

**Committee:** Scrutiny Committee  
**Date:** 22 November 2016  
**Title:** Budget 2017/18 Overview  
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**Agenda Item**

**9**

Item for decision

## Summary

1. At its meeting on 7 February 2017, the Scrutiny Committee will be invited to comment on detailed proposals for the 2017/18 budget, ahead of consideration by the Cabinet on 16 February and determination by the Full Council on 23 February.
2. This report provides an overview of the budget setting process and the documentation that will be coming forward for review.
3. The Scrutiny Committee's role is to provide an independent review of the proposals prior to consideration by Cabinet. This is ordinarily an apolitical process; alternative budget proposals from Opposition Members should be formulated away from the Scrutiny process and presented to Cabinet and Full Council at the appropriate time.
4. The report includes the results of the recent budget consultation and explains in more detail the Council's reliance on New Homes Bonus (NHB).
5. There is also a section on Business Rates retention and early thoughts on what the Autumn Statement may contain.

## Recommendations

6. It is recommended that
  - Members provide feedback on the outcome of the budget consultation, New Homes Bonus reliance and Business Rates retention for inclusion in the Cabinet report for the 2017/18 Budget Strategy.

## Financial Implications

7. None.

## Background Papers

8. None.

## Impact

Communication/Consultation	Public consultation and business ratepayers consultation is carried out as part of the budget process.
Community Safety	None
Equalities	An Equalities Impact Assessment will be completed as part of the budget process.
Health and Safety	None

Human Rights/Legal Implications	It is a legal requirement to produce a balanced budget.
Sustainability	Budgets must be drawn up in the context of the Council's Medium Term Financial Strategy.
Ward-specific impacts	None
Workforce/Workplace	Some budget proposals may affect staff e.g. efficiency savings requiring different ways of working.

### **Budget setting process and timetable**

9. The 2017/18 budget relates to the financial year that will run from 1 April 2017 to 31 March 2018. The Full Council meeting on 23 February will set the budget, taking into account recommendations from the Cabinet. The Scrutiny Committee will have an opportunity to review the budget proposals before the Cabinet determines its recommendations.

10. It would be usual at this round of meetings for Scrutiny to be looking at the draft Budget Strategy for 2017/18 which would normally include the Medium term Financial Strategy (MTFS), the Reserves Strategy and the Treasury Management Strategy. However due to the Autumn Statement being made on 23 November and the likelihood of significant financial issues arising following the announcement, it has not been possible to prepare this document for this meeting.

11. This report will cover the following key areas as we have them at the moment

- Budget timetable and reports to expect
- Budget papers for consideration by Members
- Budget consultation outcomes
- 4 year settlement
- New Homes Bonus
- Business Rates Retention
- Autumn Statement

### **Budget timetable and reports to expect**

12. The following are the key steps taken to draw up the budget:

July 2016	Public consultation carried out
November 2016	Budget consultation with local businesses in progress
November 2016	Briefing for Scrutiny Committee (this report)

Late November 2016	Financial forecasts updated
December 2016	Financial Outlook and 2017/18 Budget Strategy approved by the Cabinet taking into consideration any guidance from this Scrutiny meeting  Provisional Local Government Finance Settlement released by DCLG
January 2017	Finalisation of budget proposals  Confirmation of Local Government Finance Settlement
February 2017	Formal consideration of budget proposals by Members; Scrutiny Committee, Cabinet and Full Council
March 2017	Council Tax bills issued
1 April 2017	Financial year commences

### **Budget papers for consideration by Members**

13. Below is a summary of the separate components of the budget papers and suggestions for the types of issues the Scrutiny Committee may wish to consider. These suggestions are neither compulsory nor exhaustive.

### **14. Housing Revenue Account (HRA)**

#### **Summary**

- Deals with budgets for council housing only, which by law are kept in a separate ringfenced account, separate from other council services.
- Expenditure on council housing is funded by rents and service charges payable by council tenants.
- HRA finances underwent substantial reform on 1 April 2012. Negative housing subsidy was abolished, replaced by the Council having to take on a share of the national housing debt.
- 2017/18 will be the first year of the principal loan repayment.
- The HRA has a 30-year business plan which sets out plans to maintain and improve housing stock and provide services to tenants, and plans for funding new council houses. The business plan allocates the revenue headroom and ensures that the debt is repaid within the 30-year period.
- HRA budgets are discussed by the Tenants Forum and Housing Board prior to consideration by Cabinet.

