COTSWOLD
DISTRICT COUNCIL

OVERVIEW AND SCRUTINY COMMITTEE (SPECIAL MEETING) — **9TH FEBRUARY 2016**

AGENDA ITEM (4)

DRAFT MEDIUM TERM FINANCIAL STRATEGY 2016/17 TO 2019/20 AND BUDGET 2016/17

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 2019/20, together with detailed budget proposals for 2016/17; and to provide comments for Cabinet and Council to consider as part of the budget setting process.
Recommendations	**That the Committee considers the following:** **(a) the Medium Term Financial Strategy for 2016/17 to 2019/20, detailed in Appendix 'A' to this report;** **(b) the Capital Programme for 2016/17 to 2018/19, as detailed in paragraph 11 of this report, and in Appendix 'B';** **(c) the Net Budget Requirement for 2016/17, detailed at paragraph 9.1 of this report, and the Detailed Budget attached at Appendix 'B' to this report;** **and provides comments for the Cabinet and Council to consider as part of the budget setting process.**
Reason(s) for Recommendation(s)	To provide consultation feedback to the Cabinet and Council on the budget for 2016/17.

Ward(s) Affected	All
Key Decision	Yes
Recommendation to Council	Yes, by the Cabinet.

Financial Implications	Subject of the report
Legal and Human Rights Implications	The Local Government Finance Act 2012 introduced a radical change to the local government finance system. The key changes introduced by the Act were: • implementation of the Business Rates Retention Scheme;

	• replacement of the existing Council Tax Benefit system with local Council Tax Support; • implementation of changes to council tax rules to provide some local flexibility on the council tax local authorities can charge on empty properties. All of the above changes came into effect for the 2013/14 financial year. Section 38 of the Localism Act 2011 requires local authorities to produce Pay Policy Statements.
Environmental and Sustainability Implications	None directly arising from this report
Human Resource Implications	This report meets the requirements of the Localism Act and identifies pay comparison measures set out in the Hutton Report to ensure clarity in senior pay in the public sector.
Key Risks	See Section 12
Related Decisions	Medium Term Financial Strategy 2015/16 to 2018/19 and Budget 2014/15 - Council - 24th February 2015 Business Rates Retention Scheme - Pooling - Council - 20th November 2012.
Background Documents	None
Appendices	**Appendix 'A'** - Medium Term Financial Strategy 2016/17 to 2019/20 **Appendix 'B'** - Detailed Budget 2016/17 **Appendix 'C'** - Summary of budget consultation responses

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

Options for Joint Working	Preparation of the budget and monitoring financial performance will be carried out by officers working within GO Shared Services, a collaboration supporting this Council, Cheltenham Borough Council, West Oxfordshire District Council and Forest of Dean District Council

Background Information

1. <u>Background - Settlement Funding Assessment</u>

1.1 In November 2015, the Council issued its draft Medium Term Financial Strategy (MTFS) for the period 2016/17 to 2019/20 and its associated budget proposals for 2016/17 for public consultation.

1.2 On 17th December 2015, the Secretary of State for Communities and Local Government announced the provisional local government settlement for 2016/17. The announcement included the following significant proposals to be delivered over the life of the Spending Review Period:

- Movement to 100% business rate retention;
- Introduced the ability to spend 100% of capital receipts from asset sales, to fund cost-saving reforms;
- Introduction of a social care Council Tax precept of 2% a year guaranteed to be spent on social care;
- Introduced the ability for the lowest cost district councils to increase council tax by £5 a year;
- Increased support through the Rural Services Delivery Grant for the most sparsely populated rural areas;
- Retention of New Homes Bonus **but** with proposed changes, with the 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.

1.3 In addition to the detailed proposals for 2016/17, illustrative figures have also been provided for each financial year up to 2019/20. The illustrative figures need to be treated cautiously as they do not include the full implications of proposed changes to the New Homes Bonus or implications of the move to 100% business rate retention. In the case of changes to the New Homes Bonus, the illustrative figures showed a reduction in New Homes Bonus in 2018/19, whereas the consultation document indicated that reductions would come into effect in 2017/18.

