



South
Cambridgeshire
District Council

REPORT TO: Cabinet
LEAD OFFICER: Head of Finance

7 November 2018

General Fund Medium Term Financial Strategy (MTFS) 2019/20

Purpose

1. To provide Cabinet with an update in respect of the financial position and forecasts for the General Fund (GF), allowing review of financial assumptions, approval of any bids and savings and agreement of the budgets strategies for 2019/20 and beyond.
2. This is a key decision because it results in the authority incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budgets, and it was first published in the July 2018 Forward Plan.

Recommendations

3. Cabinet is recommended to:
 - a) Consider and note the General Fund forecast as set out in **Appendix A** to this report, and:
 - Note the assumptions underpinning the forecast;
 - Note the indicative revenue pressures and their impact on savings requirements as set out at **Appendix C**;
 - Note the amendments to the indicative capital programme and their impact on savings requirements as set out at **Appendix D**;
 - Instruct the Head of Finance to bring forward detailed draft estimates for 2018/19 based on assumptions and issues contained in this report for consideration by the Cabinet in the new year; and
 - Instruct the Executive Management Team (EMT) to identify and develop other options for meeting the additional income / savings requirement.
 - b) Consider and endorse the amendment to the Ermine Street Housing Business Plan attached at confidential **Appendix B**, and as a direct result:
 - **recommend to Council** bringing forward lending of £13 million to Ermine Street Housing into 2018/19 by re-phasing the Capital Programme, and bringing forward budget from future years to enable the Company to continue the business expansion as agreed by Cabinet and Council in November 2015.
 - c) Approve delegation of the use of the Business Efficiency Reserve to the Chief Executive

Reasons for Recommendations

4. The General Fund forecast review is presented for consideration and review of the internal and external factors which affect the financial position of the Council.

Capital Programme Re-phasing (Ermine Street Housing)

5. Ermine Street Housing are seeking a re-phasing of the lending approval to them, as supported by the Business Plan Amendment attached at Confidential Appendix B.
6. As background, the Council approved a business plan for Ermine Street Housing in November 2015, which would see the Council lend the Company up to £100 million to acquire a portfolio of 500 properties over a 5 year period. Initially it was assumed that the acquisition profile would be relatively evenly spread across the 5 years.
7. In the earlier years of business expansion, the Company was not able to acquire as many as 100 homes per annum, and as a result the revised business plan approved by the Board and Council in early 2018 slowed down the pace of acquisition to ensure that the income expectation of the Council was not over-stated.
8. During 2018 the Company has significantly increased the pace of acquisition by extending areas, partnering with investment agents, and considering large scale acquisition opportunities.
9. This has proven hugely successful, with 78 acquisitions in 2018/19 to date, which include a number of multi-dwelling purchases. This is beneficial to the Council as the investment income will be received at an earlier stage than anticipated.
10. There are some good acquisition opportunities being presented currently, and the Company has made offers on a number of these, pending this decision by the Council.
11. There is a view in the sector that the opportunities in the market currently are as a result of uncertainty surrounding Brexit, and that these may not be available by this time next year once the Brexit deal has been finalised. At the same time regulatory changes have imposed further burdens on buy-to-let landlords with more impositions in the pipeline. These factors are causing some landlords to exit the market; as the Company is seeking to achieve a target of 500 homes, it is considered beneficial to both the Company and the Council to progress with these opportunities now.
 - (a) Hometrack reported in August 2018 that the impact on the UK economy of a hard or 'no deal' Brexit, and the knock-on impact for the housing market, has been a much debated topic. However, despite the uncertainty around Brexit compounding the market slowdown in high value areas such as Cambridge, Oxford and London, overall the UK city house price inflation is running at 3.9%, up on the 3.6% a year ago. There has been an increase in the quarterly and annual rate of growth in recent months. This is primarily as a result of an acceleration in house price growth in the most affordable cities such as Nottingham and Leicester. As a result, opportunities for investment arise in those areas and it is difficult to predict if those opportunities will still be available in the short term if a 'no deal' Brexit is on the cards next year.
[Source: Hometrack Insight Series-UK Cities House Price Index, August-July 2018].

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- (b) ARLA have noted that a significant number of individual landlords and investors continued to quit the buy to let market, thanks to the higher stamp duty costs and the phasing out of mortgage tax relief and increased regulation. Estate agents have reported an increase in landlords selling properties across their branches.

[Source: The Association of Residential Letting Agents - ARLA PropertyMark December 2017]

12. The accelerated business activity would result in the Council receiving investment income more quickly than planned, allowing resource to be re-invested in other Council services.
13. The impact of these changes from the Council's perspective will only be a change in the timing of the lending. The Council has already agreed to lend Ermine Street Housing up to £100 million. This acceleration of acquisitions will not mean that the total lending sum is breached but will mean that the funds will simply be required over a shorter timeframe, with the Council receiving increased investment income more quickly. This would provide an estimated £120,000 per annum to the Council in terms of interest receipts earlier than anticipated.

