



**CABINET**

**16<sup>TH</sup> FEBRUARY 2017**

**AGENDA ITEM (9)**

**DRAFT MEDIUM TERM FINANCIAL STRATEGY 2017/18 TO 2020/21 AND BUDGET 2017/18**

<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 2017/18 to 2020/21 together with detailed budget proposals for 2017/18.
<b>Recommendations</b>	<b>That, the Cabinet recommends the following to Council for approval:</b> <ul style="list-style-type: none"><li>(a) <b>Medium Term Financial Strategy for 2017/18 to 2020/21, detailed in Appendix 'A' to this report;</b></li><li>(b) <b>Capital Programme for 2017/18 to 2019/20, as detailed in section 13 of this report, and in Appendix 'B';</b></li><li>(c) <b>the Net Budget Requirement for 2017/18, detailed at paragraph 11.1 of this report, and the Detailed Budget attached at Appendix 'B' to this report;</b></li><li>(d) <b>the Pay Policy Statement for 2017/18, attached at Appendix 'D' to this report.</b></li><li>(e) <b>The financial impact of any changes from the Provisional Local Government Finance will be managed through the General Fund Working Balance for 2017/18.</b></li></ul>
<b>Reason(s) for Recommendation(s)</b>	To make recommendations to Council on the budget for 2017/18.

<b>Ward(s) Affected</b>	All
<b>Key Decision</b>	Yes
<b>Recommendation to Council</b>	Yes.

<b>Financial Implications</b>	Subject of the report
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<b>Legal and Human Rights Implications</b>	<p>The Local Government Finance Act 2012 introduced the following changes to local government finances:</p> <ul style="list-style-type: none"> <li>• implementation of the Business Rates Retention Scheme;</li> <li>• replacement of the existing Council Tax Benefit system with local Council Tax Support;</li> <li>• implementation of changes to council tax rules to provide some local flexibility on the council tax local authorities can charge on empty properties.</li> </ul> <p>All of the above changes came into effect for the 2013/14 financial year.</p> <p>Section 38 of the Localism Act 2011 requires local authorities to produce Pay Policy Statements.</p>
<b>Environmental and Sustainability Implications</b>	<p>None directly arising from this report</p>
<b>Human Resource Implications</b>	<p>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.</p>
<b>Key Risks</b>	<p>See Section 17 and <b>Appendix 'A5'</b></p>
<b>Related Decisions</b>	<p>Medium Term Financial Strategy 2016/17 to 2019/20 and Budget 2016/17 - Council - 23<sup>th</sup> February 2016</p> <p>Draft Medium Term Financial Strategy 2017/18 to 2020/21 – Cabinet 17<sup>th</sup> November 2016</p> <p>Business Rates Retention Scheme - Pooling - Council - 20<sup>th</sup> November 2012.</p>
<b>Background Documents</b>	<p>None</p>
<b>Appendices</b>	<p><b>Appendix 'A'</b> - Medium Term Financial Strategy 2017/18 to 2020/21</p> <p><b>Appendix 'B'</b> - Detailed Budget 2017/18</p> <p><b>Appendix 'C'</b> - Summary of budget consultation responses</p> <p><b>Appendix 'D'</b> - Pay Policy Statement</p>
<b>Performance Management Follow Up</b>	<p>Once the budget has been agreed, performance will be reported quarterly to the Cabinet and to the Overview and Scrutiny Committee.</p>
<b>Options for Joint Working</b>	<p>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</p>

## Background Information

### 1. Background – Settlement Funding Assessment

1.1 In November 2016, the Council issued its draft Medium Term Financial Strategy (MTFS) for the period 2017/18 to 2020/21 and its associated budget proposals for 2017/18 for public consultation.

1.2 On 15<sup>th</sup> December 2016, the Secretary of State for Communities and Local Government announced the provisional local government settlement for 2017/18. The announcement included the following:

- Confirmation of the second year of funding of the multi-year settlement offer for those councils that accepted the Government's offer (including Cotswold District Council) and illustrative figures for 2018/19 and 2019/20 in line with the multi-year settlement;
- reforms to the New Homes Bonus;
- the introduction of an Adult Social Care Support Grant to be funded from additional savings from the New Homes Bonus in 2017-18;
- confirmed approach to distributing funding through the improved Better Care Fund;
- Government's proposals for the council tax referendum principles for 2017-18;
- the approach for adjusting business rates tariff and top ups to cancel out, as far as is practicable, the impact of the 2017 business rates revaluation on local authorities' income.

