



CABINET

19TH NOVEMBER 2015

AGENDA ITEM (7)

DRAFT MEDIUM TERM FINANCIAL STRATEGY 2016/17 TO 2018/19

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 2016/17 to 2018/19.
Recommendations	(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 Town/Parish Councils/Meetings, detailed at Appendix 'B', be approved.
Reason(s) for Recommendation(s)	To inform the development of the detailed revenue and capital budgets for 2016/17 and to provide a basis for the budget consultation process.

Ward(s) Affected	All
Key Decision	Yes
Recommendation to Council	Not at this stage. The Council will consider the updated Medium Term Financial Strategy as part of the formal budget setting process in February 2016.

Financial Implications	Subject of the report
Legal and Human Rights Implications	None directly arising from this report
Environmental and Sustainability Implications	None directly arising from this report
Human Resource Implications	None directly arising from this report
Key Risks	See Section 12

Related Decisions	Budget 2015/16 - Council - 24 th February 2015 2020 Vision Programme - Council - 29 th September 2015 Retention of resource to investigate fraud following implementation of single fraud investigation service - Cabinet - 5 th February 2015
Background Documents	None
Appendices	Appendix 'A' - Draft Medium Term Financial Strategy 2016/17 to 2018/19 Appendix 'B' - Allocation of Local Council Tax Support Grant to Town/Parish Councils/Meetings

Performance Management Follow Up	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 2016 as part of the budget setting process.
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Options for Joint Working	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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Background Information

1. Background

In February 2015, the Council approved its Medium Term Financial Strategy (MTFS) for the period 2015/16 to 2018/19 and its associated budget proposals for 2015/16. This report updates the MTFS to reflect current understanding of the national funding position for local government and local matters which will impact upon the Council's budget for 2016/17 or later.

2. National Funding Position

2.1 Since 2010/11, comparable central government funding (i.e. Revenue Support Grant, Retained Business Rates and specific grants which were rolled into this core funding) has fallen from £6.0m to £3.2m per annum; a reduction of £2.8m (46.7%) per annum. The table below sets out the profile of government funding cuts.

	2011/12	2012/13	2013/14	2014/15	2015/16
£ Core Funding	4,904,783	4,403,976	4,161,937	3,782,760	3,215,186
£ Funding Reduction from previous year	1,078,763	500,807	242,039	379,177	567,574
% Funding Reduction	20.1%	10.2%	5.5%	9.1%	15.0%

2.2 On 5th October, the Chancellor set out plans for local government to be able to retain 100 per cent of business rates to spend on local government services. The government will also abolish the Uniform Business Rate and give local authorities the power to cut business rates to boost enterprise and economic activity in their areas. Local areas which successfully promote growth and attract

businesses will keep all of the benefit from increased business rate revenues. At the same time, the core grant from Whitehall will be phased out (to ensure the reforms are fiscally neutral), and local government will take on new responsibilities. At the time of preparing this report, there is no detail available on the extent of these new responsibilities or how the government intends to implement the transition to 100% rate retention.

2.3 The government is currently preparing the 2015 Spending Review and government departments have been tasked with preparing for cuts of 25%-40% over the next four years. At the time of writing this report, it is unclear what the local impact of the Spending Review will be.

2.4 The draft MTFS has been prepared assuming a cut to funding of 25% to the following central government funding streams, over the life of the spending review:

- Revenue Support Grant;
- Business Rates Baseline funding;
- New Homes Bonus.

2.5 Given that the funding position is so uncertain, the Council is publishing a draft Medium Term Financial Strategy which covers the next three financial years; by year four, forecasting is almost impossible given the vacuum of information from government. The MTFS will be updated as further information becomes available following the announcement of the outcome of the Spending Review which is expected at the end of November. A four-year strategy will be presented to Council in February 2016.

