Appendix A

Medium Term Financial Strategy 2016/17 to 2020/21

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

Tewkesbury Borough Council

November 2015

Foreword to Medium Term Financial Strategy 2016 - 2021

The Medium Term Financial Strategy is a forecast supported by assumptions and what impact those may have on the finances in the future. It is a tool we use to assist in the preparation of the detailed budgets for 2016-17 and frames the considerations, particularly the savings and additional incomes, required over the forecast period.

It has always been important to plan for the future, particularly in regard to finances. Over the past five years under the Government's Austerity measures this has become increasingly difficult but even more important.

As a Council we try to plan ahead for five years but recognise that a plan is subject to change, especially in the more distant future. This year, these problems have been exacerbated due to a number of uncertainties, such as the outcomes from the Comprehensive Spending Review, Autumn Statement and Revenue Support Grant settlement. We do not yet know what the impact on the Council's financial situation will be following the announced welfare reforms.

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

What is certain is that our Medium Term Financial Strategy will change and will change more rapidly that at anytime in the past.

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

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1.0 BACKGROUND

1.1 The Medium Term Financial Strategy (MTFS) provides a financial framework for the council's strategic planning and decision making. The MTFS 2016/21 incorporates key factors such as the changes in Government funding, our spending plans and the level of savings that are likely to be needed to keep council tax affordable. By anticipating financial pressures now, we can plan ahead early to meet the significant challenges in a way that ensures financial resources are targeted to the council's highest priorities and have the minimum impact on services.

1.2 These are unprecedented times for budget setting, with significant cuts in public spending. The Comprehensive Spending Review is to be announced on 25th 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. Until both 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 In addition, the recent announcement by the Chancellor of the Exchequer with regards to the full retention of business rates by the end of the current Parliament in return for additional responsibilities and the phasing out of core government support will have a significant impact on the way the council operates and the way it finances its services to the public.

1.4 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.

1.5 The 2015/2016 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.

1.6 In order to progress towards our aims and objectives, as contained within The Council Plan 2012 – 2016, 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 2012-2016

2.1 In May 2012, the new Council Plan for 2012 – 2016 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 five priorities and a number of objectives within each priority. We will:

Use resources effectively and efficiently:

- Maintain low council tax.
- Provide value for money service delivery.
- Provide customer focused services measured by output against customer needs.
- Regularly review the effectiveness of customer focused services.

Promote economic development:

- Promote Tewkesbury Borough to attract large scale businesses.
- Provide support to help new start-ups, young and growing businesses.
- Work with the Local Enterprise Partnership to promote economic growth.
- Ensure the Core Strategy makes provision for sufficient employment land.

Improve recycling and care for the environment:

- Focus on continuous improvement in recycling and waste collection.
- Work towards achieving a 60% recycling target.
- Focus on continuous improvement in street cleansing.
- Promote activities to reduce litter and fly tipping.
- Continue work with partners to provide flood resilience measures.

Provide customer focused community support:

- Support and promote joint working arrangements with Gloucestershire County Council’s Child and Family Support Services, Gloucestershire Constabulary and other agencies to achieve better outcomes for residents.
- Simplify and standardise business processes for the benefit of customers.
- Work with town and parish councils to deliver the localism agenda.
- Work with partners to reduce the level and perception of crime.
- Support the health and well-being of our residents.

Develop housing relevant to local needs:

- Develop a Core Strategy to meet current and future housing needs
- Promote initiatives to make quality housing more affordable and accessible.
- Work with all stakeholders to promote specific housing types to meet defined shortages.
- Improve the quality of the housing stock

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.

2.4 Work has begun with the new membership of the council aimed at refreshing the Council Plan for the period up to 2020. The new Council Plan is expected to be approved early in 2016.

3.0 NATIONAL CONTEXT

3.1 The national economic background in recent years has seen a period of stagnation following on from the recession of previous years. More recently the UK economic recovery has continued apace and now appears more sustainable. UK economic growth is expected to average 2.5% of GDP in the current year mainly driven by household spending but the outlook for business investment is tempered by the impending EU referendum and uncertainty surrounding global growth and recent financial market shocks.

3.2 The council's treasury advisors, Arlingclose, forecast the first rise in official interest rates to be in Q2 2016, which is later than general market sentiment. There is clear momentum in the economy, but inflation is benign and currently sits below target. Expectations are for this situation to persist for some time, reducing the need for immediate monetary tightening.

