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| Council name | COTSWOLD DISTRICT COUNCIL |
| Name and date of Committee | CABINET – 10TH FEBRUARY 2020 |
| Report Number | AGENDA ITEM (7) |
| Subject | MEDIUM TERM FINANCIAL STRATEGY AND BUDGET 2020/21 |
| Wards affected | All |
| Accountable member | Cllr Mike Every, Deputy Leader and Cabinet Member for Finance Email: Mike.Every@cotswold.gov.uk |
| Accountable officer | Jenny Poole, Chief Finance Officer Tel: 01285 623313 Email: Jenny.Poole@cotswold.gov.uk |
| Summary/Purpose | This report provides an update on the budget proposals for 2020/21 and the associated Medium Term Financial Strategy. |
| Annexes | Annex A1 - A5 - Draft MTFS 2020/21 to 2029/30 and Risk Assessment Annex B - Detailed Budget 2020/21 Annex C - Budget Consultation Responses Annex D - Pay Policy Statement Annex E - Capital Strategy Annex F - Investment Strategy Annex G - Treasury Management Strategy |
| Recommendation/s | <i>That Cabinet considers:</i> <i>(i) the Budget proposals 2020/21,</i> <i>(ii) the Medium Term Financial Strategy,</i> <i>(iii) the Pay Policy Statement,</i> <i>(iv) the Capital Strategy</i> <i>(v) the Investment Strategy</i> <i>(vi) the Treasury Management Strategy; and</i> <i>And subject to any amendments it wishes to make, recommends the above set of documents to Council.</i> |
| Council Priorities | The budget for 2020/21 supports the new Council Strategy, as approved by Council in September 2019. |

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| Key Decision | No, as the ultimate decision rests with the Council. |
| Exempt | No |
| Consultation | The Medium Term Financial Strategy and draft Budget for 2020/21 has been developed in consultation with the Council's statutory officers, Publica management, Ubico management, and members of the Cabinet. Consultation has been carried out with members of the Overview and Scrutiny Committee, Audit Committee and with the District's residents, businesses and community organisations. |

1. BACKGROUND

- 1.1. Cabinet approved its draft Medium Term Financial Strategy (MTFS) for the period 2020/21 to 2029/30 and the associated budget proposals for 2020/21 for consultation on 2nd December 2019. The Overview and Scrutiny Committee considered the proposed MTFS and 2020/21 budget on 3rd December 2019. The budget and MTFS have now been updated to reflect the following:
 - A. The government's announcement of the provisional local government settlement 2020/21;
 - B. Estimates of the income from the Business Rates Retention Scheme 2020/21;
 - C. Estimated collection fund deficit from council tax collection 2019/20;
 - D. Provision for budget changes which have arisen since 2nd December 2019;
 - E. Implications of the opportunity to make pension fund deficit contributions to the Local Government Pension Fund early in 2020/21 rather than at monthly intervals over the course of the next three financial years.
- 1.2. The updated MTFS, attached as Annex A, reflects all of the above changes.
- 1.3. Changes to the report considered by the Overview and Scrutiny Committee on 3rd December 2019 are highlighted in yellow below. The Committee was asked to consider the updated MTFS and detailed budget proposals for 2020/21 on 4th February and to provide feedback to Cabinet and Council as part of the budget setting process. Feedback from the Overview and Scrutiny Committee will be presented to Cabinet at the meeting on 10th February.

2. MAIN POINTS

National Funding Position

- 2.1. The previous MTFS outlined the following changes to the way local government is funded:
 - A. the Government will have completed a new Spending Review to establish its spending priorities post 2020;
 - B. the Government will implement the outcome of the Local Government Fairer Funding Review, which will establish how the funding for local government (from the Spending Review) will be allocated to individual local authorities;
 - C. the new 75% Business Rates Retention system will come into effect; and
 - D. the Business Rate baseline will be reset and there is the potential for the Council to lose its share of the financial benefit from growth in business rates in the District since 2013.
- 2.2. These changes were due to come into effect from April 2020.
- 2.3. On 4th September, the Chancellor of the Exchequer announced the outcome of the Spending Review 2019. The key announcements for district councils included:
 - A. Funding (known as the funding baseline) would be increased in line with inflation;
 - B. Councils impacted by "negative Revenue Support Grant", which includes this Council, would continue to be protected from this funding cut;

- C. New Homes Bonus funding will continue for 2020/21 but the grant will be for one-year only, as opposed to the previous grants which were awarded for four years;
- D. The proposed changes to local government funding set out at 2.1 were delayed for a year to April 2021.

2.4. The Secretary of State for Communities and Local Government announced the provisional local government settlement for 2020/21 in December 2019. The announcement reflected the Spending Review 2019 commitments as set out at 2.3. The level of New Homes Bonus awarded to this Council was £95,448 higher than anticipated in the draft 2020/21 budget at £3,169,266 rather than £3,073,818. The increase reflecting delivery of affordable homes which each attract £350 of New Homes Bonus.

New Council

- 2.5. Following the elections in May 2019, the new Administration has set out a new set of Council Priorities.
- 2.6. At the Council meeting on 25th September 2019, Councillors approved the following motion relating to the Council finances which was proposed by the Deputy Leader and Cabinet Member for Finance:

“This Council notes:

- *that its Revenue Budget Medium Term Financial Strategy endorsed in February 2019 by the previous administration contained £1m in unidentified savings for 2020/21 and also required the Council to use £900k from its General Fund Balance;*
- *that its revenue budget is highly dependent upon the scheme for retention of business rates and New Homes Bonus;*
- *That the New Homes Bonus can vary greatly or even be withdrawn by HM Government in each year’s funding announcement;*
- *That the value of the retained business rates is highly likely to significantly reduce when the scheme is reset; and*
- *that the share of its revenue from the Council Tax paid by its residents is just 8% compared with the average for Gloucestershire districts of 10% and the national district council average of 11%.*

This Council is committed to building its financial stability and resilience and recognises that this requires the Council to grow its income as well as manage its costs. It is also committed to providing a range and levels of services that the District’s residents, businesses and community organisations expect and deserve.

