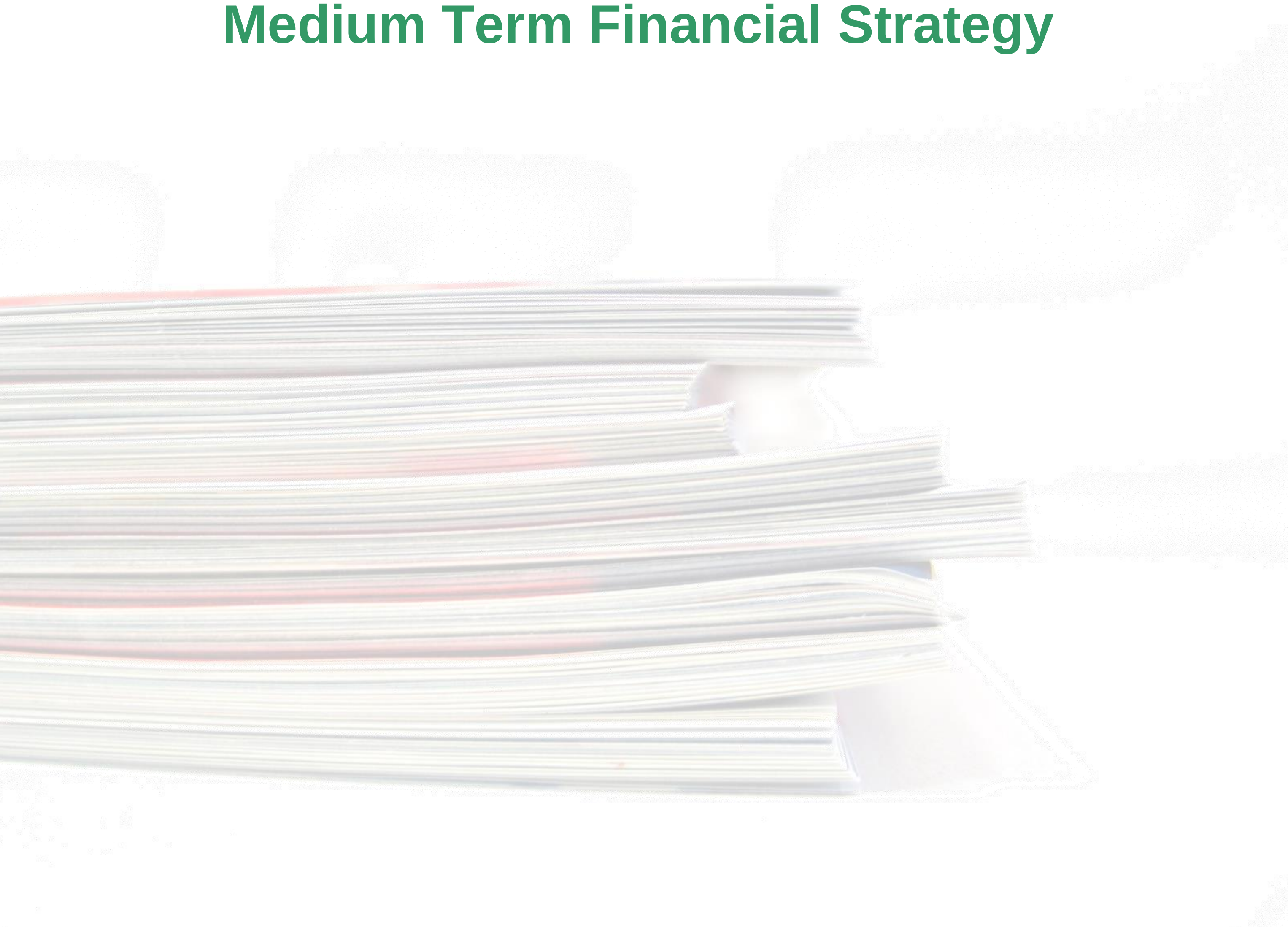
Uttlesford District Council

Medium Term Financial Strategy



Prepared by:

Finance Section

Uttlesford District Council

January 2015

CONTENTS

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.

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 £3.6m in 2015/16 and forecasted to be £4.3 million in 2016/17. 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. 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, 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. There is a significant risk that the actual level of claims transferred to Universal Credit will be significantly lower than that expected, due to the high number of pensioner and other types of disregarded claims.

d) **Planning Fee Income –** For both 2015/16 and 2016/17 additional fee income has been built into the forecast. This reflects the current trend. No such increase has been built into the subsequent years.

Assuming that the criteria for both New Homes Bonus and localisation of Business Rates will not change before 2017/18, then 2016/17 will show an in-year surplus. 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 2015/16 base budget as a starting point and one-off items removed. Assumptions about annual inflation for 2015/16 are used: staff pay 2%; utilities 3%; contractual indexation 3% (unless specified otherwise); 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** – assumed that Housing Benefits expenditure and subsidy will start to phase out of the UDC budget in 2016/17.