1.4 The draft MTFS has been updated to reflect the above points. As there remains considerable uncertainty over funding for the period 2017/18 to 2019/20, two scenarios have been modelled for this Council in the MTFS. Scenario A models the financial position for the Council using the illustrative figures provided by the Department for Communities and Local Government. The New Homes Bonus figure has been adjusted to reflect the cut to the grant which is likely to come into effect in 2017/18 rather than 2018/19 used in the illustrations. Officers anticipate that this will be the worst case scenario for the Council. Scenario B models the financial position for the Council using local forecasts for the delivery of new homes in the district and applying the government's proposals for moving the award of New Homes Bonus from 6 years to 4 years. Officers anticipate that this will be the best case scenario for the Council.

1.5 It is likely that the true position will be somewhere between these two scenarios. Once the government has confirmed the changes to New Homes Bonus and has provided further detail on the implications of moving to 100% business rate retention, it will be possible to provide a clearer steer on the Council's medium term financial position.

1.6 The final settlement for 2016/17 is due to be announced early in February 2016. The draft MTFS will be updated for any significant changes prior to consideration by Council on 23rd February 2016.

1.7 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 **19.9% in** 2016/17.

	2013/14	**2014/15**	**2015/16**	**Provisional 2016/17**	**Illustrated 2017/18**	**Illustrated 2018/19**	**Illustrated 2019/20**
Revenue Support Grant	£2,466,458	£2,003,593	£1,510,389	£856,353	£386,361	£100,724	£0
Business Rates Target	£1,640,867	£1,672,832	£1,704,797	£1,719,003	£1,752,813	£1,804,523	£1,643,845
Settlement Funding Assessment	**£4,107,668**	**£3,676,425**	**£3,215,186**	**£2,575,356**	**£2,139,174**	**£1,905,247**	**£1,643,845**

Annual Reduction in Funding	£296,308 8%	£430,900 10.5%	£461,239 12.5%	£639,830 19.9%	£436,182 16.9%	£233,927 10.9%	£261,402 13.7%

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 £2,463,480 or 60%.

2. New Homes Bonus (NHB)

2.1 The Government has announced the provisional allocation of NHB Grant for 2016/17. For this Council, NHB Grant will increase by £685,826 from £2,564,789 to £3,250,615. The grant recognises net growth in the Council Tax base of 485 properties between October 2013 and October 2014 and the development of 143 affordable housing units.

2.2 The government is proposing to make changes to the New Homes Bonus and has published a consultation document "New Homes Bonus: Sharpening the Incentive". The Consultation document has been prepared in the context of the outcome of the 2015 Spending Review. This confirmed the intention to move to full retention of business rates by 2020 and a preferred option for savings of at least £800 million in New Homes Bonus, to be used to fund social care. The consultation seeks views on the options to change two aspects of the New Homes Bonus:

- Reducing costs by moving payment of the bonus from 6 years to 4 years;
- Reform of the bonus to reflect local authorities' performance on housing growth, linking payment of grant to production of the Local Plan, reducing payments for housing built on appeal and/or only making payments for delivery above a baseline representing "deadweight".

2.3 The deadline for responses is 10th March 2016, and Officers are preparing a response in consultation with the Leader of the Council.

2.4 Officers have prepared two version of the MTFS to reflect:

- the Department for Communities and Local Government illustrations of New Homes Bonus allocation for the period 2016/17 to 2019/20 (adjusted to reflect reduction in New Homes Bonus from 2017/18 as per the New Homes Bonus consultation); and

- local modelling of potential New Homes Bonus, using levels of housing growth achieved in recent years and assuming that the government implements the changes to funding from 6 years to 4 years only.