A slow rise in the Bank Rate is predicted. The pace of interest rate rises will be gradual and the extent of rises limited; the normalised level of Bank Rate, post-crisis, is likely to range between 2.5% and 3.5%. The table below shows expectations in the medium term.

Table 1 – Base rate forecast

Official Bank Rate	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Upside risk		0.25	0.25	0.50	0.25	0.25	0.25	0.25	0.25	0.50
Arlingclose central forecast	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50
Downside risk				-0.25	-0.50	-0.50	-0.75	-0.75	-1.00	-1.00

3.3 Following the General Election in May this year, the new Government announced a Summer Budget which outlined cuts to welfare spending along with further aspirations for tackling tax avoidance and a raft of policy changes for pensions and employment. There were no details about unprotected departmental spending including Local Government.

3.4 The Chancellor instructed Government Departments to model the effects of 25% and 40% cuts to departmental spending which sets the tone and gives a strong indication that ongoing and significant reductions in Local Government funding will be the headline of the Spending Review announcement in November.

3.5 The next few years will also see the development of the Chancellor's plan to allow local authorities to retain 100% of business rates. At the time of writing, no details about how the scheme will work or the additional responsibilities for local government have been released. In addition, there is uncertainty about the elimination of core government funding in terms of the scope of the statement. A significant risk to this council will be if New Homes Bonus is included within the scope as this is currently worth around £3.3m annually to Tewkesbury.

4.0 LOCAL GOVERNMENT FINANCE SETTLEMENT

4.1 Following the election in May 2010, the coalition government embarked on a deficit reduction programme. Local authorities were targeted with estimated reduced funding of approximately 21.1% during the period of 2011 to 2015. The actual reduction for Tewkesbury Borough was in excess of 37% which equated to approximately £1.84m. In addition, the austerity programme was extended into 2015/16 and saw a further reduction in core funding of £550,000 giving a total reduction of nearly £2.4m or around 44%. If reductions in other grants such as Housing Benefit Administration subsidy are factored in, this figure would be closer to a 50% reduction.

4.2 As outlined earlier, reductions to the funding available for public services continue into the new Parliament with the Conservative government pushing forward with plans to create a national budget surplus. Whilst departments are modelling funding reductions to departmental expenditure of both 25% and 40%, with it widely expected that the DCLG will be expected to reduce expenditure by the higher amount, the impact on individual councils could be far higher than this in the medium term.

4.3 There are two elements to the finance settlement. The first is the business rates baseline which contributed £1.676m to Tewkesbury in 2015-16 and will continue to rise each year. The second element is the Revenue Support Grant (RSG), currently worth £1.319m to Tewkesbury, and it is this element that will continue to see significant reductions.

4.4 In line with current expectations, our forecast of RSG suggests steep reductions in the next two years with continued reductions in the two years thereafter. We have gone a step further than many have previously suggested in that the modelling actually eliminates all RSG support by 2019/20. This forecast is in line with an ambition to be self-sufficient and also now in line with the Chancellor's plan to reshape local government finances in the medium term.

4.5 Table 2 below outlines the levels of core government funding assumed in the MTFP.

Table 2 – Core Government support 2015 – 2021

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Revenue Support Grant	1,319	731	337	180	0	0
Business Rates baseline	1,676	1,718	1,761	1,805	1,850	1,896
Total	**2,995**	**2,448**	**2,097**	**1,985**	**1,850**	**1,896**
Change		-546	-351	-113	-135	46

5.0 NEW HOMES BONUS

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

5.2 Tewkesbury is in a very fortunate position in that it has been able to benefit from relatively large amounts of NHB accumulating in the first five years of operation of the scheme. There has been a resurgence in house building activity in the borough in recent years and with further substantial expansion planned in a number of locations in forthcoming years, the amount of NHB received on an annual basis could accelerate.

5.3 The next financial year, 2016/17, is the final additional year of the rolling six year support offered by NHB and is therefore the last substantial increase. Future years will either see growth or contraction dependent on the level of NHB generated against the NHB that is lost as the first years start to drop out. Table 3 shows the funding currently received by the council from NHB and a forecast of potential future receipts.

