COTSWOLD
DISTRICT COUNCIL

**CABINET** **6TH FEBRUARY 2014**

**AGENDA ITEM (9)**

**BUDGET 2014/15**

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| **Accountable Member** | Councillor Lynden Stowe<br>Leader of the Council |
| **Accountable Officer** | Jenny Poole<br>Chief Finance Officer<br>01285 623313<br>jenny.poole@cotswold.gov.uk |

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| **Purpose of Report** | To enable the Cabinet to recommend a Medium Term Financial Strategy for the period 2014/15 to 2017/18, a Capital Programme for 2014/15 to 2016/17, the Revenue Budget for 2014/15 and the Pay Policy Statement for 2014/15 to Council. |
| **Recommendations** | **That the Cabinet considers the proposed Medium Term Financial Strategy, Capital Programme, Revenue Budget and Pay Policy Statement and makes appropriate recommendations thereon to the Council** |
| **Reason(s) for Recommendation(s)** | The Council is required to approve its budget and pay policy statement in advance of the new financial year. |

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| **Ward(s) Affected** | All |
| **Key Decision** | Yes |
| **Recommendation to Council** | Yes |

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| **Financial Implications** | These are included in the report |
| **Legal and Human Rights Implications** | The Local Government Finance Act 2012 introduced a radical change to the local government finance system. The key changes introduced by the Act were:<br>• implementation of the Business Rates Retention Scheme;<br>• replacement of the existing Council Tax Benefit system with local Council Tax Support;<br>• implementation of changes to council tax rules to provide some local flexibility on the council tax local authorities can charge on empty properties.<br>All of the above changes came into effect for the 2013/14 financial year.<br>Section 38 of the Localism Act 2011 requires local authorities to |

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| | produce Pay Policy Statements. |
| **Environmental and Sustainability Implications** | None |
| **Human Resource Implications** | This report meets the requirements of the Localism Act and identifies pay comparison measures set out in the Hutton Report to ensure clarity in senior pay in the public sector. |
| **Key Risks** | See Section 12 |

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| **Related Decisions** | Medium Term Financial Plan and Budget Strategy 2012/13 - Council - 28th February 2012<br>Business Rates Retention Scheme - Pooling - Council - 20th November 2012<br>Budget 2013/14 - Council 26th February 2013<br>Review of local Council Tax Discounts - Cabinet - 7th November 2013<br>Medium Term Financial Strategy 2014/15 - 2017/18 - Cabinet - 7th November 2013<br>Council Tax Support Scheme 2014/15 - Council - 17th December 2013 |
| **Background Documents** | None |
| **Appendices** | **Appendix 'A'** - Medium Term Financial Strategy 2014/15 to 2017/18<br>**Appendix 'B'** - Detailed Budget 2014/15<br>**Appendix 'C'** - Summary of budget consultation responses<br>**Appendix 'D'** - Pay Policy Statement |

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| **Performance Management Follow Up** | Once the budget has been agreed, performance will be reported quarterly to the Cabinet and will be included within the 'Quarterly Digest' of information supplied to the Audit and Scrutiny Committee. |

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| **Options for Joint Working** | Preparation of the budget and monitoring financial performance will be carried out by officers working within GO Shared Services, a collaboration supporting this Council, Cheltenham Borough Council, West Oxfordshire District Council and Forest of Dean District Council |

**Background Information**

1. Background

1.1 In November 2013, the Council issued its draft Medium Term Financial Strategy (MTFS) for the period 2014/15 to 2017/18 and its associated budget proposals for 2014/15 for public consultation. The draft MTFS incorporated the impact of the Government's Spending Review 2015/16. Following the announcement of the Spending Review, the Department for Communities and Local Government (DCLG) issued a consultation document on the impact of the Spending Review for local government. The consultation document included proposals that would have reduced the level of New Homes Bonus (NHB) payable to this Council by around 20% or 35% in 2015/16. Due to the level of uncertainty surrounding this top-slicing of NHB, the MTFS incorporated three possible financial scenarios.

