Appendix A

Medium Term Financial Strategy 2017/18 to 2021/22

“Tewkesbury Borough, a place where a good quality of life is open to all."

Tewkesbury Borough Council

November 2016

Foreword to Medium Term Financial Strategy 2017 - 2022

The Medium Term Financial Strategy is a forecast supported by assumptions and what impact those may have on the finances in the future. It is a tool we use to assist in the preparation of the detailed budgets for 2017-18 and frames the considerations, particularly the savings and additional incomes, required over the forecast period.

Financial planning has always been and continues to be important for the future. Over the past few years under the Government’s Austerity measures this has been increasingly difficult but essential.

As a Council we try to plan ahead for five years but recognise that a plan is subject to change, particularly given the uncertainty around New Homes Bonus and Business Rates. We know we have challenges with welfare reform and the reduction and eventual removal of the Revenue Support Grant. We are working hard to bring commerciality to the Council to generate income streams but these take time to develop and bring on stream.

This strategy is a tool that can and will be modified to help us adapt to an uncertain future to ensure our finances are robust and support the services our residents and businesses expect us to deliver.

As I said last year and it continues to be true, that our Medium Term Financial Strategy will change and will change more rapidly that at anytime in the past.

Councillor Dave Waters
Deputy Leader of the Council
Lead Member for Finance and Asset Management

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1.0 BACKGROUND

1.1 The Medium Term Financial Strategy (MTFS) provides a financial framework for the council's strategic planning and decision making. The MTFS 2017/22 incorporates key factors such as the changes in Government funding, our spending plans, the level of savings and increased income that are likely to be needed to keep council tax affordable. By anticipating financial pressures now, we can plan ahead early to meet the significant challenges in a way that ensures financial resources are targeted to the council's highest priorities and have the minimum impact on services.

1.2 These are unprecedented times for budget setting, with significant cuts in public spending. The new Chancellor's Autumn Statement is to be delivered on 23rd November and the local government finance settlement in December, both of which will shape our financial profile over the medium term and give us a better understanding of the challenges facing the Council. In addition, the government has previously indicated it wishes to amend the New Homes Bonus scheme and as such issued a consultation at the beginning of 2016. Consultation has also been issued on retaining 100% business rates and fairer funding. Until these outcomes are known, there is considerable uncertainty about the extent and profile of financial deficits. Once again, financial planning has to be made without a stable footing and core assumptions are made on the basis of what is actually known at the current time and best estimates of the future direction of financing the council.

1.3 It is therefore essential that we continue to set our annual budget within the context of a rolling five year resource strategy. A longer term strategic view must be taken when decisions are made that have a financial impact beyond the annual budget as it enables us to assess the sustainability of such decisions. The financial strategy is linked to our key strategic objectives and incorporates both national and local improvement priorities which have been included in our individual service plans and strategies.

1.4 The 2016/2017 approved budget provides the base position for the financial strategy from which projections can be made to give an overall forecast of expenditure and income levels for the coming years. It is also necessary to maintain a minimum level of reserves to provide working capital and act as a contingency to meet any unforeseen needs.

1.5 In order to progress towards our aims and objectives, as contained within The Council Plan 2016 – 2020, we need to prioritise our spending plans. This involves not only considering the financial pressures identified, but also undertaking a strategic review of existing services; identifying new ways of working and areas where reduced levels of activity or discontinuation should be pursued.

1.6 Whilst effectively managing spending will help to reduce the deficit over the medium term, it will not address the financial challenge in its totality. The council will need to consider how it can increase income, both within its core services and from its financing streams, and therefore grow its way towards financial sustainability and perhaps in the medium to long term be able to be self-sufficient and insulated from economic shock and central government funding decisions.

1.7 To meet this challenge, the Council will need to think differently, have a strong risk appetite and be prepared to venture into new and innovative ways of tackling the funding gap.

2.0 THE COUNCIL PLAN 2016-2020

2.1 In April 2016, the new Council Plan for 2016 – 2020 was approved. The document is a statement of intent to drive forward our vision:

"Tewkesbury Borough, a place where a good quality of life is open to all."

2.2 To deliver this vision and provide focus we have established four priorities and a number of objectives within each priority. We will:

Finance & Resources:

- Maintain a low council tax.
- Start on the path to being financially independent of the government's core grants.
- Investigate and take appropriate commercial opportunities.
- Use our assets to provide maximum financial return.

Economic development:

- Be the primary growth engine of Gloucestershire's economy.
- Identify and deliver employment land within the borough, in accordance with the Joint Core Strategy (JCS) and Tewkesbury Borough Plan.
- Maximise the growth potential of the M5 junctions within the borough.
- Deliver regeneration for Tewkesbury town.

Housing:

- Increase the supply of suitable housing across the borough to support growth and meet the needs of our communities.
- Achieve a five year supply of land.
- Deliver the homes and necessary infrastructure to create new sustainable communities in key locations.
- Deliver affordable homes to meet local need.

Customer focused services:

- Maintain and improve our culture of continuous service improvement.
- Develop our customer service ethos to ensure that we deliver to the needs of residents.
- Further expansion of the Public Services Centre (bring in other partners).
- Improve and expand our partnerships both public and private sector and explore opportunities to do this.
- To improve customer access to our services and service delivery through digital methods.

2.3 In addition to the priorities and objectives, which are aimed at delivering our vision, the council has adopted a set of values which we apply across all of our services and activities. We are a council that:

- **Puts customers first:** We will put the needs of our customers at the heart of what we do and listen to what they say, treating people fairly and without bias.