Table 3 – Forecast New Homes Bonus

	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	2015/16	**2016/17 Est**	**2017/18 Est**	**2018/19 Est**	**2019/20 Est**	**2020/21 Est**
Year 1 actual income	526,818	526,818	0	0	0	0
Year 2 actual income	410,595	410,595	410,595	0	0	0
Year 3 actual income	294,622	294,622	294,622	294,622	0	0
Year 4 actual income	638,205	638,205	638,205	638,205	638,205	0
Year 5 actual income	871,491	871,491	871,491	871,491	871,491	871,491
Year 6 projected income	0	630,000	630,000	630,000	630,000	630,000
Year 7 projected income	0	0	600,000	600,000	600,000	600,000
Year 8 projected income	0	0	0	600,000	600,000	600,000
Year 9 projected income	0	0	0	0	600,000	600,000
Year 10 projected income	0	0	0	0	0	600,000
Sub-total	**2,741,731**	**3,371,731**	**3,444,913**	**3,634,318**	**3,939,696**	**3,901,491**

5.4 NHB has become a key feature of local government funding, particularly at District level. The expected level of receipt for Tewkesbury in 2016/17 will, for the first time, eclipse the level of core government support. This means there is an ongoing dependence on NHB to support both the Council's base budget but also provide monies towards transformational activities. The Council has previously agreed to cap the level of general support to the base budget at 65% of NHB receipts in order to avoid over reliance. This is a prudent strategy and one that should be continued unless the impact of the austerity programme is so severe that additional NHB would be required. The following table indicates the level of support to the ongoing budget and one-off programme based on current forecasts.

Table 4 – Forecast split useage of NHB

	2015/16	**2016/17 Projection**	**2017/18 Projection**	**2018/19 Projection**	**2019/20 Projection**	**2020/21 Projection**
Total New Homes Bonus	£2,741,731	£3,371,731	£3,444,913	£3,634,318	£3,939,696	£3,901,491
65% support to base budget	£1,782,125	£2,191,625	£2,239,193	£2,362,307	£2,560,802	£2,535,969
35% one-off programme	£959,606	£1,180,106	£1,205,720	£1,272,011	£1,378,894	£1,365,522

5.5 Even though a cap of 65% has been set for general support to the budget, this useage to balance the budget presents a risk to the Council. Any changes to the scheme itself or the distribution methodology would have a significant adverse impact on the Council's finances. Although there has been no specific announcement on any changes, it is clear that the NHB scheme is on the government's agenda as it remodels local government finance.

6.0 RETAINED BUSINESS RATES

6.1 The new scheme of Business Rates Retention 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 Local Government Finance Act also allows local authorities to form pools for the purpose of business rates retention. Tewkesbury has signed up with the other Gloucestershire districts and the county council to be designated as a Gloucestershire pool. Pooling offers the potential to deliver more benefits to Gloucestershire and promote closer working between authorities.

6.3 The first year of operation of the pool proved very successful in retaining additional monies for Gloucestershire. Unfortunately in the second year 2014/15 the pool suffered significant loss due to the impact of backdated appeals on rateable values and, in particular, the successful backdated appeal of Virgin Media in Tewkesbury. The final position of the pool reported a deficit of £2.3m following a safety net payment of £3.9m to Tewkesbury. The cost of this deficit was borne by the members of the Pool.

6.4 Despite its successful appeals in 2014/15, Virgin Media still has a number of appeals outstanding and, in addition, a request for a single assessment made against all of its 68 independent assessments across the country. The potential risk arising from this is that Tewkesbury could lose all of the rateable value for Virgin Media backdated to 2010. The single assessment is due to be heard first by the Value Office Agency although this is unlikely to happen during 2015/16.

6.5 As a result of the ongoing uncertainty and level of risk surrounding Virgin Media, Tewkesbury and its partners have agreed, on a temporary basis, for Tewkesbury to be removed from the Pool from April 2016 onwards. In doing so, local authorities will not be responsible for any safety net payment required by Tewkesbury and can therefore retain the growth created in Gloucestershire.

6.6 For Tewkesbury itself, outstanding appeals and in particular Virgin Media, mean that forecasting future business rates income is very difficult and levels retained can be volatile. The council has set itself an income target of £255,000 per annum from retained business rates but as a result of the ongoing appeals issue was unable to deliver this in 2014/15 and is unlikely to do so in the current year. The growth that has been delivered in the Borough has been exceeded by the extraordinary level of appeals in the last two years and has necessitated the use of substantial reserves to balance the budget and insulate against the risk.

6.7 Future uncertainty remains within the scheme with a national revaluation impacting in 2017 and a full reset of the system planned for 2020. Despite this and the appeals issue, income from business rates offers significant potential for growth over the medium to long-term as aspirations for the development of Junction 9 and 10 and also the redevelopment of the Town Centre become reality. Retained business rates is therefore an area where the council can look to maximise income. Growing and retaining the business rate base in Tewkesbury should be a key priority for the Council and even more so since the announcement of retaining 100% of business rates in the future.