1.2 This Council lobbied robustly against the proposals for the top-slice of NHB and was delighted when the Chancellor's Autumn Statement included the removal of the proposed top-slice.

1.3 On 18th December 2013, the Local Government Minister announced the provisional local government settlement for 2014/15 and the illustrative settlement for 2015/16. The MTFS attached at **Appendix 'A'** has been updated to reflect the outcome of the settlement announcements and other adjustments have been made as data has become available to ensure that the budget proposals for 2014/15 are as robust as possible.

1.4 The proposed levels of Government funding for this Council are set out in the table below. Overall, core Government funding (referred to as the Settlement Funding Assessment) will reduce by 10.5% in 2014/15 and 15% in 2015/16:-

| | **2013/14** | **2014/15** | **2015/16** |
|---|---|---|---|
| Revenue Support Grant | £2,466,458 | £2,003,103 | £1,404,202 |
| Baseline Funding<br>(Target level of retained business rates) | £1,640,867 | £1,672,832 | £1,719,003 |
| **Settlement Funding Assessment** | **£4,107,325** | **£3,675,935** | **£3,123,206** |
| Overall Reduction in Funding | | £431,390<br>10.5% | £552,729<br>15% |

2. New Homes Bonus

2.1 The award of NHB is determined by changes to the Council Tax Base and an allocation in respect of new affordable homes in the District (£350 per affordable unit). The value of NHB will increase incrementally until 2016/17 and will then fluctuate depending on the variance between new homes created in Year 1 of the scheme and new homes created in Year 7. If a greater number of homes have been created, the value of NHB will increase but, if fewer new homes have been created, the value will reduce. The funding for this scheme comes from top sliced Revenue Support Grant (RSG), so RSG will reduce significantly over the next three years to compensate for the NHB payments.

2.2 The Government has announced the provisional allocation of NHB Grant for 2014/15. For this Council, NHB Grant will increase by £575,659 from £1,374,172 to £1,949,831. The grant recognises net growth in the Council Tax base of 427 properties between October 2012 and October 2013 and the development of 202 affordable housing units.

2.3 The MTFS reflects the estimated reductions in RSG as it is top-sliced to fund the growth in NHB. This reduction in funding is offset by estimated growth in NHB Grant which has been based on an increase in the Council Tax base of 345 band D equivalent properties per annum.

3. Business Rates and the Gloucestershire Business Rates Pool

3.1 The Business Rates Retention Scheme was introduced on 1st April 2013. Under the Scheme, the Council retains some of the business rates raised locally. The business rates yield is divided - 50% locally and 50% to the Government. The Government's share is paid into a central pool and redirected to local government through other grants. Of the 50% local share, the Council's share has been set at 80%, with the County Council's share being 18% and the Fire and Rescue Service share being 2%. A tariff is applied to reduce the local share to a baseline funding level set by the Government. Where the value of retained business rates exceeds the baseline funding level, 50% of the surplus is paid over to the Government as a levy; the remaining 50% can be retained by the Council.

3.2 In order to maximise the value of business rates retained within Gloucestershire, the Council entered into the Gloucestershire Business Rates Pool. Being a part of the Pool has the benefit of reducing the levy from 50% to 19%. Any surpluses generated by the Pool will be allocated in accordance with the governance arrangements agreed by the Gloucestershire Councils.

3.3 The Gloucestershire Chief Finance Officers have monitored the financial performance of the Business Rates Pool during 2013/14 and, at the time of writing this report, the performance of the Pool has exceed expectations. However, the final position will not be known until the summer when the final out-turn position is declared for each Gloucestershire billing authority.

