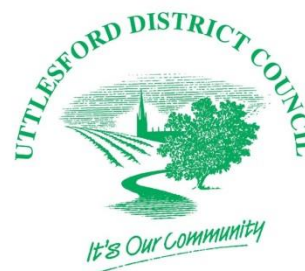


Uttlesford District Council

Medium Term Financial Strategy 2021 – 2026



Prepared by:
Finance
Uttlesford District Council
February 2021



Financial Outlook

1. The Medium Term Financial Strategy (MTFS) was prepared based on the final settlement announced 17 December 2020. The final settlement is due to be confirmed in early February, it is not expected that there will be any changes in the settlement but any amendments will be reflected in the MTFS prior to presentation for approval at Council.
2. The Fair Funding Review (FFR) and Business Rates Reform (BRR) have been delayed for a further year due to the additional pressures of the Covid 19 pandemic.

Covid-19 Pandemic

3. The Covid-19 pandemic has significantly impacted on all aspects of the Councils functions, including service delivery and the way our residents interact with us. The most significant impact financially has been income reductions across all services but in particular business rates and car parking.
4. The national lockdowns and tier restrictions have impacted mainly on the high street and the hardest hit have been the retail, leisure and hospitality sectors which have been forced to close their businesses or operate under restrictions for much of the year.
5. Government has put into place a significant level of financial support to help these businesses each time they are required to close, including extending the retail relief and providing direct grants to businesses.
6. The Council has also received numerous grants and financial support over the year, which includes 4 tranches of funding for expenditure, income loss compensation and support for low earning and vulnerable residents.
7. The expectation is that although there is significant progress in the test and trace and vaccination programme, restrictions will be ongoing albeit at a lesser level during the spring and summer. It is also expected that a further level of restrictions will be implemented as we approach the Christmas period and the early part of 2022 when it is expected cases will rise again.
8. The Government has provided additional funding for direct Covid 19 impact support during 2020 and have provided an additional tranche of funding in the 2021/22 settlement. This is alongside their commitment to continue the 75% income compensation where losses are over 5% of budgeted income.
9. Even with the above support the council will still be affected by income losses as the local economy begins to recover and people's confidence in visiting the high street returns, both of these will be a gradual process.
10. The pandemic has also seen a significant rise in unemployment and this is expected to continue with a spike once the furlough scheme ends in April and this will reduce income collection rates and increase levels of support in Local Council Tax Support and Housing benefit claims. The Government has provided an additional grant in 2021/22 to support an increase in claimants and has stated it will reimburse 75% of unrecoverable collection fund losses.

Financial Settlement 2021/22

11. The key items announced were:

- Local Government have received an increase in Core Spending Power of 4.5% although this is reliant on council tax increases
- Council Tax threshold – an increase of up to 2% or £5
- An additional Lower Tier Services Grant has been provided to ensure that no council would receive less funding than last year
- Further Covid-19 support funding was announced to provide Local Authorities (LA's) with further certainty in the budget setting process
- New Homes Bonus has been extended by a further year (in line with the delay in FFR and BRR reforms, similar to last year this will attract no legacy payments. The legacy payments in line with the original scheme will remain and the baseline was maintained at 0.4%.
- Rural Services Delivery Grant was increased by 4.5%
- Business Rates baseline funding level was frozen along with the business rates multipliers

12. Uttlesford are reliant on the following sources of income and funding in 2021/22:

- Council Tax
- Business Rates Retention Income (BRR) – subject to review and significant changes in 2022/23
- 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

13. The Fair Funding Review (FFR) will affect how funding is allocated and redistributed between local authorities and it is expected to be introduced over the next 2 year financial year. It is expected to use three main 'cost drivers': population, deprivation and sparsity, together with additional cost drivers related to specific local authority services

14. 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 the upper tier authorities and unitaries.

15. In addition there has been a long running plan to reform business rates and this is expected to include a full baseline reset in 2022. This will mean that all the growth prior to 2021/22 that has been generated since the introduction of the BRR scheme in 2013 will be incorporated into our baseline funding level calculation. We currently retain 50% of growth above our baseline funding level, so the changes will have a direct cost impact on the Council.