7.0 LOCAL COUNCIL TAX SUPPORT SCHEME

7.1 From 1 April 2013, the council tax benefit scheme was replaced by a Localised Council Tax Discount Scheme (LCTS). The new scheme only attracted funding of 90% of the previous scheme and is subject to the overall reduction in government support in the years since its inception. Councils can set their own scheme but must protect certain groups e.g. pensioners, from any effect of a new scheme. Therefore the burden of any reduced scheme would fall on the working age claimants. Tewkesbury has agreed not to amend the default scheme and therefore all claimants are still entitled to receive the same level of council tax benefit/discount.

7.2 Tewkesbury amended its discounts and exemptions on second homes and empty properties in order to cover the costs of LCTS. Costs were covered in 2013/14 and are projected to be covered in the current year. Evidence from the first two years of operation of the scheme suggests that authorities who chose to change their scheme are seeing an increase in council tax arrears and also an increase in the cost of collecting council tax as a result of the changes made. Given this emerging picture, Tewkesbury along with four of the other five Councils in Gloucestershire are of the opinion that there is little to be gained from amending the current scheme. There is also no strong political pressure from the County or Police to amend the scheme.

7.3 Parish and town councils were also brought under the umbrella of these changes and therefore receive a grant to compensate for some of the loss. Tewkesbury Borough administers the grant on behalf of the government and passes on the grant given in full to the parish and town councils.

8.0 GROWTH PRESSURES

8.1 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.

8.2 The cost of employees is the Councils biggest area of expenditure and increases can be significant. In the Summer 2015 Budget, the Chancellor announced a pay award cap of 1% per annum for 4 years from 2016/17 for public sector workers. Pay awards in local government are covered by collective bargaining between employers and trade unions and this is not subject to direct control from central government. However, it is reasonable to assume that the local government employers will mirror what happens in the rest of the public sector and this assumption has been built into the projections. Pay settlements for the years 2016/17 onwards are estimated to be 1% per annum.

8.3 The forecast for pay awards of 1% follows on from pay awards of 1% in the last three years and a number of years of pay freeze prior to that. Suppression of pay in local government presents a risk to Tewkesbury in being able to recruit and retain suitable staff in some key areas. The Council will need to consider the ongoing impact of pay restraint and may need to increase key salaries or provide market supplements in order to attract qualified and experienced staff capable of taking the council forward on its transformational journey. In addition, a reserve for any increased pay award following negotiation should be established to mitigate the impact in the first year.

8.4 The creation of a single tier state pension and the end of contracting out of the second state pension will negatively impact on employers providing defined pension schemes such as the Local Government Pension Scheme. Currently, providing that such pension schemes meet statutory requirements, employers pay a reduced national insurance contribution – the reduction is 3.4%. This reduction will be removed from April 2016 and it has been estimated that additional employer national insurance contributions for Tewkesbury will be £150,000.

8.5 The triennial valuation of the Gloucestershire Local Government Pension scheme took place in 2013 and saw the value of the liabilities within the fund increase dramatically as a result of falling expectations of future government gilt yields. This resulted in an increased deficit of the fund which required further funding. Tewkesbury's contribution towards this deficit increased by £200,000 in 2014/15 and will need to continue to increase by this level for the next two years to meet the deficit requirement. The annual contribution to the pension deficit is expected to be in excess of £1.5m by 2016/17. The results of the next triennial valuation will be known in late 2016 and will again be largely dependent on the gilts market.

8.6 The cost of providing the waste and recycling service could see significant change over the course of the MTFS. The fall in prices obtained for selling recyclate will have a significant impact on the price the council pays to a contractor for processing its collected recyclables. In addition, new regulations will expect to see the separation of glass from the other recyclables collected. The expansion in the number of domestic properties within the Borough will also put pressure on the services capacity and at some point additional rounds will need to be provided.

8.7 A detailed workstream is currently ongoing to review the requirements of maintaining both our land and property portfolio and our IT infrastructure. Neither service area currently has a long term view on asset requirements and has relied in the past on ad hoc approaches to council for funds to maintain and improve the assets. The development of a long term strategy is both sensible and prudent but will require the Council to set aside annual sums to cover the costs associated with the maintenance and replacement programme.

9.0 CAPITAL PROGRAMME

9.1 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.

9.2 It is estimated that £9.05m will be spent on Capital Programme schemes during 2015/2016 which are to be funded by a combination of grants and contributions (£0.45m) and the usable capital receipts reserve (£8.6m). The programme includes expenditure on a new leisure centre, refurbishment of the Roses Theatre, disabled facility grants and property investment.