Executive Summary

14. The review of the General Fund forecast provides an opportunity to consider any changes in the financial context for the Council. This includes a review of external factors affecting the business, such as inflation and interest rates, provide the opportunity to update assumptions in respect of the day to operation of council services, and allow recognition of the anticipated impact of any major changes in national policy as legislation is passed and information surrounding any anticipated regulations begins to emerge.
15. The forecast provides an indication of a number of unavoidable revenue pressures and capital programme amendments (set out at Appendix C and Appendix D respectively) which are expected to come forward into budgets for 2019/20 and notes their impact on requirements for savings and/or increased income. Additionally, it identifies a number of earmarked reserves that are available to fund pressures such as the costs of delivering transformational change.
16. The report also provides an opportunity to consider key strategic risks, and to present the impact of a number of sensitivities to which the housing business plan is subject.
17. A similar report setting out the forecasts for the Council's Housing Revenue Account detailing the impacts for the Council's landlord function can be found elsewhere on this agenda.

Background

18. The attached forecast updates that contained within the General Fund Budget Setting Report approved by Council in February 2018.

Considerations

19. Consideration needs to be given to the fluid nature of some of the assumptions that are required to be incorporated into the financial forecasting the General Fund, particularly in relation to the impact of some of the changes in national policy, where

the absence of detailed regulations has resulted in the need to make best estimate of the impact at a local level, until this is available.

20. Assumptions will need to be continually reviewed and amended as information is made available and any changes in the economic environment become apparent.
21. The forecast largely continues with the same assumptions agreed through the budget setting report in February 2018. Specifically that Council Tax will be increased in each year of the plan by £5. It has also been assumed that the Government's current "fair funding review" will be implemented with effect from April 2020. It has been assumed that, through a baseline reset, the Council would lose significant resources in its share of retained business rates from that point forward. The forecast assumes that New Homes Bonus (NHB) will continue to be available to support the General Fund in each year of the plan. While this is an area subject to review by the Government, there are sufficient resources in uncommitted earmarked reserves to manage a cut in NHB although this would limit the capacity of the Council to meet infrastructure plans potentially in the future.
22. The Government has given strong indications that the negative tariff adjustment originally planned for 2018/19 and 2019/20 will not be implemented. For the Council this represents a confirmed saving of £191,000 in the current financial year and a prospective £667,000 in 2019/20 over the strategy approved in February 2018. The current forecast assumes that the 2019/20 impact will also not be implemented.
23. The impact of these assumptions together with the assumed variations to the budget (set out at Appendix C and D) are presented at Appendix A. This indicates a shortfall of resources to expenditure plans over the six year plan of close to £11.3m. The Council will need formulate a plan to bridge this gap through the identification of additional savings, income and, or use of reserves. Coincidentally the Council currently holds just over £11.3m in unallocated general reserves although the current approved strategy has determined that the Council should hold at least £2.5m in unallocated reserve.
24. As at 31 March 2019 it is projected that there will be £110k in the Business Efficiency Reserve. This reserve has been set up to meet costs associated with the implementation of the Business Improvement and Efficiency Programme. To allow for the most flexible use of this reserve it is recommended that delegation be given to the Chief Executive to draw down against this reserve to fund approved business plans.

Implications

25. In the writing of this report, taking into account financial, legal, staffing, risk management, equality and diversity, climate change, community safety and any other key issues, the following implications have been considered: -

Financial

26. The financial implications for the General Fund are included in the body and appendices of this report.

Legal

27. There are no direct legal implications associated with this report. Officers will be required to seek legal advice in relation to a number of the national changes in housing policy as the regulations are released by Central Government.

Staffing

28. There are no direct staffing implications associated with the decisions requested in this report.

Equality and Diversity

29. There are no direct equality and diversity implications associated with this report. Future reports, which consider reductions in expenditure and therefore potential service provision, will need to be accompanied by an Equalities Impact Assessment.

Climate Change

30. There is no direct climate change impact associated with this report.

Consultation responses (including from the Youth Council)

31. This report has been designed to complement the report elsewhere on the agenda setting out the Council's draft Business Plan priorities for consultation. That consultation plan will include aspects of the financial parameters set out in this report to allow consultees to respond on the Council's draft financial plans in addition to the priorities identified.

Effect on Strategic Aims

32. The report addresses the financial context in which the Council operates and therefore provides critical support to all its strategic aims.

Appendices

- Appendix A – General Fund Medium Term Financial Strategy forecast
- Appendix B – Ermine Street Housing Business Plan Update
- Appendix C – General Fund Revenue Bids and Savings
- Appendix D – General Fund Capital Bids and Savings

Background Papers

Where [the Local Authorities \(Executive Arrangements\) \(Meetings and Access to Information\) \(England\) Regulations 2012](#) require documents to be open to inspection by members of the public, they must be available for inspection: -

- (a) at all reasonable hours at the offices of South Cambridgeshire District Council;
- (b) on the Council's website; and
- (c) in the case of documents to be available for inspection pursuant to regulation 15, on payment of a reasonable fee required by the Council by the person seeking to inspect the documents at the offices of South Cambridgeshire District Council.

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