Tewkesbury Borough Council

Medium Term Financial Strategy

2020/21 to 2024/25

Tewkesbury Borough Council
January 2020

Contents

1.0 BACKGROUND

1.1 The Medium Term Financial Strategy (MTFS) provides a financial framework for the council's strategic planning and decision making. The MTFS 2020-25 incorporates key factors such as the changes in Government funding, our spending plans and 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 2021. 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 – on the 4th September 2019, the Chancellor of the Exchequer announced a one year only spending review. The spending review confirms the overall quantum of funding available to the sector but only covers the period until March 2021. The new Government urgently need to undertake a spending review in 2020 covering the years after 2021 and give some certainty to the sector on overall funding levels in the early part of the next decade.
- Fair Funding Review – this will detail a new methodology for allocating local government funding to individual authorities. The impact of this review has now been delayed for a further year until at least 2021.
- Business rates retention – as with the Fair Funding Review, the move to 75% retention of business rates has been pushed back until 2021
- New Homes Bonus – the Government has again signalled that they will review the New Homes Bonus scheme in 2020, leaving its future uncertain.

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 2019-2020 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 changes to the makeup of local government funding.

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 The Council is currently considering the content of a new Council Plan to cover the period from 2020 to 2024. The first draft of the new Council Plan builds upon the current plan and provides continuation of the council ambitions into the next decade. Future financial strategies will reflect the new Council Plan once approved.

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 and financial environment for 2020/21.

3.2 UK Consumer Price Inflation (CPI) for September registered 1.7% year on year, unchanged from the previous month. Core inflation, which excludes the more volatile components, rose to 1.7% from 1.5% in August. The most recent labour market data for the three months to August 2019 showed the unemployment rate ticked back up to 3.9% while the employment rate was 75.9%, just below recent record-breaking highs. The headline 3-month average annual growth rate for pay was 3.8% in August as wages continue to rise steadily. In real terms, after adjusting for inflation, pay growth increased 1.9%.

3.3 GDP growth rose by 0.3% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.0% from 1.2%. Services and construction added positively to growth, by 0.6% and 0.4% respectively, while production was flat and agriculture recorded a fall of 0.2%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

3.4 The Bank of England maintained Bank Rate at 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

3.5 Growth in Europe remains soft, driven by a weakening German economy which saw GDP fall -0.1% in Q2 and is expected to slip into a technical recession in Q3. Euro zone inflation was 0.8% year on year in September, well below the European Central Bank's target of 'below, but close to 2%' and leading to the central bank holding its main interest rate at 0% while cutting the deposit facility rate to -0.5%. In addition to maintaining interest rates at ultra-low levels, the ECB announced it would recommence its quantitative easing programme from November.

3.6 In the US, the Federal Reserve began easing monetary policy again in 2019 as a pre-emptive strike against slowing global and US economic growth on the back on of the ongoing trade war with China. At its last meeting the Fed cut rates to the range of 1.50-

1.75% and financial markets expect further loosening of monetary policy in 2020. US GDP growth slowed to 1.9% annualised in Q3 from 2.0% in Q2.

3.7 Table 1 details the forecast of the Bank of England base rate based on the MPC maintaining its position of a slow rise in interest rates.

Table 1 – Base rate forecast

Official Bank Rate	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Upside risk	0.00	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose central forecast	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75

4.0 LOCAL GOVERNMENT FINANCE SETTLEMENT

4.1 The current financial year sees the end of the four year agreement with central government which confirmed funding levels for needs based grant funding. Needs based grant funding comes in the shape of both the Revenue Support Grant and the Business Rates Baseline. This is supplemented in some authorities with the Rural Services Delivery Grant. Since the beginning of the austerity period, this council has seen its needs based funding reduce by over £3.7m in cash terms. If inflation were to be added in, this reduction would be closer to £4.5m.

