



OVERVIEW AND SCRUTINY COMMITTEE

AGENDA ITEM (11)

DRAFT MEDIUM TERM FINANCIAL STRATEGY 2018/19 TO 2021/22

Accountable Member	Councillor Mark Annett 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 2018/19 to 2021/22.
Recommendations	That the updated Medium Term Financial Strategy be considered, and feedback provided to the Cabinet and the Council.
Reason(s) for Recommendation(s)	To inform the development of the detailed revenue and capital budgets for 2018/19 and to provide a basis for the budget consultation process.
Ward(s) Affected	All
Key Decision	Yes
Recommendation to Council	Not at this stage. The Council will consider the updated Medium Term Financial Strategy as part of the formal budget setting process in February 2018.
Financial Implications	The Council is required to set a balanced budget. The detailed budgets that will be presented in January/February 2018 will be prepared in accordance with the budget parameters set out in this report.
Legal and Human Rights Implications	None directly arising from this report
Environmental and Sustainability Implications	None directly arising from this report
Human Resource Implications	None directly arising from this report
Key Risks	See Section 12

Related Decisions	Budget 2017/18 - Council - 21 st February 2017 2020 Vision Programme - Council - 27 th September 2016 Four-Year Funding Settlement - Council - 27 th September 2016
Background Documents	None
Appendices	Appendix 'A' - Draft Medium Term Financial Strategy 2018/19 to 2021/22 Appendix 'B' - Allocation of Local Council Tax Support Grant to Town/Parish Councils/Meetings

Performance Management Follow Up	The draft Medium Term Financial Strategy will form the basis of budget consultation as set out in the report. The outcome of the budget consultation process will be reported to the Cabinet and the Council in February 2018 as part of the budget setting process.
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Options for Joint Working	Preparation of the budget and monitoring financial performance is carried out by officers working within Publica Group (Support) Ltd in the financial services shared service.
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Background Information	
<p>1. The Cabinet considered the draft Medium Term Financial Strategy (MTFS) for the period 2018/19 to 2021/22 at its Meeting on 16th November 2017, and approved the document for consultation purposes (along with the allocation of Local Council Tax Support Grant to Town/Parish Councils/Meetings - see Appendix 'B'). Following the Cabinet consideration, Officers identified some corrections to items in Appendix A. The papers have been updated so that the Overview and Scrutiny Committee can consider the latest iteration of the Strategy. Overview and Scrutiny Committee is requested to consider the update to the MTFS as a part of the Council's Budget consultation process. The report considered by the Cabinet is set out below and has been updated to reflect the corrections identified by Officers; updates are highlighted in yellow.</p> <p>2. The Committee may also recall that a Special Meeting has been provisionally scheduled for 6th February 2018, in case it wishes to consider this matter further post-consultation.</p> <p style="text-align: center;">*****</p> <p>1. <u>Background</u></p> <p>In February 2017, the Council approved its Medium Term Financial Strategy (MTFS) for the period 2017/18 to 2020/21 and its associated budget proposals for 2017/18. This report updates the MTFS to reflect current understanding of the national funding position for local government and local matters, which will impact on the Council's budget for 2018/19 or later.</p> <p>2. <u>National Funding Position</u></p> <p>2.1 Since 2010/11, comparable Government funding (i.e. Revenue Support Grant, Retained Business Rates and specific grants which were rolled into this core funding) has fallen from £6.0m to £2.3m per annum; a reduction of £3.7m (62%) per annum.</p> <p>2.2 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 retained Business Rates, Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant.</p>	

2.3 During 2017/18, there were changes to the New Homes Bonus (NHB) scheme, including the reduction of the period of award of NHB from six years to five years in 2017/18 and the introduction of baseline growth of 0.4% per annum. With effect from 2018/19, NHB will be further reduced from five years to four years. In addition, the Department for Communities and Local Government (DCLG) is consulting on further changes to the scheme to reduce the value of NHB for new homes built as a result of appeals to planning decisions. Once details of the changes to NHB have been announced, further modelling will be carried out to estimate the impact on the value of NHB to the Council. The MTFs assumes that NHB of £1.845m will be available to fund Council services. This figure will be reviewed following the completion of the modelling.

3. Budget Pressures

3.1 The lift of the cap on public sector pay awards has been the subject of debate in the national Press. The impact on the local government sector is currently not known. However, the MTFs has been updated from a provision for pay award of 1% to 2%.

