



**6<sup>TH</sup> NOVEMBER 2014**

**CABINET**

**AGENDA ITEM (7)**

**DRAFT MEDIUM TERM FINANCIAL STRATEGY 2015/16 TO 2018/19**

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

<b>Purpose of Report</b>	To consider an update of the Medium Term Financial Strategy for the period 2015/16 to 2018/19.
<b>Recommendations</b>	(a) That the updated Medium Term Financial Strategy be considered and the proposed budget consultation process approved;  (b) That the allocation of Local Council Tax Support Grant to the Town and Parish Councils, detailed at Appendix 'B', be approved.
<b>Reason(s) for Recommendation(s)</b>	To inform the development of the detailed revenue and capital budgets for 2015/16 and to provide a basis for the budget consultation process.

<b>Ward(s) Affected</b>	All
<b>Key Decision</b>	Yes
<b>Recommendation to Council</b>	Not at this stage. The Council will consider the updated Medium Term Financial Strategy as part of the formal budget setting process in February 2015.

<b>Financial Implications</b>	Subject of the report
<b>Legal and Human Rights Implications</b>	None directly arising from this report
<b>Environmental and Sustainability Implications</b>	None directly arising from this report
<b>Human Resource Implications</b>	None directly arising from this report
<b>Key Risks</b>	See Section 10

<b>Related Decisions</b>	Budget 2014/15 - Council - 27 <sup>th</sup> February 2014 Business Rates Retention Scheme - Pooling - Council - 20 <sup>th</sup> November 2012 Review of local Council Tax Discounts - Cabinet - 7 <sup>th</sup> November 2013 Council Tax Support Scheme 2014/15 - Council - 17 <sup>th</sup> December 2013
<b>Background Documents</b>	None
<b>Appendices</b>	<b>Appendix 'A'</b> - Draft Medium Term Financial Strategy 2015/16 to 2018/19 <b>Appendix 'B'</b> - Allocation of Local Council Tax Support Grant to Town and Parish Councils

<b>Performance Management Follow Up</b>	The draft Medium Term Financial Strategy will form the basis of budget consultation as set out in the report. The outcome of the budget consultation process will be reported to the Cabinet and the Council in February 2015 as part of the budget setting process.
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<b>Options for Joint Working</b>	Preparation of the budget and monitoring financial performance is 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.
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<b>Background Information</b>	
1. <u>Background</u>	
1.1 In February 2014, the Council approved its Medium Term Financial Strategy (MTFS) for the period 2014/15 to 2017/18 and its associated budget proposals for 2014/15. The MTFS has been refreshed with the following assumptions:-	
<ul style="list-style-type: none"> <li>• provision for a pay award inflation of 2% per annum;</li> <li>• provision for inflation on service contracts in accordance with the underlying agreement or experience of cost increases of £150,000 for each of the next four years;</li> <li>• there will be a gradual increase in interest rates over the life of the MTFS, commencing in 2015/16 with an increase of 0.25%;</li> <li>• no inflation on fees and charges until 2016/17, then an increase of 2% per annum;</li> <li>• 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 2015/16 and 2016/17, followed by further increases of £200,000 per annum for 2017/18 and 2018/1,9 as a result of advice received by an independent actuary;</li> <li>• growth in the Council Tax base of 1% per annum;</li> <li>• growth in the number of new properties attracting New Homes Bonus (NHB) of 350 per annum, and an assumption that 35% will also attract the affordable homes premium; the New Homes Bonus budget being capped at £2.7m, with surplus New Homes Bonus being</li> </ul>	

available to fund one-off expenditure on projects which support the Council's priorities;

- growth in retained business rates reflecting impact of an inflationary increase in the small business rates multiplier and estimates of known growth (for example, new supermarkets, solar farms etc. which are under construction);
- the Government will compensate this Council for the full financial impact of announcements in the 2013 Autumn Statement which reduces the overall yield from business rates and therefore impacts on the Council's value of retained business rates;
- cuts in Revenue Support Grant (RSG) of 30% in 2015/16 and 2016/17 to reflect the fact that growth in New Homes Bonus will be top-sliced nationally from the funding available for distribution as RSG. Cuts in 2017/18 and 2018/19 of 20% and 25% as a consequence of the on-going national austerity measures;
- a Council Tax cut of 3% in 2015/16, followed by inflationary increases of 1.99% per annum.

