

Uttlesford District Council

Medium Term Financial Strategy 2019/20 – 2023/24



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Uttlesford District Council
January 2019



Financial Outlook

1. The Council is facing ever decreasing funding allocations; we have already seen the withdrawal of the Revenue Support Grant and Rural Services Transition grant in 2018/19 and significant reductions in the New Homes Bonus scheme such that Councils' funding depends directly on growth and prosperity in their local economies.
2. The Medium Term Financial Strategy (MTFS) was prepared based on the provisional settlement announced on 13 December 2018 and this was consistent with what we were expecting for 2019/20, with no amendments to the 4 year settlement or New Homes Bonus. There were no indications on what future years settlements might look like, but we do know that the mechanism for how funding is distributed to Local Authorities is facing major changes from 2020/21.
3. The key items announced in the 2019/20 settlement were:
 - Council Tax threshold – an increase of up to 3% or £5
 - Rural Services Delivery Grant - retained at the same level as 2018/19
 - New Homes Bonus – no changes, 4 year legacy payments and baseline maintained at 0.4%. It is unlikely that this scheme will continue in future years.
 - Business Rates Retention – local share to be 75% from 2020/21, and will include transfer of some other grants yet to be confirmed
 - Negative Revenue Support Grant – this will be removed and funded by Central Government using foregone business rates income
 - Consultations on the Fair Funding Review and reform of business rates were released alongside the settlement although it is not expected that any details on the final methodology will be released until autumn 2019
4. Uttlesford are now reliant on the following sources of income and funding in 2019/20:
 - New Homes Bonus (NHB)
 - Business Rates Retention Income (BRR)
 - Council Tax
 - Rural Services Delivery Grant (RSDG)
 - Fees and charges
 - Investment income mainly from wholly owned subsidiaries

Funding Reductions

5. The Fair Funding Review (FFR) relates to how the centrally collected revenue (excluding Council Tax) and any other government grants/funding is allocated to councils across the country. This is calculated on a formula of needs basis. The new methodology will be implemented alongside the 75% Business Rates Retention scheme in 2020/21 and is expected to have significant financial implications on our level of funding in future years.
6. The basis of the FFR is to provide a simpler and more transparent formula with a fairer allocation of funds which are based on spending need. It is viewed that a flatter formula will benefit rural district councils, although there is also a lot of focus in the review to address the issues faced by counties.

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7. The FFR will incorporate the reform of business rates and there is expected to be a full baseline reset in 2020. This will mean that all the growth prior to 2019/20 that has been generated since the introduction of the BRR scheme in 2013 will be incorporated into the baseline funding level.
8. It is not expected that the NHB scheme will continue. Indications are that remaining legacy payments due will be received.
9. Taking all of the above factors into account and advice from our external advisors, Pixel, we can expect to see reductions in funding of approximately 20% over a period of 4 to 5 years (this does not include the loss of prior years' BRR growth). There is expected to be 'damping' applied to smooth any in year reductions greater than 5% of current allocations, this includes the complete loss/reducing New Homes Bonus.
10. To support these reductions Government are expecting local authorities to 'rebuild' their budgets by supporting local economic growth.
11. The table below shows how this translates in actual figures. This emphasises the need for new, more efficient ways of working and to look for innovative income generating opportunities.

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
Business Rates Retention*	3,353**	2,800	2,900	3,000	3,100
New Homes Bonus	2,969	2,287	1,550	826	0
Rural Services Grant	279	0	0	0	0
Total Funding	6,601	5,087	4,450	3,826	3,100

* this does not include any surplus/deficits from the collection fund which can affect the overall financial position

** level of income due to reduction in appeals provision

Universal Credit

12. The transfer of all working age claimants from Housing Benefit to Universal Credit is now expected to be completed by April 2022. If there are any delays in the rollout timetable this will have an impact on the Council's budget. The forecast Working Balance Reserve will be directly affected by delays in the rollout of Universal Credit.
13. There is a high risk that the actual level of claims transferred to Universal Credit will be significantly lower than that forecast by the Department for Work and Pensions, due to the large number of pensioner and other types of disregarded claims.