2.5 The Council's draft MTFS, which was published in November, included a provision for the use of New Homes Bonus within the base budget to be limited to £2.5 million. The provisional award of New Homes Bonus for 2016/17 is £3,250,615, which exceeds the MTFS assumption by £750,615. Given the proposed level of reduction to New Homes Bonus in future years, it is recommended that the surplus New Homes Bonus is appropriated to the Council Priorities Fund to provide funding for the change which will need to take place in order for the Council to balance its budget over the medium term.

3. Business Rates and the Gloucestershire Business Rates Pool

3.1 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.

3.2 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.

3.3 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, setting out the latest position and the on-going uncertainty surrounding the Virgin Media issue.

3.4 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.

3.5 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. 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'.

3.6 Taking the above into account, it was agreed that this Council would 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. For 2016/17, the Gloucestershire pool has been reconstituted to include Gloucestershire County Council and all of the District/Borough Councils except Tewkesbury Borough Council.

3.7 Due to the volatility around business rates, the MTFS does not assume any sustainable income from the Gloucestershire Business Rates pool. Pool surpluses will be treated as one-off income as it is received.

3.8 A significant level of risk remains due to the volume of outstanding business rates appeals which are being processed by the Valuation Office. Where appeals are successful, refunds of business rates are generally repayable back to the 2010/11 financial year, which reduces the business rates yield in the year in which the refund is made. The Council has made a provision for its share of the cost of outstanding appeals of £831,101 within its 2014/15 accounts. As at 31st December 2015, there were 384 appeals outstanding with a rateable value of £17.8m. Analysis of trend data has indicated that resolved appeals have reduced the rateable value by 4.2%. When this trend is applied to the outstanding appeals, the financial risk can be quantified at £495,000 per annum. The risk associated with backdated refunds amounts to £2,600,000. The Council's share of this risk is around £1,000,000. The Council's NNDR1 return to the Department for Communities and Local Government has increased the overall provision for appeals by £511,601. The impact for this Council is an increase in the appeals provision of £204,640.

3.9 The Autumn Statements in 2013, 2014 and 2015 included an extension to the Small Business Rate Relief from 50% to 100% for each year, as well as introducing other reliefs. A commitment has been made to fully compensate local government for lost business rates. This compensation will be paid by a specific grant from DCLG (section 31 grant). It is assumed that similar arrangements will continue over the life of the MTFS.

3.10 The budget for 2016/17 includes key data from the business rates estimates for 2016/17 (NNDR 1).

	2016/17 £
Estimate of retained business rates (inc £89,833 from new solar farms)	12,395,846
Tariff to government	(10,309,163)
Grant to compensate for government decisions (e.g. Small business rate relief and Localism Act reliefs)	657,166
Estimated levy payable to government	(447,578)
Net retained business rates (2016/17 element)	**2,296,271**
Collection Fund Deficit (forecast to end of 2015/16)	(1,155,320)
Use of Business Rates Smoothing Reserve to offset Collection Fund Deficit	650,000
Net Overall Income from Retained Business Rates	**1,790,951**

3.11 The net business rates estimates for 2016/17 exceed the government's baseline funding level of £1,719,003 by £935,013. The estimated levy due to central government is £447,578.

3.12 When the NNDR1 return for 2015/16 was prepared in January 2015, the estimates indicated that there would be a surplus on the Collection Fund for 2014/15 which would be paid to the Council's General Fund during 2015/16. Between preparation of the NNDR1 return and the end of the financial year, the Government imposed a 31st March 2015 deadline for the receipt of appeals against the 2010 list. Consequently, a significant number of appeals were lodged in the last 2 weeks of the 2014/15 financial year. As a result, the provision for appeals increased from £1.2m as at 31st March 2014 to £2.1m as at 31st March 2015, an increase of £0.9m. This increase in the appeals provision resulted in a deficit on the business rates element of the Collection Fund of £1,444,962, which needs to be considered as part of the budget setting process for 2016/17. The estimates within the NNDR1 indicate that this deficit will increase to £2,888,299 during 2015/16. The Council is required to reflect its share of this deficit, £1,155,320 when it sets its budget for 2016/17.

