COTSWOLD
DISTRICT COUNCIL

CABINET **5TH FEBRUARY 2015**

AGENDA ITEM (7)

DRAFT MEDIUM TERM FINANCIAL STRATEGY 2015/16 TO 2018/19 AND BUDGET 2015/16

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

Purpose of Report	To consider an update of the Medium Term Financial Strategy for the period 2015/16 to 2018/19 together with detailed budget proposals for 2015/16.
Recommendations	(a) **That the Medium Term Financial Strategy 2015/16 to 2018/19, the Capital Programme 2015/16 to 2017/18, the Net Budget Requirement for 2015/16 detailed at paragraph 9.1 below, and the Pay Policy Statement 2015/16 attached at Appendix 'D' to this report, be approved;** (b) **That the reserves identified in paragraph 10.6 below be closed and the balances held therein transferred to the Council Priorities Fund Reserve.**
Reason(s) for Recommendation(s)	To make recommendations to the Council on the budget for 2015/16.

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

Financial Implications	Subject of 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: • implementation of the Business Rates Retention Scheme; • replacement of the existing Council Tax Benefit system with local Council Tax Support; • implementation of changes to council tax rules to provide some local flexibility on the council tax local authorities can charge on empty properties.

	All of the above changes came into effect for the 2013/14 financial year. Section 38 of the Localism Act 2011 requires local authorities to produce Pay Policy Statements.
Environmental and Sustainability Implications	None directly arising from this report
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
Related Decisions	Medium Term Financial Strategy 2014/15 to 2017/18 and Budget 2014/15 - Council - 27th February 2014 Business Rates Retention Scheme - Pooling - Council - 20th November 2012.
Background Documents	None
Appendices	**Appendix 'A'** - Medium Term Financial Strategy 2015/16 to 2018/19 **Appendix 'B'** - Detailed Budget 2015/16 **Appendix 'C'** - Summary of budget consultation responses **Appendix 'D'** - Pay Policy Statement (N.B. Appendix to follow)

Performance Management Follow Up	Once the budget has been agreed, performance will be reported quarterly to the Cabinet and to the Audit and Scrutiny Committee.

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 2014, the Council issued its draft Medium Term Financial Strategy (MTFS) for the period 2015/16 to 2018/19 and its associated budget proposals for 2015/16 for public consultation.

1.2 On 18th December 2014, the Local Government Minister announced the provisional local government settlement for 2015/16. Due to the general election which will take place in 2015, no indicative or provisional figures have been supplied for 2016/17 or later years. The final settlement for 2015/16 is due to be announced early in February 2015. The draft MTFS will be updated for any significant changes prior to consideration by Council on 24th February 2015.

1.3 The proposed levels of Government funding for this Council are set out in the table below which also shows recent reductions in funding. Overall, core Government funding (referred to as the Settlement Funding Assessment) will reduce by 12.5% in 2015/16.

	2013/14	2014/15	Provisional 2015/16	Final 2015/16
Revenue Support Grant	£2,466,458	£2,003,593	£1,404,202	£1,510,389
Baseline Funding (Target level of retained business rates)	£1,640,867	£1,672,832	£1,719,003	£1,704,797
Settlement Funding Assessment	**£4,107,325**	**£3,676,425**	**£3,123,205**	**£3,215,186**
Overall Reduction in Funding		£430,900 10.5%	£553,220 15%	£461,239 12.5%

1.4 The Council has benefited from the inclusion of council tax freeze grant (2014/15) and rural services delivery grant within the Revenue Support Grant element of the settlement funding assessment.

2. New Homes Bonus (NHB)

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 in 2015/16 and 2016/17 to compensate for the NHB payments.

2.2 The Government has announced the allocation of NHB Grant for 2015/16. For this Council, NHB Grant will increase by £614,959 from £1,949,831 to £2,564,790. The grant recognises net growth in the Council Tax base of 442 properties between October 2013 and October 2014 and the development of 74 affordable housing units.

2.3 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 help to 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.

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

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 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.

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. The overarching aim of the Pool is to ensure that no authority within the Pool should be worse off than if it were not in the Pool.

3.3 The Pool aligns with the Gloucestershire Local Enterprise Partnership (LEP). It includes all 6 Districts and the County Council, all of whom have made a clear decision to endorse and form the Gloucestershire LEP. The Pool will set aside 20% of the pool surplus (after compensating any authorities in line with the overarching aim of the pool and making any provision for a pool reserve) for a Strategic Economic Development Fund, where funding can be accessed to support shared economic strategic priorities within Gloucestershire.

