



COUNCIL

26TH FEBRUARY 2019

AGENDA ITEM (12)

MEDIUM TERM FINANCIAL STRATEGY 2019/20 TO 2028/29, AND CAPITAL AND REVENUE BUDGETS 2019/20

Accountable Member	Councillor AW Berry 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 2019/20 to 2028/29 together with the detailed budget proposals for 2019/20.
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CABINET Recommendations	<p>That Council approves:</p> <p>(a) the Medium Term Financial Strategy for 2019/20 to 2028/29, detailed in Appendix 'A' to this report;</p> <p>(b) the Capital Programme for 2019/20 to 2028/29, as detailed in section 11 of this report, and in Appendix 'A3';</p> <p>(c) the Net Budget Requirement for 2019/20, detailed at paragraph 9.1 of this report, and the Detailed Budget attached at Appendix 'B' to this report;</p> <p>(d) the Pay Policy Statement for 2019/20, attached at Appendix 'D' to this report.</p> <p>(e) the Capital Strategy 2019/20, attached at Appendix 'E' to this report;</p> <p>(f) the Investment Strategy 2019/20, attached at Appendix 'F' to this report;</p> <p>(g) the Treasury Management Strategy 2019/20, attached at Appendix 'G' to this report;</p> <p><u>(h) the Chief Finance Officer be given delegated authority to make any consequential changes to the above documents in light of the decisions of Council.</u></p>
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Reason(s) for Recommendation(s)	To receive and consider and the Cabinet recommendations on the Council's budget 2019/20.
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Ward(s) Affected	All
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Key Decision	Yes
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Recommendation to Council	Yes, from the Cabinet.
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 Appendix A5
Related Decisions	<ul style="list-style-type: none"> (i) Budget 2018/19 - Council - 20th February 2018 (ii) 2020 Vision Programme - Council - 27th September 2016 (iii) Four-Year Funding Settlement - Council - 27th September 2016
Background Documents	None
Appendices	<p>Appendix 'A1 - A5' - Draft Medium Term Financial Strategy 2019/20 to 2028/29</p> <p>Appendix 'A2' - Unavoidable Budget Pressures</p> <p>Appendix 'A3' - Capital Programme</p> <p>Appendix 'A4' - Revenue Reserves</p> <p>Appendix 'A5' - Risk Analysis</p> <p>Appendix 'B' - Detailed budget 2019/20</p> <p>Appendix 'C1' - Budget consultation responses received</p> <p>Appendix 'C2' - Budget consultation response from Fairford Town Council</p> <p>Appendix 'C3' - Budget consultation response from Cirencester Town Council</p> <p>Appendix 'D' - Pay Policy Statement 2019/20</p> <p>Appendix 'E' - Capital Strategy 2019/20</p> <p>Appendix 'F' - Investment Strategy 2019/20</p> <p>Appendix 'G' - Treasury Management Strategy 2019/20</p>
Performance Management Follow Up	Once the budget has been agreed, performance will be reported quarterly to the Overview and Scrutiny Committee and the Cabinet.
Options for Joint Working	Preparation of the budget and monitoring financial performance is carried out by officers working within Publica Group (Support) Ltd in the financial services shared service.

Background Information

1. General

1.1 The Cabinet considered the draft Medium Term Financial Strategy (MTFS) for the period 2019/20 to 2028/29 and the associated budget proposals for 2019/20 at its Meeting on 14th February 2019. Following consideration of the MTFS and 2019/20 budget proposals, Cabinet recommended to Council an increase to Council Tax of 2.99% for 2019/20. The budget and MTFS have been updated accordingly – and copies are attached at **Appendices 'A' and 'B'**. Appendices 'A' and 'B' have been updated to reflect the revised proposal to increase Council Tax by 2%.