3.13 At the end of 2014/15, the Council's share of the deficit on the Collection Fund was £577,985. The Council established an earmarked reserve to help manage the risks associated with the retained business rates scheme and allocated funding of £650,000 into the reserve. This fund is available to partially mitigate the deficit of £1,155,320.

4. Council Tax

4.1 The Localism Act 2011 introduced a power for the Secretary of State for Communities and Local Government to issue principles that define what should be considered as excessive Council Tax, including proposed limits. The principles are subject to approval by the House of Commons. From 2013 onwards, any Council that wishes to raise its Council Tax above the limits that applies to it will have to hold a referendum. The result of the referendum will be binding. The referendum limit for 2016/17 has been maintained at 2%. As part of the consultation on the Local Government Provisional

Settlement 2016/17, central government is enabling district councils with council tax which falls within the bottom quartile of council tax, to increase council tax by up to £5 per band D equivalent property.

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

5. <u>Collection Fund</u>

It is estimated that the Council Tax element of the Collection Fund will end the financial year with a surplus of £1,196,600. This Council will receive £151,272, with the balance being payable to other major precepting authorities.

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

The financial planning assumptions included within the report to the Cabinet in November 2015 have been reviewed and updated to reflect the current economic circumstances. The 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;
- cuts to central government funding as set out in sections 1 and 2;
- Council Tax increase of 1.99% per annum;
- that the existing budgetary provision for counter-fraud work is retained for 2016/17, while the counter-fraud business case is in preparation.

7. <u>Unavoidable Budget Pressures</u>

7.1 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.

7.2 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, 2018/19 and 2019/20.

7.3 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 of the current reduction - 3.4%. Provision for increased employer NI contributions with effect from 2016/17 has been included within the draft Strategy.

7.4 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 2017/18. Any budget adjustments will be included in the next update to the MTFS.

7.5 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 case-load. In addition, local authority officers will be supporting claimants with their Universal Credit claims.

7.6 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 £187,500 (across three years) have been included within the draft MTFS.

7.7 At the time of writing this report, the Department for Communities and Local Government have not released any figures relating to the grant for administration of Local Council Tax Support. However, it is anticipated that the grant will be further reduced over coming years. Provision has been included for cuts of £5,000 per annum for each of the next four years.

7.8 In the Autumn Statement, the Chancellor announced the introduction of an "Apprentice Levy" for employers. The cost of the levy is 0.5% of the pay bill and will be introduced from April 2017. The estimated cost to this Council is £20,000 per annum.

7.9 The planned development of the Brewery Court area of Cirencester means that the Council's budget for rental income needs to be adjusted to reflect lost rental income of £15,000 from 2016/17.

7.10 Some of these budget pressures will be off-set by additional investment income, £20,000 per annum, reflecting the balance of cash available for investment and the level of investment returns achieved in recent years, despite the low levels of interest rates.

8. <u>Savings Targets</u>

8.1 The MTFS includes the following savings targets:-

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total
Savings	1,204	715	315	119	2,353

8.2 The targets have been reviewed and updated to reflect deliverable savings over the next four years. The Council plans to achieve the bulk of these savings targets through the implementation of the 2020 Vision for Joint Working which was endorsed by this Council and the other 2020 Vision partner Councils: Cheltenham Borough Council, Forest of Dean District Council and West Oxfordshire District Council during the autumn of 2015.

	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	Total £000
Leisure and Museum Contract	76	66	27		169
2020 Vision	594	399	288	119	1,400
Savings identified from 2014/15 outturn	518	250			768
Procurement Savings - public conveniences	10				10
Reduced LCTS Grant to Town/Parish Councils	6				6
Total	**1,204**	**715**	**315**	**119**	**2,353**

8.3 Under scenario A (the worst case Medium Term Financial Strategy), it is forecast that the Council will need to use the General Fund Working Balance in order to balance the budget. To avoid the requirement to use General Fund Working Balance, the savings targets will need to increase as follows:

MTFS Scenario A - Increases to savings target required	**2016/17 £000**	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**	**Total £000**
Increase savings target	0	68	108	158	334

8.4 A clearer picture of the level of savings required will emerge once the government publishes its final decisions upon changes to the New Homes Bonus Scheme and provides further detail on the implications of the move to 100% business rates retention. During 2016/17, the Council will develop savings plans to enable it to address the budget gap.