This Council believes that it can grow income and meet its policy goals through making better use of its capital and revenue reserves as well as by prudent financial management.

This Council therefore instructs the Deputy Leader and Cabinet Member for Finance to work with Officers to present a proposed budget for 2020/21 which:

- *strengthens the Council’s financial stability and resilience*

- *identifies opportunities to increase revenues and/or reduce costs to close the £2million budget gap*
- *explores opportunities to use its investments and access to low cost finance and grant funding to meet its policy goals.*”

2.7. These budget proposals are responding to the approved motion.

2.8. The MTFS and budget proposals for 2020/21 have been updated to include financial implications of the Council’s new priorities. In particular, annual funding has been made available for the following:

- A. An officer to develop and lead for the delivery of an action plan to address the Council’s Climate Change Emergency declaration - £70,000 per annum;
- B. Provision for enhancement of strategic financial support to the Council £50,000;
- C. £85,000 to enable a new scheme to be implemented which will enable community organisations to submit bids for grants which will be assessed corporately against the Council’s priorities, with allocations being determined accordingly, this will replace the current Community Activity Support Grant scheme;
- D. Provision has been made available to enhance transparency of the Council’s political processes by enabling webcasting of Council, Cabinet and Committee meetings, as supported by Council in the motion “Democratic Renewal” passed on 3rd July 2019, the annual revenue cost is estimated at £20,000;
- E. Moving to a genuinely renewable energy supply for gas and electricity to the Council, as requested by Council in the “Climate Emergency” motion passed on 3rd July 2019, is estimated to require additional funding of £6,100 per annum;
- F. The Council is also working with other authorities in Gloucestershire and Severn Wye Energy on a business energy efficiency programme to help small and medium-sized businesses identify and reduce their energy costs and impact on the environment through the installation of energy efficiency measures, the budget proposes contributing £3,000 per annum to this programme.

2.9. One-off funding from earmarked reserves is also being made available to support the new Administration’s priorities as follows:

- A. Funding for climate change studies £105,000, as agreed by the Council on 25th September 2019;
- B. A review of the local plan. An allocation of £850,000, to be spent over the next 3 to 4 years, has been earmarked within the Council Priorities Fund for this review. Although the Local Plan was adopted in 2018, the following drivers require a review to be carried out over the course of the next 3-4 years:
 - a. The Local Plan applies from 2011, but was not adopted until 2018, this is out of sync with neighbouring authorities and makes the duty to co-operate difficult;
 - b. The National Planning Policy Framework was updated weeks after the Local Plan was adopted;

- c. The current plan runs up to 2031 but requires a 15 year planning horizon - therefore the Plan timeframe needs to be extended;
 - d. Ministry of Housing, Communities and Local Government housing targets have increased, leading to a risk around housing supply numbers and, therefore, the potential for speculative planning applications; and
 - e. To reflect the climate change emergency in Local Plan policy.
- C. Development of a Health, Wellbeing and Leisure Strategy - £50,000;
 - D. Resources to support fundraising for the Corinium Museum – £20,000. On 25th September, Council passed a resolution to increase funding for works which are currently taking place to improve the Museum. As the owner of the Museum, the Council retains the residual liability for any overspend on the project. This resource will enable the Council to mitigate against this risk and any further requests for funding for the Museum project;
 - E. Resources to support the development and implementation of a Commercialisation Strategy, including enhanced support for economic development activity. This will enable the Council to increase its income base, to replace central government funding and invest in its priorities, particularly actions to tackle climate change and the delivery of social rented housing - £350,000;
 - F. Funding of £50,000 for property option appraisals as agreed by Cabinet on 4th November 2019;
 - G. Funding to increase car parking provision in Cirencester of £60,000 for each of the next three years, as agreed by Cabinet on 2nd September 2019;
 - H. Provision of £5,000 for the implications of the new discretionary elements of the Disabled Facilities Grant Policy which are revenue in nature, e.g. relocation costs in circumstances where it is more beneficial for the person to move to alternative accommodation.

Budget Pressures

- 2.10. The MTFS assumes a provision for pay award (retained Officers and Public Officers) of 2.5% per annum with effect from 2020/21. The Council is facing the following budget pressures in 2020/21:
 - A. The revised waste service will increase costs by £677,000. In addition, provision for inflationary increases on the Ubico contract has increased over the life of the MTFS to reflect both contract inflation on the increased contract sum and the fact that cost pressures will increase as the Ubico vehicle fleet ages over the life of the MTFS.
 - B. The Council has been debt-free since the transfer of its housing stock in 1994 to Fosseyway Housing Association (now Bromford). In the past, the Council's capital investment programme has been funded from the capital receipts which were largely generated by the transfer of the housing stock. These capital receipts are no longer sufficient to fund the Council Capital Programme and the Council will need to borrow to fund some of the future capital programme. The Council needs to make a revenue provision for the repayment of debt, known as Minimum Revenue Provision (MRP). It was inevitable that the Council would need to re-introduce MRP into the revenue budget to provide for the financing costs of assets on a cyclical basis - for

example replacement waste and recycling vehicles and investment in its operational property assets. The current MTFS included provision for MRP, this has been updated to include the impact of the revised Capital Programme;

- C. The Council decision to increase Members allowances on 12th May 2019 will cost £47,005 per annum;
- D. The Council makes an annual provision for the cost of district and town/parish council elections. These elections take place every four years and the Council makes an annual contribution to reserves so that funding is available. The annual provision needs to increase by £10,000 to reflect increased postage costs, an increasing number of postal votes along with some inflationary pressures.
- E. The Council has recently renewed its insurance policies and additional insurance cover for cyber risks has been included at a cost of £14,500. The financial impact of claims history and inflationary pressure has further increased costs by £9,000.
- F. The number of planning applications received has reduced resulting in a reduction to planning income. While the service will review its pre-application advice service and the associated charges, the impact upon income is forecast to be a reduction of £200,000 per annum. This will be partially mitigated by an increase in income from pre-application advice estimated at £100,000.
- G. Food waste incentive scheme Income from Gloucestershire County Council is expected to reduce by £45,000. This has been carried over from the previous MTFS.
- H. The budget for treasury management investment income has been reviewed as the capital strategy, treasury management strategy, investment strategy have been updated to reflect the proposals set out in this report.

