



OVERVIEW AND SCRUTINY COMMITTEE

AGENDA ITEM (10)

DRAFT MEDIUM TERM FINANCIAL STRATEGY 2019/20 TO 2028/29, CAPITAL AND REVENUE BUDGETS 2018/19

Accountable Member	Councillor AW Berry Leader of the Council
Accountable Officer	Jenny Poole Chief Finance Officer 01285 623313 jenny.poole@cotswold.gov.uk

Purpose of Report	To consider an update of the Medium Term Financial Strategy for the period 2019/20 to 2028/29 together with the detailed budget proposals for 2019/20. To consider consultation feedback on the draft budget proposals and to provide comments for Cabinet and Council to consider as part of the budget setting process.
Recommendations	That the updated Medium Term Financial Strategy and budget proposals for 2019/20 be considered, and feedback provided to the Cabinet and the Council.
Reason(s) for Recommendation(s)	To provide consultation feedback to the Cabinet and Council on the budget 2019/20.

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	None directly arising from this report
Environmental and Sustainability Implications	None directly arising from this report
Human Resource Implications	None directly arising from this report
Key Risks	See Appendix A5

Related Decisions	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 'A1 - A5' - Draft Medium Term Financial Strategy 2019/20 to 2028/29 and risk assessment Appendix 'B' - Detailed budget 2019/20 (Pages to follow) Appendix 'A3' - Capital Programme Appendix 'D1' - Budget consultation responses received Appendix 'D2' - Budget consultation response from Fairford Town Council

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

Options for Joint Working	Preparation of the budget and monitoring financial performance is carried out by officers working within Publica Group (Support) Ltd in the financial services shared service.
----------------------------------	--

<p>1. <u>Background Information</u></p> <p>1.1 The Cabinet considered the draft Medium Term Financial Strategy (MTFS) for the period 2019/20 to 2028/29 and the associated budget proposals for 2019/20 at its Meeting on 15th November 2018, and approved the document for consultation purposes. The budget and MTFS have been updated to reflect the following:</p> <ul style="list-style-type: none"> • Provisional Local Government Settlement 2019/20; • Impact of changes to the Council waste services from autumn 2019; • Estimates of Business Rate Retention income 2019/20; • Savings delivered from contract for service provision by Publica Ltd; • Revised inflationary impact upon Publica contract costs for service provision; • Estimated Collection Fund surplus from council tax collection 2018/19; • Provision for budget pressures which have arisen since November; • Proposed changes to council tax level and services, resulting from the outcome of the above changes. <p>1.2 The latest iteration of the Council's MTFS, attached at Appendix A, reflects all of the above items.</p> <p>1.3 The Overview and Scrutiny Committee are asked to consider the updated MTFS and detailed budget proposals for 2019/20 and to provide feedback to Cabinet and Council as part of the budget setting process.</p> <p>1.4 In December 2017, CIPFA published updates to the Prudential Code and The Treasury Management Code of Practice. The new Prudential Code requires the Council to approve a Capital Strategy on an annual basis in advance of the forthcoming financial year. MHCLG have also updated statutory guidance on treasury management which has resulted to changes to the Treasury Management Strategy and the introduction of a separate Investment Strategy. For 2019/20 a new set of strategic documents: The Council's Capital Strategy, Investment Strategy and Treasury Management Strategy will be considered by the Council's Audit Committee on 29th January. Feedback from the Audit Committee will be considered by the Cabinet and Council in February. Indicative provisions have been included in the set of strategic documents to reflect the revenue implications of the Council's Capital Programme which is set out at Appendix A3.</p>

2. National Funding Position

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

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

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

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

3. Retained Business Rates and the Gloucestershire Pool Pilot

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

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

3.3 A significant level of risk remains due to the volume of outstanding Business Rates appeals against the 2010 list, which are being processed by the Valuation Office. Where appeals are successful, refunds of Business Rates are generally repayable back to the 2010/11 financial year, which reduces the Business Rates yield in the year in which the refund is made. The Council has made provision for its share of the cost of outstanding appeals in its financial statements. The level of provision has been reviewed as part of preparation of the Business Rates estimates for 2019/20. Response from businesses to the new Check, Challenge, and Appeal process remains slower than expected. Officers expect that use of the process will increase over the course of the rating list period.