9. Net Budget Requirement

9.1 A summary of the impact on the Council's net budget requirement for 2016/17 is set out below:-

Summary of Changes to Net Budget Requirement	**£**
Net Budget Requirement 2015/16	**11,265,335**
Inflationary pressure - expenditure budgets	210,000
Unavoidable budget pressures 2016/17 - expenditure	367,000
Unavoidable budget pressures 2016/17 - income	62,500
Savings	(1,204,000)
Surplus New Homes Bonus to be appropriated to Council Priorities Fund	(750,617)
Movement in contribution to reserves (£515,000 reduction in contribution to reserves less surplus New Homes Bonus to Council Priorities Fund £750,617)	235,617
Net Budget Requirement 2016/17	**10,185,835**

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

		£	£
Net Budget Requirement 2016/17			**10,185,835**
Revenue Support Grant		**856,353**	
Business Rates Baseline Funding	1,719,003		
Collection Fund Deficit - Business Rates	(1,155,320)		
Business Rates in excess of Baseline Funding	277,847		
Business Rates s.31 Grant	657,166		
Renewable Energy	89,833		
Business Rates Levy	(447,578)		
Business Rates Smoothing Reserve	650,000		
Net Business Rates Income		**1,790,951**	
Council Tax payers @ £128.91 Band D		**4,952,585**	
Collection Fund Surplus		**151,272**	
New Homes Bonus		**2,500,000**	
Rural Services Delivery Grant		**148,749**	
Total Funding			**10,399,910**
Budget Surplus			**214,075**

9.3 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%).

9.4 The proposed budget assumes a budget surplus of £214,075. Given the risks surrounding the business rates figure which is highlighted in this report, and the risk to the level of central government funding through New Homes Bonus and Business Rates Retention over the medium term, it is proposed that the budget surplus is used to increase the Council's General Fund Working Balance. This will provide the Council will some financial stability over the coming years.

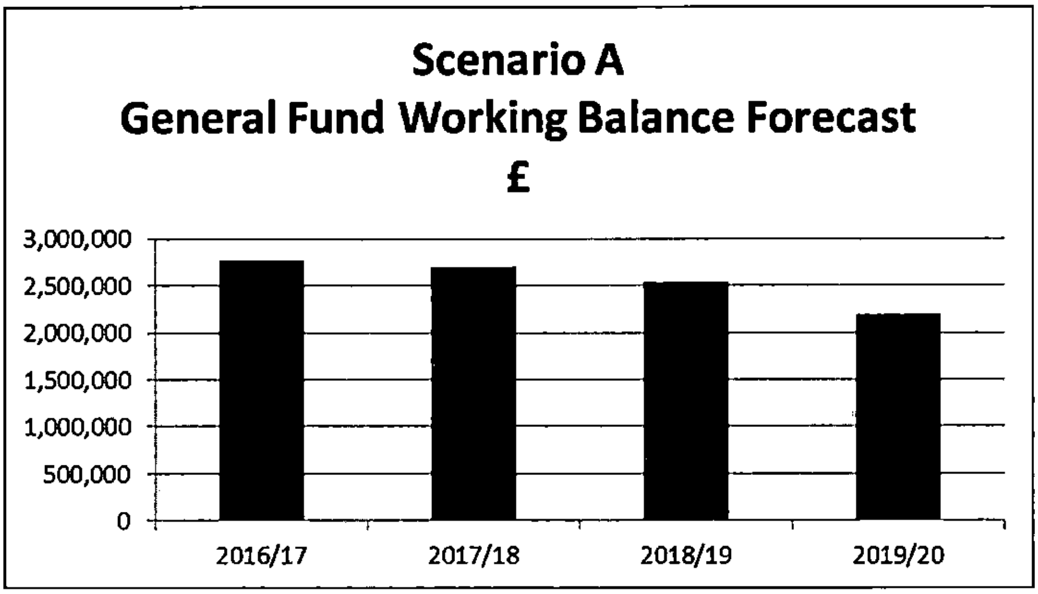
9.5 The detailed revenue estimates for the Council are attached at **Appendix 'B'**.

