas, Income Generation, Service Redesign and New Ways of Working. Full details can be found at the following link. Efficiency Plan

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Business Rates Retention	(2,568)	(2,215)	(2,286)	(2,200)	(2,200)
NNDR Collection Fund Deficit	1,009	0	0	0	0
Net Business Rates Income	**(1,559)**	**(2,215)**	**(2,286)**	**(2,200)**	**(2,200)**

g) **Localisation of Business Rates**: The increased income figure for 2017/18 compared to future years is due to the Council membership of the Essex Business Rates Pool. The pool has to be approved by government each year and with expected 100% Business Rates retention commencing in 2020 there is no indication the pooling scheme will continue beyond 2017/18.

The collection fund deficit is the Councils share of the shortfall in the appeal provision for the backdated settlement of the Stansted Appeal. The guidance from our external consultants indicated that the appeal settlement would be approximately £8m whereas the actual backdated settlement figure from the Valuation Office was £11m.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
Formula Grant	(255)	0	0	0	0
Rural Services Delivery Grant	(225)	(172)	(225)	0	0
Transitional Grant	(60)	0	0	0	0
Total Grant Funding	**(540)**	**(172)**	**(225)**	**0**	**0**

h) **Formula Grant:** The Government has announced that Formula Grant (also known as Revenue Support Grant or RSG) will be phased out. For this Council 2017/18 is the final year of this grant. The Rural Services Delivery Grant continues until 2019/20, from 2020/21 the Council's funding is reliant on Business Rates Retention and New Homes Bonus.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000
New Homes Bonus	(3,772)	(2,881)	(2,764)	(2,500)	(2,500)

i) **New Homes Bonus:** The model shows the announced figure for 2017/18. Future year's allocations for 2018/19 and 2019/20 are based on the latest funding analysis, (using average growth in the area), received from our CIPFA Finance Network consultants. The final two years are purely estimated, as we expect significant changes to the way the council is funded with the introduction of 100% Business Rates.

Council Tax

The MTFS has been prepared on the assumption that Council Tax will be increased annually by 2%. 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 based on the average growth over the last five years, which equates to approximately 2%. An estimate of LCTS discounts has been made. These assumptions give rise to the forecasts on the table below.

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	2017/18	2018/19	2019/20	2020/21	2021/22
Tax Base	37,234	37,968	38,715	39,478	40,256
LCTS Discounts	(2,010)	(2,010)	(2,010)	(2,010)	(2,010)
Net Tax Base	**35,224**	**35,958**	**36,705**	**37,468**	**38,246**
UDC Band D	142.93	145.79	148.70	151.68	154.71
Percentage increase	2%	2%	2%	2%	2%
Council Tax Income	**(5,035)**	**(5,242)**	**(5,458)**	**(5,683)**	**(5,917)**

Outcome of Budget Modelling

	2017/18 £' 000	2018/19 £' 000	2019/20 £' 000	2020/21 £' 000	2021/22 £' 000
Gross service expenditure	35,423	33,209	30,569	27,390	24,461
Gross service income	(23,973)	(22,345)	(19,611)	(16,142)	(12,911)
Demand growth	0	0	50	100	150
Net service expenditure	**11,450**	**10,864**	**11,008**	**11,348**	**11,700**
Capital financing costs	1,861	1,962	2,120	1,805	1,717
Pension fund - added years	92	92	92	92	92
Pension Fund - Deficit	770	0	0	830	0
Apprenticeship Levy	51	52	53	54	56
Recharge to HRA/Corporate Core	(1,800)	(1,836)	(1,873)	(1,910)	(1,948)
Investment Income	(65)	(66)	(66)	(67)	(68)
Efficiencies and Income Opportunities *	(200)	0	0	0	0
Total budget	**12,159**	**11,068**	**11,334**	**12,152**	**11,549**
Funding					
Business Rates Retention	(2,568)	(2,215)	(2,286)	(2,200)	(2,200)
Collection Fund Balance	816	0	0	0	0
Formula Grant	(255)	0	0	0	0
Rural Services Grant	(285)	(173)	(224)	0	0
New Homes Bonus	(3,772)	(2,881)	(2,764)	(2,500)	(2,500)
Total Funding	**(6,064)**	**(5,269)**	**(5,274)**	**(4,700)**	**(4,700)**
Net Operating Expenditure	**6,095**	**5,799**	**6,060**	**7,452**	**6,849**
Movement in Reserves	(1,060)	(255)	(175)	(891)	25
COUNCIL TAX REQUIREMENT	**5,035**	**5,544**	**5,885**	**6,561**	**6,874**
COUNCIL TAX INCOME	**(5,035)**	**(5,242)**	**(5,458)**	**(5,683)**	**(5,917)**
In year surplus (-) / deficit	**0**	**302**	**427**	**878**	**957**
Efficiencies and Income Opportunities	0	(696)	(725)	(961)	(1,025)
Adjusted surplus (-) / deficit	**0**	**(394)**	**(298)**	**(83)**	**(68)**