- **Is positive about working with others:** We recognise we cannot achieve our vision by working alone. We will continue to develop productive working relationships with other organisations and our communities, including the voluntary sector, town and parish councils and neighbourhood groups to achieve common goals.

- **Values our employees:** We will support, praise and invest in our workforce to develop our organisation.

3.0 NATIONAL CONTEXT

3.1 Prior to the referendum on remaining in Europe, the then government were continuing to follow the austerity path within public services with the aim of producing a national budget surplus by 2019/20. The reductions in public spending have been acutely felt within local government and are set to continue through this parliament. Allied to this has been a move to reduce the benefit of new homes bonus and a shift towards funding local government from retained business rates.

3.2 In the immediate aftermath of the decision to leave the European Union, there has been much political turmoil with leadership elections in both of the main parties. The change in leadership within the Conservative Party has resulted in a new Prime Minister, new Chancellor and new Secretary of State for Communities and Local Government. The sector has watched with interest to see if the change in personnel will signal a change in direction with regards to local government. As yet, the position is unclear with very little comment on local government coming forward in recent months. It is hoped that the Autumn Statement will give an indication of the direction of travel and the governments plans for the public sector.

3.3 The economic trajectory for the UK has been immeasurably altered following the vote to leave the EU. The long-term position of the UK economy will be largely dependent on the agreements the government is able to secure with the EU and other countries.

3.4 The short to medium-term outlook is somewhat more downbeat due to the uncertainty generated by the result and the forthcoming negotiations. The rapid installation of a new Prime Minister and cabinet lessened the political uncertainty, and the government/Bank of England have been proactive in tackling the economic uncertainty. PMI data, and consumer and business confidence surveys presented a more positive picture for August following the shock-influenced data for July, in line with expectations for an initial overreaction. However, many indicators remain at lower levels that pre-Referendum.

3.5 Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected. The likely path for Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 40% possibility of a drop to close to zero, with a small chance of a reduction below zero. Table 1 details the 'flat' forecast of the Bank of England base rate.

Table 1 – Base rate forecast

Official Bank Rate	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Upside risk	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	0.50
Arlingclose central forecast	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.25	-0.25	-0.25	-0.25	-0.25	-0.50	-0. 50	-0.50	-0.50	-0.50

4.0 LOCAL GOVERNMENT FINANCE SETTLEMENT

4.1 On 8th February 2016, the Secretary of State for Communities and Local Government announced the final 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;
- Permission 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 for those authorities with social care responsibilities;
- Flexibility for 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, savings from the changes to be re-invested in authorities with social care responsibilities;
- The offer of a guaranteed 4 year budget to every council, which desires one, and which can demonstrate efficiency savings.

4.2 The actual financial settlement confirmed another steep reduction in core government funding for the council for the current financial year. In cash terms, the council lost a further £451,000 or 14.9% of core government funding. As a result, the total loss of core government grant during the 'austerity' period of the last six years amounted to £2,733,000 or 51.5% in cash terms with the real loss being significantly higher.

4.3 The settlement also included ‘illustrative’ core government grant settlements for each financial year up to 2019/20. As expected, they confirmed the phasing out of Revenue Support Grant (RSG) within the next three years but fortunately for this Council did not include a tariff on RSG in later years as is the case with many council’s. In this scenario, local authorities are paying over an amount of funding to the government rather than receiving funding from the government. Nevertheless, the illustrative figures project a further reduction in government funding of £723,000 over the next three years before small increases at the latter end.

4.4 Table 2 below outlines the levels of core government funding assumed in the MTFP based on the illustrative figures provided by the DCLG.

Table 2 – Core Government support 2016 – 2022

	2016/17 £'000	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Revenue Support Grant	887	515	283	23	0	0
Business Rates baseline	1,690	1,723	1,774	1,830	1,876	1,923
Total	**2,577**	**2,238**	**2,057**	**1,853**	**1,876**	**1,923**
Change		-339	-182	-204	23	47
Change %		-13.2%	-8.1%	-9.9%	1.2%	2.5%

4.5 The council has responded to the government’s offer of a four year funding settlement by compiling and submitting and Efficiency Plan to the DCLG. This was submitted on the 14th October and the Council would expect to have draft four year settlement shortly before Christmas.

5.0 NEW HOMES BONUS

5.1 New Homes Bonus (NHB) was introduced in 2011 and provides funding of a sum equivalent to 80% of the average annual council tax for every new home built, once occupied. This sum is payable for six years with an additional bonus of £350 for every affordable home occupied. The final scheme design included the principles of the funding being both permanent and flexible. There was no ring-fencing of the funding and no specific requirements for its use.

5.2 Tewkesbury is in a very fortunate position in that it has been able to benefit from relatively large amounts of NHB accumulating in the first six years of operation of the scheme. In the current financial year, the amount of NHB received was £3.4m and was split between supporting the base budget with £2.21m (65%) and providing one-off funding of £1.19m (35%) to various corporate requirements and council ambitions.

5.3 As previously highlighted, during the current financial settlement discussions the government indicated their intention to remove up to 2/3's of the current NHB funding in order to redirect it to support social care. A consultation was issued in early 2016 which looked at reducing the number of years that NHB was paid for – reducing from 6 to 4 was the governments preferred positon – and the 'sharpening of the incentive' for councils by which NHB payments would be reduced if no local plan was in place, houses were developed following appeal and growth was below a national baseline. No information has been received from the government on whether they intend to take these changes forward in part, in full or not at all.