Budget Model

14. To inform the financial outlook for UDC, a detailed budget model has been prepared, the table below shows the direct service income and expenditure budgets.

	2019/20	2020/21	2021/22	2022/23	2023/24
	£ '000	£ '000	£ '000	£ '000	£ '000
Gross Service Expenditure	35,931	35,697	34,583	32,689	29,380
Gross Service Income	(22,983)	(22,348)	(21,103)	(18,803)	(15,078)
Demand Growth	0	50	100	150	300
Service Expenditure	12,948	13,399	13,580	14,036	14,602

The following key inflationary assumptions are used in the model.

- Gross service expenditure and income:** Takes the 2018/19 base budget as a starting point and any one-off items have been removed. Inflation has been included for salaries at 2%, utilities in line with the current market forecasts and 3% for fees and charges except where special arrangements apply e.g. car park charges and taxi licences.
- Universal Credit** – Assumes that Housing Benefits expenditure and associated subsidy income will continue to reduce as the rollout of Universal Credit continues. This is shown by the Gross service expenditure and income reducing year on year.
- 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 2020/21.
- Specific grants:** Housing Benefits subsidy at 98% of expenditure. Benefits admin subsidy being reduced to reflect rollout of Universal Credit.

15. Corporate items:

	2019/20	2020/21	2021/22	2022/23	2023/24
	£ '000	£ '000	£ '000	£ '000	£ '000
Capital Financing Costs	1,892	1,759	1,795	1,792	1,881
Pension Fund - Deficit	0	450	450	450	450
Pension Fund - Added Years	85	85	85	85	85
Recharge to HRA/Corporate Core	(2,059)	(2,059)	(2,059)	(2,059)	(2,059)
Investment Income	(2,119)	(2,200)	(2,300)	(2,400)	(4,200)
Investment Cost	495	897	1,243	1,243	2,500
Corporate Costs	(1,706)	(1,068)	(786)	(889)	(1,343)

Medium Term Financial Strategy

- a) Capital Financing Costs – are in line with the projected capital programme's financing requirements.
- b) Pension Fund deficit payment – an annual payment to the pension fund, this differs from previous years where we paid a triannual payment and received a discount.
- c) Recharges to HRA – based on the apportionment of actual costs of central services and corporate core applied to the Housing Revenue Account.
- d) Investment Income and cost – this is the estimated income generated from the investment in Chesterford Research Park and the subsequent cost of borrowing to fund the purchase.

16. Funding

	2019/20	2020/21	2021/22	2022/23	2023/24
	£ '000	£ '000	£ '000	£ '000	£ '000
Business Rates Retention	(3,353)	(2,800)	(2,900)	(3,000)	(3,100)
Business Rates prior year Balance	(941)	0	0	0	0
New Homes Bonus	(2,969)	(2,287)	(1,550)	(826)	0
Rural Services Grant	(279)	0	0	0	0
Council Tax prior year Balance	(67)	0	0	0	0
Funding	(7,609)	(5,087)	(4,450)	(3,826)	(3,100)

- a) The Council currently retains 40% of business rates income collected, from 2020/21 government has announced that this will increase to 75% income retention, until we know how this will work; a prudent forecast has been included for future years. The amount allocated for years 2020/21 to 2023/24 includes the transfer of the Rural Services Grant.
- b) New Homes Bonus: The model shows the announced figure for 2019/20. Future year's allocations are based on legacy payments only and no payment from 2023/24.

