



AGENDA ITEM (10)

DRAFT MEDIUM TERM FINANCIAL STRATEGY 2019/20 TO 2028/29

Accountable Member	Councillor AW Berry Cabinet Member for Resources
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.
Recommendations	That the updated Medium Term Financial Strategy be considered, and feedback provided to the Cabinet and/or the Council as appropriate (including on the draft consultation document).
Reason(s) for Recommendation(s)	To inform the development of the detailed revenue and capital budgets for 2019/20 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 2019.
Financial Implications	The Council is required to set a balanced budget. The detailed budgets that will be presented in January/February 2019 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 2018/19 - Council - 20 th February 2018 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 2019/20 to 2028/29 Appendix 'B' - Draft Budget Consultation

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 2019 as part of the budget setting process.
---	--

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

The Cabinet considered the draft Medium Term Financial Strategy (MTFS) for the period 2019/20 to 2028/29 at its Meeting on 15th November 2018, and approved the document for consultation purposes (subject to the addition of some words by way of an example as to what any additional New Homes Bonus monies received might be used to fund (Q6 refers)).

Overview and Scrutiny Committee is requested to consider the update to the MTFS as a part of the Council's Budget consultation process. This report is essentially the same as the one considered by the Cabinet - with this additional introduction, and the amended consultation document (Appendix 'B').

The Committee will have a further opportunity to consider the MTFS further, post-consultation, at its Meeting on 5th February 2018.

1. Background

1.1 In February 2018, the Council approved its Medium Term Financial Strategy (MTFS) for the period 2018/19 to 2021/22 and its associated budget proposals for 2018/19. This report updates the MTFS to reflect current understanding of the national funding position for local government and local matters which will impact upon the Council's budget for 2019/20 or later.

1.2 In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a significant update to the Prudential Code which sets out the framework for local authority capital investment. The new Code requires the Council to publish a Capital Strategy in advance of the 2019/20 financial year. The detailed guidance and associated Regulations from the Ministry of Housing, Communities and Local Government have now been published and the Council is required to publish a Capital Strategy in advance of the 2019/20 financial year. In February 2018, the Council considered and approved a Capital Strategy based upon the recently issued Prudential Code. Now that the guidance is available, it is clear that the document requires a longer term view to financial planning. The Medium Term Financial Strategy has therefore been developed to provide a view of the Council's finances over a 10 year period, rather than four years as has previously been the case.

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. In the period 2010/11 to 2019/20, comparable central government funding (i.e. Revenue Support Grant, Retained Business Rates Baseline Funding and specific grants which were rolled into this core funding) will have fallen from £6.0m to £2.3m per annum; a reduction of £3.7m (62%) per annum.

2.2 With effect from the 2020/21 financial year, the level of central government funding available to the Council is very uncertain as the following changes will come into effect:-

- the Government will have completed a new Spending Review to establish its spending priorities post 2020;
- the Government will implement the outcome of the Local Government Fairer Funding Review, which will establish how the funding for local government (from the Spending Review) will be allocated to individual local authorities;
- 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.

2.3 During 2017/18, there were changes to the New Homes Bonus Scheme, including the reduction of the period of award of the bonus 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 the bonus was further reduced from five years to four years. The Ministry of Housing, Communities and Local Government issued a technical consultation on the local government funding for 2019/20 in July 2018. The document referred to the likelihood of the baseline growth being increased for 2019/20 but did not specify the value of the increase. In order to provide an indication of the potential impact, the MTFs assumes a threshold increase to 0.5%.

2.4 The consultation document also referred to further changes to the New Homes Bonus scheme from 2020/21; again no detail of the potential change was included in the consultation document. Over the life of the MTFs it has been assumed that New Homes Bonus will be replaced by an alternative "housing reward grant".

2.5 The MTFs has been modelled to assume three central government funding scenarios in 2020/21: best, medium and worst case scenarios. The assumptions used for each of the scenarios are set out below:

- No funding from Revenue Support Grant (all scenarios);
- The Business Rate Baseline Funding level to fall by 5%, 10% or 15%;
- A proportion of business rate funding above baseline to be retained, after application of a levy, the degree of retained growth estimated at £765,000, £900,000 and £1,000,000 in the three scenarios;
- New Homes Bonus to be scrapped and replaced by an alternative reward grant;
- The level of the alternative award grant assumed to be at £1.845 million (as per existing baseline funding for New Homes Bonus), £1.5 million and £1.25 million.

3 Budget Pressures

3.1 The MTFS assumes a provision for pay award (retained Officers and Publica Officers) of 2% each year.

3.2 The Ubico contract has been reviewed and various inflation assumptions have been applied to employee/agency costs, business rates, fuel costs and insurance costs in line with experience of cost pressures and relevant factors. Overall the contract sum will increase by £235,000 to provide for inflation. The impact of the current review of waste service options on the Ubico contract sum has not been included within the MTFS at this point in time as there are various options with different financial implications which will be considered by Council in December 2018. However, provision has been included for some one-off funding to support the transition to a new service and for the capital finance costs of replacement vehicles.