5.4 In order to estimate the likely level of NHB for 2017/18 and future years, a view has been taken on the most likely change that the government will introduce to the scheme – reducing from six to four years of payments. It has also been assumed that there will be a one year transitional arrangement put in place. The estimate for next year is based on the current property base within the Borough with future year projections based on housing numbers within the Joint Core Strategy. Table 3 shows the funding currently received by the council from NHB and a forecast of potential future receipts.

Table 3 – Forecast New Homes Bonus

	Year 6 **2016/17**	Year 7 **2017/18 Projection**	Year 8 **2018/19 Projection**	Year 9 **2019/20 Projection**	Year 10 **2020/21 Projection**	Year 11 **2021/22 Projection**
Year 1 actual income	£526,818	£0	£0	£0	£0	£0
Year 2 actual income	£410,595	£410,595	£0	£0	£0	£0
Year 3 actual income	£294,622	£294,622	£294,622	£0	£0	£0
Year 4 actual income	£638,205	£638,205	£638,205	£638,205	£0	£0
Year 5 actual income	£871,491	£871,491	£871,491	£871,491	£871,491	£0
Year 6 actual income	£659,431	£659,431	£659,431	£659,431	£659,431	£659,431
Year 7 projected income	£0	£900,000	£900,000	£900,000	£900,000	£900,000
Year 8 projected income	£0	£0	£883,773	£883,773	£883,773	£883,773
Year 9 projected income	£0	£0	£0	£1,018,585	£1,018,585	£1,018,585
Year 10 projected income	£0	£0	£0	£0	£1,416,782	£1,416,782
Year 11 projected income	£0	£0	£0	£0	£0	£1,467,961
Sub-total	**£3,401,162**	**£3,774,344**	**£4,247,522**	**£4,971,485**	**£5,750,062**	**£6,346,532**
Reductions under scheme redesign	**£0**	**-£410,595**	**-£932,827**	**-£1,509,696**	**-£1,530,922**	**-£1,559,431**
Total NHB available	**£3,401,162**	**£3,363,749**	**£3,314,695**	**£3,461,789**	**£4,219,140**	**£4,787,101**

5.5 As can be seen in table 3, despite the reduction in reward proposed, the Council's level of NHB remains reasonably constant over the next three years followed by substantial increases in the latter two years as the level of house building within the Borough increases. This projection is however subject to potential large positive and negative variances dependent on the governments final scheme redesign and actual levels of housebuilding, so should be treated with caution.

5.7 The Council has previously agreed to cap the level of general support to the base budget at 65% of NHB receipts. This has been a prudent strategy so as to avoid over reliance on NHB within the base budget. However, given the increasing pressure on the budget position as a result of reduced core funding and increasing costs it is recommended that this is relaxed in the medium term to allow increasing amounts of support to our core services to avoid unnecessary cuts to these services. A strategy to increase base budget support by £200,000 per annum over the next five years would see an extra £1m invested in protecting current service levels. This would see the percentage going to the base budget increase in the next three years before falling back towards the 65% level by year five of the plan.

The following table indicates the level of support to the ongoing budget and one-off programme based on current forecasts and this proposed strategy.

Table 4 – Forecast split useage of NHB

	Year 6 **2016/17**	Year 7 **2017/18 Projection**	Year 8 **2018/19 Projection**	Year 9 **2019/20 Projection**	Year 10 **2020/21 Projection**	Year 11 **2021/22 Projection**
Support to base budget	£2,210,755	£2,410,755	£2,610,755	£2,810,755	£3,010,755	£3,210,755
% of total NHB	65%	72%	79%	81%	71%	67%
One-off support to council priorities	£1,190,407	£952,994	£703,939	£651,034	£1,208,385	£1,576,346
% of total NHB	35%	28%	21%	19%	29%	33%
Total NHB	£3,401,162	£3,363,749	£3,314,695	£3,461,789	£4,219,140	£4,787,101

6.0 RETAINED BUSINESS RATES

6.1 The current Business Rates Retention scheme was introduced in 2013 and is intended to provide incentives for local authorities to drive economic growth, as the authorities will be able to retain a share of the growth generated in business rates revenue in their areas.

6.2 The last two financial years have seen Tewkesbury incur substantial losses under the scheme as the burden of part funding successful appeals, some dating back as far as 2005, has far outweighed the growth within the Borough. In both of these financial years, the council has received safety net payments from the Gloucestershire Pool in order to cover its losses, therefore depriving Gloucestershire communities of the financial benefits of business growth. Given this position, and the ongoing quantity of appeals within the system, particularly Virgin Media, Tewkesbury withdrew from the Gloucestershire Pool for 2016-17. As these appeals have yet to be dealt with by the Valuation Office Agency (VOA), Tewkesbury will again remain outside of the Pool for the financial year 2017-18.

6.3 Initial reviews of the retained business rates position of the scheme for this financial year showed a more encouraging position with reasonable levels of growth in the Borough being reflected in a positive financial position. However, due to the level of work involved in determining a new valuation list for 2017, the VOA did not process any appeals in this initial period. Recent months have seen an increasing number of appeals being processed which has led to negative impact on the overall position. At the half year point, the scheme is in credit by approximately £20,000 which, although a vast improvement on previous years, is not particularly encouraging in meeting the current target of £260,000. Given this latest position, the current trend of successful appeals and a review of the new rating list issued in September, which is likely to generate further significant levels of appeals, it is felt that there is currently little chance of meeting an income target of £260,000 in the near future. This income line will therefore be dropped from the Council's budget for the next financial year and only reinstated once positive and consistent growth is achieved.