1.2 In December 2017, CIPFA published updates to the Prudential Code and The Treasury Management Code of Practice. The new Prudential Code requires the Council to approve a Capital Strategy on an annual basis in advance of the forthcoming financial year. MHCLG have also updated statutory guidance on treasury management which has resulted to changes to the Treasury Management Strategy and the introduction of a separate Investment Strategy. For 2019/20 a new set of strategic documents require Council approval: The Council's Capital Strategy, Investment Strategy and Treasury Management Strategy. Drafts of these strategic documents were considered by the Council's Audit Committee on 29th January. The suite of strategic documents has been updated following feedback from the Audit Committee and in light of the Cabinet's recommendation to increase council tax by 2.99% in 2019/20. The revised Strategies are attached at **Appendices E, F and G** to this report. Indicative provisions have been included in the set of strategic documents to reflect the revenue implications of the Council's Capital Programme, which is set out at **Appendix A3**. Appendices E, F and G will require minor updates to reflect the implications of the revised proposal to increase Council Tax by 2%. It is proposed that the delegated authority is granted to the Chief Finance Officer to update these documents in light of Council decisions on the budget for 2019/20.

1.3 As part of the update of the report Appendices, an error was identified in the MTFS in 2020/21. Growth in investment income for 2019/20 was also included in 2020/21. The MTFS has been updated to correct this error.

2. National Funding Position

2.1 The Council has accepted a four-year funding deal offer by the Secretary of State for Communities and Local Government (2016/17 to 2019/20) which established a minimum level of funding from Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant.

2.2 The Secretary of State for Communities and Local Government announced the provisional local government settlement for 2019/20 in December 2018. The four-year settlement in respect of Revenue Support Grant was exactly as previously reported. The Rural Services Delivery Grant allocation for 2019/20 was increased by £119,000 from £483,434 to £602,434.

2.3 The Government has previously implemented significant changes to the New Homes Bonus (NHB) scheme, reduced legacy payments from 6 years to 5 years in 2018/19 and then to four years from 2019/20 onwards. A 'deadweight' factor was introduced with effect from 2018/19 so that the first 0.4% of housing growth will see no New Homes Bonus payment. During 2018, the Ministry for Housing, Communities and Local Government (MHCLG) considered a further increase to the baseline growth level for NHB. However, no further changes to the scheme for 2019/20 were announced in the provisional local government finance settlement for 2019/20. The MTFS has been updated to include the provisional allocation of new Homes Bonus for 2019/20 (£3,254,793).

2.4 The Secretary of State also announced two further consultation documents with regard to the Fairer Funding Review and the 75% Business Rate Retention Scheme.

2.5 The final local government settlement has subsequently been announced by the Secretary of State and no changes have been made which directly affect this Council.

3. Retained Business Rates and the Gloucestershire Pool Pilot

3.1 The Council has been part of the Gloucestershire 100% Business Rate Pool Pilot for 2018/19. Any gains from being part of the pool will be treated as a windfall gain in 2018/19 and will be available either as contribution to the General Fund or to fund one-off initiatives. Any losses will be charged to the General Fund Working Balance at the end of the financial year. The Pool application to become a 75% Business Rate Pool Pilot for 2019/20 was not successful and the Gloucestershire Pool will therefore be formed on a 50% basis for 2019/20.

3.2 In April 2017, a new Rating List came into effect together with a new Check, Challenge and Appeal process, replacing the former appeals process.

3.3 A significant level of risk remains due to the volume of outstanding Business Rates appeals against the 2010 list, 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 2019/20. Response from business to the new Check, Challenge, and Appeal process remains slower than expected. Officers expect that use of the process will increase over the course of the rating list period.

3.4 The MTFS and budget proposals have been updated to include this business rate estimates for 2019/20.

3.5 The MTFS assumes the Council will be compensated (through Section 31 grant) for the impact on Business Rates which relate to any nationally announced discounts or reliefs to businesses.