2.11. Cabinet proposed its draft budget in December 2019. Since then the following items have been considered which have budgetary impacts as set out below:

- A. Gloucestershire County Council has offered this Council the opportunity to make a lump sum payment, to be made early in 2020/21, into the Gloucestershire Local Government Pension Scheme. The lump sum would be equal to this Council's total three-year contribution towards its pension fund deficit, £4.9 million. In the past, the deficit contribution has been set for each of the next three financial years and paid monthly to the County Council. In return for the lump sum payment, the value of the annual deficit contribution has been reduced from £1,715,000 to £1,634,000 for each year. The Council's current budget for the deficit contribution is £1,858,000 per annum. By making the lump sum contribution there will be an annual budget saving of £224,000. This will be offset by a reduction in investment income estimated to be £40,000 in 2020/21, £24,000 in 2021/22 and £8,000 in 2022/23.
- B. Council, on 27th November 2019, approved a business case for investment in technology for the Council's waste and recycling service vehicle fleet. This technology will support drivers to accurately follow their collection route and reduce the risk of missed bin collections. Council approved funding of £142,000 from earmarked revenue reserves, an increase of

£26,000 to the revenue budget for support of the new computer system and savings of £42,000 from the Council's contract with Ubico for delivery of the waste and recycling service. The saving expected from the Ubico contract will support delivery of the £490,000 saving target for 2020/21.

- C. A review of the Council's communication service has been carried out and investment of £30,000 has been identified to support one-off communication projects such as: car parking investment, Council Strategy, prevention of fly-tipping, and research. In addition, investment of £5,000 per annum is required to provide resources to enable the communications team to utilise modern communication tools.
- D. Council on 22 January 2020 approved a Motion which agreed to provide funding of £13,000 to enable a feasibility study to be carried out on a light railway linking Kemble Station to Cirencester. This contribution would be funded from revenue reserves.
- E. Ubico has provided a business case for investment of £52,000 in roller-brake testing equipment at the Packers Leaze Depot site. If approved, the investment which will have both financial and carbon benefits as vehicles can be tested at the depot rather than travelling to a testing station. This investment would be funded from savings on the Ubico contract sum delivered in 2019/20 but is included in the 2020/21 Capital Programme and funded from earmarked reserves in 2020/21.
- F. Each year the Council is required to value its property assets in line with International Financial Reporting Standards. The external auditor focuses extensively on this aspect of the Council's Statement of Accounts. The property services team has been struggling to effectively resource this work each year. In recent years, one-off funding from revenue reserves has been provided in order for the Council to fulfil this requirement. It is evident that additional resource is now required for this annual task. Additional budget of £10,000 per annum has therefore been included with effect from 2020/21.

Retained Business Rates

- 2.12. A key element of funding from central government comes from retained business rates. The MTFs assumes the Council will be compensated (through section 31 grant) for any negative impact upon business rates which relate to any nationally announced discounts or reliefs to businesses (such as those previously announced in the Chancellor's Autumn Statements and Budgets).
- 2.13. As set out in 2.1, the retained business rates scheme was due to be changed from April 2020. This has now been deferred for a year. The MTFs has been updated to reflect forecast income from the revised scheme using advice from Pixel Financial Management who are providing expert advice to support local authorities and national bodies such as Sparse and the Local Government Association.

The Gloucestershire Business Rates Pool

- 2.14. The Gloucestershire Business Rates Pool was set up in 2013/14 to maximise the business rate income retained within the County and to support economic growth within the area of the Local Enterprise Partnership. Since 2013/14 the Pool has delivered the following surpluses/(losses):

| | 2013/14 £ | 2014/15 £ | 2015/16 £ | 2016/17 £ | 2017/18 £ | 2018/19 £ |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Pool Surplus/(Loss) | 774,862 | (2,336,565) | 877,948 | 2,138,143 | 3,992,000 | 14,270,000 |
| Cotswold DC Share Surplus/(Loss) | 25,156 | (228,988) | 114,854 | 275,600 | 482,179 | 497,975 |

- 2.15. For 2018/19, the Council was part of the Gloucestershire 100% business rates retention pool pilot, which included all of the Gloucestershire local authorities and aimed to maximise the retention of business in Gloucestershire. In return for the gain of retaining all of the growth above baseline funding within Gloucestershire, some of the central government grants such as Rural Services Delivery Grant and Revenue Support Grant were directly funded from the Business Rates Retention Scheme.
- 2.16. The results of the 100% pool pilot were very successful with county-wide gain being in excess of £14 million. Of this gain, 20% was set aside for strategic economic development, 50% was allocated to the County Council to reflect the higher risk to the County Council of being part of the pool and the remaining 30% was shared across the District Councils according to growth at a District Level and an equal share of the pool proportion gain so that each District gained from being part of the pool.
- 2.17. For 2019/20, the Council remains part of the Gloucestershire pool but the pool is no longer a 100% pilot, and is now based upon the original 50/50 pool. The windfall gain, i.e. not built into the Council's base budget for 2019/20, is forecast to be in the region of £350,000. The windfall gain will be allocated to the Council Priorities Fund.
- 2.18. **The Gloucestershire Business Rates Pool will continue in 2020/21.** The MTFS assumes that any windfall gain associated with the Business Rates Pool in 2020/21 will be allocated to the Council Priorities Fund.
- 2.19. **The budget for 2020/21 includes the following key data form the business rates estimate for 2020/21:**

| | 2020/21 £ |
|---|------------------|
| Estimate of business rate income to the District (including £69,127 from solar farms) | 13,305,240 |
| Tariff to government | (11,485,278) |
| Section 31 Grants – reflecting impact of central government decisions on local government financing | 2,458,720 |
| Estimated Levy Payable to Government | (1,037,162) |
| Net Retained Business Rates 2020/21 | 3,241,520 |

| | |
|--|------------------|
| Collection Fund Surplus/(Deficit) forecast to end 2019/20* | (91,847) |
| Net Overall Income from Retained Business Rates | 3,149,673 |