3.3 A provision of £16,000 has been included for other contract inflation with other suppliers.

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. 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 2016 and set the Council's contribution rates for 2017/18-2019/20. The MTFS contains provision for increased contributions of £195,000 in 2019/20 in line with the actuary valuation. It is possible that the 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 Work on the provision of additional car parking spaces in Cirencester is continuing. Provision for the revenue impact of financing a £15 million investment has been included in the MTFS. In this version of the MTFS it is assumed that the capital financing costs will be matched by additional income from car parking fees and charges. However, these figures will need to be updated when the full business case for the investment has been completed. The MTFS also includes provision for the demolition and development of the Old Memorial Hospital site in Cirencester to increase car parking capacity. The revised car park is expected to generate additional car parking income of £59,000.

3.6 The Council has a cyclical (every 5 years) commitment to produce a Local Housing Needs Assessment. The budget includes £5,000 per annum to smooth the funding of the Assessment over a five year period.

3.7 The Council's Capital Programme has been extended to cover a 10 year timeframe. Detail is included at section 12 of this report. As the capital resources of the Council are now minimal, further significant capital expenditure will have to be funded from revenue resources or from external borrowing. The impact upon the revenue account of borrowing to fund the capital programme has been included within the MTFS. There is a provision of £935,000 in 2019/20 for additional capital expenditure to support Council priorities. The MTFS assumes there will be an overall financial return of 2.5% on this capital investment.

3.8 The Council has previously funded an additional planning enforcement officer from one-off funding. Should the Council wish to retain this post permanently, the Publica contract will need to be increased by £28,000.

3.9 Work is currently progressing on a review of the Council's commercial property investment portfolio. Cabinet considered a report in June 2018 on one particular investment property. The MTFS has been updated to include the budgetary impact of a reduction in rental income for this property of £47,250 per annum.

4. Retained Business Rates

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

process has been slow. Modelling of business rate appeal risk therefore continues to apply the national assumption of successful business rate appeals of 4.6%.

4.2 A significant level of risk remains due to the volume of outstanding business rates appeals against the 2010 list which continue to be 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. As at 31st March 2018, business rates with a rateable value of £13.4 million remained under appeal. Using experience of historical success rates of appeals, the Council has made provision for £1.2 million of losses against the 2010 list. In addition, the Council has provided for £1.5 million of losses against the 2017 list. The appeals provision is shared between central government (50%), Gloucestershire County Council (10%) and this Council (40%). Cotswold District Council's share of the cost of outstanding appeals is therefore £1 million. This provision has been included within the Council's financial statements. The level of provision will be reviewed as part of preparation of the business rates estimates for 2019/20 during December/January. The 2019/20 estimates will be incorporated within the further update to the MTFS which will be considered by Members during January/February 2019.

4.3 The MTFS assumes the Council will be compensated (through section 31 grant) for the impact upon business rates which relate to any nationally announced discounts or reliefs to businesses (such as those previously announced in the Chancellor's Autumn Statements, Budget 2017 and Budget 2018).

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. The pool was also in operation in 2017/18.

5.4 For 2018/19, the Council is currently part of the Gloucestershire 100% business rates retention pool pilot, which includes all of the Gloucestershire local authorities and aims to maximise the retention of business in Gloucestershire.

5.5 Modelling of the potential business rates income in 2019/20 indicates that the Council will still receive retained business rates income well 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'.

5.6 In July 2018, the government issued a 75% Business Rate Pooling Prospectus for 2019/20 and invited authorities to bid to become pool pilots. All of the Gloucestershire local authorities agreed to submit an application to become a 75% pool pilot. At the time of writing this report, the Council is still waiting for a decision on the application. Should the 75% pilot bid not be successful, the County has also applied to be a 50% pool including all of the Gloucestershire authorities. Any gains or losses from the pool (75% or 50%) in 2019/20 will be treated as windfall gains or losses and are not therefore incorporated within the MTFS.

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 2018/19:

- provision for a pay award inflation/impact upon Publica contract sum of 2% per annum;
- 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 componental basis and various appropriate rates of inflation have been applied. For example, pay award inflation is at 2% but diesel 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 are expected to be in line with existing budgetary provision. However, this will be updated in accordance with the developing Treasury Management Strategy;
- 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 paragraph 2.5;
- Increases to central government funding in line with forecast changes to Consumer Price Index inflation;
- Council Tax increase of 2.99% for 2019/20; and future years' increases at 1.99%;
- 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 2019/20 to 2028/29, based upon the "medium" scenario is attached at **Appendix 'A'**.