9.3 Looking ahead, the total value of the Capital Programme over the following five years is approximately £14.18m. Table 5 summarises the planned capital expenditure for future years, together with information on the funding of that expenditure.

Table 5 – Capital programme

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	TOTAL
Gross capital expenditure	**£9.05m**	**£2.53m**	**£0.65m**	**£0.65m**	**£0.65m**	**£0.65m**	**£14.18m**
Funded by:							
Grants and contributions	£0.45m	£0.40m	£0.40m	£0.40m	£0.40m	£0.40m	£2.45m
Capital receipts reserve	£8.60m	£2.13m	£0.25m	£0.25m	£0.25m	£0.25m	£11.73m
Earmarked revenue reserves	£0.00m	£0.00m	£0.00m	£0.00m	£0.00m	£0.00m	£0.00m
Total	**£9.05m**	**£2.53m**	**£0.65m**	**£0.65m**	**£0.65m**	**£0.65m**	**£14.18m**

9.4 The current capital programme will deplete capital reserves to around £1.6m by March 2017. The council will also need to consider the purchase of a vehicle fleet for 2017. This will require an investment of around £1.5m and although partial funding can be found through use of New Homes Bonus, the majority of the investment, if approved, will utilise the final balances of the capital reserve. Any future ambitions for asset investment, town centre redevelopment and the continuation of the Disabled Facilities Grant (DFG) programme will require the utilisation of other sources of funding.

9.5 Consideration will need to be given for the disposal of some under-utilised assets in order to replenish the capital reserves. Whilst the council will investigate the use of assets to generate revenue streams, a balanced approach will be necessary so as to provide capital funding for schemes that can generate the best investment return. In addition, consideration will need to be given to using revenue streams, such as New Homes Bonus, to support the capital programme. Finally, the council will need to utilise prudential borrowing to fund both ambitions and statutory requirements in the very near future.

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 2016/17 and 2020/21. This is summarised in table 6.

Table 6 – Medium Term Financial Projection

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Employees	7,910	8,355	8,499	8,630	8,726	8,879
Premises	668	676	684	693	701	710
Transport	163	157	159	160	161	164
Supplies and services	6,086	6,144	6,160	6,193	6,225	6,269
Housing benefits	19,666	19,666	19,666	19,666	19,666	19,666
Income	-26,242	-26,136	-26,170	-26,178	-26,220	-26,260
Base budget	**8,250**	**8,863**	**8,998**	**9,163**	**9,258**	**9,428**
Growth	0	157	1,077	1,117	1,292	1,382
Approved savings plan	0	-317	-392	-415	-438	-438
Net budget	**8,250**	**8,703**	**9,683**	**9,865**	**10,112**	**10,372**
Financed by:						
Settlement Funding Assessment	-2,995	-2,448	-2,097	-1,985	-1,850	-1,896
Council tax freeze grant 14-16	-33	-18	-8	-5	0	0
Collection Fund Surplus	-102	-100	-75	-75	-75	-75
Retained Business Rates	-255	-261	-268	-275	-281	-289
New Homes Bonus	-1,782	-1,782	-1,782	-1,782	-1,782	-1,782
Council tax income	-3,084	-3,121	-3,192	-3,266	-3,341	-3,418
Total financing	**-8,250**	**-7,731**	**-7,423**	**-7,387**	**-7,329**	**-7,459**
Deficit	**0**	**972**	**2,260**	**2,478**	**2,783**	**2,913**

10.2 The table illustrates a funding gap of £2.9m 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 For the last five years, the council has decided to freeze its Band D council tax charge at £99.36 per annum. In return for freezing the council tax, the council has received a grant from government of varying value and for different periods of time. The most recent grants have been equivalent to a 1% increase in council tax and have been rolled into the Revenue Support Grant element of core government funding to allow for ongoing support. It must be noted however that it is the RSG element of support that has been reduced under the austerity programme therefore limiting the ongoing benefit of the council tax freeze grant.

11.2 It is not clear whether the government's offer of a council tax freeze grant will continue into the future. It is also not clear what the government's position will be with regards to excessive council tax increases which require a local referendum for their approval. In the current year, a ceiling of 2% has been set but both this ceiling and the offer of a grant are unlikely to be known until the local government settlement is issued.

11.3 Previous financial strategies have suggested that council tax levels should increase from 2016/17 onwards in line with the referendum limits. This was in recognition of both the ongoing budget deficit facing the council and the freezing of council tax for the past five years. Increasing the council tax level by the current referendum limit of 2% over the life of the MTFS would generate an additional £320,900 of income and produce tax levels for residents in line with table 7.