17. Council Tax

	2019/20	2020/21	2021/22	2022/23	2023/24
Tax base	39,186	39,957	40,766	41,493	42,086
LCTS Discounts	(1,873)	(1,873)	(1,873)	(1,873)	(1,873)
Net Tax Base	37,313	38,084	38,893	39,620	40,213
Band D equivalent	151.61	154.63	157.71	160.84	164.04
Percentage Increase	2.99%	1.99%	1.99%	1.99%	1.99%
Council Tax income	(5,657,106)	(5,888,901)	(6,133,674)	(6,372,668)	(6,596,762)

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- a) The MTFS has been prepared on the assumption that Council Tax will be increased by 2.99% in 2019/20, with future years based on 1.99% which is the current announced limit of increase.
- b) Tax base assumptions are in line with housing growth forecasts and an estimate of Local Council Tax Support Scheme discounts has been made.

18. Deficit Management

	2019/20	2020/21	2021/22	2022/23	2023/24
	£ '000	£ '000	£ '000	£ '000	£ '000
True (Surplus) / Deficit	0	1,380	2,235	2,974	3,487
Business Rates Reserve	0	(250)	(550)	(550)	(550)
Funding Reserve	0	(250)	(250)	(250)	(309)
Spending Review Damping	0	(475)	(475)	(475)	(475)
Adjusted (Surplus) / Deficit	0	405	960	1,699	2,153

- a) The MTFS shows a balanced budget for 2019/20, projections indicate that during the life of the strategy the deficit position by 2023/24 will be £3.487 million.
- b) To support the Council in managing the deficit and implement a programme of change the following amounts have been allocated from reserves:
 - i. Funding Reserve – a total of £1.059 million over 4 years to support the reduction in funding
 - ii. Business Rates Reserve - £1.900 million over 4 years to support the loss of income/growth from the retained income
- c) A further amount of £0.475 million per year has also been allocated and this is the amount of 'damping' it is estimated that government will provide to support the Council in the period of transition.

General Fund – 5 year summary

	2019/20	2020/21	2021/22	2022/23	2023/24
	£ '000	£ '000	£ '000	£ '000	£ '000
Gross Service Expenditure	35,931	35,697	34,583	32,689	29,380
Gross Service Income	(22,983)	(22,348)	(21,103)	(18,803)	(15,078)
Demand Growth	0	50	100	150	300
Service Expenditure	12,948	13,399	13,580	14,036	14,602
Capital Financing Costs	1,892	1,759	1,795	1,792	1,881
Pension Fund - Deficit	0	450	450	450	450
Pension Fund - Added Years	85	85	85	85	85
Recharge to HRA/Corporate Core	(2,059)	(2,059)	(2,059)	(2,059)	(2,059)
Investment Income	(2,119)	(2,200)	(2,300)	(2,400)	(4,200)
Investment Cost	495	897	1,243	1,243	2,500
Corporate Costs	(1,706)	(1,068)	(786)	(889)	(1,343)
Total Net Expenditure	11,242	12,331	12,794	13,147	13,258
Business Rates Retention	(3,353)	(2,800)	(2,900)	(3,000)	(3,100)
Business Rates prior year Balance	(941)	0	0	0	0
New Homes Bonus	(2,969)	(2,287)	(1,550)	(826)	0
Rural Services Grant	(279)	0	0	0	0
Council Tax prior year Balance	(67)	0	0	0	0
Funding	(7,609)	(5,087)	(4,450)	(3,826)	(3,100)
Total Net Operating Costs	3,635	7,244	8,344	9,322	10,158
Movement in Reserves	2,022	25	25	25	(75)
Council Tax Requirement	5,657	7,269	8,369	9,347	10,083
Council Tax Income	(5,657)	(5,889)	(6,133)	(6,372)	(6,596)
True (Surplus) / Deficit	0	1,380	2,235	2,974	3,487
Business Rates Reserve	0	(250)	(550)	(550)	(550)
Funding Reserve	0	(250)	(250)	(250)	(309)
Spending Review Damping	0	(475)	(475)	(475)	(475)
Adjusted (Surplus) / Deficit	0	405	960	1,699	2,153