#### **Possible issues for consideration by Scrutiny:**

- Do the proposals have the support of council tenants?
- Have the potential impacts of the Housing Bill been properly accounted for?

- Are there clear plans for the use of revenue headroom that deliver useful outcomes within reasonable timescales?

## 15. Treasury Management

### Summary

- Significant cash flows in and out of the council's bank accounts, including monies collected for other organisations. Inevitably, temporary cash surpluses arise and the council invests up to £200 million in a year.
- In addition, the Council holds financial reserves, including its own balances, and S106 funds.
- Treasury management is the process by which these cash flows and balances are managed. The prime objectives are to ensure security of funds, sufficient liquidity to enable commitments to be met, and capacity to earn income on the balances held.
- The Council is required to approve a Treasury Management strategy that ensures appropriate risk management including a safe approach to investing surplus funds.
- Treasury management strategy also governs how long term borrowing is used to fund capital expenditure.
- The strategy is accompanied by mandatory "prudential indicators" which are technical measures of the affordability and sustainability of the Council's borrowings and investments.
- The Council is advised in its treasury management activity by leading independent experts, Arlingclose Ltd.

### Possible issues for consideration by Scrutiny:

- Is the strategy consistent with advice provided by Arlingclose?
- Does the strategy ensure that the Council's exposure to risk is appropriate and properly managed? Has the right balance been struck between safeguarding funds and earning a return?
- What do the prudential indicators say about the appropriateness of the Council's plans?

## 16. Capital Programme

### Summary

- Capital expenditure is the spending on schemes or assets that have long term value to the Council and the community. Examples include council housing, vehicles, IT systems, building improvements, or grants to outside bodies and individuals such as disabled adaptations.
- Capital expenditure is financed by contributions from the HRA or General Fund, capital receipts (sale of Council assets), external funding such as S106 contributions or government grant, or by borrowing.

- The Capital Programme sets out capital expenditure plans for the next 5 years, together with details of how this is to be financed.

**Possible issues for consideration by Scrutiny:**

- Do the proposed items in the Programme provide tangible outcomes and value for money?
- How do we ensure that capital grants given to outside bodies and individuals achieve the intended outcomes?
- Are the financing methods appropriate, and built into revenue budgets?

**17. Medium Term Financial Strategy (MTFS)**

**Summary**

- The MTFS relates to the General Fund (all services except Council Housing) and sets out forecasts for the next five years.
- It includes estimates of income and expenditure, and quantifies the extent of any surpluses or deficits anticipated during the five year period.
- The MTFS sets out in outline the Council's strategy for addressing deficits, or using surpluses, in order to ensure that Corporate Plan priorities are underpinned by sound finances.
- The key reason for having an MTFS is to anticipate potential difficulties long before they arise and ensure that robust plans are in place to address them. This is of particular importance because of expected future cuts in Government funding of local government.

**Possible issues for consideration by Scrutiny:**

- Are the assumptions used to build the forecasts reasonable?
- What would happen if actual events differed from the assumptions?
- Does the Council have a robust plan for addressing any deficits forecasted?
- Are plans for the use of any surpluses prudent, sustainable and good value for money?

**18. Robustness of Estimates and Adequacy of Reserves**

**Summary**

- By law, the Council must set its General Fund budget and Council Tax having given due regard to advice from its Section 151, Chief Financial Officer (CFO) on the robustness of estimates and adequacy of reserves.
- The report will summarise the key risks in the Council budget, and the assumptions that are most volatile. This will be translated into advice about the minimum safe level of contingency reserves that should be

maintained, and whether other reserves are needed to meet expected pressures in the coming years.

- The Secretary of State has powers to intervene if the CFO's advice is disregarded by Members, in the event of inappropriately low levels of reserves being maintained.

**Possible issues for consideration by Scrutiny:**

- Are the risks clearly explained?
- Is the advice about minimum safe contingency reserves proportionate to the risks involved?
- Is the level of reserves held by the Council appropriate?