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.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Gross service expenditure	£33.829m	£33.198m	£30.920m	£26.466m	£22.095m	£20.630m
Gross service income	-£24.229m	-£23.274m	-£20.255m	-£15.313m	-£10.438m	-£8.441m
Net service expenditure	**£9.600m**	**£9.924m**	**£10.665m**	**£11.153m**	**£11.657m**	**£12.189m**

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	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Pension Fund	102	102	502	527	552	577
Capital Financing	3,454	1,366	1,429	1,546	1,540	1,509
Collection Fund Balance	-89	0	0	0	0	0
Recharge to HRA	-1,372	-1,300	-1,300	-1,300	-1,300	-1,300
Investment income	-50	-50	-50	-50	-50	-50
Total corporate items	**2,045**	**118**	**581**	**723**	**742**	**736**

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) **Council Tax Freeze Grant** – The Government has announced that Council Tax Freeze Grant will be rolled into formula grant from 2015/16 onwards.

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.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Retained Business Rates	**£1.303m**	**£1.329m**	**£1.356m**	**£1.383m**	**£1.411m**	**£1.439m**

i) **Formula Grant**: 2015/16 figure is that includes the council tax freeze grant. The model assumes Formula Grant is nil by 2019/20 and is profiled accordingly.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Formula Grant	£1.234m	£0.925m	£0.62m	£0.3m	£0.0m	£0.0m

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 below.

	MTFS PERIOD							
	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2013/14	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
2011/12 award	£0.714m	£0.714m	£0.714m	£0.714m				
2012/13 award	£0.534m	£0.534m	£0.534m	£0.534m	£0.534m			
2013/14 award	£0.794m	£0.794m	£0.794m	£0.794m	£0.794m	£0.794m		
2014/15 award		£0.835m	£0.835m	£0.835m	£0.835m	£0.835m	£0.835m	
2015/16 award			£0.721m	£0.721m	£0.721m	£0.721m	£0.721m	£0.721m
2016/17 provisional				£0.708m	£0.708m	£0.708m	£0.708m	£0.708m
2017/18 provisional					£0.93m	£0.93m	£0.93m	£0.93m
2018/19 provisional						£1.435m	£1.435m	£1.435m
2019/20 provisional							£1.441m	£1.441m
2020/21 provisional								£1.051m
TOTAL NHB	**£2.042m**	**£2.877m**	**£3.598m**	**£4.306m**	**£4.522m**	**£5.423m**	**£6.070m**	**£6.286m**

Council Tax

The Administration has given instruction that UDC's Council Tax should be cut by 3% in 2015/16 and frozen in 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 on the table below.

	2015/16	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Tax Base	34,132	34,652	35,374	36,492	37,308	37,884
LCTS discounts	-2,420	-2,320	-2,220	-2,220	-2,220	-2,220
Extra tax base from changing discounts	248	248	248	248	248	248
Tax Base (net)	**33,540**	**34,132**	**34,652**	**35,374**	**36,492**	**37,308**
UDC Band D	**£138.74**	**£138.74**	**£141.51**	**£144.34**	**£147.23**	**£150.17**
Planning assumptions	**-3%**	**0%**	**2%**	**2%**	**2%**	**2%**
Council Tax income	**£4.653m**	**£4.736m**	**£4.904m**	**£5.106m**	**£5.373m**	**£5.603m**

Cumulative CPI inflation since April 2010 (date of last UDC Council Tax increase) to December 2014 (latest published inflation data) is 12.26%.

December 2014 CPI Index 128.2

April 2010 CPI Index 114.2

Cumulative CPI = (Later index figure – Earlier index figure) ÷ Earlier index figure x 100

(128.2 – 114.2) = 14.0 ÷ 114.2 = 0.1226 x 100 = 12.26%

If a 3% cut is approved by the council, the district Band D figure will have reduced by 6% during this period. This would represent a real term reduction in the UDC precept of 16.16% since 2010.

(2010/11 Band D £147.42 + 12.26% = £165.49. £138.74 is 83.84% of £165.49. Real terms reduction therefore of 16.16%.)