Medium Term Financial Strategy

20. Investment Income (recommended as per Investment Strategy, Appendix B)

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
True (Surplus) / Deficit	0	1,380	2,235	2,974	3,487
Net additional investment income (non-CRP)	0	(350)	(750)	(1,500)	(2,300)
Net additional investment income (CRP)	0	0	0	0	(100)
Business Rates Reserve	0	(250)	(550)	(550)	(400)
Funding Reserve	0	(250)	(350)	(350)	(133)
Spending Review Damping	0	(475)	(475)	(475)	(475)
Adjusted (Surplus) / Deficit	0	55	110	99	79

- a) The Investment Strategy identifies a programme of commercial investment; £20 million for further development at Chesterford Research Park (CRP) and £80 million for other opportunities.
 - b) The above table sets out the revised adjusted deficit position when taking into account the likely net additional income from the investments. CRP will require development of new buildings which take time to deliver a return. As this plan covers 5 years the main returns are not shown as they only start to be realised in 2024/25. The other income starts earlier as it is likely that the commercial acquisitions will be of existing buildings with in-situ tenants.
21. Sufficient reserves should be maintained to cover the eventualities that may arise from 2019/20. The Council should proactively look for service efficiencies and income generating projects.
 22. 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.
 23. 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

24. Total General Fund reserves during this five year model are estimated to decrease from £12.984 million to £12.047 million, a reduction of £0.937 million.
25. A schedule of forecasted reserves balances is set out on the following page; this includes the surplus of £2.200 million from 2019/20.

General Fund Reserves – 5 year summary

	2018/19	2019/20		2020/21		2021/22		2022/23		2023/24	
	31 March 2019		31 March 2020		31 March 2021		31 March 2022		31 March 2023		31 March 2024
£'000	Forecast	Net Movemen	Forecast	Net Movemen	Forecast	Net Movemen	Forecast	Net Movemen	Forecast	Net Movemen	Forecast
USABLE RESERVES											
<i>Financial management Reserves</i>											
MTFS Reserve	550		550		550		550		550		550
Transformation Reserve	1,098		1,098		1,098		1,098		1,098		1,098
EU Exit Reserve	0	200	200		200		200		200		200
Funding Reserve	0	1,059	1,059	(250)	809	(250)	559	(250)	309	(311)	0
<i>Contingency Reserves</i>	0		0		0		0		0		0
Emergency Response	40		40		40		40		40		40
<i>Service Reserves</i>	0		0		0		0		0		0
Depot new site	4,483		4,483		4,483		4,483		4,483		4,483
Development Control	27		27		27		27		27		27
Development Projects	105		105		105		105		105		105
Economic Development	15		15		15		15		15		15
Elections	100	(55)	45	25	70	25	95	25	120	(75)	45
Health and Wellbeing	41		41		41		41		41		41
Homelessness	118	(20)	98		98		98		98		98
Housing Strategy	54		54		54		54		54		54
New Homes Bonus Ward Members	16	(16)	0		0		0		0		0
Planning	621	(309)	312		312		312		312		312
Neighbourhood Planning	93		93		93		93		93		93
Private Finance Initiative	180		180		180		180		180		180
Strategic Initiatives Fund	2,160		2,160		2,160		2,160		2,160		2,160
Waste Management	201	170	371		371		371		371		371
TOTAL USABLE RESERVES	9,902	1,029	10,931	(225)	10,706	(225)	10,481	(225)	10,256	(386)	9,872
RING-FENCED RESERVES											
Working Balance	1,280	28	1,308		1,308		1,308		1,308		1,308
Capital Slippage	167	0	167		167		167		167		167
Pension Reserve	0	0	0		0		0		0		0
Business Rates Review	1,367	941	2,308	(250)	2,058	(550)	1,508	(550)	958	(550)	408
Licensing Reserve	197	24	221		221		221		221		221
DWP Reserve	71		71		71		71		71		71
TOTAL RING-FENCED RESERVES	3,082	993	4,075	(250)	3,825	(550)	3,275	(550)	2,725	(550)	2,175
TOTAL RESERVES	12,984	2,022	15,006	(475)	14,531	(775)	13,756	(775)	12,981	(936)	12,047

