

Uttlesford District Council

Medium Term Financial Strategy

2020/21 – 2024/25



Prepared by:
Finance
Uttlesford District Council
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Financial Outlook

1. The Medium Term Financial Strategy (MTFS) was prepared based on the provisional settlement announced on 20 December 2019; this was a one year settlement.
2. The Fair Funding Review (FFR) and Business Rates Reform (BRR) originally planned for the financial year 2020/21 has been delayed due to the politically uncertainty around EU Exit and a snap election late in 2019
3. The key items announced in the 2020/21 settlement were:
 - Council Tax threshold – an increase of up to 2% or £5
 - Rural Services Delivery Grant - retained at the same level as 2019/20
 - New Homes Bonus – additional one year payment but this will attract no legacy payments, previous years legacy payments will remain and the baseline was maintained at 0.4%.
 - Business Rates Retention – updates on reliefs and the multiplier
4. Uttlesford are now reliant on the following sources of income and funding in 2020/21:
 - Council Tax
 - Business Rates Retention Income (BRR) – subject to review and significant changes in 2021/22
 - New Homes Bonus (NHB) – one year only
 - Rural Services Delivery Grant (RSDG) – one year only as a standalone grant
 - Investment income
 - Fees and charges

Future Funding

5. The Fair Funding Review will affect how funding is allocated and redistributed between local authorities from 2021 onwards. It is expected to use three main 'cost drivers': population, deprivation and sparsity, together with additional cost drivers related to specific local authority services
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.
7. The FFR will incorporate the reform of business rates and there is expected to be a full baseline reset in 2021. This will mean that all the growth prior to 2020/21 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 but remaining legacy payments due will be received. As part of the settlement, the Secretary of State announced it is the Government's intention to consult on the future of the housing incentive. This will include moving to a new, more targeted approach that rewards local authorities where they are ambitious in delivering the homes we need and which is aligned with other measures around planning performance.

9. To support these reductions Government are expecting local authorities to 'rebuild' their budgets by supporting local economic growth.
10. Central Government Funding is expected to reduce over the life of the MTFs, a prudent approach has been taken and this is based on the current information available. 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.

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Business Rates Retention	(3,317)	(3,000)	(3,100)	(3,200)	(3,300)
New Homes Bonus	(3,635)	(1,550)	(826)	0	0
Rural Services Delivery Grant	(279)	0	0	0	0
Funding Total	(7,231)	(4,550)	(3,926)	(3,200)	(3,300)

The above table does not include any surplus/deficits from the collection fund which can affect the overall financial position

Budget Model

11. To inform the financial outlook for UDC, a detailed budget model has been prepared, full details of the General Fund budget for 2020/21 are set out in Appendix H. Direct Services estimated income and expenditure for the next 5 years is set out in the table below.

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Service Expenditure	36,693	36,627	36,842	37,227	37,918
Service Income	(21,820)	(21,537)	(21,631)	(21,686)	(21,741)
Demand Growth		50	100	300	350
Service Net Expenditure	14,874	15,140	15,311	15,841	16,527

The following key inflationary assumptions are used in the model.

- a) **Gross service expenditure and income:** Takes the 2019/20 base budget as a starting point with any one-off in year items being removed. Inflation has been included for salaries at 2%, utilities in line with the current market forecasts and 2% for fees and charges except where special arrangements apply e.g. car park charges and taxi licences.
- b) **Service demand growth** – 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.

12. The council also incurs corporate expenditure and non-service related income that sits outside the direct service budgets, these items are set out below.

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Capital Financing	1,672	1,908	1,821	2,028	1,901
Pension Fund - Deficit	571	0	0	350	350
Pension Fund - Added years	85	85	85	85	85
HRA recharge/Corporate Core	(1,747)	(1,428)	(1,428)	(1,428)	(1,428)
PFI Interest Cost	372	360	348	334	319
Investment Income	(2,912)	(4,051)	(4,387)	(4,450)	(4,432)
Investment Cost	788	1,561	1,654	1,636	1,618
Corporate Costs	(1,171)	(1,565)	(1,908)	(1,446)	(1,588)

- a) Capital Financing Costs – are in line with the projected capital programme's financing requirements, set out in Appendix F.
- b) Pension Fund deficit payment – the option for a discounted triennial payment has been included and for the years after 2022/23 the MTFS reverts to annual payments. It is likely that the council will be given the option of the discounted payment but this will not be known until the pension fund valuation is carried out in 2022/23.
- c) Recharges to HRA – based on the apportionment of the actual costs of central services and corporate core used by the Housing Revenue Account.
13. Investment Income and cost – this is the estimated income generated from the investments in Chesterford Research Park and investment 2 and the subsequent cost of borrowing to fund the investments.
14. The following table sets out the funding we expect to receive and this is based on the financial settlement announced in December for 2020/21. Estimates for future years has been calculated based on the current information we have available; the indications Government has provided and consultation with our advisors 'Pixel Financial Management'.