3.6 The budget for 2019/20 includes key data from the business rates estimates for 2019/20 (NNDR1):

	2019/20 £
Estimate of business rates (including £71,325 from solar farms)	13,172,653
Tariff to government	(11,301,146)
Section 31 Grants – reflecting impact of central government decisions on local government financing	2,137,939
Estimated Levy payable to Government	(£935,228)
Net retained business rates	3,074,218
Collection fund Surplus (Deficit) forecast to end of 2018/19	(129,504)
Use of Business Rates Smoothing Reserve to offset collection fund deficit (if required)	129,504
Net overall income from Retained Business Rates	3,074,218

4. Council Tax

4.1 The Localism Act 2011 introduced a power for the Secretary of State for Communities and Local Government to issue principles that define what should be considered as excessive Council Tax, including proposed limits. The principles are subject to approval by the House of Commons. From 2013 onwards, any Council that wishes to raise its Council Tax above the limits that applies to it will have to hold a referendum. The result of the referendum will be binding.

4.2 For this Council, MHCLG is proposing a maximum council tax increase of 3% or £5 for 2019/20.

The MTFS assumes an increase in Council Tax for 2019/20 of 2.99% and increases of 1.99% per annum, each year thereafter. These proposals are not expected to trigger a referendum. The MTFS has been updated to reflect the revised proposal to increase Council Tax for 2019/20 by 2%.

5. Collection Fund

The MTFS assumes a surplus on the Collection Fund of £100,000 each year. For 2019/20, the actual collection fund surplus is broadly in line with the estimate at £96,878.

6. Financial Planning Assumptions

6.1 The financial planning assumptions used in the MTFS reflect current economic circumstances. The following assumptions have been applied to the Council's base budget for 2018/19:

- provision for a pay award inflation/impact upon Publica contract sum of 2% per annum. This has been updated to reflect the impact of a higher national pay award for Officers on lower pay grades;
- provision for inflation on service contracts (including Publica) in accordance with the point above or in accordance with the underlying agreement or experience of cost increases. The Ubico contract has been reviewed on a componential basis and various appropriate rates of inflation have been applied. For example, pay award inflation is at 2% but diese inflation is at 15%. Overall the inflationary impact upon the Ubico contract is £235,000 for 2019/20. It is anticipated that following this uplift, the contract value will stabilise and provision of £124,000 been included for each year thereafter;
- investment interest returns for cash deposits, or equivalent transactions, are expected to generate a 1% return. Investments in pooled funds are expected to generate a higher return at 3%;
- no inflation on Council set fees and charges until 2020/21. Then target increases for discretionary fees in line with inflationary cost pressures where the market will bear the increase and it is administratively efficient to do so;
- growth in the Council Tax base of 1.2% per annum;
- Central government funding in line with previous report on MTFS considered by Overview and Scrutiny Committee December 2018;
- Increases to central government funding in line with forecast changes to Consumer Price Index inflation;
- Council Tax increases of ~~2.992~~ 2.99% in 2019/20, future years increases at 1.99% each year from 2020/21 onwards;
- The collection fund will generate income over and above the council tax estimates and the Council's share of the surplus will be £100,000 per annum, in line with past experience. For 2019/20, the estimated surplus of £96,878 has been included.

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7. Budget Pressures

The MTFs includes the following provisions for the following budget pressures:

Unavoidable Budget Pressures	2019/20	2020/21	2021/22	2022/23	2023/24
Expenditure					
Increased contributions to GCC Pension Fund - Actuarial Valuation and projections	195,000				
Investment in Decked Car Parking Cirencester - Provision for Debt Repayment and Interest on PWLB loan		297,000			
Investment in Decked Car Parking Cirencester - Interest Costs loss of investment interest on capital receipts	(25,000)	60,000			
Additional Resources for Cirencester Strategic Plan	(60,000)				
Additional Resources for Implementation of CIL	(75,000)				
Additional Planning Service Resources	(60,000)				
Ward Member Grants for Youth Facilities	(34,000)				
Revenue Contribution to Decked Car Park Cirencester	(260,000)				
Local Housing Needs Assessment (cyclical every 5 years)	5,000				
Revenue Impact of increase to external borrowing	67,000	833,000	42,000	42,000	42,000
Make temporary Planning Enforcement Post permanent	28,000				
GCC Incentive payment	15,000	45,000			
Cemeteries Repairs and Maintenance	2,000				
Ward Member - Priority Allocation	85,000	(85,000)			
Action Against Fly Tipping (ERS Temp Post 2 years)	35,000		(35,000)		
Review of Statutory Officer Salary to reflect new responsibilities post Publica	25,000				
Waste Service Review Dec 18	60,000				
Total Expenditure Budget Pressures	3,000	1,150,000	7,000	42,000	42,000
Income					
Car parking income from Decked Car Parking Cirencester - offset prov for debt repayment and interest costs		(357,000)			
OMH Car Parking Income from additional spaces	(59,000)				
Investment Strategy - UPDATED SINCE CABINET 14TH FEB 2019 TO CORRECT 2020/21 WHERE A DOUBLE COUNT OF ADDITIONAL INVESTMENT INCOME FROM 2019/20 HAD BEEN INCLUDED UPDATED FOR IMPACT OF LOWER RESERVES FROM 2% COUNCIL TAX INCREASE	(234,398)	17,252	66,787	(4,202)	(580)
Investment property rental variation (Cabinet June 2018)	47,250				
Total Income Growth/Budget Pressures	(246,148)	(339,748)	66,787	(4,202)	(580)
TOTAL	(243,148)	810,252	73,787	37,798	41,420

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8. Savings Targets

8.1 The MTFS savings targets are split into two separate targets, those which reflect deliverable, planned savings and the additional savings which may be required depending upon the impact of changes to central government funding. Savings which are expected from planned projects are set out in the table below:-

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Leisure and Museum Contract	(76)	35	18	(3)	(26)
Transformational Change Programme – Delivered through Publica	346	268	25	25	664
Reduced LCTS Grant to Town/Parish Councils/Meetings	31				31
Savings in repair and maintenance to Old Memorial Hospital	13				13
Removal of business rates on public conveniences		26			26
Total	314	329	43	22	708

8.2 The MTFS anticipates that additional savings will be required as a result of changes to central government funding. Additional savings have been included over the next four years as follows:

Savings target reflecting central gov. funding changes	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Increased savings target	0	1,000	500	500	2,000

8.3 Assuming that all of these savings are deliverable, the MTFS forecasts that the Council will still need to use a significant amount of the General Fund in order to balance the budget for the next four years. The forecast use of General Fund balance is set out in the table below (updated for proposed increase in Council Tax of 2%):

Forecast use of/(contribution to) General Fund	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Increased savings target	112	934	504	52	1,602
<u>Revised use of General Fund Balances resulting from 2% increase in Council Tax</u>	<u>164</u>	<u>988</u>	<u>560</u>	<u>111</u>	<u>1,823</u>

8.4 A clearer picture of the level of savings required will emerge once the government provides further detail on the 2020/21 implications of:

- the move to 75% Business Rates Retention;
- Business Rates Baseline Reset - potential loss of growth achieved from 2013;
- the outcome of the local government Fairer Funding Review; and
- the outcome of a future Spending Review.

8.5 The Council will need to prioritise work on contingency plans to deliver saving from 2020/21 early in the 2019/20 financial year.

9. Net Budget Requirement

9.1 A summary of the impact upon the Council's net budget requirement for 2018/19 is set out below:

Summary of Changes to Net Budget Requirement	£
Net Budget Requirement 2018/19	11,254,341
Inflationary pressure - expenditure budgets	460,000
Unavoidable budget pressures - expenditure (net increase)	3,000
Unavoidable budget pressures - income	(246,148)
Savings	(314,153)
Net Budget Requirement 2019/20	11,157,040