16. It is not expected that the NHB scheme will continue once the reforms are introduced but remaining legacy payments due will be received. In the 2021/22 settlement the Secretary of State announced it is the Government's intention to consult on the future of a housing incentive scheme to replace the NHB grant. 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 are aligned with other measures around planning performance.

17. 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 and a more detailed explanation is included under the section Budget Model. This emphasises the need for new, more efficient ways of working and supports the decisions set out in the Commercial Strategy to look for innovative income generating opportunities.

£'000	2021/22	2022/23	2023/24	2024/25	2025/26
Business Rates Retention	(2,064)	(1,960)	(1,960)	(1,960)	(1,960)
New Homes Bonus	(2,823)	(826)			
Rural Services Delivery Grant	(293)				
Central Annual Funding	(5,180)	(2,786)	(1,960)	(1,960)	(1,960)

Commercial Investments

18. The Commercial Strategy has an investment limit of £300 million that was approved as part of the 2020/21 budget, to enable the Council to manage the funding reductions and the added pressures generated by the Covid-19 pandemic.
19. The Council has invested a total of £172 million with a further £126 million planned over the next year; this is set out in more detail in the Budget Model section of this report and full details are included in the Commercial and Capital Strategies.

Budget Model

20. To inform the financial outlook for UDC, a detailed budget model has been prepared, full details of the General Fund budget for 2021/22 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	2021/22	2022/23	2023/24	2024/25	2025/26
Service Expenditure	37,181	37,090	37,823	37,002	37,594
Service Income	(21,176)	(21,049)	(21,112)	(21,175)	(21,241)
Demand Growth		200	400	600	800
Service Net Expenditure	16,006	16,241	17,111	16,427	17,153

The following key inflationary assumptions are used in the model.

- a) **Gross service expenditure and income:** Takes the 2020/21 base budget as a starting point with any one-off in year items being removed. Inflation has been included for salaries at 2%, utilities are 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.

The uplift in expenditure in 2023/24 is for the additional costs to support the submission and inspection of the Local Plan.

- 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.

21. 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	2021/22	2022/23	2023/24	2024/25	2025/26
Capital Financing	3,626	1,514	2,091	1,997	1,960
Pension Fund - Deficit			250	250	250
Pension Fund - Added years	85	85	85	85	85
HRA recharge/Corporate Core	(1,552)	(1,599)	(1,647)	(1,696)	(1,747)
PFI Interest Cost	360	348	334	319	303
Corporate Costs	2,519	347	1,113	954	851

- 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 – In 202/21 a discounted triennial payment was made covering the years up to and including 2022/23. Thereafter the MTFS reverts to annual payments.
- c) Recharges to HRA – based on the apportionment of the actual costs of central services and corporate core used by the Housing Revenue Account.
- d) PFI Interest – this the Council's element of the cost of financing for the Leisure Centres
22. The investment income is made up of the interest return on the loans made to Aspire (CRP) Ltd for the purchase and development of Chesterford Research Park and the rental income on the Council's direct commercial property investments.

£'000	2021/22	2022/23	2023/24	2024/25	2025/26
Investment Income	(7,221)	(12,140)	(14,632)	(14,852)	(14,902)
Investment Cost	1,814	5,982	6,046	6,111	6,175
Investment Income net of borrowing	(5,407)	(6,158)	(8,586)	(8,742)	(8,727)

23. The investments are currently funded by a mix of long term and short term borrowing; the MTFS includes the cost of reducing its interest rate risk in 2022/23 by securing further long term borrowing.

24. The following table sets out the completed and future investments including the individual purchase costs and the annual predicted income.

