Appendix A

Medium Term Financial Strategy 2018/19 to 2022/23

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

Tewkesbury Borough Council

November 2017

Contents

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 2018-23 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. 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 Chancellor's Autumn Budget is to be delivered on 22nd 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 is again consulting about further changes to the New Homes Bonus scheme following amendments introduced for the current financial year. The future direction of travel with regards to 100% business rates retention is unclear following the Queen's Speech but the government have invited further pilots bids for 2018-19. 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 2017-2018 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 In a 7-2 vote at the beginning of November 2017, the MPC increased Bank Rate in line with market expectations to 0.5%. Dovish accompanying rhetoric prompted investors to lower the expected future path for interest rates. The minutes re-emphasised that any prospective increases in Bank Rate would be expected to be at a gradual pace and to a limited extent.

3.2 Further potential movement in Bank Rate is reliant on economic data and the likely outcome of the EU negotiations. Policymakers have downwardly assessed the supply capacity of the UK economy, suggesting inflationary growth is more likely. However, the MPC will be wary of raising rates much further amid low business and household confidence.

3.3 The UK economy faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. While recent economic data has improved, it has done so from a low base: UK Q3 2017 GDP growth was 0.4%, after a 0.3% expansion in Q2.

3.4 Household consumption growth, the driver of recent UK GDP growth, has softened following a contraction in real wages, despite both saving rates and consumer credit volumes indicating that some households continue to spend in the absence of wage growth. Policymakers have expressed concern about the continued expansion of consumer credit; any action taken will further dampen household spending.

3.5 Some data has held up better than expected, with unemployment continuing to decline and house prices remaining relatively resilient. However, both of these factors can also be seen in a negative light, displaying the structural lack of investment in the UK economy post financial crisis. Weaker long term growth may prompt deterioration in the UK's fiscal position.

3.6 The MPC has increased Bank Rate, largely to meet expectations they themselves created. Future expectations for higher short term interest rates are subdued. On-going decisions remain data dependant and negotiations on exiting the EU cast a shadow over monetary policy decisions.

3.7 The Arlingclose central case is for Bank Rate to remain at 0.5% over the medium term, with risks to the forecast being broadly balanced on both sides. Table 1 details the 'flat' forecast of the Bank of England base rate.

Table 1 – Base rate forecast

Official Bank Rate	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Upside risk	0.00	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose central forecast	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.00	0.00	0.00	-0.25	-0.25	-0.25	-0.25	-0.25

4.0 LOCAL GOVERNMENT FINANCE SETTLEMENT

4.1 As part of the 2016/17 Provisional Local Government Finance Settlement, the Government offered a 4 year settlement to Councils to provide certainty over grant funding during the spending period. For Tewkesbury, the settlement would only cover the Revenue Support Grant (RSG) element of the overall settlement plus the Rural Services Delivery Grant (RSDG). The Government would also have the discretion to re-open the settlement if there were significant changes in the overall funding available to local government.

4.2 In October 2016, the Council formally applied to Government for the 4 year funding deal with the submission of an Efficiency Plan. The deal was effectively confirmed with the 2017/18 Local Government Finance Settlement and firm projections of funding have been built into financial modelling up to and including 2019-20.

4.3 The four year deal, whilst providing certainty, did also confirm further substantial reductions in funding over the period. The next two years will see reductions in RSG of £232,000 and £260,000 whilst it is anticipated that RSDG will remain at current levels. At the same time, and providing some offset against RSG losses, the business rate baseline is expected to increase in line with assumed inflation. These future projections follow on from cash losses of circa £3.2m during the 'austerity' period of the last seven years.

4.4 Whilst certainty over funding is given until 2019-20, funding after this point is unknown and estimates have been made on the most likely scenario based on previous government statements such as the Autumn Statement in 2016. It has been assumed that core funding will continue to fall post 2020, resulting in a tariff on RSG for Tewkesbury, followed by modest increases from 2022.

4.5 Table 2 outlines the levels of core government funding assumed in the MTFP based on the confirmed 4 year funding deal to 2019-20 and assumptions about the future direction of travel for core government funding.