3.2 Utilities contracts include an allowance for inflation. Budgets will need to be inflated according to contract terms.

3.3 Provision is included for inflation related to the contract with Ubico Ltd for environmental services provision. However, there are many factors which will impact on 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. Officers are reviewing the budget requirement for 2018/19 to take into account all of the above factors. The outcome of the review will be incorporated in the MTFs and the detailed budget proposals to be considered during January and February 2018.

3.4 Current and former Council employees (i.e. employees that transferred to Publica in November 2017) are members of the Gloucestershire Local Government Pension Scheme (LGPS). Every three years, the assets and liabilities of the LGPS 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 2016 and set the Council's contribution rates for 2017/18 - 2019/20. The MTFs contains provision for increased contributions of £195,000 in each of the next two years, in line with the actuary valuation. It is possible that the next valuation, to be carried out as at 31st March 2019, may require a further increase in contributions. This poses a risk to the MTFs in the future, and will be kept under review.

3.5 The Head of Gloucestershire Joint Waste Team (GJWT) was originally shared with Somerset. It has been decided that the GJWT requires a full-time Head. A funding request for £10,000 per annum has been made to each partner Council.

3.6 There are additional costs associated with the provision of car parking in Cirencester. A provision of £25,000 has been included in the budget with effect from 2018/19.

3.7 The Universal Credit benefits system is now in place for new claimants. While local council tax support claims will continue to be administered by local authorities, housing benefit claims will become part of the Universal Credit system, as it is gradually rolled out (over a number of years) in phases to all benefit claimants. It is currently expected that housing benefit claims for pensioners and individuals in care will remain with local authorities for processing. For this Council, that amounts to approximately 52% of the housing benefits caseload. In addition, local authority Officers will be supporting claimants with their Universal Credit claims.

3.8 Officers have predicted that Department of Work and Pensions (DWP) housing benefit administration grant funding will fall over the period to 2019/20. It is unlikely that Officers will transfer across to the DWP. The 2020 Vision includes savings from extending joint working and efficiency gains. A provision for grant reduction is included in the draft MTFs.

3.9 Investment interest rates have reduced and will probably remain very low in the medium term, until there is more economic certainty following Brexit. Returns from traditional fixed term cash deposits are minimal, so growth will need to be from alternative investment sources such as equities and bonds, which are also volatile in the current market, or investment in property assets. The Audit Committee will consider options for diversifying the Council's investment portfolio, in line with the Treasury Management Strategy, over the next few months. The MTFS has been updated to include a target for additional income from the Council's investment portfolio of £50,000 for each of the next two years.

4. Retained Business Rates

4.1 In April 2017, a new Rating List came into effect. The MTFS includes the forecast of Retained Business Rates under the 50% scheme.

4.2 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 will be reviewed as part of preparation of the Business Rates estimates for 2018/19 during December 2017/January 2018. The 2018/19 estimates will be incorporated within the further update to the MTFS which will be considered by Members during January/February 2018.

4.3 The Council is currently part of the Gloucestershire Business Rates Pool, which aims to maximise the retention of business in Gloucestershire under the 50% Business Rates Retention Scheme. Any gains or losses from the current pool are treated as windfall gains or losses and are not therefore incorporated in the MTFS.

4.4 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 (such as those previously announced in the Chancellor's Autumn Statements and Budget 2017).

5. The Gloucestershire Business Rates Pool

5.1 The Gloucestershire Business Rates Pool was set up in 2013/14 to maximise the Business Rate income retained within the County and to support economic growth within the area of the Local Enterprise Partnership. Since 2013/14, the Pool has delivered the following surpluses/(losses):-

	2013/14 £	2014/15 £	2015/16 £	2016/17 £
Pool Surplus/(Loss)	774,862	(2,336,565)	877,948	2,138,143
Cotswold DC Share Surplus/(Loss)	25,156	(228,988)	114,854	275,600

5.2 In 2014/15, the Pool suffered a significant loss due to the impact of backdated appeals on rateable values and, in particular, the successful backdated appeal by Virgin Media, the largest valued business in Tewkesbury.

5.3 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.

5.4 Modelling of the potential Business Rates income in 2018/19 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'.

5.5 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 2018/19 as it will result in a reduction in the levy payment due to the Government, which will be distributed in accordance with the Pool governance arrangements.

5.6 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.