9.2 The Council's net budget requirement will be funded as follows (updated for proposed 2% increase in Council Tax):

	£	£
Net Budget Requirement 2019/20		11,157,040
Revenue Support Grant	0	
Net Business Rates Income	3,074,218	
Council Tax payers @ £130.18 <u>£128.93</u> Band D	5,426,298 <u>5,374,197</u>	
Collection Fund Surplus	96,878	
New Homes Bonus	1,845,000	
Rural Services Delivery Grant	602,434	
Total Funding		11,044,828 <u>10,992,727</u>
Budget Deficit		112,212 <u>164,313</u>

9.3 The proposed budget strategy would give rise to a Council Tax of ~~£130.18~~ £128.93 per Band D equivalent property (an increase of ~~2.992%~~, or ~~£3.782.53~~).

9.4 The proposed budget assumes a budget shortfall of ~~£112,212~~ £164,313. It is proposed that this deficit is funded through the General Fund Balance.

9.5 The detailed revenue estimates for the Council are attached at **Appendix 'B'** and have been updated to reflect the revised proposal to increase Council Tax by 2%.

10. Revenue Reserves

10.1 As at 31st March 2018, the Council held £4.8m in General Fund Working Balances and £7.5m in earmarked reserves. Of the earmarked reserves, £3.3m 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 Council Priority projects which include:

- The transformation programme being delivered by Publica;
- Implementation of decked car parking in Cirencester and the associated redevelopment of the Old Memorial Hospital site;
- The review and implementation of revised waste and recycling services;
- Funding increased costs of waste and recycling service pending the acquisition of new vehicles;
- Implementation of the Local Plan and associated introduction of Community Infrastructure Levy;
- Contributing towards the costs of improvements to the Corinium Museum;
- Developing a Masterplan for Cirencester town centre;
- Funding costs associated with the Council's commitment to freeze leisure prices, reduce building control fees and enhance environmental services.

10.3 At the end of the MTF period, assuming that the Council is able to deliver the savings required as a result of reductions to central government funding, the Council plans to hold around £2.51.9m in General Fund Working Balance and £3.1m in earmarked reserves. The movement in General Fund Working Balance and Earmarked Reserves is shown in **Appendix 'A4'** and has been updated to reflect the revised proposal to increase Council Tax by 2%.

11. Capital

11.1 As at 31st March 2018, the Council held £12.4m of capital receipts and capital grants, which are available to fund capital projects. The Council is currently progressing with the project to provide increase car parking provision in Cirencester. A report will be considered by the Council in due course which will include the financial implications. The MTF period provides for investment of £15 million and will be updated as further information becomes available. The detailed Capital Programme is shown in **Appendix 'A3'** together with details of expected capital receipts and financing of the Capital Programme.

11.2 The forecast capital expenditure and financing is set out in the table below:

	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Capital Programme	12,990	17,650	1,577	1,577	1,577	1,577	2,077	6,077	1,577	1,577	48,256
Funded By:											
Capital Receipts	2,541	8,170	477	477	477	477	477	477	477	477	14,524
Capital Grants	1,826	650	650	650	650	650	650	650	650	650	7,676
Revenue Reserves/Contributions	2,873	1,390	250	250	250	250	250	250	250	250	6,263
Borrowing	5,750	7,440	200	200	200	200	700	4,700	200	200	19,790
Total	12,990	17,650	1,577	1,577	1,577	1,577	2,077	6,077	1,577	1,577	48,256

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

	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Capital Receipts	8,782	1,183	1,278	1,373	1,468	1,563	1,658	1,753	1,848	1,943

12. Risks

A risk assessment of the proposed MTFs and budget proposals for 2019/20 is shown at **Appendix 'A5'**.

13. Consultation

13.1 Residents, businesses and other stakeholders, such as Town and Parish Councils, within the District responded to the Council's recent budget consultation via an online survey, emails and letters to the Council. Detailed feedback is included at **Appendices 'C1', 'C2' and 'C3'**.