£'000	Capital Investment (exc. fees)	Annual Rental				
		2021/22	2022/23	2023/24	2024/25	2025/26
Completed Investments						
Chesterford Research Park	60,841	(2,317)	(2,487)	(2,487)	(2,487)	(2,487)
Weston Homes	20,000	(1,142)	(1,171)	(1,200)	(1,230)	(1,261)
Veterinary Surgery	5,925			(202)	(392)	(411)
Stane Retail Park	30,424		(626)	(1,784)	(1,784)	(1,784)
Waitrose Retail Distribution Centre	55,000	(2,267)	(2,508)	(2,508)	(2,508)	(2,508)
	172,190	(5,726)	(6,792)	(8,181)	(8,401)	(8,451)
Future Committed Investments						
Chesterford Research Park	13,400			(603)	(603)	(603)
Investment 7	42,555	(709)	(2,270)	(2,270)	(2,270)	(2,270)
Investment 12	35,000	(786)	(1,558)	(1,558)	(1,558)	(1,558)
	90,955	(1,495)	(3,828)	(4,431)	(4,431)	(4,431)
Future Option Investments						
Investment 2	35,000		(1,500)	(2,000)	(2,000)	(2,000)
	35,000	0	(1,500)	(2,000)	(2,000)	(2,000)
Investment Total	298,145	(7,221)	(12,120)	(14,612)	(14,832)	(14,882)

25. The funding the Council expects to receive is detailed below and includes one off grants and previous year deficits for business rates and council tax. Estimates for future years has been calculated based on the current information we have available; the indications Government has provided and in consultation with our specialist advisors 'Pixel Financial Management'.

£'000	2021/22	2022/23	2023/24	2024/25	2025/26
Business Rates Retention	(2,064)	(1,960)	(1,960)	(1,960)	(1,960)
Business Rates prior year balance	4,785	383	383		
New Homes Bonus	(2,823)	(826)			
Rural Services Delivery Grant	(293)				
Lower Tier Services Grant	(435)				
Covid-19 Support Funding	(359)				
Local Council Tax Support Grant	(96)				
Council Tax prior year balance	55	55	55		
Funding Total	(1,230)	(2,348)	(1,522)	(1,960)	(1,960)

- 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 Business Rates Reforms. The 40% retained income is subject to a significant tariff which is variable and set annually to align the actual income collectable to the Baseline Funding Level (MHCLG calculation of our funding requirement to meet the needs and resources of the Council). The above figure of £2.064m is the net income of the Business Rates income after adjustments, tariffs and levies.

- b) The business rates income assumes a full reset in 2022/23, meaning all growth will be included in the baseline funding level (BFL). Our BFL will remain as it is, in effect we will lose all our growth. A prudent forecast has been included for future years until more information is released on exactly how this will be calculated. The amount allocated for years 2022/23 to 2025/26 includes the transfer of the Rural Services Grant into our BFL.
- c) Business Rates prior year balance for 2021/22 is an accounting adjustment for the deficit relating to uncollected income in the previous year and the additional reliefs introduced during the year. In normal circumstances accounting rules state any deficit or surplus is offset against the following year's income and retail reliefs are known in advance and funded by section 31 during the year that are applied. The prior year deficit is made up of the following amounts;
 - i. Additional retail reliefs - £4.402m which is funded by a drawdown on reserves from Section 31 grant received in 2020/21
 - ii. Uttlesford share of uncollected income for 2020/21 is £1.149m, Government has instructed that all deficits must be recovered over a 3 year period and this gives an annual deficit figure of £0.383m

The Government has also said they will fund 75% of unrecoverable losses of Business Rates and Council Tax that is a direct result of the pandemic. This has not been included as there is no guidance published on what is deemed as 'unrecoverable'.

- d) New Homes Bonus: The model shows the announced figure for 2021/22. Year 2022/23 is based on our final year of legacy payment due and no payment from 2023/24. A consultation is being carried out later in 2021 on the possible replacement scheme around providing funding for Districts but ensuring the 'right housing in the right areas'. It is expected that this will be linked to the potential planning reform and planning performance.
 - e) The Government has provided additional grants as part of the settlement totalling £0.890m, these are made up of the following;
 - I. Lower Tier Services Grant - £0.435m which ensures that we are no worse off than in the previous year settlement
 - II. Covid Support Funding - £0.359m this is tranche 5 of funding provided to support the council with additional costs related to the pandemic
 - III. Local Council Tax Support – £0.096m to provide financial support to the increased claims and hardship grants
 - f) Council Tax prior year balance is the Uttlesford share of the uncollected council tax and for 2020/21 this is £0.165m. As with Business Rates Government has instructed that all deficits must be recovered over a 3 year period and this gives an annual deficit figure of £0.055m.
26. The MTFs has been prepared on the assumption that Council Tax will be increased by £5 in 2021/22, with future years based on increases of 1.99%, which is in line with Government guidance.