The 2017/18 surplus of £564k has been added to the Strategic Initiatives Reserves.

* *The efficiencies target for 2017/18 is shown in the body of the table as there is a legal requirement to set a balanced budget.*

Sufficient reserves should be maintained to cover the eventualities that may arise from 2018/19 if the efficiencies identified cannot be realised. The Council should proactively look for service efficiencies and income generating projects.

Due to 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 those 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 decrease from £12.68m to £10.32m. This includes the surplus for 2017/18 but excludes any in-year surpluses or deficits for future years. A schedule of forecasted reserves balances is set out on the following page.

£' 000	1.4.2016 Actual	2016/17 net movement	31.3.2017 Forecast	2017/18 net movement	31.3.2018 Forecast	2018/19 net movement	31.3.2019 Forecast	2019/20 net movement	31.3.2020 Forecast	2020/21 net movement	31.3.2021 Forecast	31.3.2022 Forecast
USABLE RESERVES												
Financial management Reserves												
MTFS Reserve	1,000	(20)	980		980		980		980		980	980
Transformation Reserve	960	(66)	894	900	1,794		1,794		1,794		1,794	1,794
Contingency Reserves												
Emergency Response	40		40		40		40		40		40	40
Service Reserves					0		0		0		0	0
New waste depot site	1,488	(1,488)	0	2,000	2,000		2,000		2,000		2,000	2,000
Planning	982	(385)	597	(275)	322	(200)	122		122		122	122
Waste Management	130	70	200		200		200		200		200	200
Homelessness	40		40	(40)	0		0		0		0	0
Economic Development	194		194		194		194		194		194	194
Elections	25	25	50	25	75	25	100	(75)	25	25	50	75
Strategic Initiatives Fund	4,506	2,296	6,802	(3,656)	3,146		3,146		3,146	(830)	2,316	2,316
New Homes Bonus Ward Members	39		39		39		39		39		39	39
Voluntary Sector Grants	41	(41)	0		0		0		0		0	0
Private Finance Initiative	0	85	85		85		85		85		85	85
TOTAL USABLE RESERVES	**9,445**	**476**	**9,921**	**(1,046)**	**8,875**	**(175)**	**8,700**	**(75)**	**8,625**	**(805)**	**7,820**	**7,845**
RING-FENCED RESERVES												
Working Balance	1,246	34	1,280	(14)	1,266	(80)	1,186	(100)	1,086	(86)	1,000	1,000
Pension Reserve*	0		0	0	0		0		0	0	0	0
Business Rates Reserve	500	798	1,298		1,298		1,298		1,298		1,298	1,298
Licensing Reserve	16	(16)	0		0		0		0		0	0
DWP Reserve	136	50	186		186		186		186		186	186
TOTAL RING-FENCED RESERVES	**1,898**	**866**	**2,764**	**(14)**	**2,750**	**(80)**	**2,670**	**(100)**	**2,570**	**(86)**	**2,484**	**2,484**
TOTAL RESERVES	**11,343**	**1,342**	**12,685**	**(1,060)**	**11,625**	**(255)**	**11,370**	**(175)**	**11,195**	**(891)**	**10,304**	**10,329**

**The pension reserve shows a zero balance as the transfer from the Strategic Initiatives reserves and subsequent release to the general fund are in the same year and thus gives a net zero balance.*

The forecast underspend for 2016/17 is not shown in the 5 year Reserves Strategy above nor however are the identified shortfalls in the years from 2018/19.