- *Note: A business rates smoothing reserve exists which is available to smooth out the impact of Collection Fund deficits which could arise in the future.*

Financial Planning Assumptions

2.20. The financial planning assumptions used in the approved MTFs have been updated to reflect current economic circumstances. The following assumptions have been applied to the Council's base budget for 2019/20:

- A. provision for a pay award inflation/impact upon Publica contract sum of 2.5% for 2020/21 and each year thereafter;
- B. provision for inflation on service contracts (including Publica) at 2.5% or in accordance with the underlying agreement or experience of cost increases;
- C. investment returns are expected to be in line with existing budgetary provisions. However, this will be updated in accordance with the developing Treasury Management Strategy (in January 2020);
- D. car park charges will be reviewed for 2020/21, and thereafter every two years; the budget proposal anticipates that changes will generate around £435,000 in additional net revenue from car parking through both extra income and cost savings. These would include the first increases in parking charges since 2010. A schedule of proposed changes to car parking day ticket and season ticket prices were available for the budget consultation. The proposed budget assumes a saving of around £35,000 resulting from the removal of the option to pay by cash at Council car parks, this saving is included within the overall additional net revenue of £435,000. Free parking after 3 pm in all car parks where this is currently in operation will be retained, while new dedicated twenty minute free parking bays will be introduced at some of the Council car parks to enable residents to make short trips to the District's towns free of charge.
- E. growth in the Council Tax base of 1.2% per annum from 2021/22 onwards;
- F. Central government funding in line with paragraph 2.3, an inflationary increase of 1.8% has been assumed for 2020/21;
- G. The budget and MTFs assumes Council Tax increases of £5 per annum on a Band D property.
- H. The collection fund will generate income over and above the council tax estimates and the Council's share of the surplus will be £100,000 per annum, from 2021/22 onwards.

Savings Targets

2.21. The Council has plans in place to deliver the following savings:

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | Total £000 |
|--|-----------------|-----------------|-----------------|---------------|
| Leisure and Museum Contract | 35 | 18 | (3) | 50 |
| Publica Transformation Programme | 268 | 25 | 25 | 318 |
| Savings on business rates on public conveniences | 26 | | | 26 |
| Total | 329 | 43 | 22 | 394 |

- 2.22. While it is difficult to forecast with accuracy the impact of changes to local government funding due to come into effect from April 2021, it is highly likely that the Council will suffer as a result of changes to New Homes Bonus and from the business rates reset which will see the loss of all business rate income growth since 2013. The savings targets contained within the MTFs have been updated in light of the postponement of changes to local government funding from April 2020 to April 2021 and other budget pressures. The MTFs now includes the following targets for the next six years. **The lump sum investment into the Gloucestershire Local Government Pension Scheme, delivers a net saving of £184,000 per annum. The table below has been updated to reflect the early delivery of savings.**

| | 2020/21 £000 | 2021/22 £000 | 2022/23 £000 | 2023/24 £000 | 2024/25 £000 | 2025/26 £000 | Total £000 |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|
| Savings | 490 | 1,790 | 1,350 | 950 | 850 | 715 | 6,145 |
| Early Delivery of Savings | 184 | (184) | | | | | 0 |
| Revised Savings | 674 | 1,606 | 1,350 | 950 | 850 | 715 | 6,145 |

- 2.23. The table below sets out the high level targets for addressing the £6.1million gap:

| Options for filling the funding gap | Potential Income/Saving £ |
|---|--------------------------------------|
| Commercial investment/green energy/social housing | 2,300,000 |
| Growth in business rates over baseline funding/replacement New Homes Bonus Scheme | 1,745,000 |
| Funding for rural services as part of Fairer Funding Review | 500,000 |

| Options for filling the funding gap | Potential Income/Saving £ |
|---|------------------------------|
| Service reviews/changes to policy/ Lump Sum Investment in LGPS | 1,000,000 |
| Review of recycling and waste service | 600,000 |
| Total | 6,145,000 |

- 2.24. A clearer picture of the level of savings required will emerge once the government publishes its final decisions from: Spending Review 2020, Fairer Funding Review, 75% Business Rates Retention and New Homes Bonus Scheme. The Council has some General Fund Working Balance to smooth the budget gap in the short term and to provide the Council with time to develop plans to generate alternative income or deliver savings in future years should this become necessary.
- 2.25. The MTF5 includes provision for capital investment to support the delivery of the Commercialisation Strategy. The MTF5 assumes that 50% of this investment will be funded through accessing external funding from third parties (e.g. government grants) or through the use of the Council's cash balances, known as internal borrowing; with the other 50% funded from external borrowing. The revenue implication of the net borrowing requirement has been included in the MTF5.
- 2.26. The Commercialisation Strategy will include a wide range of initiatives to deliver additional income to the Council or provide savings. The action plan will include the following work streams:
- A. A review of the Council's discretionary fees and charges and proposals to increase income. For 2020/21, the draft budget contains proposals to increase car parking charges and this will form part of the consultation. It is also proposed that Green Waste charges will increase over time to reflect the true cost of collecting garden waste, i.e. by £5 per bin each year from 2021/22 until 2023/24.
 - B. Investment in green technology which will both seek to address the climate change emergency and provide a financial return to the Council;
 - C. Investment in social rented housing with a secondary aim of providing a return to the Council;
 - D. Investment in economic development with a secondary aim of providing a return to the Council;
 - E. Working with our strategic partners, Publica and Ubico, to review Council policies and services to secure efficiencies and improve the customer experience.