Table 7 – Council Tax Projections

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Band D Council Tax	£99.36	£101.35	£103.37	£105.44	£107.55	£109.70

11.4 The government may amend the referendum limit which may necessitate the council considering other levels of council tax. An indication of potential changes to referendum limits is shown in table 8.

Table 8 – Impact of different council tax increases

Council Tax increase	Annual Income generated	Income over MTFP 5 Years	Average Annual Increase	Tewkesbury Band D 2016/17
1.00%	£30,800	£157,300	£1.01	£100.35
1.50%	£46,300	£238,300	£1.54	£100.85
2.00%	£61,700	£320,900	£2.07	£101.35
2.50%	£77,100	£405,200	£2.61	£101.84
3.00%	£92,500	£491,100	£3.17	£102.34
4.00%	£123,300	£668,100	£4.31	£103.33
5.00%	£154,200	£851,900	£5.49	£104.33

11.5 The current council tax charge of £99.36 is the fifth lowest of English district councils and is over £40 below the bottom quartile threshold and £60 below the national average. Projections of future increases to council tax will ensure the council remains within the bottom quartile for council tax charges and meet its priority to maintain a low council tax.

12.0 BUSINESS TRANSFORMATION STRATEGY

12.1 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.

12.2 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.

12.3 The Council has already achieved a great deal with Business Transformation in the last two years. A summary of some of the transformational work streams that have been delivered and those in progress is included below.

12.4 **Service reviews**

Waste / operational services

In the summer of 2014, a review of the efficiency of the current operation was carried out focussing on a review of the rounds currently deployed to collect waste and recyclables and a review of the staffing establishment. The round review concluded that the current round deployment was at optimum efficiency and there was no scope for efficiency savings. The review of staffing led to savings of £30,000 being identified.

The Council formally approved the transfer of its waste collection, recycling, street cleansing and grounds maintenance services to Ubico Ltd in 2014 with the actual transfer taking place on the 1st April 2015. This decision was taken against the backdrop of securing appropriate depot facilities, the existing partnership arrangements with Ubico Ltd, the degree of additional service demand arising from the high levels of residential development in the borough and the lack of strategic / commercial capacity to develop opportunities to market services to increase the level of income generated.

Considerable efficiencies for 2016/17 have been identified as a result of joining the company amounting to £90,000 per annum. This has been achieved through opportunities to share resources and amend terms and conditions for new staff joining the company. Further business development work is scheduled to take place in the forthcoming years aimed at reducing costs or increasing income.

A joint project between TBC staff, Ubico Ltd and the Joint Waste Committee is currently underway and is focussed on service delivery arrangements for 2017 onwards reflecting the need to procure a new vehicle fleet, the end of the current MRF contract and the introduction of new regulations around glass recyclables. It is likely that the Council will be asked to purchase a new fleet rather than lease it as it is more cost effective. This will likely need a sum in the region of £1.5m being set aside from capital balances, supported by revenue one offs, to meet this requirement but will produce an ongoing revenue saving against current leasing costs. The final detail of this scheme, including any proposals over collection and disposal methods, is to be presented to members early in 2016.

Revenues and benefits

A service review of this area took place in 2014 and resulted in significant efficiencies being delivered together with improvements for the customer, in the form of the reduced number of processing days for claims. As a result, nearly £150,000 of cashable savings was delivered from direct expenditure and improved subsidy reclaim. Currently the service is reviewing its counter fraud and financial inclusion arrangements. The future provision of this service area will need to see an increased focus on Business Rates, given the move towards 100% retention of growth, and will also be driven by the rollout of Universal Credit over the next few years.

Customer Services

Following on from the successful review of Revenues and Benefits, the same review technique and process was used in Customer Services. The review looked at current service delivery but also allowed for the expansion of the service to accommodate some of the retained functions following the transfer of services to Ubico ltd, including the administration of the Garden Waste function. Improved processes, reorganisation of service delivery, the elimination of failure demand and the relocation of the service have all resulted in an improved experience for the customer and the staff as well as delivering cashable savings. The service has released two part-time roles, reduced the reliance on agency staff to cope with demand in peak times and taken on the Garden Waste function with no additional resources being required.

Environmental Health and Planning

Both service areas are currently going through the same review process as Revenues and Customer Services. The conclusion of this joint review is likely to be early in the new year with the same improvements for both customers and staff being made. As with the other reviews, it is hoped that cashable savings or increased income can be generated from the review and contribute towards the Council deficit.