3.4 A significant level of risk remains due to the volume of outstanding business rates appeals which are being processed by the Valuation Office. Where appeals are successful, refunds of business rates are generally repayable back to the 2010/11 financial year (occasionally 2005/06) which reduces the business rates yield in the year in which the refund is made. The accounting treatment of these refunds and how they are to be reflected in National Non Domestic Rates (NNDR) Returns to the Government (NNDR 1 estimate for 2014/15 and NNDR3 Out-turn 2013/14) is still awaited.

3.5 In the Autumn Statement, there was recognition of the problem being faced by local authorities in terms of forecasting business rate yields over the medium term, due to the level of uncertainty surrounding business rate appeals. A commitment has therefore been made that the backlog of valuation appeals will be cleared by July 2015.

3.6 The Autumn Statement included an extension to the Small Business Rate Relief from 50% to 100% for a further year, as well as introducing a new £1,000 discount for small business with a rateable value below £50,000. Whilst these initiatives are to be welcomed in terms of supporting small businesses within the District, the DCLG has yet to publish final details of how local government will be compensated for the reduction in business rates yield. A commitment has been expressed to fully compensate local government, and this report has assumed that the commitment will be met.

3.7 One of the key documents in the budget setting process is the estimate of business rates yield which is reported in the NNDR return (NNDR1) which is submitted to the DCLG. At the time of writing this report, the final version of the NNDR1 return, and the associated guidance notes on how the return must be completed, has not been issued by the Government. The return needs to be completed and returned by 31st January 2014. The Council's final budget for 2014/15 will therefore be subject to change should the final figures in the NNDR 1 vary from those contained within this report.

3.8 The Chief Finance Officers have reviewed the viability of the Pool for 2014/15 and are recommending that the Pool continues in its current form. However, the viability of the Pool can only be determined once all of the estimated business rates returns have been completed by all of the participating authorities (i.e. all the Gloucestershire District Councils). A decision to dissolve the Pool would have been statutorily required by 15th January 2014 (i.e. before the final guidance notes and returns were available from the Government). Given the Government's statement that local authorities will be fully compensated for the impacts of the announcements in the Autumn Statement, the Chief Finance Officers took a pragmatic view to continue with the Pool in 2014/15, in line with the recommendation made to Leaders and Chief Executives in the autumn. Any sustainable surpluses from the Pool will contribute towards the savings targets set out in this MTFS.

3.9 The budget for 2014/15 includes the following key data from the business rates estimates for 2014/15 (NNDR 1):

- Business Rates retained from Business Rates Retention (***NNDR 1 estimate***) ***£11,804,432***;
- Individual Authority Business Rate Baseline (DCLG) £11,705,096;
- Tariff to the Government £10,032,264;
- Government Baseline Funding Level for this Council £1,672,832;
- Safety Net Threshold £1,547,369 - Business Rate Retention Scheme risk of £125,463[1];
- Estimated retained business rates in excess of Baseline Funding Level ***£99,336***;
- Estimated levy to the Government ***£49,668***;
- Estimated retained business rate growth ***£49,668*** (making total rates income ***£1,722,500***);

3.10 The figures shown above in bold italics may change once the business rates estimates in the NNDR 1 have been finalised.

3.11 It is possible that there will be a surplus or deficit of business rates from 2013/14 which will be need to form part of the budget proposals for 2014/15. However, this will form part of the business rates estimates to be included in the NNDR1 return. At the time of writing this report, it is anticipated that 2013/14 will be broadly in line with the 2013/14 estimates, and that a surplus or deficit will not need to be reflected in the budget for 2014/15.

## 4. Council Tax

4.1 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 limits that applies to it will have to hold a referendum. The result of the referendum will be binding.

4.2 For 2014/15 and 2015/16, the proposed MTFS assumes a Council Tax freeze. With effect from 2016/17, annual increases of 1.99% have been incorporated.

4.2 The Government is again offering support to Councils that choose to freeze Council Tax. Should this Council choose to freeze Council Tax, the Government has offered grant equivalent to a 1% rise (£52,102). The Government has stated that the grant will be rolled into the spending review baseline. The Government has therefore committed to the funding being available for future years.