3.4 In June 2014, the LEP submitted the Gloucestershire Strategic Economic Plan (SEP) to the Government to bid for resources from the Local Growth Fund. The bid successfully secured £62.5m to support the SEP. As part of the governance arrangements for the delivery of the SEP, the Gloucestershire Economic Growth Joint Committee (GEGJC) has been established with Gloucestershire County Council as the accountable body to receive the Local Growth Fund monies. The GEGJC will work closely with the LEP to ensure delivery of the SEP.

3.5 The Local Authority contribution to the delivery of the SEP includes the Strategic Economic Development Fund. This fund will therefore be administered by the GEGJC.

3.6 The Gloucestershire Chief Finance Officers have monitored the financial performance of the Business Rates Pool during 2014/15 and, at the time of writing this report, the performance of the Pool is still indicating a financial benefit to the whole of Gloucestershire. However, the final position will not be known until the summer when the final out-turn position is declared for each Gloucestershire billing authority.

3.7 The Chief Finance Officers have reviewed the viability of the Business Rates Pool for 2015/16 and have recommended to the GEGJC that the Pool continues in its current form. However, the viability of the Pool can only really 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). Any decision to dissolve the Pool is statutorily required by 15th January 2015 (i.e. before the returns are due to be completed and returned to 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 have taken a pragmatic view to recommend continuing with the Pool in 2015/16, in line with the recommendation made in the autumn.

3.8 In September 2014, the GEGJC resolved to: "*Invite each member district council to consider establishing a Local Economic Development Fund (LEDF) using all or part of the 80% distributed Business Rate Pool surplus and that each LEDF, where established, is used at the discretion of the member council to support economic growth which benefits its area.*"

3.9 In the early years of the pool (2013/14 and 2014/15), while the pool is becoming established and experience gained, this Council has taken a prudent approach to incorporating any pool surpluses within its operational budget. This strategy continues to assume that the business rates pool will not make a sustainable financial contribution to this Council until 2016/17 when a £50,000 financial contribution has been assumed. The value of that contribution has been assumed to increase to £100,000 in 2017/18. The outturn for 2013/14 was disappointing for this Council as it found itself in a deficit against the government set baseline target. The deficit was high enough to trigger a safety net payment from the pool. However, the overall pool made a surplus of around £772,000 and this Council benefited from £25,161 as its share of the surplus. Any surplus available from 2014/15 will be reported in June 2015. It would be appropriate for the Council to consider establishing a LEDF when it receives details of the financial outturn for 2014/15.

3.10 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 of £467,000 within its 2013/14 accounts. As at 31st December 2014 there were 152 appeals outstanding with a rateable value of £9.2m. Analysis of trend data has indicated that resolved appeals have reduced the rateable value by 4.2%. When this trend is applied to the outstanding appeals, the financial risk can be quantified at £185,000 per annum. Assuming that all successful appeals are backdated to 1 April 2010, the appeal refund risk is £924,000. The Council's share of this risk is £370,000. This risk is within the existing established provision. This strategy assumes that the provision will be maintained at its current level in order to provide some contingency for future appeals which could be presented to the Valuation Office.

3.11 In the 2013 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.

3.12 The Autumn Statements in 2013 and 2014 included an extension to the Small Business Rate Relief from 50% to 100% for each year, as well as introducing a new £1,000 discount for small business with a rateable value below £50,000 (2014/15) which was increased to £1,500 for 2015/16. A commitment has been made to fully compensate local government for lost business rates. This compensation will be paid by a specific grant from DCLG (section 31 grant). It is assumed that similar arrangements will continue over the life of the MTFS.

3.15 The budget for 2015/16 includes key data from the business rates estimates for 2015/16 (NNDR 1). ***The table below shows indicative figures from early work on the NNDR1 return. Any estimated surplus or deficit in respect of 2014/15 will need to be incorporated within the final business rates figures. The figures set out below will change once the NNDR 1is finalised*.**

	2015/16 £
Estimate of retained business rates (inc £60,000 from new solar farms)	12,079,540
Tariff to government	(10,223,964)
Grant to compensate for government decisions (e.g. Small business rate relief and Localism Act reliefs)	791,322
Estimated levy payable to government	(426,229)
Net retained business rates	**2,220,669**

3.16 The net business rates estimates for 2015/16 of £2,220,669 exceeds the government's baseline funding level of £1,704,797 by £515,872.