4.2 With the ending of the four year agreement, it had been hoped that central government would give the sector some certainty upon which it could build its financial plans by providing a multi year settlement. However, on the 4th September 2019, the Government put forward a one year only Spending Review covering the financial year 2020-21. This leaves the Council in exactly the same position as 12 months previous with certainty only being provided for one year. It is extremely difficult for a Council to develop and deliver medium and long term plans when it does not know what it’s needs based funding will be beyond 12 months.

4.3 It is hoped that the new Government will prioritise delivering a new multi-year Spending Review and local government settlement within its first year to provide some of the certainty required by the sector. It is however expected that local government, as an unprotected department, will see little real terms growth in its funding envelope given the commitments being made to other parts of the public sector including the NHS, Education and the Police.

4.4 For the purpose of this MTFS, our projections, supported by the views of our advisors, of core government support see an increase of 1% per annum from 2022/23 following a transitional year in 2021/22. This increase is of course on a much reduced base figure and results in a monetary increase of approximately £19,000. To put this into perspective, a 2% increase in salary would cost the Council circa £160,000. Table 2 highlights the current projections of needs based funding for Tewkesbury Borough Council.

Table 2 – Core Government support 2019 – 2025

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Revenue Support Grant	23	23	0	0	0	0
Business Rates baseline	1,816	1,848	1,825	1,843	1,862	1,880
Rural Services Delivery Grant	14	14	0	0	0	0
Total	**1,853**	**1,885**	**1,825**	**1,843**	**1,862**	**1,880**
Change	-220	32	-60	18	19	18
Change %	-10.6%	1.7%	-3.2%	1.0%	1.0%	1.0%

4.5 In addition to the delay in committing to a multi-year settlement, the Government has also confirmed a one year delay to the outcome of the Fair Funding Review (FFR). This will review the model currently in place for distributing funding to individual authorities based on assessed need less an assumed level of local resource. 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.

4.6 No impact of the FFR has been included within the current MTFS as a result of the further work to be undertaken in developing the model. Nonetheless, it is interesting to note the current direction of travel and potential outcome. Recent modelling has suggested that overall distribution is likely to flow from lower tier authorities, such as ourselves, and London Boroughs towards County Councils and Metropolitan Authorities. The modelling suggests losses in needs based funding could be as much as £400,000 for this authority in the coming years. As the FFR progresses, the results will be fed into the MTFS and could add further to the deficit shown in this document.

4.7 It is also interesting to note how this authority is effectively penalised within the model for its low council tax. The assessment of resources available to each council is effectively based on national average council tax and as a result the Governments methodology over estimates the amount of needs that can be met with resources raised locally. As a result, the net grant payable to the Council is significantly reduced. The FFR will be scrutinised as it progresses to see if any deviation away from this long standing approach is being considered.

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 The introduction of NHB alongside retained business rates demonstrates the Governments objectives of moving away from needs based funding to a system that rewards performance and delivery of certain objectives. 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 and effectively offsetting some of the reductions seen in needs based funding.

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 Technical Consultation launched in October 2019 has now gone further than mechanical changes to the existing scheme and has indicated the potential ending of the scheme altogether. The consultation paper makes the following two points:

- any funding beyond 2020-21 is subject to the 2020 Spending Review and potential new proposals, any new allocations in 2020-21 will not result in legacy payments being made in subsequent years on those allocations.
- It is the Government’s intention to look again at the New Homes Bonus and explore the most effective way to incentivise housing growth. We will consult widely on proposals prior to implementation.

5.5 This has confirmed that the new allocation for 20-21 will last for only one year rather than the usual four years and it is widely expected that the Government will only honour existing legacy payments in future years with no new allocations of NHB being made. Table 3 highlights how NHB is likely to be withdrawn in the next few years.