27. The Tax base assumptions are in line with current housing growth forecasts, an estimate of Local Council Tax Support discounts and predicted future collection rates. The following table provides an estimate of the council tax income over the life of the MTFS.

	2021/22	2022/23	2023/24	2024/25	2025/26
Tax base (net of adjustments)	38,108.31	38,489.40	38,874.30	39,263.04	39,655.67
Band D equivalent	161.61	164.83	168.11	171.45	174.86
Council Tax income	(6,158,684)	(6,344,056)	(6,535,006)	(6,731,703)	(6,934,320)
<i>Band D increase</i>	£ 5.00	1.99%	1.99%	1.99%	1.99%

28. After taking into account all the above expenditure, income, funding and net reserves drawdowns the council has achieved a balanced budget for 2021/22; future years the MTFS shows a deficit position with the exception of 2024/25.

	2021/22	2022/23	2023/24	2024/25	2025/26
Direct Service Net Expenditure	16,006	16,241	17,111	16,427	17,153
Corporate Costs	2,519	347	1,113	954	851
Net Investment Income	(5,407)	(6,158)	(8,586)	(8,742)	(8,727)
Funding	(6,070)	(2,786)	(1,960)	(1,960)	(1,960)
Collection Fund prior year deficits	4,839	438	438		
Net Operating Costs	11,888	8,083	8,116	6,680	7,317
Reserves Movements	(5,729)	(1,575)	(1,214)	(57)	(59)
Council Tax Income	6,159	6,508	6,902	6,623	7,258
Council Tax Income	(6,159)	(6,344)	(6,535)	(6,732)	(6,934)
(Surplus) / Deficit	0	164	367	(109)	324

29. To support Council's during the funding reforms (FFR and BRR) it is expected that Government will provide Local Authorities with a level of transitional funding referred to as 'Damping'. When the reforms were originally announced a predicted Damping figure was estimated at £475,000 per year.

30. It is extremely difficult to predict how much this damping will be and the figure will be dependant on a number of variables, including if and what a new housing grant reward scheme will be and so the MTFS retains the original figure of £475,000.

31. After applying the Damping the adjusted overall financial outlook shows an annual surplus for each of the years in the MTFS.

	2021/22	2022/23	2023/24	2024/25	2025/26
(Surplus) / Deficit	0	164	367	(109)	324
Damping	0	(475)	(475)	(475)	(475)
Adjusted (Surplus) / Deficit	0	(311)	(108)	(584)	(151)

32. 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 continue to ensure it is in a strong position to anticipate and adapt to funding outcomes that differ from those currently assumed.