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. The referendum limit for 2015/16 has been announced at 2%. As part of the consultation on the Local Government Provisional Settlement 2015/16, the Government is consulting on whether the highest spending parishes should be subject to the same referendum principle as the rest of local government.

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

4.3 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 (£50,839). 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.

5. <u>Collection Fund</u>

5.1 It is estimated that the Council Tax element of the Collection Fund will end the financial year with a surplus of £711,200. This Council will receive £91,790, with the balance being payable to other major precepting authorities.

6. <u>Financial Planning Assumptions</u>

6.1 The financial planning assumptions included within the report to the Cabinet in November 2014, have been reviewed and updated to reflect the current economic circumstances. The assumptions have been applied to the Council's base budget for 2014/15:-

(i) pay-award inflation reflecting the impact of the agreed 2014/15 and 2015/16 combined settlement. Provision of 2% has been included from 2016/17 onwards;

(ii) inflation on service contracts (e.g. Ubico Ltd, APCOA) of 2%;

(iii) 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%;

(iv) no inflation on fees and charges until 2016/17, then 2% per annum. A review has been carried out of fees and charges remaining within the control of the Council and the impact of the inflationary increases has been modelled on controllable fees and charges.

(v) 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;

(vi) growth in the council tax base of 1% per annum;

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

(viii) 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);

(ix) the Government will compensate this Council for the full financial impact of announcements in the 2013 and 2014 Autumn Statements which reduces the overall yield from business rates and therefore impacts on the Council's value of retained business rates;

(x) cuts in Revenue Support Grant (RSG) of 25% in 2015/16, 38% in 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 38% and 36% as a consequence of the on-going national austerity measures;

(xi) a Council Tax cut of 3% in 2015/16, followed by inflationary increases of 1.99% per annum.

7. Unavoidable Budget Pressures

7.1 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 (2015/16 and 2016/17).

7.2 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.

7.3 The Cabinet decided on 4th December 2014 to implement certain changes to car parking fees including the removal of overnight charges at the Brewery car park in Cirencester and changes to the charging period on Sundays. The financial impact of this decision has been incorporated within the budget for 2015/16

7.4 Interest receivable has been increased both to reflect the economic forecast of gradual increases to interest rates over the life of the Strategy and income from Ubico Ltd in respect of the Council financing replacement vehicles utilised by the company in performance of the contract for this Council.

7.5 The Council receives an incentive grant from Gloucestershire County Council in recognition of the Council's performance in diverting waste away from landfill. The volume of waste being presented to landfill is slightly higher than anticipated and the incentive grant is therefore slightly lower and the budget needs to be adjusted accordingly.

7.6 The Council is receiving two separate cuts to the specific government grants for housing benefit and local council tax support administration. The first cut relates to the introduction of the Single Fraud Investigation Service. Responsibility for the investigation and prosecution of Housing Benefit fraud has transferred from this Council to the Department for Works and Pensions. The administration grant is being cut by £32,000 as a result of the introduction of the Single Fraud Investigation Service. In addition, the Council is receiving a further general cut of £41,000 to the value of the administration grant as the DWP passes on its departmental savings targets to councils. In total the specific government grants are being cut by £73,000.

8. Savings Targets

8.1 The MTFS includes the following savings targets:-

	2015/16 £000	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**
Savings	£491	£459	£504	£190

8.2 The targets have been reviewed and updated to reflect deliverable savings over the next four years. The Council plans to achieve the bulk of these savings targets through the implementation of the 2020 Vision for Joint Working which was endorsed by this Council and the 2020 Vision partner Councils: Cheltenham Borough Council, Forest of Dean District Council and West Oxfordshire District Council in December 2014. The estimated costs and annual savings to this Council through the 2020 Vision are set out in the table below:-

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6-10	**Total Years 1-10**
	£000	£000	£000	£000	£000	£000	£000
Estimated Costs							
Capital	305	75	125	125	125	0	755
Revenue	325	405	320	75	75	0	1,200
Total	**630**	**480**	**445**	**200**	**200**	**0**	**1,955**
Funded By:							
TCA Bid 2015/16	630	95					725
Partner Council Contributions	0	385	445	200	200	0	1,230
Total	**630**	**480**	**445**	**200**	**200**	**0**	**1,955**
Savings: Annual	**60**	**375**	**430**	**190**	**35**	**180**	**1,270**