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

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

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

	2019/20 £
Estimate of business rates (including £71,325 from solar farms)	13,172,653
Tariff to government	(11,301,146)
Section 31 Grants – reflecting impact of central government decisions on local government financing	2,137,939
Estimated Levy payable to Government	(£727,437)
Net retained business rates	3,282,009
Collection fund Surplus (Deficit) forecast to end of 2018/19	74,010
Use of Business Rates Smoothing Reserve to offset collection fund deficit (if required)	0
Net overall income from Retained Business Rates	3,356,019

3.7 At the time of writing this report the figures in the table above are draft and are subject to verification. Any adjustments will be updated in Cabinet and Council papers in February 2019.

4. Council Tax

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

4.2 For this Council, MHCLG is proposing to a maximum council tax increase of 3% or £5 for 2019/20. The MTFS assumes a freeze in Council Tax for 2019/20 and increases of 1.99% per annum, each year thereafter. These proposals are not expected to trigger a referendum.

5. Collection Fund

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

6. Financial Planning Assumptions

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

- provision for a pay award inflation/impact upon Publica contract sum of 2% per annum. This has been updated to reflect the impact of a higher national pay award for Officers on lower pay grades;
- provision for inflation on service contracts (including Publica) in accordance with the point above or in accordance with the underlying agreement or experience of cost increases. The Ubico contract has been reviewed on a 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 for cash deposits, or equivalent transactions, are expected to

generate a 1% return. Investments in pooled funds are expected to generate a higher return at 3%;

- no inflation on Council set fees and charges until 2020/21. Then target increases for discretionary fees in line with inflationary cost pressures where the market will bear the increase and it is administratively efficient to do so;
- growth in the Council Tax base of 1.2% per annum;
- Central government funding in line with previous report on MTFs considered by Overview and Scrutiny Committee December 2018;
- Increases to central government funding in line with forecast changes to Consumer Price Index inflation;
- Council Tax increases of 0% in 2019/20 (a freeze), future years increases at 1.99% each year from 2020/21 onwards;
- The collection fund will generate income over and above the council tax estimates and the Council's share of the surplus will be £100,000 per annum, in line with past experience. For 2019/20, the estimated surplus of £96,878 has been included.

7. Budget Pressures

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

Unavoidable Budget Pressures	2019/20	2020/21	2021/22	2022/23	2023/24
Expenditure					
Increased contributions to GCC Pension Fund - Actuarial Valuation and projections	195,000				
Investment in Decked Car Parking Cirencester - Provision for Debt Repayment and Interest on PWLB loan		297,000			
Investment in Decked Car Parking Cirencester - Interest Costs loss of investment interest on capital receipts	(25,000)	60,000			
Additional Resources for Cirencester Strategic Plan (one-off 2018/19)	(60,000)				
Additional Resources for Implementation of CIL (one-off 2018/19)	(75,000)				
Additional Planning Service Resources (one-off 2018/19)	(60,000)				
Ward Member Grants for Youth Facilities (one-off 2018/19)	(34,000)				
Revenue Contribution to Decked Car Park Cirencester (one-off 2018/19)	(260,000)				
Local Housing Needs Assessment (cyclical every 5 years)	5,000				
Revenue Impact of increase to external borrowing	67,000	833,000	42,000	42,000	42,000
Permanent increase to Planning Enforcement	28,000				
Provision for reduction to GCC Incentive payment recycling	15,000	45,000			
Provision for Cemeteries Repairs and Maintenance	2,000				
Ward Member - Priority Allocation (one-off allocation)	85,000	(85,000)			
Provision for additional action against Fly Tipping (ERS Temp Post 2 years)	35,000		(35,000)		
Provision for cost of review of Statutory Officer salaries to reflect new responsibilities post implementation of Publica	25,000				
Waste Service Review Dec 18	60,000				
Total Expenditure Budget Pressures	3,000	1,150,000	7,000	42,000	42,000
Income					
Car parking income from Decked Car Parking Cirencester - offset prov for debt repayment and interest costs		(357,000)			
OMH Car Parking Income from additional spaces	(59,000)				
Treasury management forecast changes to investment returns	(234,398)	(218,641)	65,024	(5,473)	(1,854)
Investment property rental variation (Cabinet June 2018)	47,250				
Total Income Growth/Budget Pressures	(246,148)	(675,641)	65,024	(5,473)	(1,854)
TOTAL	(243,148)	574,359	72,024	36,527	40,146