6.4 Looking to the future, the government is currently consulting on the introduction of 100% retained business rates for authorities before the end of the current parliament. Under the current system roughly £12bn per year of business rates income is kept by Central government to fund local authority services. This is referred to as the "Central share" and is redistributed to councils in the form of Revenue Support Grant (RSG) and other grants including New Homes Bonus (NHB). In future, when this sum is retained by local authorities, new burdens of a broadly similar value will be passed across to local government. As a result, local government will not initially have more funding; over the longer term this will depend on whether business rates grow faster or slower than local authority service demands and costs, and to add further complication will depend on where the revised business rates baseline is set for the council.

6.5 The new system is likely to retain the top ups and tariffs of the current system to ensure an equitable distribution of funds around the country. It is also likely to retain some form of safety net provision to protect councils from the full impact of appeals. However, the current levy system, whereby 50% of growth above a baseline is returned to central government, is likely to be removed.

6.6 In previous years, local authorities have been funded through a mixed structure of grant e.g. RSG and locally driven income e.g. council tax and business rates which provided some mitigation of risk. Moving to a 100% retained system means the risk fully transfers to local government and as such individual councils must assess their level of risk and make appropriate contingency plans to manage the potential costs of the changing system and furthermore the local fluctuations in business rates revenue over time.

6.7 Despite the uncertainty of the future scheme and the current appeals issue, income from business rates offers significant potential for growth over the medium to long-term as aspirations for the development of Junction 9 and 10 and also the continued development of Gloucester Business Park become reality. Growing and retaining the business rate base in Tewkesbury should be a key priority for the Council.

7.0 GROWTH PRESSURES

7.1 In addition to the pressures on the council's finances already mentioned, the council continues to face rising costs. Whilst the budget is prepared on a standstill basis, in that no price inflation is added other than to contractual commitments and the cost of energy, other areas of rising and potential cost can have a major impact on the council's budget as highlighted in the following paragraphs.

7.2 The cost of employees is the Councils biggest area of expenditure and increases can be significant. In the Summer 2015 Budget, the Chancellor announced a pay award cap of 1% per annum for 4 years from 2016/17 for public sector workers. Pay awards in local government are covered by collective bargaining between employers and trade unions and this is not subject to direct control from central government. However, it is reasonable to assume that the local government employers will mirror what happens in the rest of the public sector and this assumption has been built into the projections. Pay settlements for the three years from 2017/18 are estimated to be 1% per annum with future years based on the Consumer Price Index target of 2%. Given recent projections of increasing levels of inflation, these assumptions could come under threat from increased pay demands in future years. An increase in salary above the levels contained within the MTFS will incur an extra £80,000 cost per annum for every 1% added.

7.3 The forecast for pay awards of 1% follows on from pay awards of 1% in the last three years and a number of years of pay freeze prior to that. Suppression of pay in local government presents a risk to Tewkesbury in being able to recruit and retain suitable staff in some key areas. The Council will need to consider the ongoing impact of pay restraint and may need to increase key salaries or provide market supplements in order to attract qualified and experienced staff capable of taking the council forward on its transformational journey.

7.4 It is also now five years since the Council last undertook a full organisation wide pay review with good practice recommending that this exercise takes place at least every five years. It is therefore expected that a pay review will take place during the period of this MTFS and therefore a figure of £150,000 has been assumed as a prudent estimate of the likely ongoing result of this exercise. This has been built in to the forecast for the 2018/19 financial year.

7.5 The results of the triennial valuation of the Gloucestershire Local Government Pension scheme are expected in late November and will set the levels of contribution from the Council for the next three years. In the current year, the Council makes an annual contribution of £1.5m towards the pension fund deficit whilst paying 14.7% of payroll against current employee obligations. This results in total pension payments of £2.271m per annum. It is expected that the financial requirements for both the pension deficit and the current employee obligations will rise under the new valuation. The MTFS allows for increased payments of £200,000 per year each year for the pension deficit whilst an increase in the current cost to circa 17% which increases the cost by around £130,000 per annum. Under these projections the Council will be paying around £3m on an annual basis to cover its pension requirements by 2019/20.

7.6 The cost of providing the waste and recycling service is projected to rise significantly over the course of the MTFS. The fall in prices obtained for selling recyclate will have a significant impact on the price the council pays to a contractor for processing its collected recyclables. The current contract for processing recyclate allows for an annual cost of £75,000 but projections of current market values see this annual cost rise to £400,000 per annum. The tender for this service is currently out to the market and the level of actual cost is expected to be known before Christmas.

7.7 In addition, the Council approved the change in the method of waste and recycling collection at its meeting in February 2016. The new method, which will come into effect from April 2017, will see food waste collected on separate vehicles from residual waste. This will provide capacity to meet the needs of the growing Borough. The increase in resources associated with this as well as normal contractual increases will see the cost of the contract with Ubico Ltd increase by approximately £300,000 per annum.

7.8 After many years of freezing service levels, a number of services are starting to require additional resources in order to meet the needs of customers. A separate report on adding to the establishment of the Development Management team will be presented to Council, which could see additional staffing costs of circa £80,000, whilst a collated list of other growth bids will be presented with the budget.