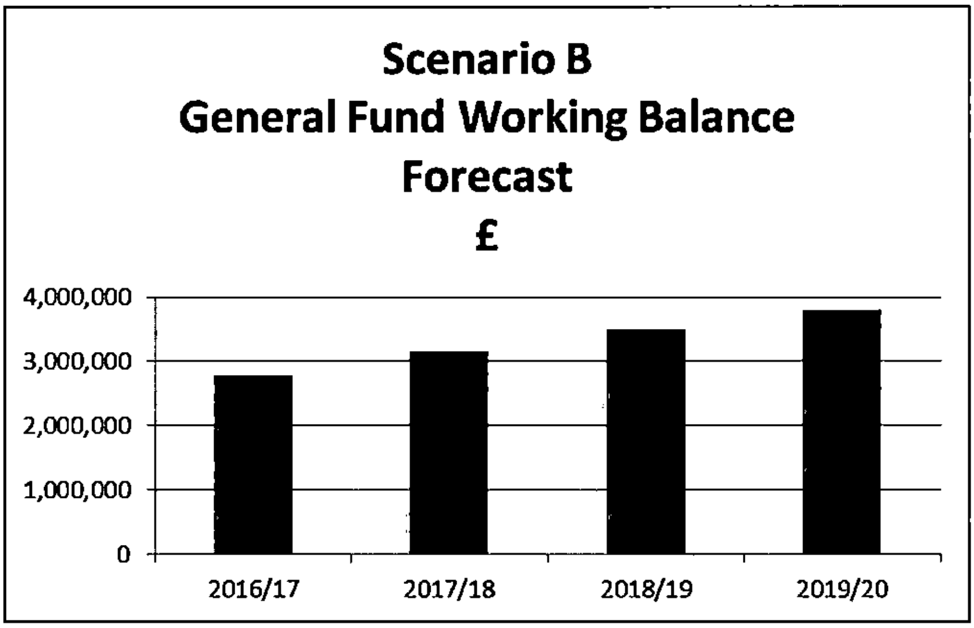
10. <u>Revenue Reserves</u>

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, £2.1m 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.

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 the 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 surpluses available at the end of the 2015/16 financial year.

10.3 The graphs below show the forecast balance of General Fund Working Balance for each of the two MTFS scenarios:-





10.4 As part of the update of the MTFS, a review has been carried out of existing earmarked reserves and four reserves (which were originally established from allocations from the Council Priorities Fund) have been identified for closure. It is recommended that the remaining balances are transferred back to the Council Priorities Fund. Details of the reserves are set out below:

Ledger Code	Reserve Name	Existing balance £
XC0048	CP - Public Protection Service	100,000
XC0043	CP - Strategic land site development	50,000
XC0044	CP - Strategic land site future options	15,000

11. Capital

11.1 As at 31st March 2015, the Council held £11m 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**	**2019/20 £000**
Disabled Facilities Grants / Decent Homes Grants (net of central government capital grant)	520	520	520	520
IT (funded from revenue) 2015/16 carry forward	200 100	150	150	150
Environmental Services Depot – carry forward from 2015/16	500			
Provision for new capital investment:				
Replacement waste and environmental services vehicles	630	265	138	15
Investment in car parks	352	300	100	150
Provision for capital investment to support 2020 Vision for Joint Working	245	125	125	
Communities Project Fund	100			
Flood and Land Drainage Works	422	300		
Planning capital project	150			
Total	**3,219**	**1,660**	**1,033**	**835**