Table 3 – Forecast New Homes Bonus

	2019/20	2020/21 Projection	2021/22 Projection	2022/23 Projection	2023/24 Projection	2024/25 Projection
Year 6	£659,431	£0	£0	£0	£0	£0
Year 7	£750,088	£750,088	£0	£0	£0	£0
Year 8	£898,713	£898,713	£898,713	£0	£0	£0
Year 9	£965,166	£965,166	£965,166	£965,166	£0	£0
Year 10	£0	£1,111,600	£0	£0	£0	£0
Year 11	£0	£0	£0	£0	£0	£0
Year 12	£0	£0	£0	£0	£0	£0
Year 13	£0	£0	£0	£0	£0	£0
	£3,273,398	**£3,725,567**	**£1,863,879**	**£965,166**	**£0**	**£0**

5.6 If this elimination of NHB is confirmed, this will have a substantial and significant impact on the Council’s funding of its core services which could result in major structural change of the Council and the reduction of its service offering. The council currently utilises £2.8m of NHB to fund its core services with the balance being used to fund a range of one-off needs and ambitions. Table 4 illustrates this and forecasts how this will be affected by the withdrawal of the NHB scheme.

Table 4 – Forecast split usage of NHB

	Year 9 **2019/20**	Year 10 **2020/21 Projection**	Year 11 **2021/22 Projection**	Year 12 **2022/23 Projection**	Year 13 **2023/24 Projection**	Year 14 **2024/25 Projection**
Support to base budget	£2,810,755	£2,810,755	£1,584,297	£820,391	£0	£0
% of total NHB	86%	75%	85%	85%	-	-
One-off's available	£462,643	£914,811	£279,582	£144,775	£0	£0
% of total NHB	14%	25%	15%	15%	-	-
Total NHB	**£3,273,398**	**£3,725,566**	**£1,863,879**	**£965,166**	**£0**	**£0**

5.7 The consultation does however suggest that the Government will consider an alternative scheme to incentivise housing growth. As an area that continues to deliver residential growth and has plans in place to see that continue over the next decade, we would support the development of a new scheme that would provide at least some reward for the housing being delivered.

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 £680,000 in relation to its position as an individual authority within the 50% scheme.

6.3 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. However, as with other forms of government funding, this has been delayed for a year with a new implementation date of April 2021.

6.4 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 is not available and many key questions are yet to be answered. Reference to the minutes of the various steering groups, previous consultation papers and the insights of the Council’s advisors have proven useful in trying to forecast how the scheme may work and what the impact will be on Tewkesbury.

6.5 Whilst many questions remain unanswered it now looks certain that a reset, partial or full, of the current system will take place in 2021, whereby a proportion of growth currently enjoyed by authorities will be redistributed. This assumption has been built into the forecast of potential business rate retention over the MTFS period. This is outlined in table 5.

Table 5 – Business rate retention estimate

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Baseline funding	£1,816	£1,848	£1,825	£1,843	£1,862	£1,880
Growth	£681	£732	£390	£357	£372	£381
Total	**£2,497**	**£2,580**	**£2,215**	**£2,200**	**£2,234**	**£2,261**

6.6 The table above does not include any significant growth that the Borough may expect in the coming years. Sites such as the proposed retail outlet at junction 9 of the M5 are included within the high level deficit reduction programme and as their likely development timescale and rates valuation are firmed up, they can be migrated across to the expected level of rates retention.

6.7 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. Also, a number of political parties have indicated, through general election campaigning, that they are prepared to reconsider the use of business rates as a tax on business. Local Government will be particularly interested in any proposals that the new Government bring forward.

6.8 For 2020/21, Tewkesbury is likely to remain in the Gloucestershire Business Rates Pool. The Pool attracts a lower levy than individual Council's and as a result more business rates can be retained locally. The additional retention is treated as a windfall at year end and used to reinforce the Council's forward planning and risk management reserves. It is unclear whether a new 75% retention scheme would provide any financial incentive to pool in the future and therefore no future expectation of windfall is made.

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 £9.7m per annum being consumed by employee related expenditure. Of this total, around £5.9m 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 £80,000 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, as yet, there is no agreement in place beyond March 2020. Given the current and projected level of inflation, an assumption of flat 2% pay awards has been built into the MTFS. Clearly any agreement in excess of this or if extra weighting is given to lower paid workers as in previous years, additional pressure will be put into the MTFS.