8.0 CAPITAL PROGRAMME

8.1 The capital expenditure of the council has an impact on the revenue budget and is part of the overall preparation of the revenue proposals for the coming year.

8.2 It is estimated that £5.91m will be spent on Capital Programme schemes during 2016/2017 which are to be funded by a combination of usable capital receipts reserve (£5.66m), revenue resources (£0.09m) and internal borrowing (£0.16m). The programme includes the final expenditure on a new leisure centre, purchase of a new vehicle fleet and a property investment. This level of commitment will exhaust the council's current capital receipts reserve and will require the council to borrow from its internal treasury funds. It is expected over the course of this MTFS that the council will dispose of some assets and generate new capital receipts to aid future investment plans. This expectation will be recognised as capital disposals are agreed by Executive Committee.

8.3 Looking ahead, the total value of the currently approved Capital Programme over the following five years is approximately £6.08m and is mainly focussed on the regeneration of the former Cascades site in Tewkesbury. Table 5 summarises the planned capital expenditure for future years, together with information on the funding of that expenditure.

Table 5 – Capital programme

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	TOTAL
Capital expenditure	£5.91m	£3.06m	£2.68m	£0.18m	£0.08m	£0.08m	**£11.99m**
Funded by:							
Capital receipts reserve	£5.66m	£1.47m	£0.00m	£0.00m	£0.00m	£0.00m	**£7.13m**
Internal Borrowing	£0.16m	£1.50m	£2.60m	£0.10m	£0.00m	£0.00m	**£4.36m**
External Borrowing	£0.00m	£0.00m	£0.00m	£0.00m	£0.00m	£0.00m	**£0.00m**
Revenue Reserves	£0.09m	£0.08m	£0.08m	£0.08m	£0.08m	£0.08m	**£0.49m**
Total	**£5.91m**	**£3.06m**	**£2.68m**	**£0.18m**	**£0.08m**	**£0.08m**	**£11.99m**

8.4 Annual expenditure on Disabled Facilities Grants (DFG's) has traditionally required a commitment of circa £200,000 from the councils own resources to support the grant available from central government. Following changes to the way the government allocate DFG funding, the current year allocation, and future years, is wrapped up in the Better Care Funding (BCF) received by the County Council and passported onto the District Council. The BCF allocation for the current year, and future projections of this allocation, has been increased substantailly and it is therefore not expected that the Council's own resources will be required to 'top-up' the government allocation going forward. This is therefore a significant reduction in the on-going capital programme.

8.5 The capital programme is likely to see increases in planned expenditure in future years as both new investment plans are brought forward and the on-going vehicle replacement programme, funded from revenue reserves, is activated. The Public Service Centre will require major capital investment in order to deliver plans for its customer facing activities and to renovate the top floor in readiness for occupation by other parties. The Council will also need to consider plans to renovate the civic suite and re-use the old depot site in Tewkesbury. In addition to this, it is recommended that the Council pursue plans for investment in further commercial property assets from which it can derive an on-going return. The capital programme will be updated with these plans as and when they receive approval from full Council.

9.0 MEDIUM TERM FINANCIAL PROJECTION

9.1 The council's Medium Term Financial Projection includes the impact of all known capital and revenue commitments between 2017/18 and 2021/22 and includes the assumptions on financing streams previously highlighted. This is summarised in table 6.

Table 6 – Medium Term Financial Projection

	2016/17 £'000	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Expenditure:						
Employees	8,148	8,339	8,499	8,622	8,795	8,945
Premises	533	513	519	525	531	538
Transport	144	155	157	158	161	165
Supplies and services	6,399	6,256	6,287	6,317	6,361	6,404
Housing benefits	18,989	18,989	18,989	18,989	18,989	18,989
Income	-25,324	-25,175	-25,098	-25,059	-25,022	-25,010
Total (Base budget)	**8,889**	**9,077**	**9,353**	**9,552**	**9,815**	**10,031**
Growth	0	1293	1,728	1,978	2,174	2,174
Approved savings plan	0	-435	-435	-570	-855	-905
Net budget	**8,889**	**9,935**	**10,646**	**10,960**	**11,134**	**11,300**
Financed by:						
Settlement Funding	-2,577	-2,238	-2,056	-1,853	-1,876	-1,923
Collection Fund Surplus	-104	-75	-75	-75	-75	-75
Retained Business Rates	-261	0	0	0	0	0
New Homes Bonus	-2,211	-2,211	-2,211	-2,211	-2,211	-2,211
Council tax income	-3,320	-3,361	-3,435	-3,538	-3,644	-3,749
Use of reserves	-416	0	0	0	0	0
Total financing	**-8,889**	**-7,885**	**-7,777**	**-7,677**	**-7,806**	**-7,958**
Deficit (cumulative)	**0**	**2,050**	**2,869**	**3,283**	**3,328**	**3,342**
Deficit (annual)	**0**	**2,050**	**819**	**414**	**45**	**14**

9.2 The table illustrates a funding gap of £3.34m over the five year life of the MTFS. In order for the council to remain financially sustainable over the medium term, a number of financial strategies will need to be followed to bridge the gap as well as allowing for the use of alternative funding streams such as New Homes Bonus and retained Business Rates, as already discussed.

10.0 COUNCIL TAX

10.1 The current Band D council tax for the authority is £104.36 per annum and is the fifth lowest in England for a District Council. The current year charge was an increase of £5 or 5.03% over the previous year, the largest increase allowed by the government before the increase is deemed excessive and would be subject to a local referendum. This was the first year in the last six that the Council has decided not to freeze its council tax and approve an increase.