1.3 The proposals developed the foundations set out for 2016/17 which included:

- Movement to 100% business rate retention;
- Introduced the ability to spend 100% of capital receipts from asset sales, to fund cost-saving reforms;
- Introduced the ability for the lowest cost district councils to increase council tax by £5 a year;
- Increase support through the Rural Services Delivery Grant for the most sparsely populated rural areas;
- Retention of New Homes Bonus **but** with proposed changes, savings from the changes to be re-invested in authorities with social care responsibilities;
- Offered a guaranteed 4 year budget to every council, which desires one, and which can demonstrate efficiency savings.

1.4 The draft MTFS has been updated to reflect the above points.

1.5 The final settlement for 2017/18 is expected to be announced week commencing 20<sup>th</sup> February 2017. Given the Council is due to meet on 21<sup>st</sup> February to approve the budget for 2017/18 and to set the Council Tax, it is recommended that the impact of any late changes to the Local Government Finance Settlement are smoothed using the Council's General Fund Working Balance.

1.6 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 **16.9%** in 2017/18.

	2013/14	2014/15	2015/16	Final 2016/17	Provisional 2017/18	Illustrated 2018/19	Illustrated 2019/20
Revenue Support Grant	£2,466,458	£2,003,593	£1,510,389	£856,353	£386,362	£100,724	£0
Business Rates Target	£1,640,867	£1,672,832	£1,704,797	£1,719,003	£1,754,098	£1,810,533	£1,656,580
<b>Settlement Funding Assessment</b>	<b>£4,107,325</b>	<b>£3,676,425</b>	<b>£3,215,186</b>	<b>£2,575,356</b>	<b>£2,140,460</b>	<b>£1,911,257</b>	<b>£1,656,580</b>
Annual Reduction in Funding	£296,308 8%	£430,900 10.5%	£461,239 12.5%	£639,830 19.9%	£434,896 16.9%	£229,203 10.7%	£254,677 13.3%

1.8 In the period between 2013/14, when changes to local government funding were introduced, and 2019/20 the Council will have seen its Settlement Funding Assessment (Revenue Support Grant and Retained Business Rates Target) fall by £2,450,745 or 60%.

## 2. New Homes Bonus (NHB)

2.1 The government has announced the long-awaited changes to the New Homes Bonus scheme. The changes include:

- reducing the number of years for which legacy payments are made from 6 years to 5 years in 2017-18 and then to 4 years from 2018-19;
- introducing a **baseline** for housing growth set at an initial baseline of 0.4% of the council tax base for 2017-18. Housing growth below this level in each authority **will not** receive Bonus allocations. The Government will retain the option of making adjustments to the baseline in future years in the event of a significant increase in housing growth;
- From 2018-19 Government will consider withholding new Homes Bonus payments from local authorities that are not planning effectively, by making positive decisions on planning applications and delivering housing growth. To encourage more effective local planning government will also consider withholding payments for homes that are built following an appeal;
- As the Government is implementing wider planning reforms to get the nation building the homes it needs, including measures announced at Autumn Statement and through the Neighbourhood Planning Bill and forthcoming Housing White Paper, the Government is **not** introducing the proposals to withhold payments for areas without a local plan in 2017-18.

2.2 The provisional allocation of NHB Grant for 2017/18 has been announced. For this Council, NHB Grant will decrease by £94,787 from £3,250,617 to £3,155,830. The grant recognises net growth in the Council Tax base of 485 properties between October 2015 and October 2016 and the development of 59 affordable housing units. The original NHB scheme awarded the bonus for six years. The award for the 2011/12 year (£240,382) therefore ended in 2016/17. Under the new scheme, the award for 2012/13 (£503,782) became payable for 5 years and therefore also finished in 2016/17. The net impact of housing growth less the awards for 2011/12 and 2012/13 is a reduction in grant of £94,787.

2.3 Modelling of the **announced** changes to NHB, indicates that maximum level of NHB which could be included in the base budget is £1.8m. The MTFs has been updated to reflect this decline in NHB. If the government introduces proposals to withholding new Homes Bonus payments from local authorities that are not planning effectively and to withholding payments for homes that are

built following an appeal, there is a risk that the value of NHB could be reduced further. Given this risk, it is recommended that the surplus New Homes Bonus for 2017/18 is appropriated to the Council Priorities Fund to provide funding for future transformational change or to fund one-off investment in services in line with the Council's priorities.

