

Medium Term Financial Strategy 2019/20 to 2023/24



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

Tewkesbury Borough Council
January 2019

Contents

- 1.0 Background
- 2.0 The Council Plan 2016-2020
- 3.0 National context
- 4.0 Local Government Finance settlement
- 5.0 New Homes Bonus
- 6.0 Retained Business Rates
- 7.0 Growth pressures
- 8.0 Capital programme
- 9.0 Treasury strategy including Minimum Revenue Provision
- 10.0 Medium term financial projection
- 11.0 Council tax
- 12.0 Deficit reduction programme
- 13.0 Revenue Reserves
- 14.0 Public and stakeholder consultation

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 2019-24 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 not only significant cuts in public spending continuing but with the added uncertainty around local government finance in general post 2020. Whilst both the Chancellor's Autumn Budget and the Provisional Settlement have been announced early in the 2018 cycle, and the impacts of which are contained within this report, local government as a sector awaits clarification from Central Government on a number of critical issues which affect our medium term planning. These include:
- Spending Review 2019 – this will confirm the overall quantum of funding available to the sector in 2020 but again it is unclear what period the spending review will cover
 - Fair Funding Review – this will detail a new method for allocating local government funding to individual authorities
 - Business rates retention – whilst the government is clear that a move to 75% retention will take place in 2020, it is yet to define the scheme that will be implemented
 - New Homes Bonus – the Government has alluded to a full review and potential replacement of the scheme post 2020.
- 1.3 In addition to this sector specific uncertainty, the country as whole faces uncertainty as a result of the exit arrangements from the European Union in addition to weak economic data which could signal a potential downturn or even recession. It is therefore essential that the council takes action within its MTFS to provide sufficient contingency to meet the risks that could be associated with these scenarios materialising.
- 1.4 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. 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.
- 1.5 The 2018-2019 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 particularly with the unknown consequences of leaving the European Union looming, as already highlighted.

- 1.6 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.
- 1.7 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.
- 1.8 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 ECONOMIC CONTEXT

3.1 The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2019/20.

3.2 Following a weak reading in the first quarter of 2018 attributed to weather-related factors, UK GDP growth rebounded in the second quarter to 0.4%, but at an annual rate of only 1.2% this remains below trend. As economic growth had evolved broadly in line with its May Inflation Report forecast, the Bank of England's Monetary Policy Committee (MPC) voted unanimously for a rate rise of 0.25% in August, taking Bank Rate to 0.75%. In November 2018 the MPC maintained Bank Rate at 0.75% while the Inflation Report showed that compared to the August report further interest rate increases may be required to bring inflation down to the 2% target over the forecast horizon.

3.3 The headline rate of UK Consumer Price Inflation fell back to 2.4% year-on-year in September 2018 from 2.7% in August, as higher import and energy prices continued to hold inflation above the BoE target. Labour market data is positive. The ILO unemployment rate fell to 4%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.1% in August providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.7% and only likely to have a moderate impact on household spending.

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 the intervening years, the Government has honoured the four year agreement and the provisional settlement for 2019/20, which is the last year of the agreement, confirms the level of funding to be in line with expectations. However, the settlement also confirms another year of significant reductions in core government support. 2019/20 will see a decrease in support of £220,000 or 10.6% which comes on top of reductions totalling £3.5m since 2010. If inflation were to be added in, this reduction look far more severe.
- 4.3 As highlighted within the introduction, core government support to meet the council's funding needs beyond 2020 is not yet known. There are two reasons for this:
- 2019 Spending Review – this will take place during 2019 and will confirm the overall quantum of funding available to local government for the next period. It is currently unknown when this will be concluded and what period the review will cover.
 - Fair Funding Review – this will review the model currently in place for distributing funding to individual authorities based on assessed need. Assessing need has become a very complex area with a number of funding streams being assessed on certain metrics which culminates in an overall funding level for each authority. The government is currently reviewing the model to ensure it is fit for purpose and fair to all authorities. However, with any change in allocation process, there are likely to be winners and losers and it remains to be seen which category Tewkesbury will fall into.
- 4.4 The Autumn Budget statement, based on an orderly exit from the European Union, suggested a real terms growth in public spending of 1.3% in the next spending review. However, many observers have commented that the £20bn being made available to the NHS will swallow the majority of this growth leaving little left over for unprotected departments. It is likely that local government will need to fight with the likes of Education and Defence to get a fair share of funding in the spending review with the most likely best case scenario being an inflationary only uplift for local government. Whether each council will see an inflationary increase will be dependent on the Fair Funding Review.
- 4.5 For the purpose of this MTFs, our projections, supported by the views of our advisors, of core government support see an increase of 2% per annum from 2021/22. This increase is of course on a much reduced base figure and results in a monetary increase of between £36,000 and £39,000. To put this perspective, a 2% increase in salary would cost the Council circa £140,000.