10.2 The government are currently consulting on its preferred excessive council tax limits and are likely again to agree an increase of £5 or 2%, whichever is higher, for a District Council.

10.3 Previous financial strategies have suggested that council tax levels should increase in line with the referendum limits and given the size of the deficit faced by the council it is recommended that this strategy is continued. Increasing the council tax level by the current referendum limit of £5 per annum over the life of the MTFS would generate an additional £849,000 of income against projections of the likely council tax base in each year. Table 7 highlights the proposed charge and the additional income derived.

Table 7 – Council Tax Projections

Year	2017/18	2018/19	2019/20	2020/21	2021/22	Total
Band D Council Tax	£109.36	£114.36	£119.36	£124.36	£129.36	
Council tax income generated	£161,009	£164,557	£169,493	£174,607	£179,616	£849,283

10.4 The next table extrapolates table 7 and shows the proposed charge against all bandings for each of the five years. It also highlights how many households there are currently in each band.

Table 8 – Impact of proposed charges per council tax band

Year	Number of properties	% of total	2017/18	2018/19	2019/20	2020/21	2021/22
Band A charge	6,292	15.9%	£72.91	£76.24	£79.57	£82.91	£86.24
Band B charge	6,378	16.1%	£85.06	£88.95	£92.84	£96.72	£100.61
Band C charge	10,968	27.7%	£97.21	£101.65	£106.10	£110.54	£114.99
Band D charge	5,819	14.7%	£109.36	£114.36	£119.36	£124.36	£129.36
Band E charge	4,938	12.5%	£133.66	£139.77	£145.88	£152.00	£158.11
Band F charge	3,112	7.9%	£157.96	£165.19	£172.41	£179.63	£186.85
Band G charge	1,831	4.6%	£182.27	£190.60	£198.93	£207.27	£215.60
Band H charge	189	0.5%	£218.72	£228.72	£238.72	£248.72	£258.72

10.5 The proposed council tax for the next financial year of £109.36 is likely to be approximately £40 below the bottom quartile threshold and £60 below the national average for a District Council. Projections of future increases to council tax will ensure the council remains within the bottom quartile for council tax charges and meet its priority to maintain a low council tax.

11.0 BUSINESS TRANSFORMATION STRATEGY

11.1 Over the period of the last government, the council has responded to the financial challenges facing local authorities through the introduction of a wide range of efficiency and service improvement measures. It has also implemented and developed shared services and shared service arrangements to meet business and budget needs. This approach has resulted in reduced costs and staffing whilst maintaining service levels.

11.2 A more strategic and planned approach to meet the significant challenges posed by continuing public sector funding reductions was necessary and therefore the Business Transformation Strategy was developed. This would help the council to plan and implement innovative or radical change to the range, scope, shape and practices of current council services. The council has embarked on a journey to re-shape itself and its partnerships to fit the resources available and now needs to accelerate the pace of change and take bigger steps. This work will also help the council to prepare for the changing agenda around public sector reform and the rethinking of the relationship between public services, people, place and economy.

11.3 The Business Transformation Strategy was recently refreshed at Executive and a fifth theme, commercialisation, added to the existing four themes. The following sections explain achievements and forward plans in each of the five themes:

11.4 **Partnerships and commissioning**

The Council has been involved in the setting up of a number of successful shared services in recent years such as One Legal and Building Control. It is also a shareholder in Ubico Ltd who provide the Council's waste and recycling, street cleaning and grounds maintenance requirements. In addition the Council has attracted a number of partners to operate out of the Public Service Centre in Tewkesbury. These partners include the County Council, Department of Works and Pensions and Gloucestershire Police. This has provided better services to our residents but also delivered an ongoing income stream to the Council.

The Council will build on this culture by looking for further opportunities to partner with other local authorities in the provision of its services and will also consider outsourcing opportunities if appropriate. Given this Councils relatively low expenditure on services, it is not envisaged that large levels of savings from efficiency would be made on entering a shared service or outsourcing. The opportunities are more likely to be beneficial in terms of service resilience and building future opportunities for income generation from those service areas. Therefore the estimates of likely financial benefit from these opportunities have been restricted.

The Council also hopes to attract additional rent paying public sector partners to its building in Tewkesbury although will consider parties from other sectors if appropriate. An income target for this has already been established within the base budget.

11.5 **Use of buildings**

In addition to the sharing of premises with public sector partners, the council has also invested in photovoltaics at the Public Service Centre which is reducing the cost of energy consumed. It has also completed the £7.5m development of a new leisure centre and expects to secure a retail unit in the near future to add to its portfolio.

In April 2016, members agreed plans for the regeneration of Tewkesbury town centre utilising he former Cascades site as well as car parks at Spring Gardens and Oldbury Road. Acting as the developer the Council expects to create a number of retail units from which it can generate an ongoing revenue return and a residential offering which can be sold to a third party developer. It will also secure the current usages on site such as car parking, the market and the MOP fair.

Building on the established commercial investment portfolio, members have recently agreed to the £15m acquisition of office and commercial property within the Borough which, if secured, will provide a substantial ongoing benefit. A new commercial investment property strategy is currently being prepared and will suggest further investment is made in properties both within the Borough and externally. Given the historically low interest rates currently available for capital investment it is envisaged that a net ongoing return of circa 1.5% could be made from a £40m portfolio.