Housing Revenue Account (HRA)

26. Under the self-financing reform the Council took out a loan for housing stock of £88.4m and the debt has been structured so that it is repaid in years 6 to 30 i.e. from 2017/18 to 2041/42. 2019/20 is the third year of the principal repayment and the eighth year of self-financing.
27. The HRA has completed an extensive programme of new builds and redevelopments of both social and sheltered housing units. As expected the repayment of the loan principal has impacted significantly on the business plan, HRA reserves and future year's capital programme.
28. A review of the HRA Business Plan and the financing of the loans were undertaken in 2017/18, by Arlingclose Ltd (Treasury Management advisors) to ensure that maximum benefit is being obtained, both in terms of interest rates and also the ability for the HRA to continue to deliver new housing.
29. The review showed that complete refinancing of the loan would incur high penalty fees, the option that offered best value and allowed the business plan to continue to deliver a programme of development would be to re-borrow the amounts repaid in previous years as required.
30. Government announced in October 2018 that the HRA borrowing cap had been removed. The removal of the cap is welcomed as it takes away one of the restrictions faced by local authorities looking to invest in their housing stock and build homes.
31. The decision to increase HRA borrowing is not just dependent on whether it is permitted; it also needs to be affordable. There is currently a balanced HRA business plan and therefore costs arising from additional borrowing would need to be funded either through additional income or a reduction in costs. The Government policy of 1% rent reductions over 4 years, with 2019/20 being the final year of this policy, has had a significant impact on income levels and limits the affordability of additional borrowing. Any increase in financing costs can only be met from finding savings elsewhere in the HRA.
32. Officers will be looking at the new financing rules and options for additional borrowing to support the Council's development of new homes and investment in its current stock. The Council is already committed to building homes for local people and since the introduction of self-financing the Council has been able to build over 100 homes despite the previous borrowing cap.
33. A number of financial assumptions, including interest rates, rent setting, void rates, bad debt levels and repair costs have been used in the HRA Business Plan and revenue budget setting. These and other assumptions will be kept under review and monitored in 2019/20.
34. The table on the next page shows the predicted 5 year financial position for the HRA. The reserve balances and proposed use of these reserves in the Reserves Strategy.