### 3. Retained Business Rates

3.1 In April 2017, a new Rating List will come into effect which will impact each business rate property in the district and therefore will impact upon the value of business rates collected. Under the Retained Business Rates Scheme, this volatility is expected to be smoothed by an adjustment to the "tariff" set by central government.

3.2 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 provision for its share of the cost of outstanding appeals in its financial statements. The level of provision has been reviewed as part of preparation of the business rates estimates for 2017/18.

3.3 In recent Autumn Statements the government has announced various changes to the rating system which impact upon the value of business rate income retained by local authorities. In order to compensate authorities for this loss of income, a specific grant from DCLG (section 31 grant) has been paid. It is assumed that similar arrangements will continue over the life of the MTFs.

### 4. The Gloucestershire Business Rates Pool

4.1 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. Since 2013/14 the Pool has delivered the following surpluses/losses:

	2013/14 £	2014/15 £	2015/16 £	2016/17 (Forecast) £
Pool Surplus/(Loss)	774,862	(2,336,565)	877,948	2,000,000
Cotswold DC Share Surplus/(Loss)	25,156	(228,988)	114,854	180,000

4.2 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.

4.3 Due to the on-going financial risks associated with the Virgin Media case, the Gloucestershire Business Rates Pool was reformed for 2016/17 to exclude Tewkesbury Borough Council.

4.4 Modelling of the potential business rates income in 2017/18 indicates that the Council will still receive retained business rates income 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'.

4.5 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 2017/18 as it will result in a reduction in the levy payment due to Government, which will be distributed in accordance with the pool governance arrangements.

4.6 Due to the risk associated with business rate income (especially the impact of appeal costs being higher than the provided for) this strategy does not assume any financial gain resulting from the pool. The distribution of pool surpluses (or losses) will be dealt with as windfall gains or losses each financial year and may be set aside to provide a reserve to mitigate against the increased financial risk associated with 100% business rates retention. A review of the financial viability of the pool will continue to be carried out during the autumn of each year. Once 100% business rates retention is

implemented it is unlikely that there will be any financial advantage to the business rates pool.

4.7 The budget for 2017/18 includes key data from the business rates estimates for 2017/18 (NNDR 1).

	<b>2017/18 £</b>
Estimate of retained business rates (inc. £135,070 from solar farms)	14,211,205
Tariff to government	(10,721,494)
Grant to compensate for government decisions (e.g. Small business rate relief and Localism Act reliefs)	394,744
Estimated levy payable to government	(968,049)
<b>Net retained business rates (2017/18 element)</b>	<b>2,916,406</b>
Collection Fund Surplus (forecast to end of 2016/17)	207,040
<b>Net Overall Income from Retained Business Rates</b>	<b>3,123,446</b>

4.8 The net business rates estimates for 2017/18 exceeds the government's baseline funding level of £1,754,099 by £1,936,098. The estimated levy due to central government of 50% is £968,049.

4.9 The Council is required to reflect its share of the business rates surplus or deficit on the collection fund in 2016/17 as part of budget setting for 2017/18. The surplus of £207,040 is included in the table above.

## 5. Council Tax

5.1 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 district councils for 2017/18 has been maintained as increases less than 2% or up to and including £5, whichever is higher.

5.2 The proposed MTFs assumes Council Tax increase of 1.99% for each year of the four years of the strategy.

## 6. Collection Fund

6.1 It is estimated that the Council Tax element of the Collection Fund will end the financial year with a surplus of £877,200. This Council will receive £109,494, with the other major precepting authorities receiving – GCC £647,604 and GPA £120,102.