One Legal

In Spring 2015, the shared legal service of Tewkesbury and Cheltenham, was enlarged to include Gloucester City Council. This helped to produce increased offices rental income for Tewkesbury. Discussions with the County Council for further expansion of the service are on-going with proposals set to be made to Councils in early summer 2016.

12.5 Building transformation

The £1.5m refurbishment of the public offices building was completed in September 2014. The project replaced the roof and windows of the building and refurbished the first floor. On-going energy and maintenance savings as a result of these works amount to nearly £40,000 whilst the desk to officer ratio being reduced to 8:10 means that all borough staff can now be accommodated on the first floor. The top floor has now been fully vacated and negotiations are on-going with public sector partners to secure additional tenants for this area. Discussions have been widened to include not only the top floor but also the ground floor as well as additional areas within the footprint of the Public Service Centre.

Development of a new leisure centre on the Public Services Centre site continues to progress well. It is now envisaged that the new centre will be open for the public in late May 2016. At that point, the responsibility for the delivery of the service will pass to Places for People who were appointed as operators in January 2015 following a tender process. Whilst the delivery of a new build leisure centre has incurred significant financial expenditure, the new centre together with the new operator will deliver significant ongoing revenue benefits to the council in the form of the elimination of an ongoing subsidy, a contract sum payment and a share in any additional surpluses made by the operator.

Investment of over £250,000 has been made to deal with the landlord responsibilities associated with the Roses Theatre building. This has included the replacement of roofs and windows at the theatre and together with the works commissioned by the Theatre Trust will provide a secure building and financially sustainable operation therefore securing a long-term cultural offering for the borough.

Renewable energy from solar panels will be available to the Public Services Centre in 2016. An array of panels will be installed on three roofs prior to Christmas which will supply some of the centres energy needs. This will result in energy savings of over £7000 per annum and also generate a return of £7000 from feed in tariffs, giving a total return of approximately 14%. Attention will be focussed on the councils other assets after that although it must be remembered that many assets are leased and will require negotiation and also the feed in tariffs will reduce in the near future therefore reducing the return that can be made.

The council is also currently in negotiations for the purchase of retail property which could be added to the current portfolio of investment assets. It will continue to look for additional property investments although it must be remembered that financing additional investments will require borrowing and so net returns will reflect this requirement.

The council continues to investigate opportunities for redeveloping or disposing of under-utilised assets including car parks, garage sites and the MAFF site. For redevelopment to occur, significant borrowing of resources will be required and therefore any plans will need to be robust and supported by a sound business case to ensure they are financially viable. In some cases, disposal may be preferable in order to generate capital receipts which can be reinvested in other scheme developments.

12.6 **Devolution**

The council, along with its partners in Gloucestershire, is currently negotiating a devolution deal with the government. The shape of the final deal is being developed with the intention of an announcement in late 2015 and final sign off in 2016. Any devolution deal agreed will have a significant impact on the delivery of some core services including strategic housing, strategic planning and economic development. It may also provide access to significant funds to promote growth and development in Gloucestershire.

13.0 OTHER ELEMENTS OF DEFICIT REDUCTION

13.1 In addition to council tax and business transformation strategies, New Homes Bonus and Retained Business Rates, the council must look at all available ways to bridge the funding gap. This will include increasing income from existing sources, new income sources, maximising the use of its asset portfolio, procuring its goods and services cheaper and reviewing the council tax support it offers.

13.2 The Council must also investigate opportunities to move towards a more commercial approach in delivering its services. This could include the selling of services within a wider market to deliver an income for the council. The council must understand what services it does well, where market demand exists and what investment will be required to be able to trade its services.

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 9 analyses the risk around some of the key assumptions within the MTFS:

Table 9 – sensitivity analysis

Description	2016/17	2017/18	2018/19	Sensitivity
Pay	1.00%	1.00%	1.00%	+/- 1.00% = £80,500
General inflation	2.00%	2.00%	2.00%	+/- 0.50% = £25,000
Energy – increases	2.00%	2.00%	2.00%	+/- 5.0% = £25,000
Income - fees and charges	2.00%	2.00%	2.00%	+/- 0.50% = £28,000
Return on council investments	1.00%	1.50%	1.88%	+/- 0.50% = £62,000
Total sensitivity / risk re: changes to the above expenditure and income assumptions:				**+/- £220,500**

Resources				Sensitivity
Council tax	2.0%	2.0%	2.0%	+/- 1.00% = £32,000
Funding Settlement decrease	18.0%	14.0%	5.0%	+/- 0.50% = £14,970
New Homes Bonus increases	23.0%	1.3%	5.5%	+/- 5.00% = £137,000
Tax base	2.3%	2.3%	2.3%	+/- 1% = £30,835
Council tax total collected	98.50%	98.50%	98.50%	+/- 1.0% = £32,000
Total sensitivity / risk re: changes to the above resource assumptions:				**+/- £246,805**

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

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

15.0 REVENUE RESERVES

15.1 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.