[1] The Council will be part of the Gloucestershire Business Rates Pool for 2014/15. The Pool governance arrangements provide for each authority to be in no better or worse financial position as a result of being in the pool than would have occurred outside the Pool. Should the Pool make a 'loss' in 2014/15, the Safety Net Threshold will initially be applied to re-instate the Council to its position as if it operated outside the Pool. Once all authorities are in the same financial position as they would be outside the Pool, any Pool surpluses or gains will then be apportioned in accordance with the Pool governance arrangements.

4.3 At the time of writing this report, it is uncertain if Town and Parish Councils will once again be excluded from Council Tax referendums in respect of 2014/15.

5. Collection Fund

It is estimated that the Collection Fund will end the financial year with a surplus in the region of £640,000. This Council will receive £84,022, with the balance being payable to other major precepting authorities.

6. Financial Planning Assumptions

6.1 The financial planning assumptions included within the report to the Cabinet in November 2013, have been reviewed and updated to reflect the current economic circumstances. Changes to the assumptions are shown below in bold italics and have been applied to the Council's base budget for 2013/14:-

(i) pay award inflation of 2% per annum ***(this was previously 1% in 2014/15 and 2015/16, however there is mounting pressure for increases which will reflect the rate of inflation in the economy therefore the provision has been increased to 2% two years earlier)***
(ii) inflation on service contracts in accordance with the underlying agreement or experience of cost increases;
(iii) no inflation on fees and charges until 2016/17, then 2% per annum;
(iv) growth in contributions to the Local Government Pension Scheme, as a result of the triennial review of the Gloucestershire Pension Fund of £202,000 per annum for 2014/15, 2015/16 and 2016/17 - overall increase of £606,000 per annum (***the provision has been increased by £2,000 each year to reflect the actual increases proposed by the actuary;***)
(v) growth in council tax base of 1% per annum;
(vi) growth in number of new properties attracting New Homes Bonus 345 per annum and an assumption that 30% will also attract the affordable homes premium;
(vii) growth in retained business rates limited to the impact of an inflationary increase in the small business rates multiplier ***(a more prudent approach has been taken given the uncertainty surrounding Government funding fully recompensing the Council for the impacts of announcements made in the Autumn Statement - see paragraph 3.6***)

6.2 For clarity, two additional assumptions have been included relating to assumptions over the Bank of England Base Rate and announcements contained within the Autumn Statement:-

(viii) Bank of England base rates remains at 0.5% through the life of the MTFS. There is a possibility of interest rates increasing from 2017/18. However, this will be kept under review and the MTFS will be updated as economic forecasters have increasing confidence on sustainable interest rate increases;
(ix) an assumption that the Government will compensate this Council for the full financial impact of announcements in the Autumn Statement which will reduce the overall yield from business rates and impact on the Council's value of retained business rates.

7. Unavoidable Budget Pressures

7.1 The impact of the Government's Spending Review, the Autumn Statement and the associated provisional local government settlement has been set out in section 1 of this report. In addition to funding pressures from cuts to Government funding, the Council is also facing costs pressure from the triennial valuation of the Gloucestershire Local Government Pension Scheme. The Council needs to make provision for growth in contributions to the Pension Fund of £202,000 for each of the next three years. This is largely due to the value of gilts determining the value of future liabilities to the Pension Scheme, increased costs associated with increasing life expectancy rates and predicted returns on pension fund assets.

7.2 In the existing MTFP, there was an assumption that the Council would be able to dispose of surplus assets to generate capital receipts which could then be invested in commercial property to generate a revenue stream. Asset disposals have been more complex, and have taken longer, than originally anticipated. In addition, the Council has taken decisions to make provision for the acquisition of a depot site for the economic provision of Environmental Services, and to provide for the acquisition of a site which would enable development within Cirencester. The impact of these changes means that there is now insufficient capital available to be able to fund further investment in commercial properties. The Council's base budget includes £50,000 for rental income from commercial properties. As this investment will no longer be taking place, the budget needs to be realigned accordingly in 2014/15.

