

Committee: Scrutiny Committee

Date:

Title: Budget Update and Consultation Responses
2019-20

Tuesday, 20
November 2018

**Report
Author:** Angela Knight, Assistant Director - Resources
aknight@uttlesford.gov.uk

Summary

1. At its meeting on 31 January 2019, the Scrutiny Committee will be invited to comment on detailed proposals for the 2019/20 budget, ahead of consideration by the Cabinet on 12 February and determination by the Full Council on 21 February.
2. This report provides an overview of the budget setting process, and the documentation that will be coming forward for review, including any funding implications.
3. The Scrutiny Committee's role is to provide an independent review of the budget process and consultation outcomes for consideration by Cabinet. This should ordinarily be an apolitical process; any 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.

Recommendation

5. No recommendations; this report is for information only and for members to note.

Financial Implications

6. None.

Background Papers

7. None

Impact

- 8.

Communication/Consultation	Public consultation carried out with Residents, Businesses and Precptors
----------------------------	--

Community Safety	None
Equalities	None
Health and Safety	None
Human Rights/Legal Implications	None
Sustainability	None
Ward-specific impacts	None
Workforce/Workplace	None

Budget Setting Process and Timetable

9. The 2019/20 budget relates to the financial year that will run from 1 April 2019 to 31 March 2020. The Full Council meeting on 21 February will set the budget, taking into account recommendations from the Cabinet. The Scrutiny Committee will have an opportunity to review the budget proposals at their meeting on 31 January 2019 before the Cabinet determines its recommendations.

10. This report will cover the following key areas:

- Budget timetable
- Budget papers for consideration by Members,
- Finance Update
- Budget Assumptions 2019/20, including a high level forecast of the financial position
- Budget consultation outcomes

11. The following are the key activities carried out in order to set the budget

August/September 2018	Budget consultation with Public and Local Businesses carried out
20 November 2018	Briefing for Scrutiny Committee (this report)
29 November 2018	Financial Outlook and Budget Consultation outcomes presented to the Cabinet taking into consideration any guidance from this Scrutiny meeting
6 December 2018	Provisional Local Government Finance Settlement released by DCLG
January 2019	Confirmation of Local Government Finance Settlement Finalisation of budget proposals. Formal consideration

	of budget proposals by Scrutiny Committee
February 2019	Formal consideration of budget proposals by Cabinet and Full Council
March 2019	Council Tax bills issued
1 April 2019	Financial year commences

Budget papers for consideration by Members

12. Below is a summary of the separate components of the budget papers and the key factors and considerations within each.

13. Robustness of Estimates and Adequacy of Reserves

- 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.

14. Medium Term Financial Strategy (MTFS)

- 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 in the medium term before they arise and ensure that robust plans are in place to address them. This is of particular importance because of expected future changes in Government funding of local government.

Key factors to budget setting:

- Future year's income, expenditure and central funding are estimates based on the latest and most accurate information or predictions.

15. Investment Strategy

- The aim of the Investment Strategy is to identify areas to generate income to underpin the Council's core budget, this is a direct response to the significant reductions in Local Authorities funding.

Key factors to budget setting:

- The Strategy currently restricts investments to within the Uttlesford area; this clearly impacts on the number of potential investments.

16. General Fund Budget and Council Tax

- 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, Business Rates income, government grant(s) and investment income. 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.

Key factors for budget setting:

- To ensure that the budget is consistent with the Medium Term Financial Strategy and the CFO's advice on the level of reserves within the Robustness of Estimates and Adequacy of Reserves report.
- To ensure that the budget supports the Corporate Priorities and the consultation responses have been taken into account.

▪

17. Housing Revenue Account (HRA)

- Income and expenditure budget for council housing only, which by law are kept in a ring-fenced 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.
- The first five years of the loan were on an interest only basis; this was to allow for investment and development of the housing stock. 2019/20 will be the second 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.