## 19. General Fund Budget and Council Tax

### Summary

- The General Fund covers budgeted expenditure and income for all Council services except council housing.
- General Fund expenditure is funded in the main from fees & charges and Government grant. The balance is funded by Council Tax. By law the Council must set a balanced budget.
- The report will set out in detail proposed budgets for all General Fund services, proposed fees & charges, and a Council Tax resolution.

**Possible issues for consideration by Scrutiny:**

- Is the proposed budget consistent with the Medium Term Financial Strategy and the CFO's advice on the level of reserves that should be maintained?
- Is the budget consistent with the Budget Strategy approved by the Cabinet?
- Have consultation responses been properly taken into account?
- Does the budget support the Corporate Plan?
- Are proposed budget growth items (service investment) justified with clear outcomes that provide value for money?
- Are proposed budget reductions (efficiency savings or service reductions) reasonable and consequences properly thought out?
- Is the proposal regarding Council Tax reasonable?

20. Scrutiny Committee Members are invited to familiarise themselves with the Council's existing Budget Book that can be found on the Council's website at: [www.uttlesford.gov.uk/finance](http://www.uttlesford.gov.uk/finance) (see area second from bottom on the right of the webpage).

21. At all times Mr Adrian Webb, the Chief Finance Officer shall be pleased to meet with Members individually or in groups to discuss any aspect of the Council's finances.

### **Budget consultation outcomes**

22. Following the success and increased responses to the 2016/17 consultation the same approach has been taken with the format and presentation of questions in the 2017/18 consultation.

23. A total of 672 responses have been received (820 responses in 2016/17) and in all cases the same questions were asked.

24. The following three streams of communication were used to ensure that all areas of the district and community were able to access the consultation and maximise responses.

- Telephone survey undertaken by a professional market research company, NWA Social and Market Research Ltd on behalf of Uttlesford District Council. This resulted in 512 responses.
- Open public consultation. The survey was promoted on the council's website from 7 to 26 September via an interactive form using the Snap 11 consultation platform. Paper copies were also distributed to the council's main contact points at the Great Dunmow Library, Thaxted CIC and the CSC in Saffron Walden. This resulted in 14 responses (10 via the website and four via paper surveys)
- The budget questions were also included as part of Uttlesford Voices 13, the half yearly consultation questionnaire sent out to 400 members of the Uttlesford Citizens Panel. This resulted in 146 responses (overall submissions to the panel survey were higher but some members chose to not answer the budget consultation section)

25. General promotion was carried out with direct mailings to the members of the Citizens Panel, a press release, exposure via the council's social media channels and prominent banners on the council's website.

26. The overall opinion was that council tax should remain the same, although compared to last year's survey there was a higher level of support for an increase.

	<b>2017/18</b>	<b>2016/17</b>
Keep Council Tax the same	55.54%	69.09%
Increase Council Tax	27.40%	18.90%
Decrease Council Tax	14.07%	12.02%

27. The key areas that the public would like the council to concentrate spending on are;

- Collecting bins
- Providing council and sheltered housing

- To work closely with the police
- To educate young people on the dangers of drugs and alcohol

28. 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.

### **New Homes Bonus**

29. The New Homes Bonus scheme is a subsidy payable based on the number of new homes brought into use during a 12 month period.

30. The Government issued a consultation earlier in the year and the initial outcomes were expected in June 2016. The Government have delayed announcing the outcomes and although we do not have a definitive date, the expectation is that the outcomes of the consultation will be announced in the Autumn Statement on the 23 November 2016.

31. The Council has become reliant on New Homes Bonus since its introduction; this reliance is due mainly to the withdrawal of the Revenue Support Grant.

32. The Government has allocated a total national 'pot' of NHB funding of £0.66 billion for 2017/18, in previous years this 'pot' was £1.4 billion. Using the total national pot reduction as a guideline the MTFS includes our own expectation of funding reduced by the equivalent ratio.

33. The financial impact is dependent on the final outcomes of the consultation. This was estimated in the MTFS (as per the table in point 35) and presented to Cabinet in February 2016 as part of the budget setting process.