## 7. Financial Planning Assumptions

The financial planning assumptions included within the report to the Cabinet in November 2016, have been reviewed and updated to reflect the current economic circumstances. The assumptions have been applied to the Council's base budget for 2016/17:-

- provision for a pay award inflation of 1% per annum;
- provision for inflation on service contracts (e.g. Ubico Ltd, APCOA and utilities) in accordance with the underlying agreement or experience of cost increases. A provision of £102,000 for 2017/18 and £110,000 for each of the following three years;
- interest rates will remain low over the life of the Strategy, reflecting the reduced Bank of England base rate to 0.25%. The investment income target has remained unchanged, however the Council will need to diversify its portfolio of investments in order to meet the target. The diversification will be in line with the Council's Treasury Strategy which prioritises security and liquidity over yield. The Council's Audit Committee fulfils responsibilities as the Council's Treasury Management Advisory panel and is being consulted upon the diversification of the investment portfolio;
- no inflation on Council set fees and charges;
- growth in the Council Tax base of 1.2% per annum;
- cuts to central government funding as set out in sections 1 and 2;
- New Homes Bonus income reducing in line with government announcements. There is a risk that there will be further reduction from 2018/19 should the government implement further changes as set out in 2.3;
- Council Tax increase of 1.99% per annum.

## 8. Unavoidable Budget Pressures

8.1 The Chancellor has previously announced that public sector pay increases will be capped at 1%, and whilst pay awards in local government are covered by collective bargaining between employers and trade unions and is not subject to direct control from central government, it is not unreasonable to assume that local government employers will mirror what happens in the rest of the public sector. Following a meeting of local government representatives, trade unions accepted the proposal made by the Local Government Association's National Employers group for a 1% increase for most staff in 2016/17 and 2017/18. As part of the new deal, lowest paid staff will receive higher increases to reflect the new National Living Wage.

8.2 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 latest valuation has now been completed and has set the contribution rates for the period 2017/18 – 2019/20. The MTFs contains provision for increased contributions of £158,000 in 2017/18 and then £195,000 in 2018/19 and 2019/20. It is possible that the valuation to be carried out as at 31<sup>st</sup> March 2019, may require a further increase in contributions and provision for a further £195,000 has therefore been included for 2020/21.

8.3 Provision is included for inflation related to the contract with Ubico Ltd for environmental services provision. However, there are many factors which will impact upon the cost of service provision such as: increasing numbers of households in the district, cost of consumables (especially fuel costs), operating costs related to the permanent depot site, and the impact of the replacement vehicle programme. In previous financial years the actual cost of service provision has been well below budgetary provision. A review of the budget provision for 2017/18 has been completed and it

is estimated that budgetary provision needs to increase by £67,000 in order to provide resources for an additional container delivery and recycling vehicle.

8.4 In April 2017, a new Rating List will come into effect which will impact each business rate property in the district. For the Council, as a business rate payer, the new Rating List will increase costs by around £45,000 per annum. The impact of transitional relief is expected to be minimal therefore provision for the full cost increase has been included for 2017/18.

8.5 In April 2017, the Apprenticeship Levy will be introduced at 0.5% of the pay bill. The aim of the levy is to encourage growth in the number of Apprenticeships available nationally. The Council will be able to use some of the Levy to offset apprentice training costs. The cost to the Council is estimated to be £20,000 per annum.

8.6 The Council continues to receive high numbers of planning applications as a result planning application income continues to exceed the budgetary expectation. The Council has also received some capacity funding from government which will be appropriated into an earmarked reserve to provide funding for additional interim planning resources. It is proposed that the additional income and capacity funding is used to provide additional planning resources to enable the service to respond to the service demand and respond to the application for the strategic housing site at Chesterton in Cirencester. Overall, the impact of these changes will be cost neutral.

8.7 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. 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 reduction is included within the proposed MTFS.

8.8 The Council is preparing for the introduction of the Community Infrastructure Levy (CIL). The administration of CIL is an additional cost pressure on the Council. This additional cost will be funded from income from CIL and is therefore cost neutral to the Council.

## 9. Counter Fraud

9.1 Cabinet, on 5<sup>th</sup> February 2015, received a report on the potential impact of the introduction of the Single Fraud Investigation Service and approved a recommendation that:

*"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."*

9.2 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 has also been successful in obtaining a grant to lead upon the establishment of a counter-fraud across Gloucestershire. The funding has been used to operate a pilot counter-fraud team which has provided services across the Gloucestershire and West Oxfordshire area.

9.3 A business case for establishing the permanent counter-fraud unit is included elsewhere on this Cabinet agenda. Overall, the counter-fraud work is expected to be cost neutral to the Council. The Council will be the employer for the counter fraud officers with the partner local authorities and housing associations contributing to the costs of the unit. The net costs of the unit, which represent this Council's share of the counter-fraud unit, are expected to be funded through additional income generated (e.g. council tax and business rates) through targeted counter-fraud drives or costs



savings from preventing fraudulent activity occurring.