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Business Rates Retention	(3,317)	(3,000)	(3,100)	(3,200)	(3,300)
New Homes Bonus	(3,635)	(1,550)	(826)	0	0
Rural Services Delivery Grant	(279)	0	0	0	0
Council Tax prior year balance	(20)				
Funding Total	(7,251)	(4,550)	(3,926)	(3,200)	(3,300)

- a) The Council currently retains 40% of business rates income collected, from 2021/22 government has announced that this will increase to 75% income retention and will be included in the BRR alongside the FFR. A prudent forecast has been included for future

years until more information is released on how this will be calculated. The amount allocated for years 2021/22 to 2024/25 includes the transfer of the Rural Services Grant.

- b) New Homes Bonus: The model shows the announced figure for 2020/21. Future year's allocations are based on legacy payments only and no payment from 2023/24.

15. The MTFS has been prepared on the assumption that Council Tax will be increased by £5 in 2020/21, with future years based on 1.99% which is the current announced limit of increase.

	2019/20	2020/21	% Change
Taxbase (gross)	39,185.91	39,868.69	1.74%
LCTS Discounts	(1,872.76)	(1,832.54)	-2.15%
Taxbase (net)	37,313.15	38,036.15	1.94%
Band D	£151.61	£156.61	3.30%
Council Tax Yield	£5,657,106	£5,956,841	5.23%

- a) Tax base assumptions are in line with housing growth forecasts and an estimate of Local Council Tax Support Scheme discounts has been made.

16. After taking into account all the above expenditure, income and funding the council has achieved a balanced budget for 2020/21, but in future years the financial position changes significantly with a cumulative deficit by 2024/25 of £4.853 million.

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Service Expenditure	14,874	15,140	15,311	15,841	16,527
Corporate Costs	(1,171)	(1,564)	(1,908)	(1,446)	(1,588)
Funding	(7,251)	(4,550)	(3,926)	(3,200)	(3,300)
Total Net Operating Costs	6,452	9,026	9,477	11,195	11,639
Movement in Reserves	(495)	(617)	(345)	(75)	25
Council Tax Income	(5,957)	(6,194)	(6,413)	(6,613)	(6,810)
True (Surplus) / Deficit	0	2,215	2,719	4,506	4,853

17. It is proposed that the Funding and Business Rates Reserves are used to mitigate some of the impact of the actual deficit position on the council, this will allow for a managed programme of change to be implemented over the life of the MTFS.

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
True (Surplus)/Deficit	0	2,215	2,719	4,506	4,853
Business Rates Reserve	0	(500)	(500)	(500)	(500)
Funding Reserve	0	(250)	(250)	(250)	(310)
Damping (Gov't Transitional Funding)	0	(475)	(475)	(475)	(475)
Total	0	(1,225)	(1,225)	(1,225)	(1,285)
Adjusted (Surplus)/Deficit	0	990	1,494	3,281	3,568

- a) The MTFS shows a balanced budget for 2020/21, projections indicate that during the life of the strategy the deficit position by 2024/25 will be £4.853 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 £1.060 million over 4 years to support the reduction in funding
 - ii. Business Rates Reserve - £2.000 million over 4 years to support the loss of income/growth from the retained income
- b) After allowing for the above reserves and transitional funding the deficit position by 2024/25 is £3.568 million.
18. Sufficient reserves should be maintained to cover the eventualities that may arise in future years. The Council should proactively look for service efficiencies and income generating projects.
19. 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.
20. 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.

Commercial Strategy 2020 – 2024

21. The key financial plan to address the above deficit and support the council in maintaining the delivery of services over the medium term is addressed in the Commercial Strategy presented as Appendix B earlier in the agenda.