3. Other Budget Pressures

3.1 The Council's employees are members of the Gloucestershire Local Government Pension Scheme. Every three years the assets and liabilities of the Scheme are valued by an actuary in order to set the contribution rates for the next three financial years. The last valuation was carried out in March 2013 and set the Council's contribution rates for 2014/15, 2015/16 and 2016/17. The MTFS includes provision for the increased contributions for 2016/17 of £202,000. The next valuation is due to take place in March 2016 and will set the contribution rates for the period 2017/18 - 2019/20.

3.2 Valuation of the pension fund liabilities (i.e. future pension payments) is based upon government gilt yields and is known as the Discount Rate. Given the economic forecasts of low interest rates in the economy, it is likely that the Discount Rate used by the actuary will remain low, which results in a high valuation of the pension fund liabilities. While there are many other assumptions used by the actuary to value the pension fund assets and liabilities (e.g. investment returns, longevity), the Discount Rates is one of the most significant determinants of the overall funding level of the pension fund. It is highly likely that the 2016 valuation will result in a requirement to increase the employer contributions to the pension fund. A provision has been included in the MTFS for an additional £200,000 in 2017/18 and £200,000 in 2018/19.

3.3 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.

3.4 Since 2010, the grant received from central government to fund the administration costs of the Housing Benefit and Local Council Tax Support services has been reduced by £219,000 (41%). £32,000 of these cuts related to the introduction of the Single Fraud Investigation Service, which saw responsibility for the investigation of housing benefit fraud pass from local government to the Department for Works and Pensions (DWP). Other reductions have been a result of the DWP passing on its departmental savings targets to local government. There are concerns with capacity at DWP to respond effectively to reports of housing benefit fraud. Officers are monitoring the impact upon the Council's budget for recovery of housing benefit overpayments during 2015/16 to inform the

budget strategy for 2016/17. Any budget adjustments will be included in the update to the MTFS following the Spending Review announcements.

3.5 The Universal Credit benefits system is now in place for a limited number of new claimants (single person, no child claims). While local council tax support claims will continue to be administered by local authorities, housing benefit claims will become part of the Universal Credit system, as it is gradually rolled out (over a number of years) in phases to all benefit claimants. It is currently expected that housing benefit claims for pensioners and individuals in care will remain with local authorities for processing. For this Council, that amounts to approximately 52% of the housing benefits caseload. In addition, local authority officers will be supporting claimants with their Universal Credit claims.

3.6 Officers have predicted that DWP housing benefit administration grant funding could fall by up to 75% over the period to 2019/20. It is unlikely that officers will transfer across to DWP. The 2020 Vision includes savings from extending joint working and efficiency gains. A provision for grant reductions of £202,500 (across the three years) have been included within the draft MTFS.

4. Counter Fraud

4.1 Cabinet, on 5th February 2015, received a report on the potential impact of the introduction of the Single Fraud Investigation Service and approved a recommendation:

"That the Council shares resource with West Oxfordshire District Council in order to carry out counter-fraud activity in the Council Tax and Business Rates service areas, and to investigate claimant error in the Housing Benefits service, with a review after twelve months."

4.2 The funding for the shared resources was found within existing Council budgets; however, the Council could have removed the officer post from the Council's staffing structure and taken a saving. At the Cabinet meeting, the Leader announced that the Council had also been successful in obtaining a grant to lead upon the establishment of a counter-fraud across Gloucestershire. The funding is being used to implement ICT systems which will enable counter-fraud officers to identify potential fraud via data matching and to investigate accordingly. In addition, a counter-fraud team has been established and is already working successfully with a number of housing associations to identify tenancy fraud. The outcomes from the Counter-Fraud team will be used to inform a business case for the establishment of a permanent counter-fraud team. It will take time to procure and implement the ICT systems and for data to become available to inform the business case; it is, therefore, anticipated that the business case will be available towards the end of the 2016/17 financial year. It is proposed that the budget for counter-fraud work is maintained for 2016/17 and reviewed for 2017/18 in line with the demonstrated business case.

5. Business Rates and the Gloucestershire Business Rates Pool

5.1 The Gloucestershire Business Rates Pool was set up in 2013/14 to maximise the business rate income retained within the County and to support economic growth within the area of the Local Enterprise Partnership. In the first year of operation, the Pool reported a surplus of £774,862.