10. Savings Targets

10.1 The MTFs includes the following savings targets:-

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total
Savings	201	432	213	191	1,037

10.2 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 Partnership.

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
Leisure and Museum Contract	72	53	(76)	35	84
2020 Vision	63	347	258	156	824
Changes to taxation enforcement	32				32
Reduced LCTS Grant to Town and Parish Councils	34	32	31		97
<b>Total</b>	<b>201</b>	<b>432</b>	<b>213</b>	<b>191</b>	<b>1,037</b>

10.3 It is forecast that the Council will need to use the General Fund Working Balance in order to balance the budget from 2019/20. To avoid the requirement to use General Fund Working Balance, the savings targets will need to increase as follows:

<b>Increases to savings target required to balance budget</b>	<b>2017/18 £000</b>	<b>2018/19 £000</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>	<b>Total £000</b>
Increase savings target	0	0	17	379	396

11. Net Budget Requirement

11.1 A summary of the impact on the Council's net budget requirement for 2017/18 is set out below:-

<b>Summary of Changes to Net Budget Requirement</b>	<b>£</b>
<b>Net Budget Requirement 2016/17</b>	<b>10,185,835</b>
Inflationary pressure - expenditure budgets	190,157
Unavoidable budget pressures 2017/18 - expenditure	739,000
Unavoidable budget pressures 2017/18 - income	(429,000)
Savings	(200,899)
Movement in contribution to reserves	0
<b>Net Budget Requirement 2017/18</b>	<b>10,485,093</b>

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

		<b>£</b>	<b>£</b>
<b>Net Budget Requirement 2017/18</b>			<b>10,485,093</b>
Revenue Support Grant		<b>386,362</b>	
Business Rates Baseline Funding	1,754,099		
Collection Fund Surplus – Business Rates	207,040		
Business Rates in excess of Baseline Funding	1,600,542		
Business Rates s 31 Grant	394,744		
Renewable Energy	135,070		
Business Rates Levy	(968,049)		
Business Rates Smoothing Reserve	0		
<b>Net Business Rates Income</b>		<b>3,123,446</b>	
Council Tax payers @£128.91 Band D		<b>5,033,362</b>	
Collection Fund Surplus		<b>109,454</b>	
New Homes Bonus		<b>1,845,000</b>	
Rural Services Delivery Grant		<b>483,434</b>	
Transitional Grant		<b>42,785</b>	
<b>Total Funding</b>			<b>11,023,843</b>
<b>Budget Surplus</b>			<b>538,750</b>

11.3 The proposed budget strategy would give rise to a Council Tax of £128.91 per Band D equivalent property (a Council Tax increase of 1.99%).

11.4 The proposed budget assumes a budget surplus of £538,750. It is propose that this surplus is used to increase the General Fund Working Balance to provide for later years of the strategy where changes from the transition to 100% business rates retention will impact.

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

## 12. Revenue Reserves

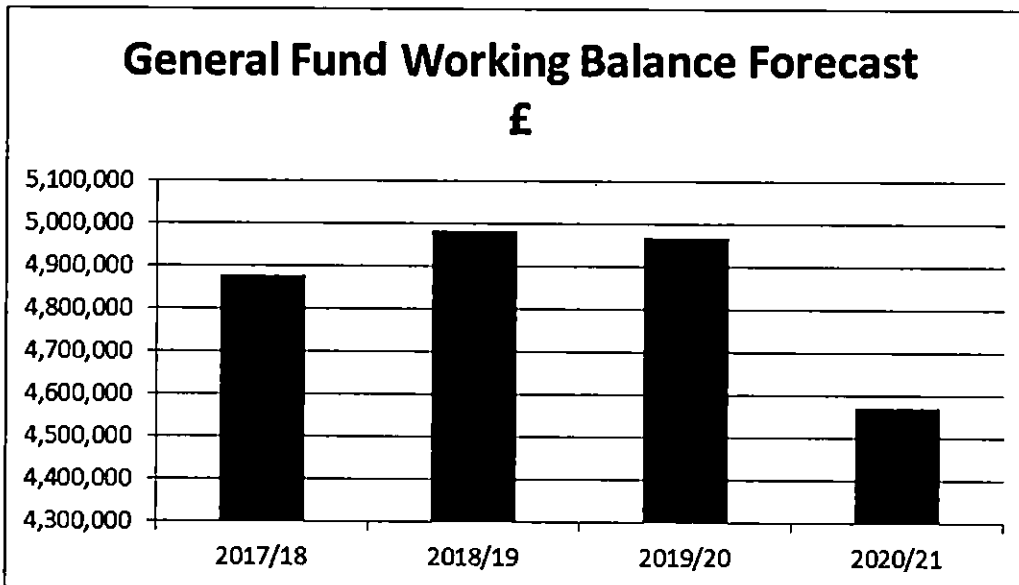
12.1 As at 31<sup>st</sup> March 2016, the Council held £3.7m in General Fund Working Balances and £5.6m in earmarked reserves. Of the earmarked reserves, £2.1m is held in the Council Priorities Fund Reserve, which is available to support delivery of the Council's priorities and can, therefore, be used to enable the Council to undergo the significant change required to deliver the savings targets.