11.6 **Using technology**

The Council hopes to make better use of technology in order to provide a better customer experience, a more efficient process for staff and revenue savings towards the budget deficit. As an example, the council's new website, costing just £150, is due to go live in December and support all of those aforementioned ambitions. In addition the new asset inspection system for play areas and trees is now fully operational and providing an effective management tool whilst reducing the capacity required to monitor and manage council assets.

There are many other areas that the Council has plans to review and would benefit from either new technology, replacement of existing technology or simply making more out of the systems currently available. The council will also review its communication channels to ensure the most appropriate and efficient are being used. A new printing and postage contract will minimise the amount of mail that is sent out from the PSC whilst improvements in the use of email distribution will look to further minimise the overall quantum of post being sent to customers.

11.7 **People and culture**

Plans are in place to create and implement a workforce development strategy whilst improving the flexibility of working arrangements for staff will help with recruitment and the delivery of services to the customer.

Changes in the culture of the public service will put more focus on performance and commercial orientation and different approaches to some aspects of service delivery will have a knock on financial benefit for the council.

11.8 **Commercialisation**

The newly added theme of commercialisation hopes to embed a change of culture within the organisation so that commercial opportunities are sought and delivered as part of normal business. This includes reviewing our current commercial activities such as trade waste to ensure they are operating at the optimum commercial level and exploring completely new opportunities such as a housing development company or the operation of a crematorium.

In addition our core services will review what they can offer on a commercial basis and what trading opportunities may exist. Ensuring current fees and charges are maximised within the permitted legislation is crucial to covering the current cost of services and so a new fees and charges strategy will set a framework for delivering a robust and systematic approach to annual fee setting.

12.0 REVENUE RESERVES

12.1 The General Fund ‘working balance’ and the earmarked reserves are a significant element of the council’s financial resources, and as such it is important that they are aligned to priority areas as well as mitigating against potential financial risks to the authority.

12.2 The council’s ‘Working Balance’ is the revenue reserve that is set aside to cover any significant business risks and emergencies that might arise outside of the normal set budget. This reserve had been increased in previous years from £500,000 to £600,000 which equated to approximately 8.5% of net revenue budget for the year 2010/11. At the end of 2012/13, it was necessary to reduce the balance to £450,000 in order to accommodate a specific reserve to guard against the risk inherent in the new retained business rates scheme.

12.3 The external auditor does not provide specific guidance on what the level of council reserves should be other than that they should be adequate to cover potential risks. It is considered that the £450,000 currently in the working balance is adequate to cover potential unknown risks provided sufficient earmarked reserves are provided to mitigate other known risks.

12.4 As at the 31 March 2016, the council had £6.9m in useable earmarked reserves, although it should be noted that over half of this reserve is not useable as it covers the timing difference in business rate payments to the government and a proportion of the balance is held on behalf of third parties for specific purposes.

12.5 It is suggested that the level of these reserves are adequate to cover medium levels of risk. Further expansion of the risk management reserves should be considered at the earliest opportunity in order to provide enhanced levels of confidence and reassurance in the financial affairs of the council.

12.6 Given the £3.3m deficit faced by the council in the next five years and in particular the frontloading of that deficit with over £2.8m due to be found in the next two years, it will be necessary to use a substantial amount of reserves to help smooth the deficit. As illustrated in table 9 in section 13 it is estimated that around £805,000 of one-off support from reserves will be required to enable the Council to set a balanced budget for 2017-18. This can be met from the current MTFS reserve of £330,000, uncommitted new homes bonus in the current year of £450,000 and from the projected surplus on the current year budget.

12.7 Future years of the MTFS projection will also require substantial support from one off sources and it is estimated that around £2.6m will be required over the next five years to balance the annual budget. The use of one-off monies allow for savings plan and income generation to be delivered as well as the natural growth in the council tax base and new homes bonus. It is also hoped that the retained business rates scheme and in particular the move to 100% retention, will bring added income streams to the council from which it can meet its ongoing expenditure needs.

12.8 To meet the requirement of £2.6m it will be necessary to utilise the majority of the balance of new homes bonus that is not directed to support the underlying base budget. This may mean that some of the items previously funded from this source such as grants may need to be suspended until such times that base budget support isn't required. It will also be necessary to direct any surplus funds towards the MTFS support reserve in order to meet this requirement.

12.9 Section 25 of the Local Government Act 2003 required the chief finance officer to report to the council, as part of the budget and tax setting report, their view on the robustness of estimates and the adequacy of reserves. This view will be given in the report to council in February 2017.

13.0 SUMMARY DEFICIT REDUCTION PROGRAMME

13.1 In order to summarise both the overall deficit and the various strategies which have been highlighted to tackle the deficit, a five year projection of the suggested deficit reduction programme has been compiled. This is shown in table 9 below.