Council Tax

- 2.27. The Localism Act 2011 introduced a power for the Secretary of State for Communities and Local Government to issue principles that define what should be considered as excessive Council Tax, including proposed limits. The principles are subject to approval by the House of Commons. From 2013 onwards, any Council that wishes to raise its Council Tax above the limit that applies to it will have to hold a referendum.

- 2.28. For this Council, the Government is proposing a maximum council tax increase of 2% or £5 for 2020/21. The budget for 2020/21 proposes a council tax increase of £5, which is in line with the Government's maximum increase.
- 2.29. The Collection Fund is the account where council tax income is recorded. This income is then paid out to the "precept" authorities, i.e. Gloucestershire County Council, Gloucestershire Police and Crime Commissioner, this Council and those Town and Parish Councils which have requested a precept for the year.
- 2.30. Each year the Council forecasts whether its collection of council tax will be higher than anticipated, resulting in a "surplus" on the Collection Fund, or lower than anticipated, resulting in a "deficit" on the Collection Fund.
- 2.31. Where this Council forecasts a surplus on the Collection Fund, the surplus is paid out in the following financial year to the County Council, Police and Crime Commissioner and the District Council in proportion to their respective level of precept for the financial year. Similarly, where the Council forecasts a deficit, the deficit is recovered proportionately from the three major preceptors in the following financial year. Collection Fund surplus or deficit is not passed on to the Town and Parish Councils but is shared proportionately by the three major preceptors.
- 2.32. For 2019/20, the balance on the Collection Fund has been forecast as a deficit of £420,792. This Council's share of the deficit is £49,328 and this will be "paid" in 2020/21 as a reduction to council tax income.

Revenue Reserves

- 2.33. As at 31st March 2019, the Council held £4.9m in General Fund Working Balance and £8.3m in earmarked reserves. Of the earmarked reserves, £3.9m is held in the Council Priorities Fund, which is available to support the delivery of the Council's priorities and can be used to enable the significant change required to deliver the savings targets.
- 2.34. During 2019/20, the Council Priorities Fund is being used to finance the following significant projects:
- A. The revenue costs associated with a potential strategic property acquisition;
 - B. The transformation programme being delivered by Publica;
 - C. The implementation of a multi-storey car park in Cirencester and the associated redevelopment of the Old Memorial Hospital site;
 - D. The review and implementation of revised waste and recycling services;
 - E. Funding increased costs of the existing waste and recycling service pending the acquisition of new vehicles;
 - F. Implementation of the Local Plan and the associated introduction of Community Infrastructure Levy;
 - G. Contributions towards the costs of improvements to the Corinium Museum;
 - H. Developing a Masterplan for Cirencester town centre;
 - I. Funding the costs of the new Climate Change Manager post, with budgetary provision for a permanent post being made available from 2020/21;
 - J. Funding climate change studies which will inform the Council's climate change action plan.

2.35. The MTFS has been updated to reflect the allocation of business rate pool surpluses to the Council Priorities Fund of £350,000 for both 2019/20 and 2020/21. In addition, a review of other earmarked reserves will be carried out with the aim of re-allocating £700,000 back to the Council Priorities Fund. The funding will be used to support the priorities as set out in 2.8.

2.36. At the end of the MTFS period, assuming that the Council is able to deliver the savings required as a result of reductions to central government funding, the Council plans to hold around **£3.7m** in General Fund Working Balance and **£3.1m** in earmarked reserves. The movement in General Fund Working Balance and Earmarked Reserves is shown in **Annex 'A4'**.

Capital

2.37. As at 31st March 2019, the Council held £14.7m of capital receipts and capital grants, which are available to fund capital projects. The detailed Capital Programme is shown in **Annex 'A3'** together with details of expected capital receipts and financing of the Capital Programme.

2.38. The Capital Programme includes provision for investment in the following significant projects:

- A. Investment in car parking services £13 million.
- B. Commercialisation Strategy £65 million.
- C. Replacement vehicles in the Council's waste and recycling vehicle fleet £6.4 million.
- D. Investment in leisure facilities and equipment £2.1 million.
- E. Investment in Council information technology £2.1 million.
- F. Investment in electric vehicle charging points £1.5 million.
- G. Continuation of the Community Projects Fund £0.5 million.
- H. Investment in rural broadband £0.5 million.

2.39. The Council is preparing a Commercialisation Strategy with the aim of increasing income to the Council. This will help the Council to address the predicted cuts to government funding as set out in 2.3. The Commercialisation Strategy will require capital investment and the Capital Programme has been updated to include provision for investment of £65 million. It is anticipated that this investment will be partially funded from borrowing and partially funded through grants from third parties. The Commercialisation Strategy will link in with other Council priorities of climate change, social housing provision and economic development.

2.40. This significant capital investment will be a major contributing factor to the Council's longer term financial sustainability.

2.41. A summary of the capital programme and funding is set out below:

| | 20/21 | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 | 26/27 | 27/28 | 28/29 | 29/30 | Total |
|-------------------|-------|--------|--------|--------|-------|-------|-------|-------|-------|-------|--------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Capital Programme | 8,667 | 30,405 | 21,155 | 26,155 | 1,155 | 2,155 | 5,655 | 1,155 | 1,155 | 1,155 | 98,812 |

| | 20/21 £000 | 21/22 £000 | 22/23 £000 | 23/24 £000 | 24/25 £000 | 25/26 £000 | 26/27 £000 | 27/28 £000 | 28/29 £000 | 29/30 £000 | Total £000 |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Funding | | | | | | | | | | | |
| Capital Receipts | 2,252 | 5,773 | 255 | 255 | 255 | 755 | 255 | 255 | 255 | 255 | 10,565 |
| Capital Grants | 650 | 5,650 | 650 | 13,150 | 650 | 650 | 650 | 650 | 650 | 650 | 24,000 |
| Revenue Reserves | 757 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 757 |
| Revenue Contributions | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 250 | 2,500 |
| Borrowing | 4,758 | 18,732 | 20,000 | 12,500 | 0 | 500 | 4,500 | 0 | 0 | 0 | 60,990 |
| Total | 8,667 | 30,405 | 21,155 | 26,155 | 1,155 | 2,155 | 5,655 | 1,155 | 1,155 | 1,155 | 98,812 |