4.6 Table 2 outlines the levels of core government funding assumed in the MTFs based on the confirmed 4 year funding deal to 2019-20 and assumptions about the future direction of travel for core government funding. It should be noted from the table that the previous funding streams of Revenue Support Grant and Rural Service Delivery Grant will be completely eradicated by 2020 and replaced with the one funding stream known as the Business Rates baseline. The funding under this heading will match the council's assessed need under the Fair Funding Review.

Table 2 – Core Government support 2018 – 2024

	Known settlement			Assumed settlement		
	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue Support Grant	283	23	0	0	0	0
Business Rates baseline	1,776	1,816	1,846	1,882	1,920	1,959
Rural Support Delivery Grant	14	14	0	0	0	0
Total	2,073	1,853	1,846	1,882	1,920	1,959
Change	-179	-220	-7	36	38	39
Change %	-8.0%	-10.6%	-0.4%	2.0%	2.0%	2.0%

4.7 It should again be stressed that this is our best estimate of what funding may look like in the future. It is subject to substantial downside risk with a number of factors likely to play into it in the short term and as we go through the next decade. The council will need to be in a position to react to any negative impact of future Government settlements by ensuring it has sufficient contingencies within its base budget and reserves.

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 The 2019/20 technical consultation pointed to an increase in the deadweight percentage but without defining what that was likely to be. However, the Provisional Settlement, received on the 13th December 2018, confirmed that the deadweight figure would continue at 0.4% for 2019-20. This was as a result of a reduction in the number of new properties coming forward nationally which held the cost of the national scheme to £920m, only £20m in excess of the set budget for the scheme. The Government decided to fund the excess commitment rather than authorising a small increase to the deadweight. Therefore the cost of the deadweight to Tewkesbury in 2019-20 is £209,000 or 157 properties.
- 5.5 It is anticipated that, while the scheme remains in existence in its current format, the Government will continue to use the deadweight adjustment to ensure the cost of the scheme meets the set financial envelope. The MTFS therefore allows for increases to the deadweight, up to 0.8%, over its period.
- 5.6 A second significant factor affecting our NHB projection is the slowdown in housing growth numbers over the medium term. Whilst over the period to 2031 the Council expects to deliver the same amount of housing growth within the Borough, the latest trajectory of housing numbers highlights a reduction of about one third over the next four years with housing being delivered in the latter part of the decade. This slowdown has the effect of reducing NHB by over £600,000 per annum in the next four years.
- 5.7 In addition to these known changes, the government has also alluded to a consultation taking place in 2019 on the future of the NHB scheme. The Government feels that the current scheme may not be delivering its intended outcomes and therefore a review, potentially resulting in the introduction of a new housing growth related scheme, has been suggested. Given this Council's ongoing reliance on NHB to support its core services, this potential change is a significant risk.
- 5.8 As a result of the known scheme amendments and changes to housing delivery estimates, the Council's projections of NHB have been downgraded. It has been assumed for the purpose of this MTFS that NHB in its current form will continue for the full period covered. 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