7.3 Workplace pensions law has changed. Every employer now has new legal duties to help its workers in the UK save for retirement. Employers must automatically enrol certain workers into a qualifying workplace Pension Scheme and make contributions towards it. However, employees may subsequently decide to opt out of the pension fund. Whilst it is difficult to accurately determine the financial impact of pensions' auto-enrolment, there will be increased costs to the Council. Provision has been made within the MTFS from 2014/15.

7.4 The creation of the single tier state pension, and the end of contracting out of the second state pension, will negatively impact on employers providing defined benefit pension schemes (such as the Local Government Pensions Scheme). Currently, providing that such Pension Schemes meet statutory requirements, employers pay a reduced National Insurance (NI) contribution - the reduction is 3.4%. The introduction of the single tier pension will have the effect of increasing an employer's NI contributions by the amount the current reduction - 3.4%. Provision for increased employer NI contributions with effect from 2016/17 has been included within the draft MTFS.

7.5 Other unavoidable budget pressures are set out within the MTFS attached at **Appendix 'A'** and include changes to Government grants and budget changes as a result of previous decisions relating to the Council's property portfolio.

8. Savings Targets

8.1 The MTFS includes the following savings targets:-

| | **2014/15** | **2015/16** | **2016/17** | **2017/18** |
|---|---|---|---|---|
| Savings | £316,000 | £351,000 | £334,000 | £274,000 |

8.2 The targets have been reviewed and updated to reflect deliverable savings over the next four years. The Council plans to achieve these savings targets through its One Team Change Programme. A number of projects have been identified to deliver the savings targets. The projects are predicted to deliver savings as profiled below:-

| | **2014/15 £000** | **2015/16 £000** | **2016/17 £000** | **2017/18 £000** |
|---|---|---|---|---|
| Leisure and Museum Procurement (balance of full year savings) | 130 | 11 | 34 | 24 |
| Further Joint Working | 150 | 200 | 150 | 100 |
| Generating new income streams or further savings in partnership with Ubico Ltd | | 100 | 100 | 100 |
| Review of Wards | | 40 | | |
| Cash collection contract - procurement saving | 36 | | | |
| Gloucestershire Business Rates Pool | | | 50 | 50 |
| **Total** | **316** | **351** | **334** | **274** |

9. Net Budget Requirement

9.1 A summary of the impact on the Council's net budget requirement for 2014/15 is set out below:-

| **Summary of Changes to Net Budget Requirement** | **£** |
|---|---|
| **Net Budget Requirement 2013/14** | **9,014,414** |
| Inflationary pressure - expenditure budgets | 389,442 |
| Unavoidable budget pressures 2014/15 - expenditure | 185,500 |
| Unavoidable budget pressures 2014/15 - income | 147,111 |
| Increase in New Homes Bonus (year 4) | (575,659) |
| Council Tax Freeze Grant | (52,102) |
| Savings | (316,000) |
| **Net Budget Requirement 2014/15** | **8,792,706** |

9.2 The Council's Net Budget Requirement will be funded as follows:

| | **£** | **£** |
|---|---|---|
| **Net Budget Requirement 2014/15** | | **8,792,706** |
| Revenue Support Grant | 2,003,103 | |
| Business Rates Retention – to be updated with NNDR1 data | 1,722,500 | |
| Council Tax payers | 5,062,139 | |
| Collection Fund Surplus | 84,022 | |
| **Total Funding** | | **8,871,764** |
| **Budget Surplus** | | **79,058** |

9.3 The proposed budget strategy would give rise to a Council Tax of £137.16 per Band D equivalent property (a Council Tax freeze).

9.4 At this point in time, the Council assumes a budget surplus of **£79,058**. This figure is subject to change depending upon the final estimates of business rates. Given the risk surrounding the business rates figure which has been highlighted in this report, it is proposed that the budget surplus is earmarked for a contribution to the Council's General Fund Working Balance.