5.2 In 2014/15, the pool suffered a significant loss due to the impact of backdated appeals on rateable values and, in particular, the successful backdated appeal by Virgin Media, the largest valued business in Tewkesbury. The final pool position for 2014/15 published a deficit of £2.3m, following a safety net payment to Tewkesbury of £3.9m.

5.3 Despite writing to the then Secretary of State, informing him of the serious impact of the Government's policy on backdated appeals of business rates, to date no financial compensation or other consideration has been received. Letters have now been sent to the new Secretary of State, on the advice of the Local Government Association (LGA), setting out the latest position and the on-going uncertainty surrounding the Virgin Media issue.

5.4 The on-going issue with Virgin Media relates to their request for a single listing. They are currently listed with 68 different councils. Following meetings with the DCLG and the LGA recently, it was made clear that this will not be resolved quickly. Further information is needed from Virgin Media in order for the Valuation Office to consider the matter and due to the size, complexity and potential impact for many councils and the DCLG, it is unlikely to be resolved this financial year. However, there is a small risk that the Virgin Media issue may be fast tracked and resolved this financial year, which would have a serious impact on the Gloucestershire business rates pool.

5.5 The Chief Finance Officers agreed to look at the composition of the pool and determine whether the amount of business rates retained in Gloucestershire could be maximised by having fewer members in the pool and lowering the levy rate. In previous years, the constitution of the business rates pool needed to be decided by 31st October. Although guidance has yet to be issued for the 2016/17 business rates pools, the Gloucestershire Chief Finance Officers have taken the view that the decision for the Gloucestershire pool needed to be taken by 31st October 2015.

5.6 Modelling of the potential business rates income in 2016/17 indicates that the Council in 2016/17 is still above the baseline funding target (Cotswold's target level of retained Business Rates) which will result in the Council still being liable to a 'levy'.

5.7 Taking the above into account, it is the opinion of the Section 151 Officer that this Council will benefit from remaining in the pool in 2016/17 as it will result in a reduction in the levy payment due to Government, which will be distributed in accordance with the governance arrangements.

6. Financial Planning Assumptions

6.1 The financial planning assumptions used in the approved MTFS have been updated to reflect the current economic circumstances. The following assumptions have been applied to the Council's base budget for 2015/16:

- provision for a pay award inflation of 1% per annum;
- provision for inflation on service contracts in accordance with the underlying agreement or experience of cost increases of £110,000 for each of the next four years;
- interest rates will remain low over the life of the Strategy;
- no inflation on Council set fees and charges;
- growth in the Council Tax base of 1% per annum;
- 25% cut to central government funding from Revenue Support Grant, New Homes Bonus and Retained Business Rates baseline position over the period covered by the spending review;
- Council Tax increase of 1.99% per annum.

6.2 The draft MTFS 2016/17 to 2018/19 is attached at **Appendix 'A'**.

7. Savings Targets

7.1 The MTFS savings targets have been reviewed and updated to reflect deliverable savings. The plans to deliver these savings are set out in the table overleaf:

	2016/17 £000	2017/18 £000	2018/19 £000	Total £000
Leisure and Museum Contract	76	66	53	195
2020 Vision	752	294	288	1,334
Savings identified from 2014/15 outturn	500	250		750
Procurement Savings - public conveniences	10			10
Reduced LCTS Grant to Town/Parish Councils/Meetings	6			6
Total	1,344	610	341	2,295

8. Council Tax

8.1 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.

8.2 The proposed MTFs assumes increases in Council Tax of 1.99% per annum.

8.3 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 2016/17.

8.4 On 6th November 2014, Cabinet agreed to the following local Council Tax Discounts to take effect from 1st April 2015:

- (i) the Second Home discount be maintained at 0% for 2015/16;
- (ii) the local Class A discount be maintained at 100% (for a maximum period of 6 months; or 12 months where the property is part of the 'Fit to Rent' scheme) for 2015/16;
- (iii) the local Class C discount be amended to provide 100% discount in the first month and 25% for the second month of the property being unoccupied; and
- (iv) the 50% Long Term Empty Premium be maintained for 2015/16.