General Fund – 5 year summary

	2020/21 Budget £ '000	2021/22 Budget £ '000	2022/23 Budget £ '000	2023/24 Budget £ '000	2024/25 Budget £ '000	2025/26 Budget £ '000
Gross Service Expenditure	36,693	37,181	37,090	37,823	37,002	37,594
Gross Service Income	(21,820)	(21,176)	(21,049)	(21,112)	(21,175)	(21,241)
Demand Growth			200	400	600	800
Sub Total Net Service Expenditure	14,874	16,006	16,241	17,111	16,427	17,153
Capital Financing Costs	1,672	3,626	1,514	2,091	1,997	1,960
Pension Fund - Deficit	571			250	250	250
Pension Fund - Added Years	85	85	85	85	85	85
Recharge to HRA/Corporate Core	(1,747)	(1,552)	(1,599)	(1,647)	(1,696)	(1,747)
Exceptional Corporate Items						
PFI Interest cost	372	360	348	334	319	303
Investment Income	(2,912)	(7,221)	(12,140)	(14,632)	(14,852)	(14,902)
Investment Cost	788	1,814	5,982	6,046	6,111	6,175
Corporate Costs	(1,171)	(2,888)	(5,810)	(7,473)	(7,787)	(7,877)
Total Net Expenditure	13,703	13,117	10,431	9,639	8,640	9,277
Business Rates Retention	(3,317)	(2,064)	(1,960)	(1,960)	(1,960)	(1,960)
Business Rates prior year Balance		4,785	383	383		
New Homes Bonus	(3,635)	(2,823)	(826)			
Rural Services Grant	(279)	(293)				
Council Tax prior year Balance	(20)	55	55	55		
Covid-19 Support Funding		(890)				
Funding	(7,251)	(1,230)	(2,348)	(1,522)	(1,960)	(1,960)
Total Net Operating Costs	6,452	11,888	8,083	8,117	6,680	7,317
Business Rates Reserve		(6,123)	(383)	(383)		
Ringfenced Reserves (exc. BRR)		(24)	1			
Other Reserves	(495)	419	(1,193)	(831)	(57)	(59)
Total Net Reserves (drawn)/addition	(495)	(5,729)	(1,575)	(1,214)	(57)	(59)
Council Tax Requirement	5,957	6,159	6,508	6,902	6,623	7,258
Council Tax Income	(5,957)	(6,159)	(6,344)	(6,535)	(6,732)	(6,934)
(Surplus) / Deficit			164	367	(108)	324
Government Damping for Funding/BR review			(475)	(475)	(475)	(475)
Adjusted (Surplus) / Deficit			(311)	(108)	(584)	(151)

Reserves

34. Total General Fund reserves during this five year model are estimated to decrease from the predicted balance of £21.370 million to £12.737 million, a reduction of £8.633 million, of which £6.123m relates to government Covid business rates funding. A detailed schedule of forecasted reserves balances is set out on the following page and the table below sets out the use of reserves as approved at Council on the 8 December 2020 and the proposed updates for 2021 – 2026

Movements in Reserves		Estimated balance as at 31 March 2021	2021/22 £'000		2022/23 £'000		2023/24 £'000		2024/25 £'000		2025/26 £'000	
Details of reserve use			Addition	Drawdown	Addition	Drawdown	Addition	Drawdown	Addition	Drawdown	Addition	Drawdown
Ring Fenced Reserves												
Business Rates Reserve	Section 31 grant received in 2020/21 for additional reliefs To support the prior year deficit due to reduced collection rate		(4,402)	(383)	(383)							
	To support the current year income reduction due to lower collection rate		(1,338)									
		7,759	0	(6,123)	0	(383)	0	(383)	0	0	0	0
Working Balance	Calculation to meet the statutory requirement minimum balance	1,496		(37)								
Licencing	Allocations to support service 3 year licences	35	13		1							
			13	(6,160)	1	(383)	0	(383)	0	0	0	0
Usable Reserves												
Medium Term Financial Strategy	Release of rental income compensation for commercial investment received in advance	2,439		(373)	(373)		(166)					
	Highways panel c/fwd 2020/21			(100)	(100)							
Emergency Response	Additional funding held in reserves to manage future impact of Covid 19 pandemic	540	794									
Economic Development	To support Business and local economic recovery	247	1000	(340)	(330)		(330)					
Elections	Annual/draw allocation to support cycle of local elections	70	30		25	(100)	25		25		25	
Homelessness	Grant received from MHCLG and draw to support service	402	188	(86)								
Neighbourhood Plan	To support the Neighbourhood planning process	43		(15)								
Sustainable Communities	To fund specialist consultancy and additional fees relating to the Local Plan	940		(640)	(300)							
Private Finance Initiative	To cover the shortfall in rental over the life of the agreement (identified by Auditors)	307			(5)		(30)		(82)		(84)	
Depot - New Site	Funds to support the development of Little Canfield Business Park		500	(500)								
Major Sports Facilities	Grant funding for major sports projects	150	150	(150)	150	(150)						
Climate Change	To support the Climate Change Emergency action plan	380	300	(340)	320	(330)	(330)					
			2,962	(2,544)	495	(1,688)	25	(856)	25	(82)	25	(84)
Total Net Reserves additions / (drawdowns)			(5,729)		(1,575)		(1,214)		(57)		(59)	