9.5 The detailed revenue estimates for the Council are attached at **Appendix 'B'**.

10. Revenue Reserves

10.1 As at 31st March 2013, the Council held £1.8m in General Fund Working Balances and £4.9m in earmarked reserves. Of the earmarked reserves, £3.4m is held in the Council Priorities Fund Reserve, which is available to support delivery of the Council's priorities and can therefore be used to enable the Council to undergo the significant change required to deliver the savings targets.

10.2 In previously approved MTFPs, provision has been made for the following one-off budget pressures:-

- £200,000 for the development of the Council's Local Plan (*referred to as the Local Development Framework*);

- £200,000 for costs associated with unusually high levels of planning appeals;
- £200,000 for costs associated with the change programme.

10.3 In addition, the Council has taken decisions to fund the following items from the Council Priorities Fund:-

- £500,000 for the Local Authority Mortgage Scheme;
- £534,000 to enable Dual-Use leisure facilities to be transferred to Farmor's School, Fairford and Sir William Romney's School, Tetbury;
- £177,000 to enable business cases to be developed for the development of strategic property sites ( for example, the new depot site);
- £100,000 of one-off legal costs associated with a Public Protection case.

10.4 It is recommended that provision is made within the MTFS revenue reserves for the following items:-

- a further £250,000 for the completion of the Local Plan;
- £250,000 for the estimated costs of the examination of the Local Plan;
- £50,000 to support the development of the projects which will enable the Council to deliver the savings targets as set out in the draft MTFS;
- £316,000 to enable the Council's leisure and cultural services provider to support the Council's policy to freeze fees and charges until 2016/17.

10.5 Where appropriate, the Cabinet considers applications for access to the funding provisions set out above.

10.6 At the end of the MTFS period, the Council will hold around £2.5m in General Fund Working Balance and £2.1m in earmarked reserves.

11. Capital

11.1 As at 31st March 2013, the Council held £8.7m of capital receipts and which are available to fund capital projects. The summary of the Capital Programme for the life of the MTFS is set out below:-

| | **2014/15 £000** | **2015/16 £000** | **2016/17 £000** | **2017/18 £000** |
|---|---|---|---|---|
| Disabled Facilities Grants (net of central government capital grant) | 520 | 520 | 520 | 520 |
| IT (to be funded from revenue) | 250 | 250 | 250 | 250 |
| Other approved schemes | | 80 | | |
| Environmental Service Depot | 2,195 | | | |
| Provision for new capital investment - for example replacement waste and environmental services vehicles, investment in car parks, flooding | 1,105 | 310 | 300 | 100 |
| **Total** | **4,070** | **1,160** | **1,070** | **870** |

11.2 The detailed capital programme, together with the sources of financing are included within the Detailed Budget at **Appendix 'B'**.

11.3 The Council anticipates generating the following receipts over the life of the MTFS:-

| | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 |
|---|---|---|---|---|
| Disposal of Assets | 4,875 | | | |
| Right to Buy Receipts | 100 | 100 | 100 | 100 |
| Ubico Ltd contribution to vehicle assets | 364 | 425 | 368 | 343 |
| Other e.g. repayment of loans | 50 | 50 | 50 | 50 |
| **Total** | **5,389** | **575** | **518** | **493** |

11.4 At the end of the MTFS it is expected that the Council will have £5.8m in capital receipts remaining.

12. Risks

12.1 Details of the key budget risks are set out below.

12.2 The new Local Government Resource Regime brings additional risks or rewards in respect of the Business Rates element of the regime. The Government has proposed this Council's target income for 2014/15 at £1.673m. If the business rates yield paid to the Council (net of contributions to the Government, the County Council and tariff) is more than the target income, then a share of the increase comes to the Council but, if it collects less, then it could lose up to a maximum of 7.5% of its Business Rates income target. Being part of the Gloucestershire Business Rates Pool could expose the Council to losses in excess of the 7.5% safety net level. However, the governance arrangements for the Pool have a first principle that, initially, all authorities will be in a no better or no worse financial position that if they were operating outside a Pool. It is only after this principle has been applied that any subsequent Pool gains or losses are distributed. In effect, the Gloucestershire Pool is bearing the safety net risk.