2.42. The expected balance of capital receipts over the life of the MTFS is set out below:-

| | 20/21 £000 | 21/22 £000 | 22/23 £000 | 23/24 £000 | 24/25 £000 | 25/26 £000 | 26/27 £000 | 27/28 £000 | 28/29 £000 | 29/30 £000 |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Capital Receipts | 6,723 | 1,865 | 2,525 | 3,185 | 3,845 | 4,005 | 4,735 | 5,465 | 6,195 | 6,925 |

'The draft MTFS is attached at **Annex 'A'**.

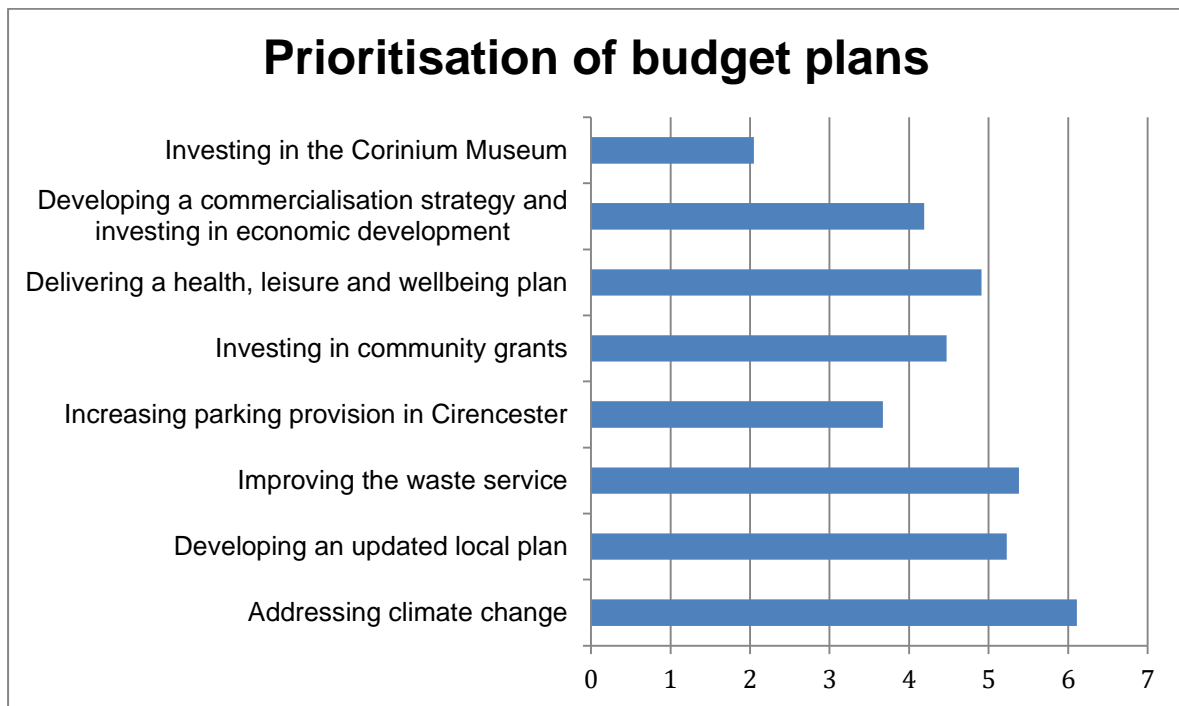
2.43. The Capital Strategy, Investment Strategy and Treasury Management Strategy documents included at **Annexes 'E to G'** respectively reflect the revenue and capital proposals set out in this report. The Audit Committee considered the draft Strategies on 30th January 2020 and resolved to recommend them to Cabinet and Council.

Consultation

2.44. Residents, businesses and community organisations within the District have been encouraged to feed into the budget setting process. There were 288 responses to the budget survey plus a response from Cirencester Town Council. The detailed feedback from the budget survey is included at "**Annex C**".

2.45. With regard to the overall budget plans for 2020/21 there were mixed views: 35% supportive, 25% neither agreeing nor disagreeing and 40% disagreeing. However, this view of the budget is different to the comments received in respect of individual elements of the consultation.

2.46. The chart below illustrates the respondents view of the which of the budget plans were most important to them:



- 2.47. 58% of respondents agreed with the proposal to increase council tax by £5 for a property in Band D in 2020/21. 26% disagreed and 16% neither agreed nor disagreed.
- 2.48. 44% of respondents agreed that it is fair to increase parking charges in the District for the first time since 2010. 36% disagreed and 20% neither agreed nor disagreed.
- 2.49. With regard to increasing the charge for the garden waste collection service, 27% of respondents agreed that the service should be paid for by subscribers and rise to £45 in 2020/21. 42% were in favour of a stepped increase of £5 per annum for the next three years. 31% felt the service should be subsidised by council taxpayers.
- 2.50. There were 155 comments made to an open question at the end of the survey. A copy of those comments is attached at **'Annex C2'**.
- 2.51. Comments arising from the Overview and Scrutiny Committee's consideration of the MTFs and budget proposals for 2020/21 will be reported to Cabinet on 10th February 2020 and Council on 26th February 2020.
- 2.52. Consultation with businesses is ongoing. Any further comments received will be reported to Cabinet and Council.