5.7 The Council has applied, together with the other local authorities in Gloucestershire, to take part in a pilot scheme to test out a 100% Business Rates Retention Pool. If the application should be successful and there are financial gains from the 100% Pool, the gains will again be treated as windfall gains.

6. Financial Planning Assumptions

6.1 The financial planning assumptions used in the approved MTFs have been updated to reflect current economic circumstances. The following assumptions have been applied to the Council's base budget for 2017/18:-

- provision for a pay award inflation/impact on Publica contract sum of 2% per annum;
- provision for inflation on service contracts (including Publica) in accordance with the point above, underlying agreement or experience of cost increases of £240,000 for each of the next four years;
- interest rates will remain low over the life of the Strategy, reflecting the Bank of England base rate; however, the Council will diversify its cash holdings to increase investment yield whilst maintaining the priorities of security and liquidity over yield;
- no inflation on Council set fees and charges until 2020/21; the Council may need to increase fees and charges at this point depending on the outcome of the next Government Spending Review; an assumption of income growth of £50,000 for 2020/21 and 2021/22 has been included in the MTFs;
- growth in the Council Tax base of 1.2% per annum;
- NHB income of a minimum of £1.845m per annum with effect from 2018/19; any NHB received in excess of this will be available to fund projects which support delivery of the Council's priorities;
- Council Tax increase of 1.99% per annum;
- 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.

6.2 The draft MTFs 2018/19 to 2021/22 is attached at **Appendix 'A'**.

7. Savings Targets

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

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	Total £000
Leisure and Museum Contract	53	(76)	35	18	30
2020 Vision/Publica	347	258	156	25	786
Reduced LCTS Grant to Town/Parish Councils/Meetings	32	31			63
Total	432	213	191	43	879

7.2 The MTFs forecasts that the Council will need to use the General Fund Working Balance in order to balance the budget with effect from 2019/20. To avoid the requirement to use General Fund Working Balance, the savings targets would need to increase by £345,000. Given the level of General Fund Working Balance held by the Council (£4.3m as at 31st March 2017), this level of use of the General Fund Working Balance is manageable.

7.3 A clearer picture of the level of savings required will emerge once the government publishes its final decisions on changes to NHB and provides further detail on the implications of the move to 100% Business Rates Retention. The Council has sufficient levels of General Fund Working Balance to smooth the budget gap and provide the Council with time to develop plans to deliver savings in future years should this become necessary.

8. Council Tax

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

8.2 For this Council, the DCLG is proposing to maintain the existing 2% threshold or an increase of up to £5. The MTFs assumes increases in Council Tax of 1.99% per annum, which is below the threshold, and is not expected to trigger a referendum.

8.3 At the time of writing this report, DCLG has stated that *"The Government expects parishes, in setting their precepts, to consider all available options to mitigate the need for Council Tax increases, including the use of reserves where they are not already earmarked for particular purposes or for "invest to save" projects which will lower on-going revenue costs. Any revised proposals will be set out at the time of the provisional local government finance settlement later in the year"*.

9. Collection Fund

The strategy assumes a surplus on the Collection Fund of £100,000 each year. This reflects levels of surplus which have been available in previous years.

10. Revenue Reserves

10.1 As at 31st March 2017, the Council held £4.3m in General Fund Working Balances and £5.5m in earmarked reserves. Of the earmarked reserves, £2.0m 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 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.

10.3 At the end of the MTFs period, the Council plans to hold around £4.0m in General Fund Working Balances and £2.2m in earmarked reserves. The level of General Fund Working Balances will depend on the impact of changes to NHB, the introduction of 100% Retained Business Rates and the outcome of the next Government Spending Review. Details are not available at the time of writing this report. The movement in General Fund Working Balances and Earmarked Reserves is shown in **Appendix 'A4'**.