Online survey responses:

13.2 The survey received 31 responses from residents; no businesses responded to the online survey.

13.3 The response to the Council's plans to increase council tax by up to 2.99% was as follows:

Support	41.94%
Don't mind	29.03%
Disagree	6.45%
Strongly disagree	9.68%

13.4 The response to the Council's plans to freeze car parking charges was as follows:

Support	19.35%
Don't mind	38.71%
Disagree	25.81%
Strongly disagree	12.90%

13.5 In response to the question regarding what level of garden waste fee the Council should set for 2019/20, the following responses were received:

Option 1 £28 per year (£14 discounted fee)	29.03%
Option 1 £27 per year (£13 discounted fee)	22.58%

The following suggestions/comments were received re the fee:

- £15 (Half the visits, then half the price)
- I strongly disagree to the 3 month winter suspension of garden waste collection
- Nil
- £23
- Keep it at £30 but abandon the proposal to suspend garden waste collection in the winter. This saves little money and will cause other problems.
- £11.40 You will only be collecting 20 weeks out of 52
- £15
- £15
- No change. It's already cheaper than Wiltshire which is 2-weekly.
- It is very good value and I don't think a discount is justified. Low-income people not on means-tested benefits subsidise benefit recipients on higher incomes so it's not a fair system.

- £30 per year (£15 discounted fee)
- I don't care, I don't pay it and dispose of garden waste on site
- £30
- £20
- Keep at £30

13.6 The response to the Council's plans to maintain current service standards was as follows:

Agree	70.97%
Disagree	29.03%

13.7 The response to the Council's plans to maintain grants to voluntary sector was as follows:

Agree	70.97%
Disagree	29.03%

13.8 The response to the Council's plans for the use of New Homes Bonus grant was as follows:

Strongly disagree	16.13%
Disagree	3.23%
Don't mind	19.35%
Support	41.94%
Strongly support	19.35%

13.9 The response to proposed changes to Local Council Tax Support Grant allocations to Town and Parish Councils was as follows:

Strongly disagree	12.90%
Disagree	19.35%
Don't mind	32.26%
Support	25.81%
Strongly support	9.68%

13.10 Respondents were asked to prioritise the following ways of delivering savings from 2020, and responded as follows:

- Increase council tax at the maximum referendum level;
- Increase investment in commercial property;
- Identify other innovative ways to generate additional income;
- Increase discretionary fees and charges so that the user pays for the services consumed;
- Savings from partners through efficiency savings;
- Savings from partners from service changes.

13.11 Of the 31 online responses, 29 completed the prioritisation question. In general, respondents least favoured council tax increases but were supportive of finding innovative ways of generating income. Delivery of efficiency savings through working with partners had higher support than service change through partners. There was some support for further investment in commercial property although it was not the top priority for any of the respondents. There was a mixed response to increasing discretionary fees.

13.12 Of the 31 online responses, 16 provided other feedback, which is included in **Appendix 'C1'**.

13.13 The Council also received various emails in response to the budget consultation - details are included in **Appendix 'C1'**. The Council also received representations from Fairford Town Council (see **Appendix 'C2'**); and Cirencester Town Council (see **Appendix 'C3'**).

13.14 The Audit Committee considered the draft Capital Strategy, Investment Strategy and Treasury Management Strategy on 29th January 2019. The Committee suggested various minor changes to the draft Strategies. The changes have been incorporated within **Appendices 'E', 'F' and 'G'**. The Committee also wished to highlight the amount of borrowing which was now being planned by the Council, which represented a significant change in direction insofar as the manner in which the Council had hitherto funded capital projects/spend.

13.15 The Overview and Scrutiny Committee considered the draft MTFs and Budget Proposals for 2019/20 on 5th February 2019. The Committee were updated by the Chief Finance Officer on the revised income from retained business rates for 2019/20, which resulted in the Council's budget position deteriorating from a budget surplus of £12,000 (as per the Committee papers) to a deficit of £270,000. The Committee noted the following specific points, which it wished to pass on to the Cabinet for consideration as part of its deliberations:

- the reduced income from business rates (following verification of the estimates);
- the revised budget deficit;
- the increased savings targets in future years;
- the proposed council tax freeze;
- the proposed reduction in the garden waste service;
- comments from the budget consultation process, especially those regarding changes to the garden waste service and associated fee levels.