General Fund Reserves – 5 year summary

	Est. Balance 31st March 2021	2021/22			2022/23			2023/24			2024/25			2025/26		
		Transfer From General Fund	Transfer to General Fund	Balance 31st March 2022	Transfer From General Fund	Transfer to General Fund	Balance 31st March 2023	Transfer From General Fund	Transfer to General Fund	Balance 31st March 2024	Transfer From General Fund	Transfer to General Fund	Balance 31st March 2025	Transfer From General Fund	Transfer to General Fund	Balance 31st March 2026
£ '000																
RINGFENCED RESERVES																
Business Rates	7,759		(6,123)	1,636		(383)	1,253		(383)	869		869				0
Departments for Work and Pensions	71			71			71			71		71				71
Licensing	35	13		48	1		50			50		50				50
Capital Slippage	(105)			(105)			(105)			(105)		(105)				(105)
Working Balance	1,496		(38)	1,459			1,459			1,459		1,459				1,459
TOTAL RINGFENCED RESERVES	9,256	13	(6,161)	3,109	1	(383)	2,727	0	(383)	2,344	0	0	2,344	0	0	2,344
USABLE RESERVES																
Financial Management Reserves																
Medium Term Financial Strategy	2,439		(473)	1,967		(473)	1,494		(166)	1,328		1,328				1,328
Transformation	1,139			1,139			1,139			1,139		1,139				1,139
EU Exit	513			513			513			513		513				513
Income Protection	1,060			1,060			1,060			1,060		1,060				1,060
	5,151	0	(473)	4,678	0	(473)	4,206	0	(166)	4,039	0	0	4,039	0	0	4,039
Contingency Reserves																
Emergency Response	540	794		1,334			1,334			1,334		1,334				1,334
	540	794	0	1,334	0	0	1,334	0	0	1,334	0	0	1,334	0	0	1,334
Service Reserves																
Economic Development	247	1,000	(340)	907		(330)	577		(330)	247		247				247
Elections	70	30		100	25	(100)	25	25		50	25	75	25			100
Homelessness	402	188	(86)	504			504			504		504				504
Health and Wellbeing	118			118			118			118		118				118
Planning	628			628			628			628		628				628
Neighbourhood Planning	43		(15)	28			28			28		28				28
Housing Strategy	25			25			25			25		25				25
Development Control	96			96			96			96		96				96
Strategic Initiatives	1,660			1,660			1,660			1,660		1,660				1,660
Sustainable Communities	940		(640)	300		(300)	(0)		(0)	(0)		(0)				(0)
Pension Reserve	0			0			0			0		0				0
New Homes Bonus Ward Members	22			22			22			22		22				22
Voluntary Sector	0			0			0			0		0				0
Waste Depot Relocation Project	1,086	500	(500)	1,086			1,086			1,086		1,086				1,086
Waste Management	250			250			250			250		250				250
Private Finance Initiative	307			307		(5)	302		(30)	272		(82)		(84)		107
Major Sports Facilities	150	150	(150)	150	150	(150)	150			150		150				150
Climate Change	380	300	(340)	340	320	(330)	330		(330)	0		0				0
	6,423	2,168	(2,071)	6,520	495	(1,215)	5,800	25	(690)	5,135	25	(82)	5,078	25	(84)	5,020
TOTAL USABLE RESERVES	12,114	2,962	(2,543)	12,532	495	(1,688)	11,339	25	(856)	10,508	25	(82)	10,452	25	(84)	10,393
TOTAL GENERAL FUND RESERVES	21,370	2,975	(8,704)	15,641	496	(2,071)	14,067	25	(1,239)	12,852	25	(82)	12,796	25	(84)	12,737

Housing Revenue Account (HRA)