	2018/19	2019/20 Projection	2020/21 Projection	2021/22 Projection	2023/24 Projection	2022/23 Projection
Year 5 actual income	£871,491	£0	£0	£0	£0	£0
Year 6 actual income	£659,431	£659,431	£0	£0	£0	£0
Year 7 actual income	£750,088	£750,088	£750,088	£0	£0	£0
Year 8 actual income	£898,713	£898,713	£898,713	£898,713	£0	£0
Year 9 actual income	£0	£965,166	£965,166	£965,166	£965,166	£0
Year 10 projected income	£0	£0	£689,681	£689,681	£689,681	£689,681
Year 11 projected income	£0	£0	£0	£492,986	£492,986	£492,986
Year 12 projected income	£0	£0	£0	£0	£620,720	£620,720
Year 12 projected income	£0	£0	£0	£0	£0	£644,339
	£3,179,723	£3,273,398	£3,303,648	£3,046,546	£2,768,553	£2,447,726

- 5.9 As can be seen in table 3, the impact of scheme changes and reduced housing numbers is significant with the projection now showing a decline in NHB as opposed to an increase which was previously forecast.
- 5.10 The Council's previous MTFs had outlined a programme of increasing support to the base budget from NHB culminating in a total of £3.4m being used for this purpose. As a result of the new NHB projection, the Council will need to cap its base budget support at £2.8m for the next two years and then reduce it in line with the reductions in NHB funding. In addition, the amounts available to support one-off needs and manage the Council's risks will also reduce significantly.

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

	Year 8 2018/19	Year 9 2019/20 Projection	Year 10 2020/21 Projection	Year 11 2021/22 Projection	Year 12 2022/23 Projection	Year 13 2022/23 Projection
Support to base budget	£2,610,755	£2,810,755	£2,810,755	£2,589,564	£2,353,270	£2,080,567
% of total NHB	82%	86%	85%	85%	85%	85%
One-off's available	£568,968	£462,643	£492,893	£456,982	£415,283	£367,159
% of total NHB	18%	14%	15%	15%	15%	15%
Total NHB	£3,179,723	£3,273,398	£3,303,648	£3,046,546	£2,768,553	£2,447,726

6.0 RETAINED BUSINESS RATES

- 6.1 The current Business Rates Retention Scheme (BRRS) 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 In recent years, Tewkesbury has at last begun to see the benefits of the retention scheme rather than just the substantial losses it suffered in the early years. The current year budget saw the inclusion of a growth target of circa £409,000 in relation to its position as an individual authority within the 50% scheme. In addition to this, the Council, alongside its Gloucestershire neighbours, was awarded a 100% retention pilot for 2018/19 only. It is estimated that this will bring additional windfall benefit of over £300,000 to the Council and over £14m in total to Gloucestershire.
- 6.3 Within the current year, the Council, again alongside its Gloucestershire neighbours, applied to be a 75% retention pilot for 2019/20. Unfortunately, this time, Gloucestershire was unsuccessful with its bid and the authorities will remain within the 50% scheme. Tewkesbury will however operate within the Gloucestershire Pool for 2019/20 which allows council's to maximise the benefits of rates retention.

- 6.4 The Government had previously suggested that it would look to move local government as a sector to 100% retention but without primary legislation this will not be possible. As a compromise the Government announced a move to 75% retention from 2020 as this could be achieved within the current regulations. To enable this, the Government has been working closely with a number of key stakeholders to refine and simplify the system in light of the issues within the current retention system. At the time of writing this MTFS, clarity on what the scheme is likely to look like from 2020 is not available and many key questions are yet to be answered. A consultation paper has now been released which will provide some guidance as to how the scheme will be designed but in order to produce MTFS projections, the minutes of the reviews steering group provide useful insight.
- 6.5 It is now apparent that a move to a simplified scheme will take place but it is not clear exactly what that scheme will look like. In addition, it now looks certain that a reset, partial or full, of the system will take place in 2020, whereby a proportion of growth currently enjoyed by authorities will be redistributed, but it is not clear how often future resets will take place. Other key issues, which affect our ability to accurately forecast revenue from the scheme, include:
- Tier splits
 - Centralisation or not of appeals
 - How appeals are paid for
 - New funding burdens placed on local government
- 6.6 In addition to the impact of scheme redesign, it must be remembered that the health of the national economy will have a significant impact on the amount of money retained by local government from the scheme. As highlighted earlier, economic indicators suggest potential issues ahead whilst the impact of Brexit is may also have a negative impact on our economy.
- 6.7 Given this backdrop, there is great difficulty in projecting likely business rates retention over the next 5 years. The Council's best estimate is shown in the table below but the figures are sensitive and subject to potentially significant change.