12.2 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 and the associated introduction of Community Infrastructure Levy, costs associated with the Council's commitment to freeze leisure prices, reduce building control fees, enhance environmental services, contribute towards the costs of improvements to the Corinium Museum, make changes to its offices to enable the premises to be shared and develop a strategy for the future provision of car parking in Cirencester.

12.3 The Council is also holding funds in an earmarked reserve to fund the costs associated with processing the planning application for the strategic housing site at Chesterton in Cirencester.

12.4 At the end of the MTFS period, it is anticipated that the Council will hold around £4.6m in General Fund Working Balance and £1.5m in earmarked reserves. The level of General Fund Working Balance will depend upon the impact of any further changes to New Homes Bonus and the introduction of 100% Retained Business Rates. The movement in General Fund Working Balance and Earmarked Reserves is shown in **Appendix 'A4'**.

12.6 The Graph below show the forecast balance of General Fund Working Balance over the life of the MTFS.



## 13. Capital

13.1 As at 31<sup>st</sup> March 2016, the Council held £11.5m of capital receipts and capital grants, which are available to fund capital projects. The summary Capital Programme, is set out below:

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Disabled Facilities Grants / Decent Homes Grants	700	700	700	700
IT - Corporate	200	200	200	200
IT – Service Specific	80	15	250	15
Recycling receptacles – growth in properties and replacements	55	55	55	55
Replacement waste and environmental services vehicles	949	156	381	1,410
Investment in car parks	300	100	150	
Provision for capital investment to support 2020 Vision	558	100		
Replacement Leisure Equipment				250
Flood works carried forward from 2016/17	200			
Contribution to Rural Broad Band	500			
<b>Total</b>	<b>3,542</b>	<b>1,326</b>	<b>1,736</b>	<b>2,630</b>

13.2 The Council anticipates generating the following capital receipts, and receiving the following capital grants:

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Capital receipts from asset sales	625			
Disabled Facilities Grant	650	650	650	650
Right to Buy Receipts	100	100	100	100
Ubico Ltd contribution to vehicle assets	407	450	382	422
Other e.g. repayment of loans	50	50	50	50
<b>Total</b>	<b>1,832</b>	<b>1,250</b>	<b>1,182</b>	<b>1,222</b>

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

	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
<b>Balance of capital receipts</b>	<b>10,191</b>	<b>10,365</b>	<b>10,061</b>	<b>8,902</b>

#### 14. Risks

14.1 A risk assessment of the proposed MTFS and Budget proposals for 2016/17 are shown at **Appendix 'A5'**.

## 15. Consultation Feedback

15.1 A summary of the budget consultation responses is attached at **Appendix 'C'**. There was a very limited response to the consultation. Just 8 individuals responded, there were no responses from businesses.

15.2 The Overview and Scrutiny Committee considered the draft MTFs at its Meeting on 6<sup>th</sup> December 2016. The relevant extract from the Minutes of that Meeting is included at **Appendix 'C'**.

15.3 The Committee also received an update on budget proposals for 2017/18 at its Special Meeting on 7<sup>th</sup> February 2017. The key comments arising out of the Committee's deliberations are included in **Appendix 'C'**.

## 16. Pay Policy Statement

16.1 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.