1.2 The draft MTFS 2015/16 to 2018/19 is attached at **Appendix 'A'**.

## 2. Unavoidable Budget Pressures

2.1 The Council is facing costs pressure from the cost of the Local Government Pension Scheme. In accordance with the outcome of the actuarial review of the Gloucestershire Scheme, the Council needs to make provision for growth in contributions to the Pension Fund of £202,000 for each of the next two years (2014/15 and 2015/16). As part of the work on the 2020 Vision for Joint Working, the Council has received advice from an independent actuary which indicates that further provision needs to be made for increased pension contributions in later years. Further growth of £200,000 in both 2016/17 and 2017/18 has therefore been included within the Strategy.

2.2 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 Strategy.

## 3. Savings Targets

3.1 The MTFS includes the following savings targets:-

	2015/16	2016/17	2017/18	2018/19	Total
	£000	£000	£000	£000	£000
Savings	£336	£509	£449	£150	£1,444

3.2 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 and the 2020 Vision for Joint Working Programme. A number of projects have been identified to deliver the savings targets. The projects are predicted to deliver savings as profiled below:-

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
Leisure and Museum Procurement	11	34	24		69
2020 Vision	50	425	375	150	1,000
Savings identified from 2013/14 outturn	100				100
Review of Wards	40				40
Planning Income	100				100
Reduced External Audit Fees	15				15
Reduced LCTS Grant to Town and Parish Councils	20				20
Gloucestershire Business Rates Pool		50	50		100
<b>Total</b>	<b>336</b>	<b>509</b>	<b>449</b>	<b>150</b>	<b>1,444</b>

#### 4. Revenue Funding New Homes Bonus

4.1 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 RSG, which will reduce significantly over the next two years to compensate for the NHB payments.

4.2 The value of NHB available to the Council for 2015/16 has been estimated as £2,578,959. The final value will be confirmed within the final MTFS in February 2015. It has been assumed that the annual value of NHB available to the Council (from 2016/17) will be £2.7m. This is based on average growth in new homes at 350 per annum, with 35% also attracting the affordable homes premium. Although the Council has experienced above average growth in new homes over the past four years, and could therefore anticipate receiving NHB in excess of £3m, this is not expected to be at a sustainable level of development for the District and would therefore mean that the value of NHB reduces over time. The capping of the value of NHB used in the base budget at £2.7m is a prudent approach to budgeting and will mitigate against the risk of NHB falling dramatically as a result of housing development returning to sustainable levels. Should NHB exceed the budget provision of £2.7m, the excess funding will be available to support one-off initiatives which support the delivery of the Council's priorities.

4.3 The MTFS reflects the estimated reductions in RSG as it is top-sliced to fund the growth in NHB.

#### 5. Business Rates and the Gloucestershire Business Rates Pool

5.1 The Business Rates Retention Scheme was introduced on 1<sup>st</sup> 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 20%. 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.

5.2 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.

5.3 The Gloucestershire Chief Finance Officers have monitored the financial performance of the Business Rates Pool during 2013/14 and for the first six months of 2014/15. At the time of writing this report, the performance of the Pool has exceeded expectations for 2013/14 and is still expected to generate an overall surplus for 2014/15. However, the final 2014/15 position will not be known until the summer of 2015 when the final out-turn position is declared for each Gloucestershire billing authority. At the time of writing this report, it is expected that the Chief Finance Officers will recommend that the Pool continues in its existing format for 2015/16.

5.4 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, which reduces the business rates yield in the year in which the refund is made. The Council has made a provision for the cost of outstanding appeals. However, there is a risk that the actual value of successful appeals may exceed the provision.

5.5 There was recognition in the Autumn Statement 2013 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.

5.6 The Autumn Statement 2013 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 businesses with a rateable value below £50,000. The Council will receive a grant to compensate for the lost retained business rates in 2014/15. It is assumed that similar arrangements will continue over the life of the MTFS.

5.7 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 Department for Communities and Local Government (DCLG). The return for 2015/16 will be completed during January 2015. The Council's final budget for 2015/16 will therefore be subject to the final figures in the NNDR 1 and are highly likely to vary from those contained within this report.

5.8 It is possible that there will be a surplus or deficit of business rates from 2014/15 which will be need to form part of the budget proposals for 2015/16. 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 2014/15 will be broadly in line with the 2014/15 estimates, and that a surplus or deficit will not need to be reflected in the budget for 2015/16.

## 6. Council Tax

6.1 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.

6.2 For 2015/16, the proposed MTFS assumes a cut to Council Tax of 3%. With effect from 2016/17, annual increases of 1.99% have been incorporated.