15.2 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.

15.3 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.

15.4 As at the 31 March 2015, the council had £10.57m in earmarked reserves although it should be noted that over half of this reserve is not useable as it covers the timing difference in business rate payments to the government and a proportion of the balance is held on behalf of third parties for specific purposes.

15.5 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 next opportunity in order to provide enhanced levels of confidence and reassurance in the financial affairs of the council.

15.6 Earmarked reserves are also required to fund the one-off elements of the council priorities and to meet its future business needs. These reserves do not recur annually and once they have been utilised will not be available for future investment. It is therefore proposed that future reserves, having allowed for risk management requirements, should be developed on an invest to save basis. As such, reserves which are recycling in nature create an asset which could be realised in the future and those which reduce ongoing revenue costs should be given priority when considering year end balances and the allocation of new homes bonus. This approach should help the council combat the significant financial uncertainty being faced.

15.7 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 January 2016.

16.0 PUBLIC AND STAKEHOLDER CONSULTATION

16.1 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.

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

17.0 TREASURY STRATEGY AND MINIMUM REVENUE PROVISION

17.1 The council is currently a debt free authority but has a diminishing investment portfolio estimated to be worth about £12.4m by the beginning of the next financial year. This portfolio is made up of cash flow balances and reserves. The council's approach to treasury management has been significantly revised since the collapse of the Icelandic banking institutions in October '08. The council had £1m invested with the failed bank, Landsbanki, and has since recovered over 90% of its original investment.

17.2 The council has, in recent years, been highly successful in generating significant investment returns over market benchmarks from proactive treasury management whilst minimising risk. We optimise the use of our cashflow to ensure that we minimise our borrowing for cash flow purposes whilst aiming to achieve high rates of investment income whilst, most importantly, minimising risk. Given the risk in the market as highlighted earlier, the current strategy leans more towards avoidance of risk than maximising returns and, as a result, both counterparties and lengths of deposit have been restricted.

17.3 We publish an annual Treasury Management Strategy which details our borrowing limits and specifies approved institutions for investment, considering risk, with maximum limits, based on credit ratings.

17.4 With low interest rates, the council has adopted a strategy of exploring other investment opportunities and £2m has been set aside to further this ambition. We are continually looking for safe alternative investments in other areas such as corporate bonds, equity bonds, property investments or renewable energy. The current problems in the banking sector mean that risks in cash investments are higher than normal at present and returns are lower than would be expected. If any alternative opportunities do arise the council will consider investing to help retain a low level of council tax. However, it must be remembered that ensuring cash flow has to be the highest priority within a treasury strategy and that the council's ability to make further investments of an illiquid nature are restricted having committed resources to a number of large projects in recent months.

17.5 The council's rapidly developing ambition of investing in growth in the borough through retail, commercial and residential asset developments will require the approval of strategic borrowing in future years. As previously indicated, interest rates remain low and borrowing money from the Public Works Loan Board at the current time offers value with indicative rates being around 3.5% for a twenty five year loan. The council will also be able to benefit from the 'certainty rate' offered to local government which reduces these indicative rates by 0.2%.

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 2015/16 is as follows:

Supported borrowing

For borrowing supported by Revenue Support Grant, the council will continue to use the current method of 4% of the adjusted Non-HRA capital financing requirement.

Unsupported borrowing

For new borrowing under the prudential system for which no Government support is being given and is therefore self-financed, MRP will be made in equal annual installments over the life of the asset.

Capitalisation directions

For capitalisation directions on expenditure incurred since 1 April 2008, MRP will be made in equal annual installments over 20 years in line with CLG guidance.

In all cases MRP will commence in the financial year following the year in which the expenditure is incurred.

17.6 So for example, if the council wished to borrow to fund the purchase or development of a retail unit with an estimated useful life of 50 years, it must make interest payment of 3.5% annually and also MRP provision of 2% annually. The business case for investment would therefore need to see a return in excess of 5.5% to make it viable and see a contribution towards the overall budget deficit.