34. The other areas covered by this consultation that raise concerns for the council are;

- Change of scheme, moving from 6 years to 4 years
- No funding for the years where we have not submitted a local plan
- Planning Applications approved on appeal, where this happens there will be NO funding for these properties

35. Also presented to the February 2016 Cabinet meeting was a summary of the budget position, shown below. This highlights the council's reliance on the New Homes Bonus and how the potential reduction affects the council's financial outlook over the next 6 years.

36. If the proposal in the consultation relating to penalising authorities with no local plan is included in legislation then the recent decision to pause the local plan process may have a negative financial impact on the 2017/18 NHB allocation. The cost to the Council in 2017/18 could be in the range of £0.3m - £0.5m.



### **Medium Term Financial Strategy**

	<b>2016/17 £'000</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>
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
<b>Net service expenditure</b>	<b>9,896</b>	<b>9,844</b>	<b>10,021</b>	<b>10,314</b>	<b>10,612</b>	<b>10,918</b>
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)
<b>Total Expenditure</b>	<b>10,701</b>	<b>10,376</b>	<b>10,578</b>	<b>10,896</b>	<b>11,219</b>	<b>11,550</b>
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)
<b>Total Funding</b>	<b>(7,804)</b>	<b>(7,187)</b>	<b>(4,464)</b>	<b>(4,418)</b>	<b>(4,370)</b>	<b>(4,370)</b>
<b>NET OPERATING EXPENDITURE</b>	<b>2,897</b>	<b>3,189</b>	<b>6,114</b>	<b>6,478</b>	<b>6,849</b>	<b>7,180</b>
Movement in Reserves	1,931	(42)	(44)	(183)	(75)	0
<b>COUNCIL TAX REQUIREMENT</b>	<b>4,828</b>	<b>3,147</b>	<b>6,070</b>	<b>6,295</b>	<b>6,774</b>	<b>7,180</b>
COUNCIL TAX INCOME	(4,828)	(5,058)	(5,299)	(5,552)	(5,817)	(6,094)
<b>In year surplus (-) / deficit</b>	<b>0</b>	<b>(1,911)</b>	<b>771</b>	<b>743</b>	<b>957</b>	<b>1,086</b>

## Business Rates Retention

37. In October 2015 it was announced that by 2020/21 councils would be able to retain 100% of Business Rates collected. Clearly with an international airport within its boundaries it seemed Uttlesford could benefit from this.

38. However at the time of the announcement the press release contained two interesting comments

- 'Local government will take on new responsibilities'
- 'Local government will of course also need to contribute to fiscal consolidation over this Parliament'

39. On 12 October 2015 the Secretary of State for Communities and Local Government, Greg Clark, gave a written statement to the House of Commons in which some more 'hints' were given about the scheme. The key comments were:

- **“As well as phasing out the local government grant from Whitehall, these new powers will come with new responsibilities to ensure the reforms are fiscally neutral.”** We assume this fiscally neutral to the government. This confirms that local government will have to take on new burdens/ services, as well as losing grant funding, in return for 100% retention.
- **“Redistribution between councils will remain important, to reflect the different need of different authorities.”** This implies that top slicing of Business Rates will remain for those authorities like Uttlesford who collect high amounts of Business Rates.
- **“...we will consider the responsiveness of the system to future changes in relative needs and resources, whilst maintaining a strong incentive for authorities to grow their local economies.”** This may mean Uttlesford will not be able to keep Business Rates growth in its entirety.
- **“We will also consider how risk and business rates volatility can be better managed and how to protect authorities against significant falls in income.”** This means that a safety net arrangement will most likely be put in place.

40. The full statement can be found at:

<http://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2015-10-12/HCWS221/>

41. On the 6<sup>th</sup> July 2016 the former Secretary of State gave a speech to the LGA that indicated 100% Business Rates could be implemented earlier than initially planned, possibly 2019/20.

42. Since the October 2015 statement was released Central Government has issued two Consultations relating to Business Rates.

- Self Sufficient Local Government – 100% Business Rates Retention
- Fair Funding Review – Call for Evidence on Needs and Redistribution

43. The council was included as part of the Essex wide response to the 100% Business Rates Consultation and Fair Funding review.

44. The council did however respond independently to one specific area of the consultation, this related to 'high risk hereditaments' being taken off the local list and included in the central list. The consultation included 'Airports' within these high risk areas.