Table 5 – Business rate retention estimate

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Baseline funding	£2,072,342	£1,816,635	£1,845,593	£1,882,504	£1,920,154	£1,958,558
Growth	£409,492	£464,018	£280,509	£380,509	£480,509	£580,509
Total	£2,481,834	£2,280,653	£2,126,102	£2,263,013	£2,400,663	£2,539,067

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 Employees is the area of single greatest spend with around £9m per annum being consumed by employee related expenditure. Of this total, around £5.6m is spent directly on employee salaries and as a result the annual pay award can have a significant impact upon the council finances. A one percent award has an annual impact of circa £70,000 on the Council's budget once on-costs are factored in.
- 7.3 The agreement of pay awards are negotiated between employers and Unions and 2019/20 will see the second year of the agreed two year pay deal. No agreement is yet in place for the years beyond 2019/20. The agreement for next year has a headline increase of 2% for employees which would equate to an increase of £140,000, but the actual increase is closer to 3% for the following two reasons:
- As in previous years, greater uplifts in salary have been applied to the lower end of the pay scales to ensure the pay of local government employees is in excess of the Living Wage. Awards of over 9% for some employees are included within the agreement and result in the lowest hourly rate being £9 per hour from April 2019, significantly in advance of the Living Wage.
 - As a result of the extra uplifts to the lowest scale points of a sustained period of time, the pay scales themselves have become distorted through a concertina effect. In order to relive this issue, the employers have agreed with the Unions to amalgamate a number of spinal column points at the bottom end whilst introducing new ones at other points. The integration of this into the Council's pay and grading structure has been challenging and added additional cost to the council both in the forthcoming year and in the years thereafter as some employees benefit from the extra headroom generated.
- 7.4 Without any agreement in place for the following four years of the MTFs, an assumption of an annual 2% increase has been made. The basis for this assumption is the Government's target of 2% for Consumer Price Inflation.
- 7.5 The second biggest cost under employees, is the cost of payments to the Local Government Pension Scheme (LGPS) in the form of costs for current employees and the cost of accumulated deficits within the scheme. In the current year, the Council will pay a combined total of £2 ¾ million to the LGPS. The following year is the third and final year of the current triennial valuation and so the contribution rates are already known. The cost of current employees will continue to be based upon 17.5% of payroll costs equating to £1.01m, whilst the contribution to the deficit will see another stepped increase of £193,000 to £1.97m. Therefore, the Council pay a total of £2.98m to the LGPS in 2019/20.
- 7.6 Another valuation of the Gloucestershire LGPS will take place in 2019 with actuaries looking to set rates for the period from 2020 to 2023. The view taken within the MTFs is that the cost of current employees will remain at the rate of 17.5% throughout the period whilst the contributions to the deficit will continue to rise but by a smaller step each year. The Council has seen increases of circa £190,000 each year over the last six years, but the MTFs is based on an increase of only £100,000 per annum throughout the remainder of the MTFs. This would take the Council's pension cost to circa £3.5m by the end of the MTFs.

7.7 The Council has in place a number of contracts to deliver specified services, the largest of which is the contract with Ubico for the delivery of waste and recycling, street cleansing and grounds maintenance. The cost of delivering these contracts at the same output levels will continue to increase with inflation and an assumption of the relevant level of inflation to apply for each contract has been made. With regards to Ubico, their contract sum is particularly affected by the pay awards referred to earlier as a high percentage of their employees benefit from the higher increases at the bottom end of the scales. This contract is also significantly impacted by fuel inflation and other vehicle related costs such as insurance. As a result, even before other changes impact the cost of the contract, it is estimated that the contract cost will increase by circa £900,000 over the course of the MTFS.