Table 2 – Core Government support 2017 – 2023

	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revenue Support Grant	515	283	23	-48	-104	-134
Business Rates baseline	1,723	1,774	1,830	1,877	1,907	1,938
Rural Support Delivery Grant	11	9	11	11	11	11
Total	**2,249**	**2,066**	**1,864**	**1,840**	**1,814**	**1,815**
Change	-342	-183	-202	-24	-26	1
Change %	-13.2%	-8.1%	-9.8%	-1.3%	-1.4%	0.1%

5.0 NEW HOMES BONUS

5.1 New Homes Bonus (NHB) was introduced in 2011 and provides funding of a sum equivalent to the average annual council tax for every new home built, once occupied. The Borough Council retains 80% of the funding with the County Council receiving 20%. This sum was 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 2016/17, 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 Following an extended period of consultation, the government announced in the Provisional Local Government Settlement for 2017/18 its intention to amend the NHB scheme by reducing the number of years of benefit from six to four years. This was widely anticipated. More surprisingly, was the announcement of a ‘deadweight’ of 0.4% of baseline properties below which no NHB would be paid. The government believe that house building will take place naturally, regardless of local authorities encouragement or otherwise, and therefore local authorities should not be rewarded with NHB for this natural level of growth.

5.4 As a result of these scheme amendments, the Council's projections of NHB have been downgraded. It is estimated that these scheme amendments will cost the council over £1.5m per annum in lost NHB contributions. The government is also consulting again this Autumn about further changes to the NHB scheme. The consultation revisits the possibility of not providing NHB for properties built following appeal and also explores the possibility of changing the level of deadweight in the scheme, citing the national average rate of growth of 0.8%. Conclusions from this latest round of consultation will not be known until late December when the Provisional Settlement is announced.

Table 3 shows the funding currently received by the council from NHB and a forecast of potential future receipts based on the currently agreed NHB scheme.

Table 3 – Forecast New Homes Bonus

	2017/18	2018/19 Projection	2019/20 Projection	2020/21 Projection	2021/22 Projection	2022/23 Projection
Year 3 actual income	£294,622	£0	£0	£0	£0	£0
Year 4 actual income	£638,205	£0	£0	£0	£0	£0
Year 5 actual income	£871,491	£871,491	£0	£0	£0	£0
Year 6 actual income	£659,431	£659,431	£659,431	£0	£0	£0
Year 7 actual income	£749,839	£749,839	£749,839	£749,839	£0	£0
Year 8 projected income	£0	£878,221	£878,221	£878,221	£878,221	£0
Year 9 projected income	£0	£0	£947,267	£947,267	£947,267	£947,267
Year 10 projected income	£0	£0	£0	£1,346,871	£1,346,871	£1,346,871
Year 11 projected income	£0	£0	£0	£0	£1,429,487	£1,429,487
Year 12 projected income	£0	£0	£0	£0	£0	£1,422,756
	£3,213,588	**£3,158,982**	**£3,234,758**	**£3,922,198**	**£4,601,846**	**£5,146,381**

5.5 As can be seen in table 3, despite the reduction in reward currently agreed, the Council's level of NHB remains reasonably constant over the next couple of years followed by substantial increases in the latter few years as the level of house building within the Borough increases. This projection is however subject to potential positive and negative variances dependent on the government's desire to amend the scheme again and actual levels of housebuilding, so should be treated with caution.

5.6 During the current budget cycle, the Council agreed to increase the NHB support to the base budget by £200,000 per year over the life of the MTFP dependent on overall NHB funding being available. This decision was taken in reaction to the continuance of austerity over the MTFS period and the unknown future of local government funding. The decision also acknowledges the rising cost of providing services to an expanding Borough. As a result of this decision, base funding from NHB increased to £2.4m in 2017/18.

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 usage of NHB

	2017/18	2018/19 Projection	2019/20 Projection	2020/21 Projection	2021/22 Projection	2022/23 Projection
Support to base budget	£2,410,755	£2,610,755	£2,810,755	£3,010,755	£3,210,755	£3,410,756
% of total NHB	75%	83%	87%	77%	70%	66%
One-off's available	£802,833	£548,227	£424,003	£911,443	£1,391,091	£1,735,625
% of total NHB	25%	17%	13%	23%	30%	34%
Total NHB	**£3,213,588**	**£3,158,982**	**£3,234,758**	**£3,922,198**	**£4,601,846**	**£5,146,381**

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 three 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 the first two 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, Tewkesbury withdrew from the Gloucestershire Pool for 2016-17 and as a result of further successful appeals again ended the financial year in a safety net position, but this time with a safety net payment from the government.