22. The Commercial Strategy sets out the requirement for an investment fund with a total value of £300 million with an expected average yield target of 4% (before borrowing costs).
23. This will deliver an income of £12 million per annum, of which £4 million is already built into the MTFS (these figures are gross and do not account for the cost of borrowing).
24. The two investments included in the 5 year budget make a total investment of £86.241 million and comprise:
- a) the council's wholly owned company Aspire (CRP) Ltd with a total current investment at Chesterford Research Park of £54.241 million
 - b) investment 2 has been agreed, which will be purchased by the Council at a value of £32 million.
25. The investment income and projected cost of borrowing is set out in the following table

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Investment Income	(2,912)	(4,051)	(4,387)	(4,450)	(4,432)
Investment Cost	788	1,561	1,654	1,636	1,618
Corporate Costs	(2,124)	(2,490)	(2,734)	(2,815)	(2,815)

26. This leaves an investment fund balance of £213.759 million with an expected income of £8 million, this is subject to the timing of the investments and the current interest rates on the cost of borrowing

General Fund – 5 year summary

	2020/21	2021/22	2022/23	2023/24	2024/25
	£ '000	£ '000	£ '000	£ '000	£ '000
Gross Service Expenditure	36,693	36,627	36,842	37,227	37,917
Gross Service Income	(21,820)	(21,537)	(21,631)	(21,686)	(21,741)
Demand Growth		50	100	300	350
Service Expenditure	14,874	15,140	15,311	15,841	16,527
Capital Financing Costs	1,672	1,908	1,821	2,028	1,901
Pension Fund - Deficit	571	0	0	350	350
Pension Fund - Added Years	85	85	85	85	85
Recharge to HRA/Corporate Core	(1,747)	(1,428)	(1,428)	(1,428)	(1,428)
PFI Interest cost	372	360	348	334	319
Investment Income	(2,912)	(4,051)	(4,387)	(4,450)	(4,432)
Investment Cost	788	1,561	1,654	1,636	1,618
Corporate Costs	(1,171)	(1,564)	(1,908)	(1,446)	(1,588)
Total Net Expenditure	13,703	13,576	13,403	14,395	14,939
Business Rates Retention	(3,317)	(3,000)	(3,100)	(3,200)	(3,300)
Business Rates prior year Balance	0	0	0	0	0
New Homes Bonus	(3,635)	(1,550)	(826)	0	0
Rural Services Grant	(279)	0	0	0	0
Council Tax prior year Balance	(20)	0	0	0	0
Funding	(7,251)	(4,550)	(3,926)	(3,200)	(3,300)
Total Net Operating Costs	6,452	9,026	9,477	11,195	11,639
Movement in Reserves	(495)	(617)	(345)	(75)	25
Council Tax Requirement	5,957	8,409	9,132	11,120	11,664
Council Tax Income	(5,957)	(6,194)	(6,413)	(6,613)	(6,810)
True (Surplus) / Deficit	0	2,215	2,719	4,506	4,853
Business Rates Reserve	0	(500)	(500)	(500)	(500)
Funding Reserve	0	(250)	(250)	(250)	(310)
Damping (Gov Transitional Funding)	0	(475)	(475)	(475)	(475)
Adjusted (Surplus) / Deficit	0	990	1,494	3,281	3,568

Reserves

28. Total General Fund reserves during this five year model are estimated to decrease from the predicted balance of £16.999 million to £12.433 million, a reduction of £4.566 million. A schedule of forecasted reserves balances are set out on the following page;