16.2 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.

## 17. Chief Finance Officer's Opinion

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

### **Robustness of Budget Estimates**

17.2 Sections 1 to 4 of this report set out the implications of the Local Government Finance Settlement on the level of central government funding from Revenue Support Grant, retained business rates and New Homes Bonus for the period from 2017/18 to 2019/20. Further information on changes to New Homes Bonus from 2018/19 and 100% Business Rates Retention from 2020/21 is awaited from the Department for Communities and Local Government, the guidance provided to date has been used to assist Members in their deliberation of the budget for 2017/18 and any financial consequences for the Council's financial sustainability over the medium term.

17.3 The revenue streams of New Homes Bonus and business rates retention add significant uncertainty to the Council's funding over the medium term.

17.4 The Council's budget estimates have been prepared by appropriately qualified and experienced staff in consultation with Heads of Service and other budget managers. Budgets have been through a process of Scrutiny through the Council's Overview and Scrutiny Committee.

17.5 Since 2009/10 the Council has delivered efficiency savings of over £6.5m per annum. The budget for 2017/18 includes further savings of £0.2m. Plans are already in place to deliver these savings through the 2020 Vision, the Leisure Contract and other changes. These plans, together with the Council's proven track record on delivering savings, give me confidence that these savings can be delivered.

17.6 The Bank of England has kept base rate at 0.5% for seven years and has now reduced the rate further to 0.25%. Income from investment is projected to be £0.25 million for 2017/18. Prudent assumptions about cash flow have been made and the advice of the Council's treasury advisors has been taken into account when determining the average rate of return. Base rate is expected to be maintained at this low level for a further significant period of time.

17.7 The Council's capital projects and funding is set out in section 13 of this report. The Council has capital reserves of around £11 million and will be utilising capital grants, capital receipts from the disposal of land assets and other capital receipts to fund its capital expenditure plans for 2017/18.

17.8 The Council has a robust Risk Management Strategy. Significant financial risks have already been identified, **Appendix A5** sets out the financial risks and the mitigating action being taken to minimise these risks. A Corporate Risk assessment covering a range of financial and non-financial risks has been carried out and the results form part of the Council's performance management systems and processes. The Corporate Risk register is reviewed regularly by the Council's Overview and Scrutiny Committee and Cabinet.

17.9 The major risks looking forward are in respect of the further changes to New Homes Bonus, continued risks around business rates appeals and the impact of 100% business rate retention in 2020.

**17.10 I can confirm that the budget estimates as presented are both prudent and robust.**

#### **Adequacy of the Council's Reserves**

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

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

17.12 The Council held general fund revenue balances of £3.7 million on 1 April 2016. There are no plans to utilise this balance for the 2017/18 year, I have assessed the risks to the budget and have determined that the minimum reserves position should be £1.3 million under the current economic outlook with significant risks remaining to revenue streams and grant levels in future years. £1.3 million is the equivalent of 12.4% of the net cost of Council services. The unbudgeted financial risks were assessed as follows:

1.	Litigation costs (e.g. planning appeals)	£500,000
2.	Pay award (Council or contractors) in excess of 1%	£200,000
3.	Business rate pool risk	£190,000
4.	2020 Partnership savings delivered later than anticipated	£ 50,000
5.	Emergency planning	£ 60,000
6.	New Homes Bonus	£300,000

17.13 It is unlikely that all of these risks will materialise during 2017/18. The Council receives quarterly financial performance information which highlight any unfunded financial liabilities which arising during the year and require additional funding. The Council holds sufficient General Fund Working Balance to fund this level of risk. The annual update of the Medium Term Financial Strategy enables the Council to incorporate any of these emerging risks within the Council's financial plans.

17.14 Section 12 of this report sets out the forecast levels of general fund working balance. The Council is able to maintain a level of reserve above the minimum position of £1.3 million. However, in order to maintain this level of general fund reserve over the longer term, it is likely that the Council will need to find further budgetary savings (around £400,000). These savings can be generated through

increasing efficiency gains (although a great deal of work have already taken place in this respect), increasing income from fees and charges, increasing council tax income or reviewing service provision, particularly discretionary services. The Council is in the fortunate position of being able to develop contingency plans while the impact of changes to New Homes Bonus and the move to 100% business rate retention are clarified.

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

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

(END)