6.3 With the continuing uncertainty over some outstanding appeals, Tewkesbury continues to operate outside of the Gloucestershire Pool in the current year. Despite this uncertainty and with very little information known on appeals against the new valuation list for 2017, the first half of the current financial year has seen a positive position on retained rates being reported with circa £200,000 currently being retained and reflecting both growth in the Borough and a reduction in the amount of successful appeals being processed.

6.4 Looking forward, prospects for growth in the business rate base look reasonable in comparison to previous years and are supported by substantial provisions to help deal with future successful appeals. Coupled with this are a number of renewable energy installations within the Borough and now appearing on rating lists, whereby the business rates are retained locally rather than being shared with the government, and also the termination of the spreading of the appeals provision from the first year of operation of the scheme. These two aspects, alongside a more positive view of growth and appeals, mean that the projection of retained rates in the short term is strong with increasing amounts being introduced to support the base budget. Further clarity on the position will be known in the Provisional Local Government Settlement in December when figures for the central tariff, following the transitional year, will be set out.

6.5 The long-term future direction of retained business rates remains unclear. During 2016 progress was made in relation to introducing a 100% retained scheme from 2019. However, the failure to include a Local Government Finance Bill within the Queens Speech in 2017 looked to be the end of 100% retention and left the future funding of local government unclear. However, in September 2017, the government announced a further round of 100% pilots for 2018/19, which may signal their intention to move forward with this agenda but without requiring the need for primary legislation. Tewkesbury, alongside the other Gloucestershire authorities, has submitted a pilot bid and expects to have confirmation of its success or otherwise before Christmas. It is also unclear whether the planned scheme reset 2021, whereby growth enjoyed by authorities will be redistributed, will go ahead and whether it will be a full or partial reset. The MTFS has assumed a partial reset for 2021/22.

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 has been reasonable to assume that the local government employers will mirror what happens in the rest of the public sector and this has been the case for the last two years with 1% pay awards agreed. As we approach the 2018 pay settlement however, there has been a marked change in the rhetoric around pay awards and it appears that we are approaching the end of the pay cap.

7.3 In addition to this, employers' organisations have undertaken to review the whole spinal column point structure within local government pay following many years of above inflation increases on the bottom scale points and the introduction of the national living wage. These changes have led to a distortion of the pay scales resulting in similar wages being paid for markedly different jobs.

7.4 Whilst both the negotiations and review are on-going it would be prudent to make different assumptions within the MTFS towards increasing pay costs than the previously held expectation of 1% annual uplifts. The latest information suggests that a two year pay deal is most likely with a 'usual' 1% agreed in the first year with a more substantial increase, possibly 3%, being agreed for the second year. This assumption has now been reflected in the MTFS with 2% thereafter being factored in.

7.5 This is a significant increase in the cost of employees as compared to previous MTFS assumptions. Even with this uplift, the actual final cost of the pay award and/or reworking of the pay scales may be more than this assumption, with each additional 1% cost adding approximately £70,000 to the Council's on-going cost.

7.6 Next financial year will be the second year of impact from the triennial valuation of the Gloucestershire Local Government Pension scheme undertaken in 2016. Pension costs for current employees rose significantly in 2017/18 with the cost per employee rising from 14.7% of payroll cost to 17.5%, adding approximately £130,000 to pension costs. On top of this, an increase of £50,000 per annum contribution towards the pension deficit was levied. For the next two years, the cost of current employees will remain at 17.5% but further increases to the pension deficit of £192,000 per year are included. It is expected that the total annual cost of pensions to this council will hit £3m by 2020 - £2m towards the past deficit and £1m for current employees. Given the increases associated with this valuation and following discussions with actuaries, it is not expected that contribution rates will increase under the next valuation in 2019 and this position has been factored into the MTFS.