7.8 In addition to the standard inflationary increases within the Ubico contract, a number of additional factors may influence the cost of service provision in the medium term. These include:

- Javelin Park – the cost of transporting waste to the new Energy from Waste facility is currently being evaluated and negotiated. It is possible that some of this cost may fall on the waste collection authority.
- Grounds maintenance – an evaluation of the level and quality of service the Council would wish to see in its Grounds Maintenance Service is about to begin. This could increase the overall cost of this service.
- It is anticipated that the Borough will grow by over 5,000 properties in the next five years and additional rounds will be required at some point to meet this additional demand.
- As the vehicle fleet gets older, it is likely to require an increasing amount of maintenance. In addition, the council only currently sets aside £400,000 per annum for the replacement of the vehicle fleet. This is unlikely to be sufficient to meet the needs in the medium term and additional monies should be set aside to ensure funds are sufficient to meet needs.

It is estimated that these factors could cost the Council around £600,000 per annum in the medium term.

7.9 The current manpower of the Council includes a number of posts that are funded from one-offs but undertake business critical roles. These include the Business Navigator who supports businesses in the Growth Hub and an IT Officer who supports the Council's IT and Digital transformation programme. Both of these roles are critical to the success of the organisation and they should be included within the base ongoing cost of the Council at the earliest point available.

7.10 A number of new posts have already been included in the base budget as a result of the Community Services review which concluded in summer 2018. Full Council approved the recommendations within the report which resulted in additional cost of £54,000, rising to £72,000, being added to the Council's MTFS.

- 7.11 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 is included within the MTFS to cover the potential areas of need.
- 7.12 A significant area of cost to the Council is the cost of borrowing to meet our capital ambitions. This cost will rise through the MTFS as additional borrowing is undertaken, interest rates rise, a greater balance between short and long term borrowing is followed and the cost of the Minimum Revenue Provision (MRP) increases. It is estimated, based on the current capital programme, that the cost of borrowing will rise from £739,000 in the current year to around £1,459,000 in future years.
- 7.13 The estimates contained within the MTFS are based on current projections and have not factored in potential impacts from a disorderly exit of the European Union or the impact from economic shock or recession. Contingencies will need to be made to insulate the Council from the immediate impact with the longer term consequences forming the basis of future MTFS.

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 £10.7m will be spent on Capital Programme schemes during 2018/2019 which are to be funded by a combination of usable capital receipts reserve (£1.4m), capital grants (£0.8m), revenue resources (£0.1m) and external borrowing (£8.4m). The programme includes the acquisition of further properties to the Council's portfolio and completion of the refurbishment of the Public Service.
- 8.3 Looking ahead, the total value of the currently approved Capital Programme over the following five years is approximately £12.47m and is mainly focussed on the completion of the commercial property acquisition programme, the ongoing delivery of Disabled Facilities Grants and the start of replacing the vehicle fleet from 2022 onwards. Table 5 summarises the planned capital expenditure for future years, together with information on the funding of that expenditure.

Table 6 – Capital programme

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	TOTAL £'000
Capital expenditure	10,759	7,974	700	600	1,600	1,600	23,233
Funded by:							
Capital receipts reserve	1,435	514	100	0	0	0	2,049
Capital Grants	824	660	500	500	500	500	3,484
External Borrowing	8,400	6,700	0	0	0	0	15,100
Revenue Reserves	100	100	100	100	1,100	1,100	2,600
Total	10,759	7,974	700	600	1,600	1,600	23,233

- 8.4 Annual expenditure on Disabled Facilities Grants (DFGs) 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 passed 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 may see further 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 TREASURY STRATEGY AND MINIMUM REVENUE PROVISION (MRP)