7.4 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 £3 million to the LGPS. At the time of writing, the pension fund is being valued and the level of contribution being determined for the next three years. Early indications suggest the Council could save on its secondary contributions, towards the existing deficit, whilst primary contributions, payments associated with current staff, could increase. The base position of the MTFS anticipates a freeze in both primary and secondary contributions.

7.5 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 £840,000 over the course of the MTFS.

7.6 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:

- Grounds maintenance – an evaluation of the level and quality of service the Council would wish to see in its Grounds Maintenance Service has taken place. There is also recognition of the increased area that needs to be maintained by the crews. It is expected that resource levels will need to increase by £100,000 per annum
- 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 with an anticipated cost of £150,000 per round per annum
- 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.
- The Council is seeing an increased level of contamination within the recycling it collects. As a result, less recycling tonnage is subject to recycling credit income from the County Council. This could cost the Council around £100,000

It is estimated that these factors could cost the Council around £450,000 per annum in the medium term.

7.7 In addition to these specific areas, growth is likely to be required across all service areas as a result of one or all of the following:

- New council priorities such as tackling the climate emergency
- General growth of the Borough resulting in increasing demand on services such as within the Revenues section
- Tackling emerging risks such as cyber security

- Replacing our IT infrastructure and investing in digital technologies
- New government initiatives placing additional burdens on service areas
- Roll out of Government policies that adversely impact the financial position of the Council such as the potential introduction of free garden waste collection
- Delivery of Council ambitions and priorities such as regeneration, housing and economic development

7.8 The MTFS contains an allowance for general growth which hasn't been defined as yet. The annual budget cycle will determine the exact growth required and what is affordable in the overall context.

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 £8.1m will be spent on Capital Programme schemes during 2019/2020 which are to be funded by a combination of usable capital receipts reserve (£0.43m), capital grants (£0.97m), revenue resources (£0.1m) and external borrowing (£6.63m). The programme includes the acquisition of a further commercial property to the Council's portfolio and the delivery of Disabled Facilities Grants.

8.3 Looking ahead, the total value of the currently approved Capital Programme over the following five years is approximately £39.9m and is focussed on the additional commercial property acquisition programme of £20m approved by Council in October 2019, estimates of expenditure to deliver regeneration in Tewkesbury Town centre, the ongoing delivery of Disabled Facilities Grants, the delivery of the Ashchurch bridge project and the replacement vehicle programme. Table 5 summarises the planned capital expenditure for future years, together with information on the funding of that expenditure.

Table 6 – Capital programme

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	TOTAL £'000
Capital expenditure	8,122	18,731	11,516	5,200	3,425	1,072	**48,066**
Funded by:							
Capital receipts reserve	429	409	75	75	100	100	**1,188**
Capital Grants	966	2,800	5,866	500	500	500	**11,132**
External Borrowing	6,627	15,000	5,500	4,500	0	0	**31,627**
Revenue Reserves	100	522	75	125	2,825	472	**4,119**
Total	**8,122**	**18,731**	**11,516**	**5,200**	**3,425**	**1,072**	**48,066**

8.4 The capital programme may see further increases in planned expenditure in future years as new investment plans are brought forward. 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 £59m 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, potentially 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 and current medium term projections of interest rates suggest that this is a sustainable strategy in the medium term.

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 this cost together with interest costs will total around £2m per annum 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 look to invest in suitable equity or multi-asset funds in the short term in order to generate additional income whilst mitigating risk.

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 2020/21 and 2024/25 and includes the assumptions on financing streams previously highlighted. This is summarised in table 7.