7.7 As part of the Council's Business Transformation programme, the Council has successfully acquired a number of commercial properties which will deliver an on-going net revenue stream to support the Council's services. However, it is important that the Council prepares itself to manage these properties on an ongoing basis and sets aside sums to cover future costs of voids and refurbishment as well as the ongoing day-to-day management of these properties. In the short term, where margins are significantly enhanced by low interest rates, the excess return can be accumulated to start to fund the required reserves but going forward it is suggested that a sum of £125,000 per annum over the life of this MTFS is set aside to lift the reserve to necessary levels and protect the council from sharp decreases in income in future years.

7.8 New requirements for the General Data Protection Requirement (GDPR) have already been assessed and approved at Council with additional resources of £70,000 per annum added to the base on-going budget of the Council to meet these requirements.

7.9 It is also expected that a number of service areas will require growth in base budgets in future years to meet demands and expectations. These growth requests will be dealt with on an annual basis but the MTFS makes assumptions about the general need for growth each year for the next five years. Growth of £200,000 rising to £370,000 over and above what has previously been disclosed is included within the MTFS to cover the potential areas of need. Of immediate concern is the potential for further increases to the cost of homelessness, increased resource requirement for the Ubico contract, capacity within the Asset Management team, regeneration skills and resource requirements to support the council's digital agenda.

7.10 The current year budget saw a substantial deficit in its construction of approximately £2m as a result of reductions in funding and growth pressures such as pensions and the waste and recycling service. As a result, the council contributed approximately £1.2m in ongoing savings and increased income towards the deficit but this left a balance of over £800,000 being funded from reserves. This unfunded deficit is carried forward into the new MTFS and will add to the new deficit facing the council in the medium term.

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 £19.4m will be spent on Capital Programme schemes during 2017/2018 which are to be funded by a combination of usable capital receipts reserve (£3.26m), capital grants (£0.88m), revenue resources (£0.30m) and external borrowing (£15.0m). The programme includes the acquisition of further properties to the Council's portfolio, the refurbishment of the Public Service Centre and the final payments towards the new vehicle fleet.

8.3 Looking ahead, the total value of the currently approved Capital Programme over the following five years is approximately £4.58m and is mainly focussed on the ongoing delivery of Disabled Facilities Grants and the start of replacing the vehicle fleet from 2021 onwards. Table 5 summarises the planned capital expenditure for future years, together with information on the funding of that expenditure.

Table 5 – Capital programme

	2017/18 £'000	**2018/19 £,000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**TOTAL £'000**
Capital expenditure	19,434	1,363	680	580	980	980	**24,017**
Funded by:							
Capital receipts reserve	3,257	693	100	0	0	0	**4,050**
Capital Grants	877	590	500	500	500	500	**3,467**
External Borrowing	15,000	0	0	0	0	0	**15,000**
Revenue Reserves	300	80	80	80	480	480	**1,500**
Total	**19,434**	**1,363**	**680**	**580**	**980**	**980**	**24,017**

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 substantially 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 requirement for the council's own capital resources.

8.5 The capital programme is likely to see increases in planned expenditure in future years as new investment plans are brought forward and the on-going vehicle replacement programme, funded from revenue reserves, is activated. 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 2018/19 and 2022/23 and includes the assumptions on financing streams previously highlighted. This is summarised in table 6.

Table 6 – Medium Term Financial Projection

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Expenditure:						
Employees	8,496	8,898	9,397	9,603	9,781	9,948
Premises	518	525	531	537	544	551
Transport	167	149	151	155	159	162
Supplies and services	6,477	6,513	6,647	6,772	6,900	7,032
Housing benefits	19,627	19,627	19,627	19,627	19,627	19,627
Income	-26,956	-26,961	-26,966	-26,971	-26,976	-26,982
Treasury activity	410	763	1,013	1,019	1,004	959
Transfers to / (from) reserves	-468	370	370	370	370	370
Total (Base budget)	**8,273**	**9,884**	**10,770**	**11,113**	**11,408**	**11,667**
Growth	0	377	397	667	687	707
Approved savings plan	0	-1002	-1033	-1033	-1033	-1033
Net budget	**8,273**	**9,259**	**10,134**	**10,747**	**11,062**	**11,341**
Financed by:						
Settlement Funding	-2,239	-2,056	-1,853	-1,829	-1,803	-1,804
Collection Fund Surplus	-67	-75	-75	-75	-75	-75
Retained Business Rates	0	0	0	0	0	0
New Homes Bonus	-2,411	-2,411	-2,411	-2,411	-2,411	-2,411
Council tax income	-3,556	-3,614	-3,722	-3,834	-3,944	-4,062
Use of reserves	0	0	0	0	0	0
Total financing	**-8,273**	**-8,156**	**-8,061**	**-8,149**	**-8,233**	**-8,352**
Deficit (cumulative)	**0**	**1,103**	**2,073**	**2,598**	**2,829**	**2,989**
Deficit (annual)	**0**	**1,103**	**971**	**525**	**231**	**160**