Table 9 – Summary deficit reduction programme

	17/18	18/19	19/20	20/21	21/22	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Anticipated deficit	-£2,050	-£818	-£414	-£45	-£13	-£3,342
Unfunded savings b/fwd	£0	-£805	-£755	-£665	-£330	-£2,555
Total deficit	**-£2,050**	**-£1,623**	**-£1,169**	**-£710**	**-£343**	**-£5,896**
Corporate funding:						
Council tax support	£161	£164	£169	£174	£179	£849
New Homes Bonus support	£200	£200	£200	£200	£200	£1,000
Council tax policies	£12	£10	£0	£0	£0	£22
Transformation Programme:						
1. Partnerships and commissioning	£70	£70	£35	£40	£0	£215
2. Use of buildings	£300	£300	£0	£0	£0	£600
3. Using technology	£65	£20	£20	£20	£10	£135
4. People and culture	£100	£0	£0	£0	£0	£100
5. Commercialisation	£339	£107	£87	-£50	-£100	£383
Total identified ongoing savings / income	£1,247	£871	£511	£384	£289	£3,304
Surplus / (Shortfall)	**-£803**	**-£751**	**-£658**	**-£325**	**-£53**	**-£2,592**
Use of reserves	£805	£755	£665	£330	£55	£2,610

Net surplus / (shortfall)	**£2**	**£4**	**£7**	**£5**	**£2**	**£18**

14.0 RISK AND SENSITIVITY ANALYSIS

14.1 The MTFS is based on a series of estimates and assumptions about future expenditure and income levels as well as government funding and local financing. These estimates and assumptions are based on the best information available at the time but will obviously be susceptible to fluctuations and changes to both national and local policy. It is therefore important not only to model different scenarios but also be aware of individual sensitivities within the figures. Table 10 analyses the risk around some of the key assumptions within the MTFS:

Table 10 – sensitivity analysis

Description	**2017/18**	**2018/19**	**2019/20**	**Sensitivity**
Pay	1.00%	1.00%	1.00%	+/- 1.00% = £80,500
General inflation	2.00%	2.00%	2.00%	+/- 0.50% = £25,000
Energy – increases	2.00%	2.00%	2.00%	+/- 5.0% = £25,000
Income - fees and charges	2.00%	2.00%	2.00%	+/- 0.50% = £28,000
Return on council investments	0.41%	0.43%	0.43%	+/- 0.10% = £6,000
Total sensitivity / risk re: changes to the above expenditure and income assumptions:				**+/- £164,500**
Resources				**Sensitivity**
Council tax	4.79%	4.57%	4.37%	+/- 1.00% = £33,600
Funding Settlement decrease	13.2%	8.1%	9.9%	+/- 1.00% = £25,700
New Homes Bonus decreases	1.1%	1.4%	-4.4%	+/- 5.00% = £170,000
Tax base	1.2%	2.2%	3.0%	+/- 0.5% = £16,600
Council tax total collected	98.50%	98.50%	98.50%	+/- 1.0% = £33,200
Total sensitivity / risk re: changes to the above resource assumptions:				**+/- £279,100**

14.2 As with all plans and strategies, it is prudent to set aside some monies in order to deal with unforeseen issues and for deviations from the set budget as a result of changes to the assumptions underpinning the plan.

14.3 It is therefore recommended that the use of New Homes Bonus continues to allow for an uncommitted sum to cover the risks in setting a budget within the current financial climate. Any unspent monies from these set asides should be accumulated within reserves at the year end to provide further on-going security.

15.0 PUBLIC AND STAKEHOLDER CONSULTATION

15.1 The production of the Medium Term Financial Strategy and the annual budget report is carried out with reference to the Transform Working Group, with views of members taken into account when compiling both reports.

15.2 In addition, consultation with both the general public and local businesses will continue to take place on budget principles and specific budget proposals.

16.0 TREASURY STRATEGY AND MINIMUM REVENUE PROVISION (MRP)

16.1 The council has previously enjoyed debt free status and been in a position to invest significant sums in treasury markets. As a result of the current capital programme, all capital balances will be expended in the current year as projects such as the new leisure centre and the purchase of a new vehicle fleet are completed. This will mean that the council will need to borrow monies in order to fund its future investment ambitions.

16.2 Given this change in status, the new year Treasury Management Strategy will place a greater focus on borrowing strategies whilst still ensuring that the cash flow balances the Council does have available are invested appropriately to ensure liquidity and minimisation of risk where possible.

16.3 The Councils borrowing requirement will increase rapidly in the coming year if plans for commercial investment and Public Service Centre development are approved and delivered. This requirement will run into tens of millions and therefore having in place an efficient borrowing strategy will be important in minimising the annual cost of borrowing that the revenue account will bear.

16.4 Borrowing rates are currently at an historic low with rates for Public Works Loan Board 40 year loans having fallen as low as 2.1% in recent months. This offers excellent value when considering capital investment opportunities but it may be possible to secure even better rates by using a mixture of short term and pre-arranged long term borrowing and securing agreements with other financial institutions. All options will need to be considered as the investment requirements are progressed over the life of the MTFS.

16.5 In addition to the interest rate payable, the council must also make provision for the repayment of principal borrowed. It is required to make a revenue charge each year to provide for this repayment. This has been historically based on regulations stating that 4% of the Non-HRA capital financing requirement at the end of each year be charged to revenue in the following year.

An amendment to the Government's Capital Financing Regulations, replaces the present rules with a simple duty for an authority each year to make an amount of Minimum Revenue Provision (MRP) which it considered to be "prudent". The prudent provision is to ensure that debt is repaid over a period reasonably commensurate with that over which the capital expenditure provides benefits.

Under the new regulations, the authority is required before the start of each financial year to prepare a statement of its policy on making MRP and submit it to the Full Council. The approved policy for 2016/17 is as follows:

For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant assets in equal instalments or as the principal repayment on an annuity with an annual interest rate, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.

MRP will be charged in the year after the capital expenditure has been incurred.

16.6 The new Treasury Management Strategy and the MRP statement will form part of the overall budget proposals put to Council in February 2017.