Housing Revenue Account (HRA)

2017/18 will be the sixth year of self-financing and the first year of the principal repayment of the loan. 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
- mitigating the impact of the 1% rent reduction
- preparing for the potential loss of high value voids or government levy on councils as part of the government's policy to fund the Right To Buy (RTB) discounts of Housing Associations
- reducing the risk of repayment of RTB receipts to government
- ensuring that the Housing Service has the capacity to deliver the plan

Under the self-financing reform the Council took out a loan for housing stock of £88.4m. 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.

A review of the HRA Business Plan and the financing of the loans will be undertaken in early 2017/18 in order to ensure the maximum benefit is being obtained, both in terms of interest rates and also the ability for the HRA to continue to deliver new housing.

The table on the next page shows the predicted 5 year financial position for the HRA. The use of the HRA reserves and the 5 year reserve balances are detailed in the Reserves Strategy.

Housing Revenue Account – 5 year Summary

£ '000	2017/18 Original Budget	2018/19 Original Budget	2019/20 Original Budget	2020/21 Original Budget	2021/22 Original Budget
Dwelling Rents	(14,160)	(14,019)	(14,229)	(14,442)	(14,659)
Garage Rents	(206)	(208)	(210)	(212)	(214)
Other Rents etc	(3)	(3)	(3)	(4)	(4)
Charges for Services & Facilities	(853)	(862)	(870)	(879)	(888)
Contribution towards expenditure	0	0	0	0	0
Total Income	**(15,222)**	**(15,091)**	**(15,312)**	**(15,537)**	**(15,764)**
Housing Finance & Business Management					
Business & Performance Management	122	124	125	126	127
Rents, Rates & Other Property Charges	75	75	76	77	78
	197	199	201	203	205
Housing Maintenance & Repairs Service					
Common Service Flats	189	191	193	195	197
Estate Maintenance	147	148	150	151	153
Housing Repairs	2,321	2,344	2,367	2,391	2,415
Housing Sewerage	53	53	54	54	55
Newport Depot	17	17	17	17	17
Property Services	300	303	306	309	312
	3,026	3,057	3,087	3,118	3,149
Housing Management & Homelessness					
Housing Services	399	403	407	411	415
Sheltered Housing Services	623	625	631	637	644
	1,022	1,027	1,038	1,048	1,059
Other Costs					
Bad Debt Provision	178	180	182	183	185
Depreciation -transfered to MRR	3,564	3,599	3,635	3,672	3,708
Impairment - Other Assets	0	0	0	0	0
Interest/Costs re HRA Loan	2,625	2,651	2,678	2,705	2,732
Repayment of HRA Loan	2,000	2,000	2,000	2,000	2,000
Investment Income	(15)	(15)	(15)	(15)	(16)
Pension Costs - Added Years	19	19	19	20	20
Pension Deficit - Triannual payment	158	0	0	170	172
Recharge from General Fund	1,507	1,522	1,537	1,553	1,568
HRA Share of Corporate Core	293	296	299	302	305
Total Non-Service Expenditure	10,329	10,253	10,335	10,589	10,675
Total Expenditure	**14,574**	**14,536**	**14,661**	**14,958**	**15,087**
OPERATING (SURPLUS)/DEFICIT	**(648)**	**(556)**	**(651)**	**(579)**	**(677)**
Transfer to/(from) Capital receipts	(2,000)	(413)	(200)	(200)	(200)
Revenue balance available for capital financing	**(2,648)**	**(969)**	**(851)**	**(779)**	**(877)**
Capital Schemes Funded from Revenue	2,449	1,588	1,905	1,156	1,170
Transfers to/(from) Reserves					
Capital Projects	516	84	(462)	(43)	(109)
Change Management Reserve	0	0	0	0	0
Potential Developments	0	(709)	0	0	0
Sheltered Housing Reserve	(317)	0	0	0	0
Transformation Reserve	0	0	0	0	0
Major Repairs Reserve - Other	0	0	(598)	(340)	(190)
Working Balance	0	0	0	0	0
	199	(625)	(1,060)	(383)	(299)
(SURPLUS)/DEFICIT	**(0)**	**(6)**	**(6)**	**(6)**	**(6)**