9.2 The table illustrates a funding gap of £2.989m 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 £109.36 per annum and is the fifth lowest in England for a District Council. The current year charge was an increase of £5 or 4.8% 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 second year that the council has decided to increase its council tax by the maximum available following on from a period of six years of frozen council tax.

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 for 2018/19 recognising the likely need for further increases in future years. Increasing the council tax level by the current referendum limit of £5 per annum over the life of the MTFS would generate an additional £877,000 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	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**Total**
Band D Council Tax	£114.36	£119.36	£124.36	£129.36	£134.36	
Council tax income generated	£165,235	£170,182	£175,307	£180,327	£185,732	£876,783

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 charges per council tax band

Year	**Number of properties**	**% of total**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Band A charge	6,416	15.90%	£76.24	£79.57	£82.91	£86.24	£89.57
Band B charge	6,470	16.04%	£88.95	£92.84	£96.72	£100.61	£104.50
Band C charge	11,224	27.82%	£101.65	£106.10	£110.54	£114.99	£119.43
Band D charge	5,937	14.71%	£114.36	£119.36	£124.36	£129.36	£134.36
Band E charge	5,043	12.50%	£139.77	£145.88	£152.00	£158.11	£164.22
Band F charge	3,204	7.94%	£165.19	£172.41	£179.63	£186.85	£194.08
Band G charge	1,858	4.61%	£190.60	£198.93	£207.27	£215.60	£223.93
Band H charge	195	0.48%	£228.72	£238.72	£248.72	£258.72	£268.72

10.5 The proposed council tax for the next financial year of £114.36 is still likely to be approximately £40 below the bottom quartile threshold and £60 below the national average for a District Council.

10.6 For a number of years, this Council has retained the default scheme as its preferred position for the Local Council Tax Scheme. By adopting this position, the council continues to provide council tax discount at an equivalent level to the previous council tax benefit scheme that was in place until 2013. Tewkesbury is one of a few authorities, although there are a number in Gloucestershire, to still retain this default position due to the reduced funding levels associated with the new scheme. A full review of the Council's position will be undertaken early in 2018/19 so that any potential change can be fed into the budget cycle for the year after. The Council will also take the opportunity to review a number of its council tax discounts and exemptions as well as considering options such as empty properties premium.

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 refreshed in 2016 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 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 following the completion of the refurbishment project although it 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 receives an annual contract sum from the centre operator.

Building on the established commercial investment portfolio, members agreed to further acquisition of another £15m worth of commercial property. In recent weeks, the purchase of three properties, totalling £13.6m across a number of different sectors and geographical locations has been completed. These properties will produce an annual rental income of £817,000 and mean that the full portfolio produces an income of £1.92m in 2018/19. This is equivalent to a yield of 6.17% on the initial investment. Other properties will now be sourced with the remaining balance in order to complete the 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, went live in December 2016 and supported all of those aforementioned ambitions. The Council has invested in Office 365 and is starting to roll out its full functionality which, in time, will mean the Council is able to rationalise the independent products it currently purchases.

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. Projects are currently ongoing to replace and upgrade income systems and on-line forms whilst a new Human Resources package will increase efficiency in managing staff.

The Council is also exploring the possibility of providing electronic bills and reminders for its council tax and business rate customers. It currently spends £60,000 per year in printing and posting these bills.

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.

The council will explore opportunities for making its business travel more efficient and cost effective. It will also respond to national agenda's, such as the roll out of Universal Credit, to make sure its resource allocation is appropriate.