- 9.1 The Treasury and Capital Management Strategies will be presented to Council annually in January and provide detail on the Councils plans for managing those aspects of its business.
- 9.2 The Council is likely to have a borrowing requirement of circa £36m based on the current capital programme and has taken a balanced approach to financing this requirement. The MTFS assumes continuation of this approach with a proportion of debt secured against long term borrowing from the Public Works Loan Board and a proportion secured on short term borrowing. This balances the long term cost to the council with the gains that are made on current short term market rates.
- 9.3 The Council has elected to use an annuity calculation for its Minimum Revenue Provision (MRP). This approach sees an initial low cost for MRP, but with increasing amounts year-on-year to ensure the principal borrowed can be repaid. This increase in MRP should be matched by increases to the rental value of the properties purchased. It is estimated that his cost together with interest costs will total around £1.45m in the medium term.
- 9.4 Whilst capital balances have been expended, the Council holds significant revenue balances and amounts of cash flow which it invests with various financial institutions. Market predictions of likely interest rates currently remain relatively flat and low over the medium term but additional income can be made by diversifying into other types of investment product. The Council currently has £4m deposited with the CCLA Property Fund and it will investigate further diversification over the MTFS period.

10.0 MEDIUM TERM FINANCIAL PROJECTION

- 10.1 The council's Medium Term Financial Projection includes the impact of all known capital and revenue commitments between 2019/20 and 2023/24 and includes the assumptions on financing streams previously highlighted. This is summarised in table 7.

Table 7 – Medium Term Financial Projection

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000	£'000
Total (Base budget)	9,662	10,573	11,183	11,731	12,301	12,657
Growth	0	573	719	989	1,203	1,258
Approved savings plan	0	-856	-856	-927	-942	-1,010
Net budget	9,662	10,290	11,047	11,793	12,561	12,905
Financed by:						
Settlement Funding	-2,072	-1,853	-1,846	-1,883	-1,920	-1,959
Retained Business Rates	-370	-464	-281	-381	-481	-581
Collection Fund Surplus	-167	-50	-50	-50	-50	-50
New Homes Bonus	-3,180	-3,273	-3,304	-3,047	-2,769	-2,448
Council tax income	-3,872	-3,958	-4,036	-4,124	-4,213	-4,342
Total financing	-9,662	-9,599	-9,516	-9,484	-9,432	-9,379
Deficit (cumulative)	0	691	1,531	2,310	3,130	3,526
Deficit (annual)	0	691	840	779	820	396

- 10.2 The table illustrates a funding gap of £3.5m 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.

11.0 COUNCIL TAX

- 11.1 The current Band D Council Tax for the authority is £114.36 per annum and is the fifth lowest in England for a District Council. The current year charge was an increase of £5 or 4.6% 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 third 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.
- 11.2 The Provisional Settlement for 2019/20 has confirmed the continuation of the excessive council tax threshold of £5 or 3%, whichever is higher, for a District Council. Whilst the Government have increased the threshold for Police Authorities from £12 to £24 for next year it is unlikely that there will be any further changes for local government when the settlement is finalised in the new year.

11.3 As highlighted previously, there has been a slowdown in the delivery of new housing within the Borough. Previous projections had assumed a number of the Strategic Allocations within the Joint Core Strategy would be delivering new housing in the current year and beyond. This has not occurred for a variety of reasons and, whilst the same number of houses is expected to be delivered over the plan period to 2031, slippage of about one third has occurred for the period of this MTFs. Nevertheless, significant growth is still expected to be delivered in the next 5 years and the table below highlights the increases to the tax base expected.

Table 8 – Council Tax base

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Total
Tax base	33,859	34,611	35,296	36,062	36,837	37,971	
Increase		752	685	766	775	1,134	4,112
Increase		2.22%	1.98%	2.17%	2.15%	3.08%	12.15%

11.4 The Council Plan 2016-2020 makes a commitment to ‘maintain a low Council Tax’. The Council Plan also sets out objectives to develop alternative revenue streams, and rebase the revenue structure, to become less dependent on government core grants, and collections from taxpayers. Increasing Council Tax to fund any deficit outcome should be a last resort. The previous Medium Term Financial Strategy recognises the likely need for further increases in council tax in future years in order to provide the flexibility to deal with the anticipated deficit faced. Although Council finances have improved, and additional revenue streams are now being developed, there may continue to be a need to resort to some measure of further Council Tax increase each year over the Strategy period. The Council will maintain this previous financial strategy, accepting the likely need for future increases, but seeking to maintain the Council Tax to the lowest possible levels.