8.5 These local discounts took effect from 1st April 2015, and at the end of 2015/16 the financial impact will be assessed so that the discounts can be reviewed during their second year of operation.

9. 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 2015/16 financial year. Any surplus which is available to the Council will be included in the final version of the MTFs in February 2016.

10. Revenue Reserves

10.1 As at 31st March 2015, the Council held £2.9m in General Fund Working Balances and £4.8m in earmarked reserves. Of the earmarked reserves, £2.2m 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 The Council Priorities Fund is being used to finance transformational change (the 2020 Vision Programme), one-off costs associated with the development and examination of the Local Plan, investment in flood alleviation measures, and costs associated with the Council's commitment to freeze leisure prices and to transfer dual use facilities at Fairford and Tetbury to the local schools. At the end of period, the Council will have utilised all of the funding currently allocated within the Council Priorities Fund. The MTFs assumes there will be a top-up to the Fund of £350,000 - from fund surpluses available at the end of the 2015/16 financial year.

10.3 At the end of the MTFs period, the Council will hold around £1.4m in General Fund Working Balances and £0.9m in earmarked reserves. The movement in General Fund Working Balance is shown in **Appendix 'A4'**.

11. Capital

11.1 As at 31st March 2015, the Council held £11.2m of capital receipts and capital grants, which are available to fund capital projects. The Council is currently assessing future car parking needs in Cirencester. As part of this project, the Council is currently undertaking a study of all car parks in Cirencester to determine sites that may be suitable for redevelopment or increases in capacity. Once this work is complete, a report will be considered by the Council, including the financial implications. There will be implications for the Council's capital programme and the MTFs will be updated as further information becomes available. The current summary Capital Programme is set out below:

	2016/17 £000	2017/18 £000	2018/19 £000
Disabled Facilities Grants / Decent Homes Grants (net of central government capital grant)	520	520	520
IT (funded from revenue)	200	150	150
Provision for new capital investment:			
Replacement waste and environmental services vehicles	630	265	130
Investment in car parks	300	100	150
Provision for capital investment to support 2020 Vision for Joint Working	245	125	125
Communities Project Fund	100		
Total	1,995	1,160	1,075

11.2 The Council anticipates generating capital receipts, and receiving capital grants, as follows:-

	2016/17 £000	2017/18 £000	2018/19 £000
Capital receipts from asset sales	750		
Disabled Facilities Grant	422	422	422
Right to Buy Receipts	100	100	100
Ubico Ltd contribution to vehicle assets	365	341	305
Other e.g. repayment of loans	50	50	50
Total	1,687	913	877

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

	2016/17 £000	2017/18 £000	2018/19 £000
Balance of capital receipts	10,520	10,001	9,531

12. Risks

12.1 The government is due to announce the outcome of the Spending Review 2015 at the end of November 2015. The Chancellor of the Exchequer has already announced a move to 100% business rates retention and an associated phasing out of central government grant funding over the life of the Spending Review period. The Department for Communities and Local Government are currently modelling the implications for local government. It is clear that local government can expect further funding reductions as a part of the government's overall fiscal reduction plans. It is possible that cuts announced in the Spending Review could be higher than estimated within this strategy.

12.2 A significant number of appeals remain with the Valuation Office from the 2010 business rate re-valuations. Where appeals are successful, any business will receive refunds back to April 2010, and the refunds affect the level of business rate income received during the financial year in which the refund occurs. A significant provision for appeal losses was incorporated within the 2014/15 financial statements. However, actual appeal losses could be higher than estimated.

12.3 While provision has been made within the MTFS from 2016/17 in respect of changes to employer's NI contributions as a result of changes to the second state pension, there is a risk that costs will be higher than the provision.