Outcome of Budget Modelling

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£000	£000	£000	£000	£000	£000
Gross service expenditure	33,829	33,148	30,820	26,316	21,895	20,380
Gross service income	-24,228	-23,274	-20,255	-15,313	-10,438	-8,441
Demand growth	0	50	100	150	200	250
Net service expenditure	**9,600**	**9,924**	**10,665**	**11,153**	**11,657**	**12,189**
Capital financing costs	3,454	1,366	1,429	1,546	1,540	1,509
Pension fund deficit	102	102	502	527	552	577
Recharge to HRA	-1,372	-1,300	-1,300	-1,300	-1,300	-1,300
Other corporate items	-50	-50	-50	-50	-50	-50
Total budget	**11,733**	**10,042**	**11,246**	**11,876**	**12,399**	**12,925**
Funding						
Business Rates Retention	-1,303	-1,329	-1,356	-1,383	-1,411	-1,439
Council Tax Freeze Grant	0	0	0	0	0	0
Collection Fund Balance	-89	0	0	0	0	0
Section 106 Funding	-10	0	0	0	0	0
Formula Grant	-1,234	-925	-620	-300	0	0
New Homes Bonus	-3,598	-4,306	-4,522	-5,423	-6,070	-6,286
Total Funding	**-6,234**	**-6,560**	**-6,498**	**-7,106**	**-7,481**	**-7,725**
Net Operating Expenditure	**5,499**	**3,482**	**4,748**	**4,770**	**4,918**	**5,200**
Movement in Reserves	**-846**	**-11**	**-86**	**-197**	**-273**	**-60**
COUNCIL TAX REQUIREMENT	**4,653**	**3,471**	**4,662**	**4,573**	**4,645**	**5,140**
COUNCIL TAX INCOME	**-4,653**	**-4,736**	**-4,904**	**-5,106**	**-5,373**	**-5,603**
In year surplus (-) / deficit	**0**	**-1,265**	**-242**	**-533**	**-728**	**-463**

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 2016/17 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).

10% cut

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
In year surplus (-) / deficit	0	-1,265	-242	-533	-728	-463
10% cut in NHB	0	0	453	543	607	629
Revised surplus (-) / deficit	0	-1,265	211	10	-121	166

20% cut

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
In year surplus (-) / deficit	0	-1,265	-242	-533	-728	-463
20% cut in NHB	0	0	905	1085	1214	1258
Revised surplus (-) / deficit	0	-1,265	663	552	486	795

30% cut

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
In year surplus (-) / deficit	0	-1,265	-242	-533	-728	-463
30% cut in NHB	0	0	1,357	1,627	1,821	1,886
Revised surplus (-) / deficit	0	-1,265	1,115	1,094	1,093	1,423

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.

Sufficient reserves should be maintained to cover the eventualities that may arise from the 2015 General Election. To that end 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.

The council should proactively look for service savings and cost-sharing options.

This is a risk-based approach, given that the uncertainties arising from the General Election are too many to reasonably try to quantify. Having Financial Management Reserves of at least £2m in 2015/16 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 £5.5m to £3.4m. This excludes any in-year surpluses or deficits. A schedule of forecasted reserves balances is set out below.

£000	31.3.2015 Forecast	2015/16 additions	2015/16 deductions	31.3.2016 Forecast	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	22	-50	972	972	972	972	972
Transformation Reserve	1,000	0	-50	950	850	550	350	150
Contingency Reserves								
Emergency Response	40	0	0	40	40	40	40	40
Service Reserves								
New waste depot site	1,500	0	-1,500	0	0	0	0	0
Planning	1,000	0	-200	800	600	400	400	400
Waste Management	230	0	-30	200	200	200	200	200
Homelessness	40	0	0	40	40	40	40	40
Economic Development	50	0	-50	0	0	0	0	0
Elections	95	20	-95	20	40	60	80	20
Strategic Initiatives Fund	353	1,034	0	1,387	1,387	1,387	1,387	1,387
Access Fund	200	200	-200	200	200	200	200	200
TOTAL USABLE RESERVES	**5,508**	**1,276**	**-2,175**	**4,609**	**4,329**	**3,849**	**3,669**	**3,409**
RING-FENCED RESERVES								
Working Balance	**1,214**	**0**	**0**	**1,214**	**1,183**	**1,077**	**860**	**567**
Business Rates Reserve	3,623	0	-2,689	934	0	0	0	0
Licensing Reserve	27	0	-22	5	2	2	2	2
DWP Reserve	175	0	-175	0	0	0	0	0
TOTAL RING-FENCED RESERVES	**5,039**	**0**	**-2,886**	**2,153**	**1,185**	**1,079**	**862**	**569**
TOTAL RESERVES	**10,547**			**6,762**	**5,514**	**4,928**	**4,531**	**3,978**

* The MTFS Reserve will be drawn down to assist with shortfalls identified in the Medium Term Financial Strategy

** These reserves show spend that is anticipated but not shown in the General Fund budget as the precise expenditure cannot yet be identified.

*** The access fund has an initial £200,000 allocated to it. It will be used in 15/16 for the Wenden cycle path scheme. This reserve will then be topped up and drawn down on as S106 monies are received and new schemes started

**** The forecast underspend for 2016/17 is not shown in the 5 year plan

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 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.