8.3 Further detail on plans to deliver the savings targets are set out in the table below:

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Leisure and Museum Contract		34	24	
2020 Vision	60	375	430	190
Savings Ubico Ltd contract	50			
Review of Wards	40			
Reduced external audit fees	15			
Reduced grant to Town and Parish Councils re Local Council Tax Support Scheme	20			
Bank contract - procurement saving	19			
CCTV Residual budget saving	42			
Realignment of planning income	100			
Removal of contingency items from budget (e.g. power, equipment)	100			
Realignment of green waste income to reflect service demand	45			
Gloucestershire Business Rates Pool		50	50	
Total	**491**	**459**	**504**	**190**

9. Net Budget Requirement

9.1 A summary of the impact on the Council's net budget requirement for 2015/16 is set out below:-

Summary of Changes to Net Budget Requirement	**£**
Net Budget Requirement 2014/15	**10,821,335**
Inflationary pressure - expenditure budgets	166,000
Unavoidable budget pressures 2015/16 - expenditure	202,000
Unavoidable budget pressures 2015/16 - income	52,000
Savings	(491,000)
Net Budget Requirement 2015/16	**10,750,335**

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

		£	£
Net Budget Requirement 2015/16			**10,750,335**
Revenue Support Grant		1,510,389	
Business Rates Retention / Net Income (including renewable energy)	1,855,576		
Collection Fund Deficit – Business Rates			
Business Rates s 31 Grant	791,322		
Business Rates Levy	(426,229)		
Business Rates Smoothing Reserve			
Net Business Rates Income		**2,220,669**	
Council Tax payers @£129.06 Band D		4,807,549	
Collection Fund Surplus		91,790	
New Homes Bonus		2,564,790	
Council Tax Freeze Grant		50,839	
Total Funding			**11,246,026**
Budget Surplus			**495,691**

9.3 The proposed budget strategy would give rise to a Council Tax of £129.06 per Band D equivalent property (a Council Tax cut of 3%).

9.4 The proposed budget assumes a budget surplus of £495,691. Given the risks surrounding the business rates figure which is highlighted in this report, and the risk to the level of central government funding through Revenue Support Grant, New Homes Bonus and Business Rates Retention post the General Election; it is proposed that the budget surplus is used to increase the Council's General Fund Working Balance. This will provide the Council will some financial stability over the coming years where there will be further austerity measures implemented by central government and therefore funding cuts to local government.

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

10. Revenue Reserves

10.1 As at 31st 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.

10.2 In previously approved MTFS (2014/15 to 2017/18), provision has been made for the following one-off budget pressures:-

- £500,000 for the development and examination of the Council's Local Plan;
- A second payment of £267,000 related to the transfer of responsibility for Dual-Use leisure facilities to to Farmor's School, Fairford and Sir William Romney's School, Tetbury;
- £100,000 of one-off legal costs associated with a Public Protection case;

- £50,000 for projects to support transformational change;
- £100,000 funding for flood works;
- £316,000 to enable the leisure and cultural services provider to support the Council's policy to freeze fees and charges until 2016/17;
- £70,000 to provide officer support for Town and Parish Councils with negotiations with developers in their communities;
- £565,000 to fund the 2013/14 retained business rates deficit which is included within the budget for 2014/15.

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

- £50,000 to contribute towards redevelopment work at the Corinium Museum (subject to a satisfactory outcome from a bid to the Heritage Lottery Fund;
- £780,000 revenue contribution towards the implementation costs of the 2020 Vision. This provision is in addition to a capital contribution of £450,000, total provision for contributions to the 2020 Vision £1,230,000;
- a further £100,000 for flooding prevention works.

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

10.5 At the end of the MTFS period, it is expected that the Council will hold around £2.5m in General Fund Working Balance and £1.3m in earmarked reserves.

10.6 As part of the update of the MTFS, a review has been carried out of existing earmarked reserves and six reserves have been identified for closure and it is recommended that the remaining balances are transferred to the Council Priorities Fund Reserve. Details of the reserves are set out below:

Ledger Code	Reserve Name	Existing balance £
XX0774	New Burdens Funding	13,420
XC0029	One Team Programme (unallocated funding)	63,676
XX9875	Leisure Options Appraisal	20,143
X9955	Building Control Improvement Fund	9,753
XX0712	Tree Maintenance Fund	23,522
XX0772	Recession Support Fund	66,830