12.3 Officers are aware of a significant backlog of appeals that remain with the Valuation Office from the 2010 business rate revaluations. Officers have used data from the Valuation Office to estimate the impact of successful appeals on business rates income for 2014/15. The Chief Finance Officers from across the Gloucestershire authorities reviewed the costs of appeals from April to August 2013 when considering the viability of the Gloucestershire Business Rates Pool for 2014/15. Actual appeal losses could be higher than estimated, which has been the case in 2013/14.

12.4 The Autumn Statement introduced various changes to business rates including an extension of small business rate relief from 50% to 100% for a further year and a new £1,000 discount for certain businesses with rateable values below £50,000. The Government has committed to compensating local government for the resulting lost business rate income. However, at the time of writing this report, final details of how the compensation scheme will operate and be accounted for are still awaited. There is a risk, therefore, that this Council and/or the Gloucestershire Business Rates Pool will not be fully compensated for the lost business rates income.

12.5 Risk has been transferred to the Council from the Government by the Council Tax Support scheme, which will see the Council financing any growth in support granted rather than the Government, as occurred under the old Council Tax Benefit regulations.

12.6 A number of grants were rolled into RSG and the Business Rates Retention Scheme from 2013/14, including Council Tax Support Grant, Homelessness Grant and Council Tax Freeze Grant relating to 2011/12. There is still uncertainty regarding funding for RSG after 2015/16. Provision has been made for further reductions in RSG over the life of the MTFS. These assumptions will be reviewed as further information is made available. There is a risk that as RSG is reduced, so the value of the grants rolled into RSG may also be eroded, leaving the Council exposed to the costs of service provision without the full funding to support the provision.

12.7 There are potential financial implications from the Public Protection legal case, either positive in terms of recovery of the Council's legal costs associated with the case, or negative in terms of an award of legal costs to the defendant.

12.8 While provision has been made within the strategy from 2014/15 in respect of pensions' auto-enrolment and, from 2016/17, in respect of changed to employers NI contributions as a result of changes to the second state pension, there is a risk that costs will be higher than the provision.

12.9 The income budget for Building Control was reduced by £60,000 in 2013/14 to reflect the reduced level of demand for the service since the recent recession. The reduced income budget has continued to be challenging for the service during 2013/14. However, as the economy is now recovering, it is anticipated that demand for Building Control services will increase over the coming years. The Building Control income budget for 2014/15 has therefore been remained unchanged and there is a risk that the service will not generate income to meet the budget. The situation will continue to be monitored during 2014/15. The 2014/15 budget contains an income contingency and this contingency will be used to mitigate the Building Control income if necessary.

12.10 There will be a general election in 2015 and a new Government may decide to review the method of allocating funding to local government. There is a risk therefore that Government funding may reduce further than anticipated over the medium term.

12.11 The Government has stated that it will carry out a review of the operation of the NHB scheme. There is a risk over the medium term to the value of NHB received by the Council.

13. Consultation Feedback

13.1 Parish Liaison Meetings took place during November 2013 where the budget proposals were presented. Residents and businesses within the District were able to feed into the budget setting process by responding to the consultation document which was placed on the Council's Website. A summary of the budget consultation responses is attached at **Appendix 'C'**.

13.2 The Audit and Scrutiny Committee considered the **draft** MTFS at its Meeting on 10th December 2013. The relevant extract from the Minutes of that Meeting is set out below:-

'RESOLVED that:

(a) the consultation draft of the Council's Medium Term Financial Strategy for 2014/15 to 2017/18 and the draft Budget Strategy for 2014/15 be noted;

(b) Officers be requested to provide the Committee with further updates in the light of the Chancellor's Autumn Statement;

(c) it be recorded that the Committee looks forward to being consulted on the next draft of the Council's Medium Term Financial Strategy for 2014/15 to 2017/18 and the draft Budget Strategy for 2014/15 at its Meeting scheduled to be held on 28th January 2014.'