General Fund Reserves – 5 year summary

	1 April 2020	Net Movement	31 March 2021	Net Movement	31 March 2022	Net Movement	31 March 2023	Net Movement	31 March 2024	Net Movement	31 March 2025
RINGFENCED RESERVES											
Business Rates	2,833	197	3,030	(500)	2,530	(500)	2,030	(500)	1,530	(500)	1,030
Departments for Work and Pensions	71		71		71		71		71		71
Licensing	114	34	148		148		148		148		148
Capital Slippage	602		602		602		602		602		602
Working Balance	1,300		1,300		1,300		1,300		1,300		1,300
TOTAL RINGFENCED RESERVES	4,921	231	5,152	(500)	4,652	(500)	4,152	(500)	3,652	(500)	3,152
USABLE RESERVES											
Financial Management Reserves											
Medium Term Financial Strategy	1,336		1,336		1,336		1,336		1,336		1,336
Transformation	1,114	(3)	1,111		1,111		1,111		1,111		1,111
EU Exit	513		513		513		513		513		513
Funding Reserve	1,060		1,060	(250)	810	(250)	560	(250)	310	(310)	()
	4,022	(3)	4,019	(250)	3,769	(250)	3,519	(250)	3,269	(310)	2,959
Contingency Reserves											
Emergency Response	40		40		40		40		40		40
	40		40		40		40		40		40
Service Reserves											
Economic Development	61		61		61		61		61		61
Elections	45	25	70	25	95	25	120	(75)	45	25	70
Homelessness	314	102	416		416		416		416		416
Health and Wellbeing	84		84		84		84		84		84
Planning	969		969	(493)	476		476		476		476
Neighbourhood Planning	55	(15)	40		40		40		40		40
Housing Strategy	25		25		25		25		25		25
Development Control	134		134		134		134		134		134
Strategic Initiatives	1,660		1,660		1,660		1,660		1,660		1,660
Garden Communities											
Development Projects	1,354	(835)	519	(149)	370	(370)					
Waste Depot Relocation Project	2,649		2,649		2,649		2,649		2,649		2,649
Waste Management	371		371		371		371		371		371
Private Finance Initiative	295		295		295		295		295		295
	8,016	(723)	7,294	(617)	6,677	(345)	6,332	(75)	6,257	25	6,282
TOTAL USABLE RESERVES	12,078	(726)	11,353	(867)	10,486	(595)	9,891	(325)	9,566	(285)	9,281
TOTAL GENERAL FUND RESERVES	16,999	(495)	16,505	(1,367)	15,138	(1,095)	14,043	(825)	13,218	(785)	12,433

Housing Revenue Account (HRA)

29. 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. 2020/21 is the fourth year of the principal repayment and the ninth year of self-financing.
30. 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.
31. A review of the HRA Business Plan and the financing of the loans was 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.
32. 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.
33. 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.
34. 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, which ended in 2019/20, has had a significant impact on income levels and limits the affordability of additional borrowing. Rental income increases for 2020/21 have been applied based on current government guidelines of CPI + 1%, which equates to a total increase of 2.7%.
35. Officers will continue to review the 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 and purchase over 115 homes despite the previous borrowing cap.
36. 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 2020/21.
37. The following tables set out the predicted 5 year financial position for the HRA, the reserve balances and proposed use of these reserves.

Housing Revenue Account – 5 year Summary

£'000	2018/19 Original Budget	2019/20 Current Budget	2020/21 Original Budget	Budget Movement	2021/22 Original Budget	2022/23 Original Budget	2023/24 Original Budget	2024/25 Original Budget
Housing Revenue Income								
Dwelling Rents	(14,147)	(14,147)	(14,667)	(520)	(15,063)	(15,469)	(15,887)	(16,316)
Garage Rents	(224)	(224)	(230)	(5)	(233)	(237)	(241)	(246)
Other Rents etc	(3)	(3)	(3)	0	(3)	(3)	(3)	(3)
Charges for Services & Facilities	(977)	(977)	(1,079)	(102)	(1,097)	(1,116)	(1,135)	(1,154)
Contributions towards Expenditure	0	0	0	0	0	0	0	0
TOTAL INCOME	(15,352)	(15,352)	(15,979)	(627)	(16,397)	(16,826)	(17,267)	(17,719)
Housing Finance & Business Management								
Rents, Rates & Other Property Charges	75	75	75	0	76	77	79	80
	75	75	75	0	76	77	79	80
Housing Maintenance & Repairs Service								
Common Service Flats	204	204	209	5	213	216	220	224
Estate Maintenance	152	152	196	44	199	202	206	209
Housing Repairs	2,561	2,561	2,457	(104)	2,676	2,972	3,352	3,820
Housing Sewerage	58	58	60	2	61	62	63	64
Newport Depot	24	24	25	0	25	25	26	26
Property Services	318	318	356	38	362	368	375	381
	3,317	3,317	3,303	(15)	3,536	3,847	4,241	4,724
Housing Management & Homelessness								
Housing Services	470	470	495	26	504	512	521	530
Sheltered Housing Services	629	629	691	62	703	715	727	739
	1,099	1,099	1,186	87	1,206	1,227	1,248	1,269
Total Service Expenditure	4,491	4,491	4,564	73	4,818	5,151	5,568	6,074
Other Costs								
Bad Debt Provision	100	100	100	0	100	100	100	100
Depreciation - Dwellings (to MRR)	3,888	3,888	4,555	667	4,555	4,555	4,555	4,555
Depreciation - Non- Dwellings (to MRR)	91	91	66	(25)	66	66	66	66
Interest/Costs re HRA Loan	2,604	2,604	2,613	9	2,601	2,570	2,519	2,438
Repayment of HRA Loan	2,000	2,000	2,000	0	2,000	2,000	3,000	3,000
Investment Income	(42)	(42)	(13)	29	0	0	0	0
Pension Costs - Added Years	19	19	19	0	19	19	19	19
Pension Deficit - Triennial payment	0	0	126	126	0	0	126	0
Recharge from General Fund	1,693	1,693	1,375	(318)	1,049	1,041	1,033	1,026
HRA Share of Corporate Core	366	366	372	6	379	387	395	403
Right to Buy Admin Allowance	(10)	(10)	(10)	0	(10)	(10)	(10)	(10)
Total Non-Service Expenditure	10,708	10,708	11,202	494	10,758	10,727	11,802	11,596
TOTAL EXPENDITURE	15,199	15,199	15,766	567	15,577	15,878	17,370	17,669
OPERATING (SURPLUS)/DEFICIT	(152)	(152)	(213)	(61)	(820)	(948)	103	(50)
Funding from Cap Rec Res for HRA Loan	(2,000)	(2,000)	(2,000)	0	0	0	0	0
Funding of Capital Programme from HRA								
Capital Schemes Funded from Revenue	2,692	2,692	1,325	(1,367)	505	450	450	450
	2,692	2,692	1,325	(1,367)	505	450	450	450
Transfers to/(from) Reserves								
Capital Projects	(153)	(153)	897	1,050	301	481	(572)	(419)
Change Management Reserve	0	(355)	0	355	0	0	0	0
Potential Developments	(355)	0	0	0	0	0	0	0
HRA Slippage Reserve	0	0	0	0	0	0	0	0
HRA Slippage Reserve	0	0	0	0	0	0	0	0
Sheltered Housing Reserve	0	0	0	0	0	0	0	0
Transformation Reserve	0	0	0	0	0	0	0	0
Working Balance	(31)	(31)	(10)	21	14	17	19	19
	(539)	(539)	888	1,427	315	498	(553)	(400)
(SURPLUS)/DEFICIT	0	0	0	0	0	0	0	0