11. Capital

11.1 As at 31st March 2017, the Council held £12.6m of capital receipts and capital grants, which are available to fund capital projects. The Council is currently assessing options for the delivery of facilities to provide for the future car parking needs in Cirencester. 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:-

	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Disabled Facilities Grants / Decent Homes Grants	700	700	700	700
IT - Corporate	200	200	200	200
IT - Service Specific	15	250	15	
Recycling receptacles - growth in properties and replacements	55	55	55	55
Replacement waste and environmental services vehicles	156	381	1,410	
Investment in car parks	100	150		
Provision for capital investment to support 2020 Vision	100			
Replacement Leisure Equipment			250	
Total	1,326	1,736	2,380	955

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

	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Capital receipts from asset sales				
Disabled Facilities Grant	650	650	650	650
Right to Buy Receipts	100	100	100	100
Ubico Ltd contribution to vehicle assets	450	382	422	422
Other, e.g. repayment of loans	50	50	50	50
Total	1,250	1,182	1,222	1,222

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

	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Balance of capital receipts	10,165	9,861	8,702	9,219

12. Risks

12.1 A significant number of appeals remain with the Valuation Office from the 2010 Business Rate Revaluations. Where appeals are successful, many businesses receive refunds back to April 2010, and the refunds affect the level of business rate income received during the financial year in which the refund occurs. A significant provision for appeal losses is incorporated within the Council's financial statements. However, actual appeal losses could be higher than estimated.

12.2 The Local Land Charges Register will be transferred to the Land Registry. The Local Government Association and the Local Land Charges Institute (LLCI) are in on-going discussions and working with the Land Registry to support authorities during the transition and to ensure that the costs to all registering authorities of the project are fully funded by way of a New Burdens grant. Arrangements have been put in place to monitor costs to feed into the discussions. The implications for both the costs of the service and the income generated from the Land Charges services will be fed into the MTFS in due course.

12.3 In partnership with Cheltenham Borough Council, Forest of Dean District Council and West Oxfordshire District Council, the Council continues to develop the implementation of the 2020 Vision programme. The draft MTFS anticipates savings of £786,000 to be delivered over the life of the plan. Further savings of £150,000 are expected to be delivered from the programme post 2020/21. There may be implications for the Council's contributions to the LGPS as a result of the changes to Publica. These implications are currently being modelled by the Actuary and will be considered as part of the next update to the MTFS in January/February 2018. Given that the implications will be short term (as pension savings from staff turnover are delivered), any additional costs will be funded from revenue balances.

12.4 Investment interest rates have reduced and will probably remain very low in the medium term, until there is more economic certainty following Brexit. Returns from traditional fixed term cash deposits are minimal, so growth will need to be from alternative investment sources such as equities and bonds, which are also volatile in the current market, or investment in property assets. The Audit Committee will consider options for diversifying the Council's investment portfolio, in line with the Treasury Management Strategy, in the next few months. The MTFS has included targets for improved returns from a diversification of investment products. Advice will be taken from the Council's Treasury Management Advisers so that investment risk is understood before the Council diversifies its investments.

13. Consultation

13.1 Residents and businesses within the District will be able to feed into the budget-setting process by responding to the consultation document, which will be available on the Council's Web Site.

13.2 The Overview and Scrutiny Committee will consider the draft MTFS at its Meeting on 5th December 2017.

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

14.1 The Council was required to establish a local scheme for Local Support for Council Tax to come into effect from 1st April 2013, replacing the national Council Tax Benefit Scheme. The Local Council Tax Support (LCTS) scheme operates in a similar way to discounts, such as for empty properties or single person occupiers. Rather than being accounted for as a benefit cash payment, the Council Tax base is reduced. Whilst this has no impact for the individual Council Tax Payer, a lower Council Tax base reduces the yield in Council Tax to this Council, Gloucestershire County Council, the Gloucestershire Police Authority and Town/Parish Councils/Meetings. To offset this impact, a proportion of Government funding to the District Council is in respect of the cost of LCTS to both the District Council and its Town/Parish Councils/Meetings. It is for each billing authority to agree with its Town/Parish Councils/Meetings any mechanism for paying over a share of the grant to compensate for the local reduction in council tax base.

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

14.3 Responsibility for the allocation of the grant to all Town/Parish Councils/Meetings in the District has been delegated to the Chief Finance Officer, in consultation with the Leader of the Council. However, it is timely to include the proposed grant allocations within the overall MTFS. The MTFS includes proposals to phase out the payment of LCTS grant to Town/Parish Councils/Meetings. For administrative efficiency reasons, the Council will impose a de minimus level of £100 in respect of LCTS grants (i.e. no grant will be awarded where the amount due falls below £100.)

14.4 **Appendix 'B'** details the Council Tax base for each Town/Parish Council/Meeting for 2018/19, and the value of LCTS grant being made available for 2018/19. No LCTS grant will be available with effect from 2019/20. Cabinet approved the proposed LCTS grant allocations for 2018/19 at the meeting on 16th November 2017.

(END)