35. 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, 2021/22 is the fourth year of the principal repayment.
36. The HRA has completed an extensive programme of new builds and redevelopments of both general needs 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.
37. 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.
38. 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.
39. Government announced in October 2018 that the HRA borrowing cap had been removed. The removal of the cap was welcomed as it took away one of the restrictions faced by local authorities looking to invest in their housing stock and build homes.
40. The Council utilises the entire existing retained one for one RTB receipts to invest in its development programme however there is a risk the HRA will not be able to build up enough receipts to fully finance 30% of the scheduled developments at the time of construction. If there is a short fall in retained receipts the HRA will have to borrow to fund 100% of the development until sufficient receipts have been received.
41. 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.
42. The Council has Homes England Investment Partner Status and will continue to work with Homes England to access grant for affordable housing schemes to deliver its development programme.
43. The Government policy of 1% rent reductions over 4 years, which ended in 2019/20, had a significant impact on income levels and limited the affordability of additional borrowing. Rental income increases for 2021/22 have been applied based on current government guidelines of CPI + 1%, which equates to a total increase of 1.7%.
44. 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 in 2012 of self-financing the Council has been able to build, redevelop and purchase 146 homes despite the previous borrowing cap.

45. 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 2021/22.
46. The Covid Crisis may impact on HRA rent collection as tenants are faced with financial hardship and lockdown restrictions reduce the ability to collect monies owed. At this point it is impossible to quantify what impact the virus will have and a bad debt provision of £100,000 has been built into each year of the years in the draft budget.
47. 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	2020/21	2020/21	2021/22	Increase / (Decrease)	2022/23	2023/24	2024/25	2025/26
	Original Budget	Current Budget	Original Budget		Original Budget	Original Budget	Original Budget	Original Budget
Housing Revenue Income								
Dwelling Rents	(14,667)	(14,667)	(14,875)	(209)	(15,128)	(15,386)	(15,647)	(15,913)
Garage Rents	(230)	(230)	(233)	(3)	(237)	(241)	(245)	(249)
Other Rents etc	(3)	(3)	(1)	2	(1)	(1)	(1)	(1)
Charges for Services & Facilities	(1,079)	(1,079)	(1,061)	19	(1,079)	(1,097)	(1,116)	(1,134)
Contributions towards Expenditure	0	0	0	0	0	0	0	0
TOTAL INCOME	(15,979)	(15,979)	(16,170)	(192)	(16,445)	(16,725)	(17,009)	(17,298)
Housing Finance & Business Management								
Rents, Rates & Other Property Charges	75	75	80	5	81	82	84	85
	75	75	80	5	81	82	84	85
Housing Maintenance & Repairs Service								
Common Service Flats	209	209	224	15	228	231	235	239
Estate Maintenance	196	196	200	4	203	207	210	214
Housing Repairs	2,449	2,449	2,626	177	2,671	2,716	2,762	2,809
Housing Sewerage	60	60	61	1	62	63	64	65
Newport Depot	0	0	0	0	0	0	0	0
Property Services	356	356	436	80	443	451	458	466
	3,270	3,270	3,547	277	3,607	3,669	3,731	3,794
Housing Management & Homelessness								
Housing Services	528	528	536	8	545	554	564	573
Sheltered Housing Services	691	691	658	(33)	669	680	692	704
	1,219	1,219	1,194	(25)	1,214	1,235	1,256	1,277
Total Service Expenditure	4,564	4,564	4,821	257	4,902	4,986	5,071	5,157
Other Costs								
Bad Debt Provision	100	100	100	0	100	100	100	100
Depreciation - Dwellings (to MRR)	4,555	4,555	4,230	(325)	4,230	4,230	4,230	4,230
Depreciation - Non- Dwellings (to MRR)	66	66	51	(14)	51	51	51	51
Interest/Costs re HRA Loan	2,613	2,613	2,601	(12)	2,601	2,570	2,519	2,438
Investment Income	(13)	(13)	0	13	0	0	0	0
Pension Costs - Added Years	19	19	0	(19)	0	0	0	0
Pension Deficit - Triennial payment	126	126	0	(126)	126	126	126	126
Recharge from General Fund	1,652	1,652	1,167	(485)	1,167	1,167	1,167	1,167
HRA Share of Corporate Core	96	96	385	289	385	385	385	385
Right to Buy Admin Allowance	(10)	(10)	(10)	0	(10)	(10)	(10)	(10)
Total Non-Service Expenditure	9,203	9,203	8,525	(678)	8,650	8,619	8,568	8,487
TOTAL EXPENDITURE	13,767	13,767	13,345	(422)	13,553	13,605	13,639	13,644
OPERATING (SURPLUS)/DEFICIT	(2,212)	(2,212)	(2,825)	(613)	(2,893)	(3,120)	(3,370)	(3,654)
Funding from Cap Rec Res for HRA Loan	(2,000)	(2,000)	0	2,000	0	0	0	0
Repayment of HRA Loan	2,000	2,000	2,000	0	2,000	2,000	3,000	3,000
Funding of Capital Programme from HRA								
Capital Schemes Funded from Revenue	1,325	1,325	650	(675)	650	650	650	650
	1,325	1,325	650	(675)	650	650	650	650
Transfers to/(from) Reserves								
Capital Projects	897	897	216	(681)	235	463	(287)	(3)
Change Management Reserve	0	0	0	0	0	0	0	0
Potential Developments	0	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	(10)	(10)	(40)	(30)	7	7	7	8
	887	887	176	(711)	242	470	(280)	5
(SURPLUS)/DEFICIT	0	0	0	0	(0)	0	0	0