Medium Term Financial Strategy

Housing Revenue Account – 5 year Summary

£'000	2019/20 Original Budget	2020/21 Original Budget	2021/22 Original Budget	2022/23 Original Budget	2023/24 Original Budget
Housing Revenue Income					
Dwelling Rents	(14,147)	(14,586)	(15,037)	(15,502)	(15,982)
Garage Rents	(224)	(232)	(239)	(247)	(255)
Other Rents etc	(3)	(3)	(3)	(3)	(3)
Charges for Services & Facilities	(977)	(977)	(977)	(977)	(977)
Contributions towards Expenditure	0	0	0	0	0
TOTAL INCOME	(15,352)	(15,797)	(16,256)	(16,730)	(17,217)
Housing Finance & Business Management					
Rents, Rates & Other Property Charges	75	75	75	75	75
	75	75	75	75	75
Housing Maintenance & Repairs Service					
Common Service Flats	204	204	204	204	204
Estate Maintenance	152	152	152	152	152
Housing Repairs	2,561	2,484	2,484	2,484	2,484
Housing Sewerage	58	58	58	58	58
Newport Depot	24	24	24	24	24
Property Services	318	318	318	318	318
	3,317	3,240	3,240	3,240	3,240
Housing Management & Homelessness					
Housing Services	470	470	470	470	470
Sheltered Housing Services	629	629	629	629	629
	1,099	1,099	1,099	1,099	1,099
Total Service Expenditure	4,491	4,414	4,414	4,414	4,414
Other Costs					
Bad Debt Provision	100	100	100	100	100
Depreciation - Dwellings (to MRR)	3,888	3,888	3,888	3,888	3,888
Depreciation - Non- Dwellings (to MRR)	91	91	91	91	91
Interest/Costs re HRA Loan	2,604	2,613	2,601	2,570	2,519
Repayment of HRA Loan	2,000	2,000	2,000	2,000	3,000
Investment Income	(42)	(15)	(15)	(15)	(15)
Pension Costs - Added Years	19	19	19	19	19
Pension Deficit - Triennial payment	0	0	0	0	0
Recharge from General Fund	1,693	1,693	1,693	1,693	1,693
HRA Share of Corporate Core	366	366	366	366	366
Right to Buy Admin Allowance	(10)	(10)	(10)	(10)	(10)
Total Non-Service Expenditure	10,708	10,745	10,733	10,702	11,651
TOTAL EXPENDITURE	15,199	15,159	15,147	15,116	16,065
OPERATING (SURPLUS)/DEFICIT	(152)	(639)	(1,110)	(1,614)	(1,153)
Funding from Cap Rec Res for HRA Loan	(2,000)	(678)	(664)	0	0
Funding of Capital Programme from HRA					
Capital Schemes Funded from Revenue	2,692	1,416	1,758	1,261	1,261
	2,692	1,416	1,758	1,261	1,261
Transfers to/(from) Reserves					
Capital Projects	(153)	(75)	0	353	(118)
Change Management Reserve	0	0	0	0	0
Potential Developments	(355)	0	0	0	0
HRA Slippage Reserve	0	0	0	0	0
HRA Slippage Reserve	0	0	0	0	0
Sheltered Housing Reserve	0	0	0	0	0
Transformation Reserve	0	0	0	0	0
Working Balance	(31)	(25)	16	(0)	10
	(539)	(100)	16	353	(108)
(SURPLUS)/DEFICIT	0	0	0	0	0

Housing Revenue Reserves – 5 year Summary

2019/20																	2020/21			2021/22			2022/23			2023/24		
£'000	31 March 2019	Transfer from HRA	Transfer to HRA	31 March 2020	Transfer from HRA	Transfer to HRA	31 March 2021	Transfer from HRA	Transfer to HRA	31 March 2022	Transfer from HRA	Transfer to HRA	31 March 2023	Transfer from HRA	Transfer to HRA	31 March 2024												
	Forecast			Forecast			Forecast			Forecast			Forecast			Forecast												
USABLE RESERVES																												
Revenue Reserves																												
Revenue Projects	180			180			180			180			180			180												
Transformation Reserve	60			60			60			60			60			60												
Capital Reserves				0			0			0			0			0												
Capital Projects	228		(153)	75		(75)	0			0	353		353		(118)	235												
Potential Projects	355		(355)	0			0			0			0			0												
Sheltered Housing Projects	0			0			0			0			0			0												
HRA Slippage Reserve	313		0	313		0	313		0	313		0	313		0	313												
TOTAL USABLE RESERVES	1,136	0	(508)	628	0	(75)	553	0	0	553	353	0	906	0	(118)	788												
RINGFENCED RESERVES																												
Working Balance	530		(31)	499			499			499			499			499												
Capital Receipts - Right to Buy	2,962	1,600	(3,623)	939	1,600	(1,969)	570	1,600	(2,058)	112	1,600	(1,141)	571	1,600	(1,141)	1,030												
Capital Receipts - Other	505		(500)	5			5			5			5			5												
Major Repairs Reserve	501	3,979	(4,090)	390	3,979	(4,274)	95	3,979	(4,074)	0	3,979	(3,979)	0	3,979	(3,979)	0												
TOTAL RING-FENCED RESERVES	4,498	5,579	(8,244)	1,832	5,579	(6,243)	1,168	5,579	(6,132)	616	5,579	(5,120)	1,075	5,579	(5,120)	1,534												
TOTAL RING-FENCED RESERVES	5,634	5,579	(8,752)	2,460	5,579	(6,318)	1,721	5,579	(6,132)	1,169	5,932	(5,120)	1,981	5,579	(5,238)	2,322												