13.3 The Committee also received the detailed budget proposals for 2014/15 at its Meeting on 28th January 2014. The key comments arising out of the Committee's deliberations were as follows:-

- It was noted that, although there was now a Joint ICT Team serving Cotswold and West Oxfordshire District Councils, all expenditure and activity was costed to the respective Councils. As such, the monies within this Council's MTFS related to costs to be attributed to/incurred by Cotswold DC only, with relevant allocations being included within the West Oxfordshire DC budget.

- Whilst noting the allocation of £70,000 for Flood Prevention works in 2014/15, the Committee felt that further and on-going provision should be made, albeit to support alleviation/prevention works which were part of a longer-term strategy, evidenced-based and, wherever possible, in partnership with other bodies/agencies (acknowledging, in particular, the County Council's lead authority status). A suggestion was made that, if monies could not be made available within existing reserves, the Council might wish to dispose of one or more of its property investments as a means of freeing funds (although the reduction in rental income was acknowledged, and would need to be quantified given its impact on the overall budget).

13.4 Since the Audit and Scrutiny Committee considered the detailed budget report, the following changes have been incorporated within the MTFS and proposed 2014/15 budget:

- Full provision for the cost of the leisure and cultural services contract has been incorporated within the 2014/15 budget (as opposed to using a smoothing reserve). Savings arising from later years in the contract have been incorporated within the Council's savings targets.
- The Pay Policy Statement has been updated to reflect the Audit and Scrutiny Committee concern over transparency with regard to the Chief Executive's pay arrangements.

14. Pay Policy Statement

14.1 Section 38 of the Localism Act requires local authorities to produce Pay Policy Statements, which should include the authority's policy on pay dispersion. Pay dispersion is the relationship between remuneration of Chief Officers and the remuneration of other staff. This requirement is incorporated within the 'Draft Local Authorities (Data Transparency) Code 2013', which has recently been issued by the Secretary of State for Communities and Local Government. The Secretary of State wants to ensure that key information in the Code is published by all local authorities and that authorities do so in a timely manner. Therefore, he is proposing to make regulations under Section 3 of the Local Government, Planning and Land Act 1980 to make it a legal requirement to publish data in accordance with Part 2 of the Code. The Code sets out details of information which local authorities will be required to be publish on a quarterly basis, and details of information which local authorities will be required to publish on an annual basis.

14.2 The Pay Policy attached at **Appendix 'D'** includes the following key requirements of the Localism Act 2011:-

- policy on pay for each of the 'in scope' Officers;
- policy on the relationship between Chief Officers and other Officers;
- policy on other aspects of remuneration, namely recruitment, increases in remuneration, performance related pay and bonuses, termination payments, and transparency.

15. Chief Finance Officer's Opinion

15.1 The Chief Finance Officer is required to comment on the robustness of the General Fund Revenue Budget Estimates and the adequacy of the Council reserves. I am satisfied that the proposed Budget Strategy for 2014/15 has been based on sound assumptions and that the Council has adequate reserves to fund its operations during 2014/15.

15.2 The Council has responded very proactively to the reductions in Government funding and other financial challenges posed by the economic situation of recent years, and has implemented significant changes which have enabled it to develop a balanced budget for 2014/15.

15.3 The 2014/15 budget includes a target to deliver savings of £316,000. Plans are already in place to deliver these savings; these plans, together with the Council's proven track record on delivering savings, give me confidence that these savings can be delivered.

15.4 As the Council's Chief Finance Officer, I believe that the highest risks within the Budget Strategy for 2014/15 are as set out in section 12 of this report.

(END)