Key factors for budget setting:

- Removal of the debt cap and effective use of reserves and right to buy receipts
- Maintaining the 30 year business plan and the continued development of the housing stock

18. Capital Strategy

- This is a new report for 2019/20, giving a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

19. Capital Programme

- 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.

Key factors of budget setting

- The capital programme is in line with the corporate priorities and the service delivery requirements.
- Identifying the most cost effective funding of the capital programme, whether internal borrowing, revenue contributions, grant funding or external borrowing.

20. Treasury Management Strategy

- Significant cash flows in and out of the council's bank accounts, including monies collected for other organisations. Inevitably, the council holds large cash balances throughout the 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 Council is required to approve a Treasury Management strategy that ensures appropriate risk management including a safe approach to investing surplus funds and borrowing to cover in year shortfalls.
- 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 independent consultants, Arlingclose Ltd.

Key factors of budget setting

- To ensure security of funds, sufficient liquidity to enable commitments to be met, and capacity to earn income on the balances held and minimise interest on balances borrowed.

21. 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

22. Adrian Webb, Director of Finance and Corporate Services (S151 Officer) shall be pleased to meet with Members individually or in groups to discuss any aspect of the Council’s finances.

The current Financial Picture

23. The Government is currently carrying out a full review of the way Local Authority (LA) funding is allocated ready for the 2020/21 financial year. There are four main areas of change that could have significant impact on the amount of money the Council receives from Government.

- **The Fair Funding Review** will affect how funding is allocated and redistributed between local authorities from 2020 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.
- The review will inform the setting of new baseline funding allocations through the **Business Rates Retention (BRR) scheme** and this coincides with the increase of income retention from 50% to 75%. This is intended to encourage councils to try to increase their business rate revenues instead of being dependent on the Government for grants.

- The Government has announced that 2019/20 will be the last year of **New Homes Bonus (NHB)**. Consultation on any replacement scheme will be conducted during 2019.
 - The **Rural Services Delivery Grant** is ceasing to be paid as a separate income stream from 2020/21 and will be included in the BRR scheme. Previous experience of this happening has often seen the amount included in the new scheme being lower than that previously paid.
- 24.** The 2016/17 settlement gave councils the opportunity to enter into a four year funding agreement, which provided greater certainty on future funding by giving settlement figures up to and including the financial year 2019/20. It was proposed that unless there are any exceptional circumstances these funding commitments would not be altered.
- 25.** Uttlesford took this opportunity along with 97% of other councils to sign up for the four year agreement and it included Revenue Support Grant, Rural Services Delivery Grant and the Business Rates baseline and top up/tariffs. It is likely that a new offer of a four year funding agreement will be offered as part of the 2020/21 settlement.

Business Rates Income

- 26.** The Business Rates Retention Scheme is currently administered on 50% being retained within the local area, split between UDC (40%), Essex County Council (9%) and Essex Fire Authority (1%).
- 27.** In addition the current scheme allows for Local Authorities to retain 50% of all growth within the district. The growth is calculated as total income collected above our baseline need and we are then required to pay a levy charge to Government on the growth at 50%.
- 28.** Uttlesford are currently a member of the Essex Business Rates Pool, members of a pool combine their funding under the business rate scheme, effectively adding their numbers together for all elements of the funding calculation, such as the tariff and top-ups. The benefit to be gained is that collectively, it produces a lower percentage levy charge and this allows us to benefit further from the growth income.
- 29.** Central government announced that they were inviting further applications for authorities to become pilot areas for increased Business rates retention, for 2019/20 the retention of income has been reduced from 100% to 75%. The preferred criteria remains consistent with last years and applications should include;
- Two tier Areas
 - Functional Economic Areas
 - Promote Financial Stability
 - Evidence of how the growth will be reinvested

30. An Essex wide (all Essex Authorities, plus County and Fire but excluding Thurrock) application was unsuccessful in 2018/19; the pilot group have submitted a new application for 2019/20
31. If the Essex wide bid is successful this would enable 75% of growth income to be retained within Essex.
32. If the bid is unsuccessful the authorities participating in the pilot bid will continue with the pool, which still allows for an increased benefit in our levy payment albeit at a lower value.
33. The announcements of which areas have been successful in becoming a pilot are expected to be announced as part of the provisional settlement on 6th December.