7. Savings Targets

7.1 The Council has plans in place to deliver the following savings:

	2019/20	2020/21	2021/22	2022/23	Total
	£000	£000	£000	£000	£000
Leisure and Museum Contract	(76)	35	18	(3)	(26)
2020 Vision/Publica	458	156	25	25	664
Reduced LCTS Grant to Town and Parish Councils	31				31
Savings on maintenance of Old Memorial Hospital	13				13
Savings on business rates on public conveniences (budget 2018)		26			26
Total	426	217	43	22	708

7.2 The scenario planning, as set out in paragraph 2.5, has identified a potential requirement to deliver further savings as set out in the table below:

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	Total £000
Best	500	500	400	50		200	200			1,850
Medium	1,000	500	500	100	100	100	200	50	50	2,600
Worst	1,000	1,000	500	300	100	100	200	100	50	3,350

7.3 A clearer picture of the level of savings required will emerge once the government publishes its final decisions from: Spending Review 2019, Fairer Funding Review, 75% Business Rates Retention and New Homes Bonus Scheme. The Council has some General Fund Working Balances to smooth the budget gap in the short term and to 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 The Ministry for Housing, Communities and Local Government Technical consultation on local government funding for 2019/20, issued in July 2018, proposed a maximum increase in council tax of 3% (or an increase of up to £5 for district councils). The MTFs assumes increases in Council Tax of 2.99% for 2019/20. With effect from 2020/21, the MTFs assumes increases of 1.99% per annum, which is broadly in line with inflation expectations.

8.3 With regard to Town and Parish Councils, the Technical Consultation stated that *"the Government intends to continue the deferral of setting referendum principles for town and parish councils, but encourages parish councils to continue this downward trend, and will keep this area under active review."*

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 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 the following Council Priority projects:

- The transformation programme being delivered by Publica;
- Implementation of a decked car park 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 the associated introduction of Community Infrastructure Levy;
- Contribute 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 MTFs 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 £3.5m in General Fund Working Balances and £3.8m in earmarked reserves. The movement in General Fund Working Balance and Earmarked Reserves is shown in **Appendix 'A4'**.

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 MTFs 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	16,085	1,577	1,577	1,577	1,577	2,077	6,077	1,577	1,577	46,691
Funded By:											
Capital Receipts	2,541	6,605	477	477	477	477	477	477	477	477	12,962
Capital Grants	1,826	650	650	650	650	650	650	650	650	650	7,676
Revenue Reserves	2,363	1,140	0	0	0	0	0	0	0	0	3,503
Revenue Contributions	510	250	250	250	250	250	250	250	250	250	2,760
Borrowing	5,750	7,440	200	200	200	200	700	4,700	200	200	19,790
Total	12,990	16,085	1,577	1,577	1,577	1,577	2,077	6,077	1,577	1,577	46,691

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	8,078	2,044	2,139	2,234	2,329	2,424	2,519	2,614	2,709	2,804

12. Risks

12.1 The most significant risk to the MTFS is the uncertainty regarding future central government funding to this Council. Despite the government's declaration of an end to austerity, district councils are unlikely to fare well in 2020/21. The finance team have prepared various scenarios to indicate the possible impact upon this Council of funding being diverted away from the District to our central government priority service areas. The scenario planning can only be indicative at this point in time as there is very little detail available from MHCLG. However, Members should use the scenarios to contingency plan against further cuts to funding.

12.2 With regard to Retained Business Rate income, a significant number of appeals remain with the Valuation Office from the 2010 business rate revaluations. Where appeals are successful, many business receive refunds back to April 2010, 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.

12.3 Some of the vehicles in operation on the Council's waste contract, operated through Ubico, are at the end of their useful life. This is leading to an increased dependency upon hired in vehicles and higher maintenance costs. The Council will be considering the outcome of a review of the service in December. This risk has been mitigated by the inclusion of one-off funding from the Council Priorities Fund to fund the additional costs of the Ubico contract. However, it is possible that costs could exceed the financial provision. As this Council is part owner of Ubico, a Teckal company, any cost pressures experienced by Ubico have to be funded through this Council.

12.4 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 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.

12.5 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 transformation programme through Publica. The draft MTFS anticipates savings of £664,000 to be delivered from the programme. Further savings of £150,000 are expected to be delivered from the programme post 2020/21.

12.6 The Council has a significant capital programme to deliver over the life of the MTFS; a significant proportion of which is to be funded from external borrowing. The capital programme figures are indicative at this stage and will be firmed up as projects develop. Should costs associated with the programme be higher than provided for in the MTFS, there is likely to be an impact upon the revenue account from increased borrowing costs.

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. The draft consultation is attached at **Appendix 'B'**.

13.2 In line with a previous request, the Overview and Scrutiny Committee is invited to comment on the draft consultation document.

14. Local Council Tax Support Grant for Town and Parish Councils

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

14.2 In previous versions of the MTFs the Council has proposed to phase out the payment of LCTS grant to Town and Parish Councils. 2018/19 was the final year in which the Council allocated Local Council Tax Grant to Town and Parish Councils. The 2019/20 budget proposes no further allocation of grant to Town and Parish Councils.

(END)