8. Savings Targets

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

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Leisure and Museum Contract	(76)	35	18		(23)
Transformational Change Programme – Delivered through Publica	346	268	25	25	664
Reduced LCTS Grant to Town/Parish Councils/Meetings	31				31
Total	301	303	43	25	672

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

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

8.3 Assuming that all of these savings are deliverable, the MTFs forecasts that the Council will still need to use a significant amount of the General Fund in order to balance the budget in 2020/21 and 2021/22. To avoid the requirement to use General Fund Working Balance, the savings in 2021/22 and 2022/23 would need to be delivered in 2020/21. The forecast use of/(contribution to) General Fund balance is set out in the table below:

Forecast use of/(contribution to) General Fund	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	Total £000
Increased savings target	(12)	861	435	(12)	1,271

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

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

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

9. Net Budget Requirement

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

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

9.2 The Council's net budget requirement will be funded as follows:

		£	£
Net Budget Requirement 2019/20			11,157,040
Revenue Support Grant		0	
Net Business Rates Income		3,356,019	
Council Tax payers @£126.40 Band D		5,268,736	
Collection Fund Surplus		96,878	
New Homes Bonus		1,845,000	
Rural Services Delivery Grant		602,434	
Total Funding			11,169,067
Budget Surplus			12,027

9.3 The proposed budget strategy would give rise to a Council Tax of £126.40 per Band D equivalent property (a council tax freeze).

9.4 The proposed budget assumes a budget surplus of £12,027. It is proposed that this surplus is used to increase the General Fund Balance.

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

10. Revenue Reserves

10.1 As at 31st March 2018, the Council held £4.8m in General Fund Working Balances and £7.5m in earmarked reserves. Of the earmarked reserves, £3.3m is held in the Council Priorities Fund Reserve, which is available to support delivery of the Council's priorities and can, therefore, be used to enable the Council to undergo the significant change required to deliver the savings targets.

10.2 The Council Priorities Fund is being used to finance Council Priority projects which include:

- The transformation programme being delivered by Publica;
- Implementation decked car parking in Cirencester and the associated redevelopment of the Old Memorial Hospital site;

- The review and implementation of revised waste and recycling services;
- Funding increased costs of waste and recycling service pending the acquisition of new vehicles;
- Implementation of the Local Plan and the associated introduction of Community Infrastructure Levy;
- Contributing towards the costs of improvements to the Corinium Museum;
- Developing a Masterplan for Cirencester town centre;
- Funding costs associated with the Council's commitment to freeze leisure prices, reduce building control fees and enhance environmental services.

10.3 At the end of the 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 £3.2m in General Fund Working Balance and £3.3m 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	17,650	1,577	1,577	1,577	1,577	2,077	6,077	1,577	1,577	48,256
Funded By:											
Capital Receipts	2,541	8,170	477	477	477	477	477	477	477	477	14,524
Capital Grants	1,826	650	650	650	650	650	650	650	650	650	7,676
Revenue Reserves/Contributions	2,873	1,390	250	250	250	250	250	250	250	250	6,263
Borrowing	5,750	7,440	200	200	200	200	700	4,700	200	200	19,790
Total	12,990	17,650	1,577	1,577	1,577	1,577	2,077	6,077	1,577	1,577	48,256

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

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

12. Risks

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

13. Consultation

13.1 Residents, businesses and other stakeholders, such as Town and Parish Councils, within the

District responded to the Council's recent budget consultation via an online survey, emails and letters to the Council. Detailed feedback is included at **Appendix 'D'**.

Online survey responses:

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

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

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

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

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

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

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

The following suggestions were received for the fee:

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

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

Agree	70.97%
Disagree	29.03%

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

Agree	70.97%
Disagree	29.03%

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

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

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

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

13.10 Respondents were asked to priorities the following ways of delivering savings from 2020:

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

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

13.12 Of the 31 online responses 16 provided other feedback which is included in **Appendix D1**.

13.10 The Council also received various emails in response to the budget consultation. Details are included in **Appendix D1**. The Committee also received a letter from Fairford Town Council which is included at **Appendix D2**.

13.13 Comments arising from the Committee's consideration of the MTFs and budget proposals for 2019/20 will be reported to Cabinet at the 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. The Chief Finance Officer report will be included in the Cabinet and Council reports in February 2019.

(END)