New Homes Bonus

34. In 2017/18 government amended the New Homes Bonus scheme, by introducing a 'deadweight factor' of 0.4% (this is deemed as natural growth) and a change of scheme from 6 years to 4 years, with 2017/18 being a transitional year of a 5 year scheme. There were no further changes in 2018/19.
35. Consultation is being carried out for 2019/20 funding allocations. The consultation contains a specific question relating to an increase in the deadweight factor, this has the potential to adversely affect the level of grant we receive. We currently have no indication on the level of increase being considered for the dead weight factor or whether there will be any further revisions to the overall allocation of the grant.

Budget assumptions – 2019/20

36. Detailed in the table below is an extract of the latest MTFS, which provides a summary of the 5 year position based on the latest information available. The MTFS will be updated following the Finance settlement due to be announced on the 6 December.
37. The Council's current budget is supported by a mix of internal and external income/funding streams and this will continue in 2019/20. The current funding streams the council receives are:
 - Business Rates Income
 - New Homes Bonus
 - Council Tax
 - Rural Services Delivery Grant
 - Service Generated Income through our schedule of 'fees and charges'
 - Investment Income

38. The budgets for 2019/20 have been based on the following assumptions and are subject to amendment following the Finance Settlement announcement in early December.

- Council Tax increase – 2.99%, (Government have given LA's the option to increase up to 2.99% or £5, to increase by £5 would generate approx. £21,000 additional revenue)
- Income and expenditure has been inflated using September 18 inflation indices and salaries have been increased in line with incremental increases and the cost of living pay award
- Business Rates Retained Income – consistent with previous years collection/retention and will be updated should we be successful in becoming a Pilot area
- New Homes Bonus (NHB)
 - i. assumes dead weight factor will rise to 0.8%, (each increase/decrease of 0.1% in the deadweight factor equates to approx. £55,000 loss/gain of funding to the council)
 - ii. NHB has been based on a 4 year scheme

39. The MTFs presented for 2018/19 budget setting included a forecast saving requirement of £150,000 for both 2019/20 and 2020/21, over the year a programme of work has been actioned to support these saving targets. Corporate Management Team have been working closely with service managers and this is reflected in the budget monitoring reports which now incorporates a specific reporting item on savings achieved both on off and ongoing.

40. Budgets are currently being collated for 2019/20, this includes the evaluation of growth bids and saving options, the outcome of these will be reported in the final budgets presented to members in January 2019.

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£ '000	£ '000	£ '000	£ '000	£ '000	£ '000
Gross Service Expenditure	37,573	37,053	36,357	35,409	33,285	29,692
Gross Service Income	(24,591)	(24,119)	(23,434)	(22,059)	(19,518)	(15,401)
Demand Growth		50	100	150	200	350
Service Expenditure	12,982	12,984	13,023	13,500	13,967	14,641
Capital Financing Costs	3,572	1,786	1,827	1,885	1,874	1,155
Pension Fund	85	85	535	535	535	535
Recharge to HRA/Corporate Core	(2,073)	(2,207)	(2,214)	(2,295)	(2,374)	(2,489)
Investment Income	(2,100)	(2,000)	(2,100)	(2,200)	(2,300)	(2,300)
Investment Cost	456	616	897	1,243	1,525	1,525
Corporate Costs	(60)	(1,720)	(1,055)	(832)	(740)	(1,574)
Total Net Expenditure	12,921	11,263	11,969	12,669	13,227	13,067
Business Rates Retention	(2,576)	(2,200)	(2,400)	(2,400)	(2,400)	(2,400)
Business Rates prior year Balance	534					
New Homes Bonus	(2,864)	(2,837)	(2,889)	(2,842)	(2,608)	(2,278)
Rural Services Grant	(225)	(225)				
Council Tax prior year Balance	(14)					
Funding	(5,145)	(5,262)	(5,289)	(5,242)	(5,008)	(4,678)
Total Net Operating Costs	7,776	6,001	6,680	7,426	8,219	8,388
Movement in Reserves	(1,995)	(475)	(250)	(100)	(100)	(200)
MTFS Reserve	(450)	450				
Council Tax Requirement	5,331	5,976	6,430	7,326	8,119	8,188
Council Tax Income	(5,331)	(5,597)	(5,827)	(6,071)	(6,309)	(6,531)
(Surplus) / Deficit		380	603	1,255	1,810	1,657