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

	2016/17 £000	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
Capital receipts from asset sales	3,200			
Disabled Facilities Grant	400	400	400	400
Right to Buy Receipts	100	100	100	100
Ubico Ltd contribution to vehicle assets	387	401	377	340
Other e.g. repayment of loans, flooding grants and contributions	181	50	50	50
Total	**4,268**	**951**	**927**	**890**

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	2019/20 £000
Balance of capital receipts	**10,264**	**9,404**	**9,147**	**9,051**

12. Risks

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

13. Consultation Feedback

13.1 Parish Liaison Meetings took place during November 2015, where the budget proposals were presented. Residents and businesses within the District were able to feed into the budget setting process by responding to the consultation document which was placed on the Council's Website. A summary of the budget consultation responses is attached at **Appendix 'C'**. There was a very limited response to the consultation - just 12 individuals responded out of 38,000 households in the district; and there were no responses from businesses.

13.2 The Overview and Scrutiny Committee considered the draft MTFS at its Meeting on 1st December 2015. The relevant extract from the Minutes of that Meeting is contained within **Appendix 'C'**.

13.3 The key comments arising out of the Committee's deliberations today will be reported to Cabinet at its February Meeting.

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 Sections 1, 2 and 3 of this report set out the implications of the Autumn Statement and 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 2016/17 to 2019/20. While further information is awaited from the Department for Communities and Local Government, the guidance provided to date has been used to produce a best and worst case scenario for the Council to assist Members in their deliberation of the budget for 2016/17 and any financial consequences for the Council's financial sustainability over the medium term.

14.3 The revenue streams of New Homes Bonus and business rates retention add significant uncertainty to the Council's funding and, given the latest consultation paper on New Homes Bonus, the impact threatens the stability of the Council's Medium Term Financial Strategy.

14.4 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.

14.5 Since 2009/10, the Council has delivered efficiency savings of around £5.5m per annum. The budget for 2016/17 includes further efficiency savings of £1.2m. Plans are already in place to deliver these savings through the 2020 Vision, the Leisure Contract and a review of all service areas to identify budgets which can be reduced without an impact upon service standards; these plans, together with the Council's proven track record on delivering savings, give me confidence that these savings can be delivered.

14.6 The Bank of England has kept base rate at 0.5% for a full seven years now. Income from investment is projected to be £0.25 million for 2016/17, based upon average balances of £23m and an average return of 1.1%. 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.

14.7 The Council's capital projects and funding is set out in section 11 of this report. The Council has capital reserves of around £9 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 2016/17. Over the medium term, the Council's capital reserves remain broadly the same.

14.8 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 will form part of the Council's new Corporate Plan. The Corporate Risk register is reviewed regularly by the Council's Overview and Scrutiny Committee and Cabinet as part of quarterly performance management processes.

14.9 The major risks looking forward are in respect of the outcome of the consultation on New Homes Bonus and continued risks around business rates appeals.

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

Adequacy of the Council's Reserves

14.11 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.

14.12 The Council held general fund revenue balances of £2.9m on 1st April 2015. There are no plans to utilise this balance for the 2015/16 year, in fact it is likely that budget under-spends will enable the Council to make a significant contribution to the level of general fund balance at the end of the year. As set out in paragraph 9.2, the proposed budget for 2016/17 will further increase the level of General Fund balance. I have assessed the risks to the budget and have determined that the minimum reserves position should be £1.1 million under the current economic outlook with significant risks remaining to revenue streams and grant levels in future years. £1.1 million is the equivalent of 10.8% of the net cost of Council services.

14.13 Section 10 of this report sets out the forecast levels of general fund working balance in the best and worst case scenarios for the Council. In both scenarios, the Council is able to maintain a level of reserves above the minimum position of £1.1m. 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. 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 outcome and impact of the changes to New Homes Bonus and the move to 100% business rate retention are clarified.

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. The proposed budget recommends an increase to the funds available for transformational change of £0.75m. These funds will enable the Council to deliver its medium and longer term savings plans.

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

(END)