Table 9 – Potential Council Tax strategy

Year	2019/20	2020/21	2021/22	2022/23	2023/24	Total
Band D Council Tax	£119.36	£124.36	£129.36	£134.36	£139.36	
Increase (£)	£5.00	£5.00	£5.00	£5.00	£5.00	
Increase (%)	4.37%	4.19%	4.02%	3.87%	3.72%	
Additional council tax income generated	£174,592	£178,019	£181,847	£185,721	£191,392	£911,570

- 11.5 The next table extrapolates table 9 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 10 – Impact of potential charges per Council Tax band

Year	Number of properties	% of total	2019/20	2020/21	2021/22	2022/23	2023/24
Band A charge	6,434	15.66%	£79.57	£82.91	£86.24	£89.57	£92.91
Band B charge	6,558	15.96%	£92.84	£96.72	£100.61	£104.50	£108.39
Band C charge	11,478	27.93%	£106.10	£110.54	£114.99	£119.43	£123.88
Band D charge	6,062	14.75%	£119.36	£124.36	£129.36	£134.36	£139.36
Band E charge	5,180	12.61%	£145.88	£152.00	£158.11	£164.22	£170.33
Band F charge	3,291	8.01%	£172.41	£179.63	£186.85	£194.08	£201.30
Band G charge	1,891	4.60%	£198.93	£207.27	£215.60	£223.93	£232.27
Band H charge	198	0.48%	£238.72	£248.72	£258.72	£268.72	£278.72

- 11.6 The proposed Council Tax for the next financial year of £119.36 is still likely to be approximately £43 below the bottom quartile threshold and £66 below the national average for a District Council.
- 11.7 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 2019/20 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.

12.0 DEFICIT REDUCTION PROGRAMME

- 12.1 If increases to Council tax were approved in line with the example set out within table 9 this would still leave over £2.5m to be found in order to set balanced budgets in each of the years of the MTFS. The Council's Business Transformation Strategy supports the delivery of additional income streams and service cost reductions and the following paragraphs look at some of the opportunities within that strategy that will need to be considered in order to balance the budget.
- 12.2 The Council has benefited significantly in recent years from investments made to its property portfolio. Rental income from commercial property purchased as well as excess space within its service buildings will total over £3 per annum when the final acquisition is completed. There remains opportunity within the commercial property market but this should be thoroughly investigated against potential rising finance costs, reducing yields, government intervention and the national economic picture.