Housing Revenue Reserves – 5 year Summary

Reserve £'000	2020/21 Q2 Forecast				2021/22			2022/23			2023/24			2024/25			2025/26		
	Actual Balance 1st April 2020	Transfer from HRA	Transfer to HRA	Estimate d Balance 31st March 2021	Transfer from HRA	Transfer to HRA	Balance 31st March 2022	Transfer from HRA	Transfer to HRA	Balance 31st March 2023	Transfer from HRA	Transfer to HRA	Balance 31st March 2024	Transfer from HRA	Transfer to HRA	Balance 31st March 2025	Transfer from HRA	Transfer to HRA	Balance 31st March 2026
<u>RINGFENCED RESERVES</u>																			
Working Balance	514		(10)	504		(40)	464	7		471	7		478	7		486	8		493
TOTAL RINGFENCED RESERVES	514	0	(10)	504	0	(40)	464	7	0	471	7	0	478	7	0	486	8	0	493
<u>USABLE RESERVES</u>																			
Revenue Reserves	180		0	180			180			180			180			180			180
Revenue Projects	160		0	160			160			160			160			160			160
Transformation Reserve			0	0			0			0			0			0			0
	340	0	0	340	0	0	340	0	0	340	0	0	340	0	0	340	0	0	340
<u>Capital Reserves</u>																			
Capital Projects	13		897	910	216		1,126	235		1,361	463		1,824		(287)	1,537		(3)	1,534
Potential Projects Reserve	110			110			110			110			110			110			110
Sheltered Housing Projects Reserve			0	0			0			0			0			0			0
HRA Slippage Reserve	1,302			1,302			1,302			1,302			1,302			1,302			1,302
	1,425	0	897	2,322	216	0	2,538	235	0	2,773	463	0	3,236	0	(287)	2,949	0	(3)	2,946
TOTAL USABLE RESERVES	1,765	0	897	2,662	216	0	2,878	235	0	3,113	463	0	3,576	0	(287)	3,289	0	(3)	3,286
TOTAL RESERVES	2,279	0	887	3,166	216	(40)	3,342	242	0	3,584	470	0	4,054	7	(287)	3,775	8	(3)	3,779
<u>OTHER RESERVES</u>																			
Capital Receipt Reserve	1,789	1,761	(2,552)	998	1,600	(1,037)	1,562	1,600	(1,037)	2,125	1,600	(1,037)	2,689	1,600	(1,037)	3,252	1,600	(1,037)	3,816
Major Repairs Reserve	215	4,621	(4,022)	814	4,230	(4,345)	699	4,230	(4,345)	584	4,230	(4,345)	469	4,230	(4,345)	354	4,230	(4,345)	239
TOTAL OTHER	2,004	6,382	(6,574)	1,812	5,830	(5,382)	2,261	5,830	(5,382)	2,709	5,830	(5,382)	3,158	5,830	(5,382)	3,606	5,830	(5,382)	4,055