6.3 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.

6.4 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 2015/16.

## 7. Collection Fund

At this point in time, it is not known if there will be a surplus in the Collection Fund at the end of the 2014/15 financial year. Any surplus which is available to the Council will be included in the final version of the MTFS in February 2015.

## 8. Revenue Reserves

8.1 As at 31<sup>st</sup> March 2014, the Council held £2.8m in General Fund Working Balances and £4.1m in earmarked reserves. Of the earmarked reserves, £2.5m 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.

8.2 In the previously approved MTFS, provision was made for one-off budget pressures such as development of the Council's Local Plan, costs of defending unusually high levels of planning appeals, costs associated with the One Team change programme, and investment in the local authority mortgage scheme.

8.3 It is recommended that provision is made for the Council Priorities Fund to fund the following new items:-

- a contribution of £500,000 to the 2020 Vision for Joint Working programme;
- a contribution of £500,000 towards the potential development of the Corinium Museum;

8.4 Where appropriate, the Cabinet will consider applications for access to the funding provisions set out above.

8.5 At the end of the MTFS period, the Council will hold around £2.8m in General Fund Working Balance and £1.8m in earmarked reserves. The movement in General Fund Working Balance is shown in **Appendix 'A3'**.

## 9. Capital

9.1 As at 31<sup>st</sup> March 2014, the Council held £7.9m of capital receipts, which are available to fund capital projects. At the end of March 2015, it is expected that the Council will hold £5.9m of capital receipts. The summary of the Capital Programme for the life of the MTFS is set out below:-

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Disabled Facilities Grants (net of central government capital grant)	520	520	520	520
IT (funded from revenue)	250	250	250	250
Investment in replacement equipment at leisure centres (existing provision)	80			
<b>Provision for new capital investment:</b>				
Replacement waste and environmental services vehicles	420	630	265	130
Investment in car parks	310	300	100	150
Provision for investment in replacement equipment at leisure centres above existing funding available	300			
Provision for capital investment to support 2020 Vision for Joint Working	250	250		
Scanning of planning documentation	150			
Capital Budget rolled forward from 2014/15	1,500			
<b>Total</b>	<b>3,780</b>	<b>1,950</b>	<b>1,135</b>	<b>1,050</b>

9.2 The Council anticipates generating the following capital receipts and receiving capital grants as follows:-

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Disabled Facilities Grant	422	422	422	422
Disposal of Assets	4,275			
Right to Buy Receipts	100	100	100	100
Ubico Ltd contribution to vehicle assets	425	368	343	343
Other e.g. repayment of loans	50	50	50	50
<b>Total</b>	<b>5,272</b>	<b>940</b>	<b>915</b>	<b>915</b>

9.3 The expected balance of capital receipts over the life of the MTFs is set out below:-

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
<b>Balance of capital receipts</b>	<b>7,189</b>	<b>6,007</b>	<b>5,615</b>	<b>5,308</b>

## 10. Risks

10.1 The key budget risks are detailed below.

10.2 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 2015/16 at £1.7m. 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 (£129,000). 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.

10.3 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 Gloucestershire Chief Finance Officers are reviewing the costs of appeals from April to September 2014 when considering the viability of the Gloucestershire Business Rates Pool for 2015/16. Actual appeal losses could be higher than estimated, which was the case for this Council in 2013/14.

10.4 The Autumn Statement 2013 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 committed to compensating local government for the resulting lost business rate income. It is assumed that the Government will continue to compensate local government in a similar way.

10.5 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.

10.6 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.

10.7 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.

10.8 While provision has been made within the MTFs 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.

10.9 The income budget for Building Control has been reduced to reflect the reduced level of demand for the service since the recent recession. However, the reduced income budget has continued to be challenging for the service during 2014/15. There is a risk that the service will not generate income to meet the budget.

10.10 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.



10.11 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.

10.12 The Government is introducing the Single Fraud Investigation Services (SFIS) which will take on responsibility for investigating Housing Benefit Fraud from local authorities. The Department for Works and Pensions (DWP) has announced that the administration grant payable to local authorities will be reduced to recognise the transfer of responsibilities. Staff working on housing benefit fraud will be entitled to transfer across to the SFIS team. There is a risk that the income generated as a result of proactive counter-fraud work, **and** the additional housing benefit subsidy which this attracts, may be impacted by the transfer of responsibilities to the SFIS team. The SFIS team will have a wider remit in terms of investigatory work, but is only expected to transfer 65% of the Officers currently involved in local authority housing benefit counter-fraud work.