Housing Revenue Reserves – 5 year Summary

Reserve £'000	01 April 2020	Net Movement	31 March 2021	Net Movement	31 March 2022	Net Movement	31 March 2023	Net Movement	31 March 2024	Net Movement	31 March 2025
<u>RINGFENCED RESERVES</u>											
Working Balance	473	(10)	463	14	477	17	494	19	513	19	532
	473	(10)	463	14	477	17	494	19	513	19	532
<u>USABLE RESERVES</u>											
Revenue Reserves	60	0	60	0	60	0	60	0	60	0	60
Revenue Projects	0	0	0	0	0	0	0	0	0	0	0
Transformation Reserve	180	0	180	0	180	0	180	0	180	0	180
	240	0	240	0	240	0	240	0	240	0	240
<u>Capital Reserves</u>											
Capital Projects	0	897	897	301	1,198	481	1,679	(572)	1,107	(419)	688
Potential Projects Reserve	0	0	0	0	0	0	0	0	0	0	0
Sheltered Housing Projects Reserve	0	0	0	0	0	0	0	0	0	0	0
HRA Slippage Reserve	1,415	0	1,415	0	1,415	0	1,415	0	1,415	0	1,415
	1,415	897	2,313	301	2,614	481	3,095	(572)	2,523	(419)	2,104
TOTAL USABLE RESERVES	1,655	897	2,552	301	2,853	481	3,334	(572)	2,762	(419)	2,343
TOTAL RESERVES	2,127	888	3,015	315	3,330	498	3,828	(553)	3,276	(400)	2,876

Reserve £'000	01 April 2020	Net Movement	31 March 2021	Net Movement	31 March 2022	Net Movement	31 March 2023	Net Movement	31 March 2024	Net Movement	31 March 2025
<u>Capital Receipt Reserve</u>											
Capital Receipt Reserve - RTB	1,154	564	1,718	564	2,282	564	2,846	564	3,410	564	3,974
Capital Receipt Reserve - Other	40		40		40		40		40		40
Capital Receipt Reserve - Total	1,194	564	1,758	564	2,322	564	2,886	564	3,450	564	4,014
<u>Major Repairs Reserve (MRR)</u>											
MRR	334	(77)	258	77	334	22	356	22	377	22	399