12.4 In February 2015, responsibility for investigating Housing Benefit fraud transferred to the Department for Works and Pensions. Nationally, there is concern over the capacity to effectively respond to reports of housing benefit fraud. A reduction in the identification of housing benefit fraud will impact upon income received from the recovery of housing benefit overpayments and the additional housing benefit subsidy which this attracts. The situation is being monitored and may require a budget adjustment in the budget proposals to be considered in February 2016.

12.5 The Local Land Charges Register will be transferred to the Land Registry. The Local Government Association and the Local Land Charges Institute ("LLCI") are in on-going discussions and working with the Land Registry to support authorities during the transition and to ensure that the costs to all registering authorities of the Project are fully funded by way of a new burdens grant. The full extent of the approach to the transfer and to the new burdens assessment has yet to be confirmed. It is unlikely that any migration of the Local Land Charges Register will commence before the second half of 2017, not least because secondary legislation to regulate the future supply of local land charges to the Land Registry will need to be put in place; a new burdens assessment must be undertaken; and the Land Registry will need to implement a system for hosting and managing the local land charges register. Arrangements have been put in place to monitor costs to feed into the discussions. The implications for both the costs of the service and the income generated from the land charges services will be fed into the MTFS in due course.

12.6 The Housing and Planning Bill, which was laid before Parliament in October, enables registered housing providers to offer their tenants the right to buy their home at a discount. The Council currently receives a share of capital receipts generated through existing Right to Buy provisions from Bromford Housing Association. The new Housing and Planning Bill may have an impact upon capital receipts in future years. The Strategy will be updated as more information becomes available.

13. Consultation

13.1 Parish Liaison Meetings took/are taking place on 9th and 16th November 2015 where the budget proposals were/will be presented to representatives from local Town/Parish Councils/Meetings. 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.

13.2 The Overview and Scrutiny Committee will consider the draft MTFS at its Meeting on 1st December 2015.

14. Local Council Tax Support Grant for Town/Parish Councils/Meetings

14.1 The Council was required to establish a local scheme for Local Support for Council Tax to come into effect from 1st 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 and Crime Commissioner and Town/Parish Councils/Meetings. To offset this impact, a proportion of central government funding to the District Council is in respect of the cost of the Local Council Tax Support Scheme to both the District Council and its Town/Parish Councils/Meetings. It is for each billing authority to agree with its Town/Parish Councils/Meetings any mechanism for paying over a share of the grant to compensate for the local reduction in council tax base.

14.2 As government funding reduces, the Council will be under pressure to reduce the funding available for LCTS available to Town/Parish Councils/Meetings.

14.3 Responsibility for allocation of the grant to all Town/Parish Councils/Meetings 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 2016/17 within the overall MTFS.

14.4 It is estimated that there will be a reduced impact on the District Council Tax Base in 2016/17 from the LCTS scheme (i.e. the overall tax base will be higher). The impact for 2016/17 per Town/Parish Council/Meeting is detailed at **Appendix 'B'**.

14.5 The following principles have been applied when determining the allocation of the grant to Town/Parish Councils/Meetings for 2016/17:-

- (i) Where a Town/Parish Council/Meeting 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;
- (ii) When the total income¹ to a Town/Parish Council for 2016/17 is less than the total income for 2015/16:
 - **And** there was no LCTS grant payable in 2015/16, losses over £10² have been awarded grant 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.

14.6 In 2015/16 a boundary change affected Preston Parish Council. The parish tax base was over-estimated for 2015/16 and this has been corrected for 2016/17. This change has made a significant change to the level of income from precept to the parish and calculating the change to the value of LCTS grant on an incremental basis produced an anomaly. Therefore, the proposed level of LCTS grant is recommended to remain unchanged at £572 for 2016/17.

14.7 **Appendix 'B'** details the Council Tax base for each Town/Parish Council/Meeting for 2016/17, and the value of LCTS grant being made available for 2016/17 together with the calculation to determine the value of LCTS Grant applicable. It is recommended that the Cabinet approves this allocation of grant for 2016/17.

(END)

¹ 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

² A threshold has been introduced to prevent an administrative burden arising from the award of new Grants of very low value.