- 12.3 The Council continues to investigate ways of providing the same level of service at a reduced cost. Examples of how this is currently being pursued included the implementation of electronic billing within revenues to reduce the current cost of £60,000 for printing and posting council tax and business rate bills and also the implementation of a car pool pilot aimed at significantly reducing the current cost of business travel.
- 12.4 The Council approved a Fees and Charges strategy in 2017 aimed at ensuring that they are reviewed and uplifted on an annual basis and set at appropriate levels. The Council will need to continue to ensure fees for services such as garden waste, pre-planning advice and parking are reviewed and increases implemented throughout the MTFS period. The Council needs to be careful to ensure fees are not set at a level that would reduce the customer base and where possible, it should be pro-active in marketing its services and driving up that customer base.
- 12.5 The Council has aspirations of being more commercial in its approach and this is an existing strand of the Business Transformation Strategy. As part of this drive, the Council will need to consider its existing commercial services such as trade waste and building control and should ensure that those services do not operate at a deficit. It will also need to explore potential additional commercial activities and inter authority trading but these will need to be supported by thorough business cases which explore the cost of the provision, the market being entered, any competitive advantage, the sustainability of the service, the profitability of the proposal and any impact on core services.
- 12.6 One specific area where the Council would hope to see some returns from increased commercial activity would be from Ubico Ltd. The company was established as a teckal company in order to benefit from the trading of its services to other private or public sector entities. The Council will hope to see the development of business plans to deliver this and exploit the teckal exemption. In addition, it is hoped that some cross boundary working or shared arrangements can be developed within Ubico to reduce the direct cost of service provision and again the Council will hope to see proposals for this in the near future and to the benefit of the Council during the life of the current MTFS.
- 12.7 The MTFS contains a number of specific or general increases for growth in service cost over the period. The Council will need to manage these potential increases where it can with the view to reduce or eliminate the need for increased cost. Some growth will be unavoidable as the Borough gets bigger but efficiencies in service delivery may be able to offset some increases. The Council may also want to consider only allowing growth where there is an offsetting additional income stream associated with the new expenditure.
- 12.8 The final part of the deficit reduction programme, after all other avenues have been exhausted, is inevitably the reduction of service provision. This could be either a reduction in the levels of statutory service provided or a reduction in the number of discretionary services provided. Whilst the Council would not wish to see this happen, the current direction of travel for funding in local government may make this unavoidable. Many councils are already further ahead on this journey and are preparing for a core service only offering. The Permanent Secretary to the Ministry of Housing, Communities and Local Government recently described sustainability in local government as the delivery of statutory services which may indicate the direction of travel from the Ministry and may therefore need to be reflected by Tewkesbury over time.
- 12.9 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 11.

Table 11 – Summary deficit reduction programme

	19/20	20/21	21/22	22/23	23/24	TOTAL
	£'000	£'000	£'000	£'000	£'000	£'000
Anticipated annual deficit	-691	-840	-779	-820	-396	-3,526
<u>Deficit reduction opportunities:</u>						
Council tax levels	173	176	180	184	190	904
Council tax policies and premiums	0	33	0	0	0	33
Treasury Management	118	30	0	0	0	148
Property	0	94	72	0	0	166
Efficiency savings	58	10	74	0	0	142
Fees and Charges	117	129	67	17	17	347
Commercial opportunities	0	108	32	169	21	330
Growth removal	225	150	150	150	50	725
Other opportunities	0	110	82	27	0	219
Service reductions	0	0	121	273	118	512
Net surplus / (shortfall)	0	0	0	0	0	0

13.0 REVENUE RESERVES

- 13.1 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.
- 13.2 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.
- 13.3 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. In recognition of the increasing risk to the budget from outside events and volatility of funding streams, the opportunity was taken at the end of the previous financial year to increase the reserve by £100,000 to cover potential risks.
- 13.4 Given the increasing risk associated with a no deal Brexit, together with less than convincing economic data, it may be prudent to increase both the general fund reserve and other specific earmarked reserves in order to manage risk and insulate the Council as much as possible from any impacts associated with these risks as we approach the next decade. The ability to increase reserves will of course be dependent on the overall funding available to the Council but this is a course of action that will need to be given a priority status over the MTFS.
- 13.5 As at the 31 March 2018, the Council had £5.89m in useable earmarked reserves, although it should be noted that a large proportion of this money is grant funding from external sources for specific projects.
- 13.6 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.

- 13.7 Given the £3.5m deficit faced by the Council in the next five years it may be necessary to continue to use a substantial amount of reserves to help smooth the deficit. The current deficit reduction programme does not require this support, but it is likely that there will be delays or changes to the programme over the next five years which may necessitate the need for reserves. In addition, the programme outlines potential service reduction. This could result in the requirement for funds to cover the cost of redundancy. The Council currently has £866,000 in reserve to support the budget and meet any redundancy costs required.
- 13.8 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 2019.

14.0 PUBLIC AND STAKEHOLDER CONSULTATION

- 14.1 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.
- 14.2 In addition, consultation with both the general public and local businesses will continue to take place on budget principles and specific budget proposals.