Pay Policy Statement

- 2.53. Section 38 of the Localism Act requires local authorities to produce a Pay Policy Statement. The Statement should include the authority's policy on pay dispersion. Pay dispersion is the relationship between remuneration of Chief Officers and the median paid officer.
- 2.54. The Pay Policy attached at **Annex 'D'** includes the following key requirements of the Localism Act 2011:
- A. policy on pay for each of the 'in scope' Officers;
 - B. policy on the relationship between Chief Officers and other Officers;

C. policy on other aspects of remuneration, namely recruitment, increases in remuneration, performance related pay and bonuses, termination payments, and transparency.

3. FINANCIAL IMPLICATIONS

3.1. These are covered in the report.

3.2. A summary of the impact of the budget proposals for 2020/21 is set out below:

| Summary of changes to the Council's Net Budget Requirement | £ |
|--|-------------------|
| Net Budget Requirement 2019/20 | 11,157,040 |
| Inflationary Pressure – expenditure budgets | 378,500 |
| Unavoidable budget pressures – expenditure (net increase) | 1,707,733 |
| Unavoidable budget pressures – income | 100,000 |
| Savings | (1,003,000) |
| Net Budget Requirement 2020/21 | 12,340,273 |

3.3. The Council's net budget requirement will be funded as follows:

| | £ | £ |
|--|-----------|-------------------|
| Net Budget Requirement 2020/21 | | 12,340,273 |
| Net Business Rate Income (see table at 2.19) | 3,149,673 | |
| Council taxpayers @ £133.93 Band D | 5,592,103 | |
| Collection Fund Deficit | (49,328) | |
| New Homes Bonus | 3,169,266 | |
| Rural Services Delivery Grant | 602,434 | |
| Total Funding | | 12,464,148 |
| Budget Surplus | | 123,875 |

3.4. The budget proposals for 2020/21 result in a council tax of £133.93 per Band D equivalent property, an increase of £5.00 or 3.88%.

3.5. The budget proposals assume a budget surplus of £123,875. It is proposed that this surplus is used to increase the General Fund Working Balance.

3.6. The detailed revenue estimates for the Council are attached at **Annex B.**

Chief Financial Officer Report

3.7. Section 25 of the Local Government Act 2003 places a duty on the Chief Financial Officer to make a report to the Council on the robustness of the budget estimates and the adequacy of the Council reserves. The Council must have regard to this report when making its decisions about budgets and council tax for the forthcoming year.

Robustness of Budget Estimates

3.8. This report sets out the Council's budget proposals and the funding available from central government to support the budget. For 2020/21, the Government announced a roll-forward of 2019/20 funding arrangements with an inflationary increase. Central government funding available from 2021/22 onwards is very uncertain as the following significant changes will come into effect:

A. The government will implement the outcome of the local government Fairer Funding Review;

B. The new 75% business rates retention system will come into effect;

C. The business rate baseline will be reset and there is the potential for the Council to lose its share of the financial benefit from growth in business rates in the District since 2013;

D. The government will have completed a new Spending Review to establish its spending priorities post 2021.

3.9. The Medium Term Financial Strategy illustrates the potential loss of government funding from Business Rates Retention, New Homes Bonus and Rural Services Delivery Grant. For 2020/21 income from these funding sources is almost £7 million. By 2023/24, this income could reduce by around £4 million. The Government has indicated that various consultation documents, including indicative figures for each local authority, will be published in the Spring. In the absence of these illustrative figures, the Council has used information published by the Ministry of Housing, Communities and Local Government and advice from consultants to estimate the impact of these changes on this Council.

3.10. The Medium Term Financial Strategy has been updated to include additional income generation or savings required to address this loss of funding. A Commercialisation Strategy is also in preparation which will set out options for delivering additional income or generating further savings. It is essential that this Strategy is progressed early in 2020/21 so that the Council can take action to address the savings required from 2021/22 onwards.

3.11. The Council's budget estimates have been prepared by appropriately qualified and experienced staff in consultation with management. Budgets have been subject to scrutiny through the Council's Overview and Scrutiny Committee. The Capital Strategy, Investment Strategy and Treasury Management Strategy have been subject to scrutiny through the Council's Audit Committee.

3.12. The budget for 2020/21 includes a savings target of £1 million. The Council has been consulting on proposals to increase income particularly through increases to car parking charges and charges for the garden waste collection service. The Council has also identified savings in pension contributions available through forward paying pension deficit contributions. In addition, the Council is implementing new systems and operating methods for its waste and recycling

services (delivered through Ubico) which will improve services to residents, reduce carbon emissions and provide efficiency savings. If Council approves the budget proposals set out in this report, I am confident that the savings target of £1 million is achievable.

- 3.13. The Council's treasury advisors are expecting the Bank of England Base Rate to be maintained at low levels for a further significant period of time. During 2018/19, the Council diversified £10 million of its cash deposits into a range of pooled funds with the aim of increasing investment returns whilst satisfying the Council's requirements for security and liquidity in line with the Treasury Management Strategy.
- 3.14. The Council's capital investment proposals are set out in this report and in the Capital Strategy. The Council has included £65 million of capital investment to reflect the desire to invest to deliver against the new Council Priorities, approved in September 2019, and to generate additional income to replace anticipated reductions to Government funding. The Council will need to borrow to fund its capital programme. The revenue implications of the proposed borrowing, provision for repayment of debt and interest payments, is included in the Medium Term Financial Strategy so that Members are aware of the longer term financial implications of this level of investment. The Medium Term Financial Strategy, Capital Strategy, Investment Strategy and Treasury Management Strategy are all inter-related and provide the Council with a view of the affordability and proportionality of its spending plans.
- 3.15. The Council has a robust Risk Management Strategy. Significant financial risks have already been identified, **Annex 'A5'** sets out the financial risks and the mitigating action being taken to minimise these risks. A Corporate Risk assessment covering a range of financial and non-financial risks has been carried out and the results form part of the Council's performance management systems and processes. The Corporate Risk register is reviewed regularly by the Council's Audit Committee and Cabinet.
- 3.16. The major risks looking forward are in respect of the further changes to central government funding post 2021/22.
- 3.17. Central government has provided for district councils to increase council tax by up to 2% or £5 (whichever is the higher) for 2020/21 without a requirement to hold a referendum. This report proposes a council tax increase of £5 for a Band D property in 2020/21.
- 3.18. **I can confirm that the budget estimates as presented are both prudent and robust.**

Adequacy of the Council's Reserves

- 3.19. The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance on local authority reserves and balances. It sets out three main purposes for which reserves are held:

- A. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- B. A contingency to cushion the impact of unexpected events or emergencies;
- C. A means of building up funds to meet known or predicted liabilities, known as earmarked reserves.