14. Chief Finance Officer's Opinion

14.1 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

14.2 This report sets out the implications of the Local Government Finance Settlement on the level of central government funding available to fund Council services. For the period to 2020/21, the Council has entered into an agreement with central government which sets out minimum levels of funding for certain funding streams (Revenue Support Grant and Rural Services Delivery Grant). For the period post 2020/21, the future is far less certain as a number of significant changes will come into effect:

- The government will implement the outcome of the local government Fairer Funding Review;
- The new 75% business rates retention system will come into effect;
- The business rate baseline will be reset and there is the potential for the Council to lose its share of the financial benefit from growth in business rates in the District since 2013;
- The government will have completed a new Spending Review to establish its spending priorities post 2020.

14.3 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.

14.4 The Council has an excellent history of delivering planned efficiency savings. The budget for 2019/20 includes further savings of £0.3m. Plans are already in place to deliver the bulk of these savings through the Council's transformation programme which will be delivered through its service providing company Publica. The balance of the savings will be delivered through the abolition of the local council tax scheme grant to town and parish councils and from the demolition of the Old Memorial Hospital site in Cirencester. These plans, together with the Council's proven track record on delivering savings, give me confidence that these savings will be delivered.

14.5 The Bank of England base rate has recently increased to 0.75 %. The Council's treasury advisors are expecting the rate to be maintained at low levels for a further significant period of time. During 2018/19, the Council diversified £10 million of its cash deposits into a range of pooled funds which should increase yield whilst satisfying the Council's requirements for security and liquidity in line with the proposed Treasury Management Strategy Statement.

14.6 The Council's capital investment proposals are set out in this report and in the Capital Strategy. The Council has capital reserves of around £12 million. Due to the scale of the investment required in car parking in Cirencester (potentially £15 million), the Council will need to borrow to fund its capital programme. The Medium Term Financial Strategy, Capital Strategy, Investment Strategy and Treasury Management Strategy are all inter-related and provide the Council with a view of the affordability of its spending plans.

14.7 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.

14.8 The major risks looking forward are in respect of the further changes to central government funding post 2020/21.

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

Adequacy of the Council's Reserves

14.10 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.

14.11 The Council held general fund revenue balances of £4.8 million on 1 April 2018. There are no plans to utilise this balance for the 2018/19 year. The current plans for 2019/20 will reduce the level of General Fund balance by ~~£112,212~~ **£164,316**. I have assessed the risks to the budget and have determined that the minimum reserves position should be £1.5 million under the current economic outlook with significant risks remaining to revenue streams and grant levels in future years. £1.5 million is the equivalent of 13.4% 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. Business rate pool risk	£300,000
3. 2020 Partnership savings delivered later than anticipated	£150,000
4. Unforeseen budget pressures	£200,000
5. Income from fees and charges lower than anticipated	£300,000
6. Emergency planning	£ 50,000

14.12 It is unlikely that all of these risks will materialise during 2019/20. 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.

14.13 Section 10 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 £1.5 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 £2,500,000). 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 has sufficient revenue reserves to be able to develop contingency plans while the impact of changes to central government funding post 2020/21 becomes clearer.

14.14 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.

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

15. Pay Policy Statement

15.1 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.

15.2 The Pay Policy Statement 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.

15.3 There is an on-going pay and grading review in relation to Publica officers, which will be of relevance to retained officers. If necessary, a revised Pay Policy Statement will be produced for consideration and approval. In the meantime, an amendment to the submitted statement may be necessary in relation to one of the Council's statutory officers; and this will be reported to the Council Meeting if required. Provision has been included within the budget proposals for this change.

(END)