Budget Consultation 2019/20

41. The council carried out two consultations, one for Residents and one for Local Businesses on their views for the budget priorities for the 2019/20 financial year.
42. The full budget consultation reports are attached as follows:
- Residents – Appendix A
 - Local Business – Appendix B
43. A multi directional approach was taken using the following methods:
- Paper questionnaire in Uttlesford Life
 - Online via the Council website
 - Telephone Survey
 - A survey was included in the summer Citizens Panel questionnaire
 - A link to the online survey was sent to all Businesses registered on the Uttlesford Business Directory
 - A dedicated survey was sent to the Key Preceptors, Town and Parish Councils with an extended deadline to allow time to present the survey at their committees

44. A total of 2,448 responses were received from Residents and Businesses on Budget Priorities. The table below shows how this compares to responses received in 2017.

	2018	2017
Residents	2,422	1,779
Businesses	26	21

45. The responses showed a similar trend to the previous year's priorities with the focus on Emptying bins and keeping our district clean and tidy. Working with the Police and keeping Uttlesford safe has gone up in residents' priorities and is now ranked as the second highest priority and this has also received a high number of literal comments.

46. The table below details the priorities in order of importance with comparative data for 2017.

	Residents		Businesses	
Priority	2018	2017	2018	2017
Highest	Emptying bins/running recycling service	Emptying your bins and running the recycling service	Planning district development, new housing and business locations	Emptying your bins and running the recycling service
Second	Working with the Police and other organisations to keep Uttlesford safe	Sweeping the streets, Litter picking, fly tipping and dog bins	Emptying bins/running recycling service	Emptying bins for some businesses (paid for service)
Third	Sweeping the streets, Litter picking, fly tipping and dog bins	Planning district development, new housing and business locations	Planning applications built to approved plans and follow building regs.	3 priorities received equal ranking. 1. Planning district development, new housing and business locations 2. Sweeping the streets, Litter picking, fly tipping and dog bins 3. Planning applications built to

				approved plans and follow building regs.
Lowest	Stray animals, microchipping pets and animal related complaints	Giving advice on work to listed buildings and work to protected trees	Exploring external commercial opportunities	Giving advice on work to listed buildings and work to protected trees

47. In addition to the Resident and Local Businesses, we also received 4 responses from Key Preceptors, this included Town and Parish Councils, their priorities are listed below in order of highest to lowest:

- I. Providing Council houses and sheltered housing for the elderly
- II. Emptying bins and recycling service
- III. Educating young people on the dangers of drugs and alcohol
- IV. Stray animals, microchipping pets and animal related complaints was the lowest priority

Council Tax 2019/20

48. Residents were also asked whether the Uttlesford element of the council tax should be increased and the outcomes of these responses are detailed below and again a comparison to last year's responses has been included.

UDC Council Tax	2018	2017*
Increase	21.65%	N/A
Keep the same	62.42%	59.66%
Decrease	15.93%	N/A

**in 2017 this question was presented differently, 'Thinking about how you answered the previous questions (budget priorities), for next year (April 2018 to March 2019), do you think Uttlesford District Council should keep the Council Tax the same (consultees were then invited to select one option only)'*

49. The responses from the key preceptors, 3 said that the Uttlesford element of Council tax should be increased and 1 to keep it the same.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
None – this is a report for members to note			

- 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.