3.20. The Council held general fund revenue balances of £4.9 million on 1 April 2019. The current plans for 2019/20 will reduce the level of General Fund balance by £165,000. I have assessed the risks to the budget and have determined that the minimum reserves position should be £2.0 million under the current economic outlook with significant risks remaining to revenue streams and grant levels in future years. £2.0 million is the equivalent of 16.2% of the net cost of Council services. The unbudgeted financial risks are assessed as follows:

| | | |
|----|---|----------|
| A. | Litigation costs (e.g. planning appeals) | £500,000 |
| B. | Business rate pool risk | £800,000 |
| C. | Publica savings delivered later than anticipated | £250,000 |
| D. | Unforeseen budget pressures | £200,000 |
| E. | Income from fees and charges lower than anticipated | £200,000 |
| F. | Emergency planning | £ 50,000 |

3.21. It is unlikely that all of these risks will materialise during 2020/21. The Council receives quarterly financial performance information which highlight any unfunded financial liabilities which arise during the year and require additional funding. The Council holds sufficient General Fund Working Balance to fund this level of risk. The annual update of the Medium Term Financial Strategy enables the Council to incorporate any of these emerging risks within the Council's financial plans.

3.22. Section 2.36 of this report sets out the forecast levels of General Fund Working Balance. The Council has incorporated savings targets into the Medium Term Financial Strategy which will enable the Council to maintain a level of reserve above the minimum position of £2 million. Work on the Commercialisation Strategy needs to take place over the next few months so that the Council is able to take decisions and implement the changes required to deliver against the income generation or service savings targets in a timely manner.

3.23. In addition to the General Fund balance, the Council holds various earmarked reserves which are held to fund costs associated with transformational change or smooth the impact of cyclical cost to the council taxpayer. These funds will enable the Council to deliver its medium and longer term savings plans.

3.24. I can confirm that over the period of the Medium Term Financial Strategy, the level of reserves is currently adequate.

4. LEGAL IMPLICATIONS

4.1. The Council is obliged to undertake consultation on its budget proposals. The measures outlined in this report meet the legal requirement.

5. RISK ASSESSMENT

5.1. The most significant risk to the MTFs is the uncertainty regarding future central government funding to this Council. Despite the government's declaration of an end to austerity, district councils are unlikely to fare well in 2021/22. The Council's Commercialisation Strategy will detail how the Council intends to respond to both the anticipated reductions in central government funding and other unavoidable cost pressures. The MTFs includes provision for revenue and capital funding to support the implementation of the Capital Strategy.

5.2. With regard to Retained Business Rate income, a significant number of appeals remain with the Valuation Office from the 2010 business rate revaluations. Where appeals are successful, many businesses receive refunds back to April 2010, the

refunds affect the level of business rate income received during the financial year in which the refund occurs. A significant provision for appeal losses is incorporated within the Council's financial statements. However, actual appeal losses could be higher than estimated. The appeals provision is shared between central government (50%), Gloucestershire County Council (10%) and this Council (40%). The level of provision **was** reviewed as part of the preparation of the business rates estimates for 2020/21. The 2020/21 estimates **are** incorporated within **this** further update to the MTFS.

- 5.3. The Local Land Charges Register will be transferred to Land Registry. The Local Government Association and the Local Land Charges Institute ("LLCI") are in ongoing discussions and working with Land Registry to support authorities during the transition and to ensure that the costs to all registering authorities of the Project are fully funded by way of a new burdens grant. Arrangements have been put in place to monitor costs to feed into the discussions. The implications for both the costs of the service and the income generated from the land charges services will be fed into the MTFS in due course.
- 5.4. In partnership with Cheltenham Borough Council, Forest of Dean District Council and West Oxfordshire District Council, the Council continues to implement the transformation programme through Publica. The draft MTFS anticipates savings of £318,000 to be delivered from the programme. Further savings of £175,000 are expected to be delivered from the programme post 2020/21.
- 5.5. The Council has a significant capital programme to deliver over the life of the MTFS. A significant proportion of which is to be funded from external borrowing. The capital programme figures are indicative at this stage and will be firmed up as Commercialisation Strategy and other projects develop. Should costs associated with the programme be higher than provided for in the MTFS there is likely to be an impact upon the revenue account from increased borrowing costs.
- 5.6. The Council has been advised that Gloucestershire County Council intend to award a contract for garden waste processing which will result in a change of tipping location. This means the Council's contractor Ubico will be required to drive garden waste to a site further away, resulting in increased mileage, fuel costs, carbon emissions and working hours. The full operational, financial and carbon implications of this are currently being calculated and will be fed in later to the budget setting process.
- 5.7. A risk assessment of the proposed MTFS and budget proposals for 2020/21 is shown at **Annex A5**.

6. CLIMATE CHANGE IMPLICATIONS

- 6.1. The MTFS and budget proposals for 2020/21 provide funding to take action to tackle climate change in the District, including the Local Plan refresh, ongoing funding for the Climate Change Officer and renewable energy measures.

7. ALTERNATIVE OPTIONS

- 7.1. The Council will consider any alternative budget proposals which are put forward through the consultation process. The proposals will be measured against the new priorities and against the approved Budget Motion from September 2019.

8. BACKGROUND PAPERS

8.1. None