10.13 Whilst there will be a saving to the Council from the transfer of staff to the new SFIS team, there are responsibilities which will remain with the Council (for example, processing calls to the fraud hotline and liaison with the SFIS). There is also a risk of losing the investigatory skills from the team which could be redeployed to counter fraud in Council Tax collection, Business Rates collection or other corporate fraud, which would have a direct financial benefit to the Council. It is assumed that the impact on the Council's budget will be neutral, with the reduced Government grant being offset by savings from staff transferring to the SFIS team.

10.14 The Government has included provisions for changes to legislation in the Infrastructure Bill which, if enacted, would see Land Registry becoming the sole registering authority for Local Land Charges. Royal Assent is expected in the early part of 2015 and the Land Registry is now engaging with local authorities in order to assess and understand the impact of transferring the service. The implications for both the costs of the service and the income generated from the land charges services are unclear at the time of writing this report.

## 11. Consultation

11.1 Parish Liaison Meetings are planned to take place on 24<sup>th</sup> November 2014 and 1<sup>st</sup> December when the budget proposals will be presented. Residents and businesses within the District will be able to feed into the budget setting process by responding to the consultation document, which will be available on the Council's Web Site.

11.2 The Audit and Scrutiny Committee will consider the draft MTFS at its Meeting on 9<sup>th</sup> December 2014.

## 12. Local Council Tax Support Grant for Town and Parish Councils

12.1 The Council was required to establish a local scheme for Local Support for Council Tax to come into effect from 1<sup>st</sup> April 2013, replacing the national Council Tax Benefit Scheme. The Local Council Tax Support (LCTS) scheme operates in a similar way to discounts, such as for empty properties or single person occupiers. Rather than being accounted for as a benefit cash payment, the Council Tax base is reduced. Whilst this has no impact for the individual Council Tax Payer, a lower Council Tax base reduces the yield in Council Tax to this Council, Gloucestershire County Council, the Gloucestershire Police Authority and Town/Parish Councils. To offset this impact, the Government pays a cash grant to all local authorities. The element of grant attributable to Town/Parish Councils is paid to the billing authority (i.e. this Council). It is for each billing authority to agree with its Town/Parish Councils any mechanism for paying over a share of the overall grant paid to the billing authority.

12.2 The grant for LCTS has been "rolled" in to the RSG and the Retained Business Rates Baseline Funding Position. The value of RSG payable to this Council in 2015/16 will reduce by around £600,000 (30%). However, this cut will be offset by growth in the business rates baseline for retained business rates of around £50,000 (3%). As the coalition Government funding reduces, the Council will be under pressure to reduce the funding available for LCTS available to Town/Parish Councils.

12.3 Responsibility for allocation of the grant to all Town/Parish Councils in the District has been delegated to the Chief Finance Officer, in consultation with the Leader of the Council. However, it is timely to include the proposed allocation for 2015/16 within the overall MTFS.

12.4 It is anticipated that there will be a reduced impact on the District Council Tax Base in 2015/16 from the LCTS scheme (i.e. the overall tax base will be higher). The impact for 2015/16 per Town/Parish Council is detailed at **Appendix 'B'**.

12.5 The following principles have been applied when determining the allocation of the grant to Town and Parish Councils for 2015/16:-

12.5.1 Where a Town/Parish Council Tax Base has been uplifted as a result of reduced costs of LCTS, the LCTS grant has been reduced by the resultant gain in Council Tax income.

12.5.2 When the total income<sup>1</sup> to a Town/Parish Council for 2015/16 is less than the total income for 2014/15:

- **And** there was no LCTS grant payable in 2014/15, grant has been awarded to mitigate the loss to the Council in full;
- **And** the loss is partially due to an increase in LCTS, grant has been awarded to compensate for the increase in LCTS but not for other changes in the tax base.

12.6 Due to the boundary change affecting Preston Parish Council, the value of LCTS grant has been reduced in accordance with the % reduction in LCTS impact on Band D equivalents, rather than the change in the tax base.

12.7 **Appendix 'B'** details the Council Tax base for each Town/Parish Council for 2015/16, and the value of LCTS grant being made available for 2015/16 together with the calculation to determine the value of LCTS Grant applicable. It is recommended that the Cabinet approves this allocation of grant for 2015/16.

(END)

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<sup>1</sup> Total income = LCTS grant + yield from council tax  
Yield from council tax is calculated as Town or Parish Council tax base x Band D council tax 2014/15