11. Capital

11.1 As at 31st March 2014, the Council held £8.1m of capital receipts and capital grants which are available to fund capital projects. A 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 (to be partially funded through external grant)	942	942	942	942
IT (to be funded from revenue)	250	250	250	250
Investment in replacement equipment at leisure centres (existing provision)	80			
Carried forwards from 2014/15	1,500			
Provision for new capital investment				
Replacement waste and environmental services vehicles and equipment	485	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		75	125	125
Scanning of planning documentation	150			
Provision for costs of Disposal of Assets	280			
Total	**4,297**	**2,197**	**1,682**	**1,597**

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 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	422	365	341	305
Other e.g. repayment of loans	50	50	50	50
Total	**5,269**	**937**	**913**	**877**

11.4 The expected balance of capital receipts and capital grants over the life of the MTFS is set out below:

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000
Capital receipts and useable capital grant	**7,247**	**6,237**	**5,718**	**5,248**

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 2015/16 at £1.705m. 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 (£127,860). 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 2015/16. The Chief Finance Officers from across the Gloucestershire authorities reviewed 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 in 2013/14.

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 One of the key risks to the amount of RSG distributed is the level of top slice required to finance New Homes Bonus. Should payments of New Homes Bonus nationally be higher than projected then additional top slice will be necessary from RSG to meet government funding limits.

12.8 The second major risk in respect of RSG is the continuing public sector deficit still running at some £100bn annually but targeted to be eradicated by 2020. The last spending review carried out by the Chancellor identified further cuts to local authority spending and any new government coming to power in 2015 will need to continue these and probably increase them as other services such as the NHS continue to be protected from cuts. On the basis of the above factors the RSG reduction trajectory has been steepened. The Leader of the Opposition has already signalled that an incoming Labour Government will abolish New Homes Bonus and revise the way this funding is returned to local government. Officers are current modelling alternate funding distributions to analyse the potential impact.

12.9 Risks in respect of business rates income are focused mainly around appeals risk and this is mitigated by the holding of an appeals reserve in the Collection Fund. From April 2017 a new rating list will come into force and there is a risk that rateable values will fall from the levels of the 2010 list and this could therefore have an impact upon business rates income.

12.10 In 2020 a business rates reset is anticipated and there is a risk that the balance of RSG and Business Rates could alter significantly at the reset leading to significant cliff edges in funding streams.

12.11 While provision has been made within the strategy in respect of changed to employers NI contributions as a result of changes to the second state pension from 2016/17, there is a risk that costs will be higher than the provision.

12.12 The income budget for Building Control has been reduced 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 2014/15. There is a risk that the service will not generate income to meet the budget.

12.13 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 reduced to recognise the transfer of responsibilities. There is a risk that the additional housing benefit subsidy attracted for identified fraud, 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.

12.14 Whilst there would 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. Cabinet will consider, as a separate item on this agenda, a business case for retaining the budget for counter-fraud work in the Council. This strategy assumes that the budget for the counter-fraud resource will be retained.

12.15 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.

12.16 The budget for investment income assumes that capital receipts of £4.3m will be generated from the disposal of certain land and property assets during 2015/16. Should the disposal of these assets take longer than anticipated, there will be an impact upon the Council's ability to meet its investment income target. In addition, the strategy assumes that interest rates will gradually increase over the life of the strategy and that the initial increase of 0.25% will take place in the later part of 2015/16. The increase in interest rates will depend upon changes in economic conditions, not just in the UK but also in the Eurozone, the United States and globally.

12.17 As the number of households in the district increases, there will be an increasing demand for council services. This is particularly true for environmental services such as refuse and recycling. The Strategy provides for the impact of inflationary increases on the cost of these services and assumes that the services can absorb additional demand over the life of the strategy.

13. Consultation Feedback

13.1 Parish Liaison Meetings took place during November and December 2014 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 9th December 2014. The relevant extract from the Minutes of that Meeting is contained within **Appendix 'C'.**

13.3 The Committee also received the detailed budget proposals for 2015/16 at its Meeting on 27th January 2015. The key comments arising out of the Committee's deliberations will be reported to Cabinet at the meeting.

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 2015/16 has been based on sound assumptions and that the Council has adequate reserves to fund its operations during 2015/16.

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 not only develop a balanced budget for 2015/16 but also to plan to build further financial stability by increasing the value of General Fund Working Balance.

15.3 The 2015/16 budget includes a target to deliver savings of £502,000. 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 risks within the Budget Strategy for 2015/16 are included in section 12 of this report. In the medium term, the highest risk are associated with the principal variable revenue streams of New Homes Bonus and Business Rates. These risks carry both estimation and delivery risk.

(END)