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. It is important with all of these ventures to establish viability as quickly as possible and if it can't be established to move onto other ideas.

In addition our core services will review what they can offer on a commercial basis and what trading opportunities may exist. The Council's Planning Policy and Development Service functions are both highly skilled and it is believed that, given sufficient capacity, these are areas that could be readily traded and offer a good return for the level of resource and commitment provided. The Council will explore the potential for this over the next twelve months.

Ensuring current fees and charges are maximised within the permitted legislation is crucial to covering the current cost of services and the new fees and charges strategy will set a framework for delivering a robust and systematic approach to annual fee setting.

Where discretionary services are still provided to the public, it is important to try to deliver these as a cost neutral service. This means the service will need to bring in sufficient income to cover the cost of providing the service.

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 2017, the council had £4.83m in useable earmarked reserves, although it should be noted that £1.49m 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. This is particularly relevant to the increased risk and responsibility associated with managing commercial investment properties.

12.6 Given the £2.99m deficit faced by the council in the next five years and in particular the frontloading of that deficit with over £2.07m due to be found in the next two years, it will be necessary to continue 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 £30,000 of one-off support from reserves will be required to enable the Council to set a balanced budget for 2018-19 and a total of £680,000 over the life of the MTFS. This can be met from the current MTFS reserve of £330,000 and uncommitted new homes bonus in the current year of £400,000. It is currently estimated that the need to use reserves to support the base budget can be reduced and eliminated by 2022/23.

12.7 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 2018.

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

	18/19	**19/20**	**20/21**	**21/22**	**22/23**	**TOTAL**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Anticipated annual deficit	-1,103	-970	-525	-232	-159	**-2,989**
Increased financing streams:						
- Council tax	165	170	175	180	186	**877**
- New Homes Bonus	200	200	200	200	200	**1,000**
- Retained Business rates	158	100	100	-149	100	**309**
- Council tax policies and premiums	0	10	0	0	0	**10**
- Use of reserves	30	225	-40	-35	-180	**0**
Procurement opportunities	10	10	10	10	10	**50**
Income opportunities	394	70	55	25	25	**569**
Digital opportunities	47	35	0	0	0	**82**
Commercial opportunities	105	95	0	0	0	**200**
Other opportunities	0	75	25	0	0	**100**
Net surplus / (shortfall)	**7**	**20**	**0**	**0**	**181**	**208**

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.

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, where sufficient sums exist, continues to allow for an uncommitted sum to cover the general risks in setting a budget within the current financial climate and/or specific risks such as increased pay awards. Any unspent monies from these set asides should be accumulated within reserves at the year end to provide further on-going security.

Table 10 – sensitivity analysis

Description	**2018/19**	**2019/20**	**2020/21**	**Sensitivity**
Pay	1.00%	3.00%	2.00%	+/- 1.00% = £70,000
General inflation	2.00%	2.00%	2.00%	+/- 0.50% = £25,000
Energy – increases	2.00%	2.00%	2.00%	+/- 5.0% = £4,400
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				**+/- £133,400**
Resources				**Sensitivity**
Council tax	4.57%	4.37%	4.19%	+/- 1.00% = £33,600
Funding Settlement decrease	8.10%	9.90%	1.30%	+/- 1.00% = £20,570

New Homes Bonus	-1.70%	2.40%	21.30%	+/- 5.00% = £158,000
Tax base	1.64%	2.99%	3.01%	+/- 0.5% = £17,800
Collection fund surplus	£75,000	£75,000	£75,000	+/- 10.0% = £7,500
Total sensitivity / risk re: changes to the above resource assumptions:				**+/- £237,470**

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, the majority of capital balances will be expended in the current year as projects, such as the public service centre refurbishment, are completed and investment properties purchased. This will mean that the council will need to borrow monies in order to fund its future investment ambitions unless further capital receipts can be generated.

16.2 Given this status, the 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 has increased rapidly in the past twelve months mainly as a result of commercial property investment. 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 currently remain low with rates for Public Works Loan Board 40 year loans 2.5% to 2.6% in recent months when taken in conjunction with the certainty rate discount available. 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 and the markets respond to external influences. In the short term, there remains value in keeping borrowing requirements on short term deals currently around 0.55% for 1 year.

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 2017/18 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 2018.