45. The definition of an Airport was not made clear in the consultation; did this mean the whole airport site or just the terminal/s and runway?

46. In light of this ambiguity on Airports, the council responded to this specific question independently, the response is detailed below;

*'The central list was originally set up to manage those hereditaments that crossed local boundaries, and whose business rate income was not therefore directly attributable to one particular LA; rather than being linked to the underlying risk relating to that particular hereditament. The proposal set out in the consultation document would blur the distinction between what should be included on the local ratings lists versus what should be included on the central list. If this is the case clear criteria will need to be set so that there is a shared understanding of how these determinations are made.'*

*In principle all hereditaments within a LA boundary should be included within the local ratings list; with the safety net acting as a protection mechanism to prevent any individual LA suffering undue loss if income decreases as a result of businesses moving or closing.*

*The main area that could affect Uttlesford is Stansted Airport. The consultation does not define, and it is therefore not clear, what is meant by the term 'airport'. For a large airport such as Stansted there is far more airport related business than just the terminal and runway. Before any decision is made on airports and the local or central list a full definition of the term 'airport' must be published and if necessary an additional consultation should be undertaken.*

*As such, Uttlesford District Council is not able to provide a comprehensive answer to this question until we have more information about the operation and protection of the safety net as well as greater clarity about the criteria for airports to appear on the central list.'*

## **2017 Business Rates Revaluation**

47. DCLG has carried out a revaluation on the ratings list for 2017.
48. The revaluation has affected the rateable value of all non-domestic properties within the district; we are estimating an average increase of 6.1%. The final figures may differ slightly from this estimate.
49. Although we anticipate an increase in the region of 6.1% on rateable values, the indications are that the BR multiplier will be reduced by 1.7p, going from 48.4p to 46.7p. We are waiting for this to be confirmed.
50. The reduction in the multiplier could mean that our actual collectable business rates income could reduce by up to 9.1% overall.

## **Business Rates Appeals**

51. The outstanding appeals for Stansted Airport were settled in principle by the Valuation Office in October 2016. The appeal is backdated to 2010.
52. The appeal settlement was higher than anticipated, by both the council and our expert consultants (Analyse Local). The council holds a provision to offset the backdated payments. There is a shortfall in the provision and this will have an impact on the end of year surpluses within the collection fund.
53. The reduction in the rateable value of Stansted airport will reduce our net collectable income in future years; this is estimated at approximately £1.85 million. Please note this is the reduction for the whole collection fund, the council's share of this is 40%.

## **4 Year Settlement**

54. The Government issued an option to all Local Authorities in the 2016/17 Autumn Statement to opt in to a four year financial settlement. This offers Local Authorities assurances on the level of funding they will receive until the 100% Business Rates Retention is implemented.
55. This has a minimal effect for Uttlesford as the only grant we will receive after 2017/18, (2017/18 being the last year of Revenue Support Grant), is the Rural Services Delivery Grant.
56. Cabinet approved the proposal to opt in to the 4 year settlement at the September 2016 meeting.
57. The Local Government Finance Settlement 2017/18 - Technical consultation was published in September 2016 and covered the following key proposals;
  - Government's commitment to the multi-year settlement and options to expand this

- Council Tax referendum principles
  - Core principle of 2%
  - Continuation of Adult Social Care precept of 2%
  - Shire district councils and Police and Crime Commissioners will be allowed increases of less than 2% or up to and including £5, whichever is higher
  - Referendum principles are introduced for town and parish councils whose Band D precept is higher than that of the lowest charging district council for 2016/17 (£75.46), and which have a total precept for 2016/17 of at least £500,000, while taking account of transfers of responsibilities, and that consideration is given to the extension of referendums to all local precepting authorities.

### Autumn Statement

58. The Autumn Statement, which is also referred to as the Spending Review, will be announced on 23 November. Like many such announcements the details will emerge over the days/weeks following it.

59. The big questions for Uttlesford are;

- a) When will Business Rates Retention be introduced?
- b) Will the airport be kept on the local list?
- c) What additional responsibilities will UDC be expected to take on?
- d) What will the outcomes of the NHB consultation be; what impact will this have on the council's financial stability?

### Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
A detailed risk assessment shall accompany the budget proposals. There are no specific risks at this stage.			

- 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.