Table 7 – Medium Term Financial Projection

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000	£'000
Total (Base budget)	9,976	10,809	11,063	11,446	11,800	12,171
Growth	0	563	699	1,009	1,074	1,124
Approved savings plan	0	17	-859	-1,149	-1,251	-1,260
Net budget	**9,976**	**11,389**	**10,903**	**11,306**	**11,623**	**12,035**
Financed by:						
Settlement Funding	-1,853	-1,885	-1,825	-1,843	-1,862	-1,880
Retained Business Rates	-681	-732	-390	-357	-372	-381
Collection Fund Surplus	-41	-50	-50	-50	-50	-50
New Homes Bonus	-3,273	-3,725	-1,864	-965	0	0
Council tax income	-4,128	-4,213	-4,304	-4,397	-4,532	-4,665
Total financing	**-9,976**	**-10,605**	**-8,433**	**-7,612**	**-6,816**	**-6,976**
Deficit (cumulative)	0	784	2,470	3,694	4,807	5,059
Deficit (annual)	0	784	1,686	1,224	1113	252

10.2 The table illustrates a funding gap of £5.06m over the five year life of the MTFS. It must be noted however that this is subject to significant change, both positive and negative, in regard to the Government's position on funding local government.

11.0 COUNCIL TAX

11.1 The current Band D Council Tax for the authority is £119.36 per annum and is the fifth lowest in England for a District Council. The current year charge was an increase of £5 or 4.4% 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 fourth 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 Technical Consultation for 2020/21 has put forward an excessive council tax threshold of £5 or 2%, whichever is higher, for a District Council. This is a slight reduction for some Councils but allows Tewkesbury to once again make an increased charge of up to £5. It is unlikely that there will be any further changes for local government when the Local Government Settlement is finalised in the new year and it is assumed that this level of threshold continues into the medium term.

11.3 The Borough continues to develop with significant growth 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

	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	Total
Tax base	34,585	35,296	36,062	36,837	37,971	39,087	
Increase	726	711	766	775	1,134	1,116	4,502
Increase	2.15%	2.06%	2.17%	2.15%	3.08%	2.94%	13.02%

11.4 The Council Plan 2016-2020 makes a commitment to 'maintain a low Council Tax' and this is expected to continue into the new Plan. 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	2020/21	2021/22	2022/23	2023/24	2024/25	Total
Band D Council Tax	£124.36	£129.36	£134.36	£139.36	£144.36	
Increase (£)	£5.00	£5.00	£5.00	£5.00	£5.00	
Increase (%)	4.19%	4.02%	3.87%	3.72%	3.59%	
Additional council tax income generated	£176,480	£180,310	£184,185	£189,855	£195,435	£926,265

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	2020/21	2021/22	2022/23	2023/24	2024/25
Band A charge	6,522	15.55%	£82.91	£86.24	£89.57	£92.91	£96.24
Band B charge	6,668	15.90%	£96.72	£100.61	£104.50	£108.39	£112.28
Band C charge	11,742	27.99%	£110.54	£114.99	£119.43	£123.88	£128.32
Band D charge	6,154	14.67%	£124.36	£129.36	£134.36	£139.36	£144.36
Band E charge	5,349	12.75%	£152.00	£158.11	£164.22	£170.33	£176.44
Band F charge	3,374	8.04%	£179.63	£186.85	£194.08	£201.30	£208.52
Band G charge	1,937	4.62%	£207.27	£215.60	£223.93	£232.27	£240.60
Band H charge	198	0.47%	£248.72	£258.72	£268.72	£278.72	£288.72

11.6 The proposed Council Tax for the next financial year of £124.36 is still likely to be approximately £43 below the bottom quartile threshold and £66 below the national average for a District Council. Should excessive council tax thresholds remain in place over the medium term, Tewkesbury will, by default, continue to remain in the bottom quartile for council tax charged unless there are some dramatic changes in the levels charged by other authorities.

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 and as a result continues to bare the cost. Tewkesbury is one of a few authorities 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 2020/21 so that any potential change can be fed into the budget cycle for the year after.

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 £4.1M to be found in order to set balanced budgets over the life 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 and additional strategies that will need to be considered in order to balance the budget.

12.2 It is important to note that whilst some of the suggested actions and strategies are already being progressed, in order to balance the 2020-21 budget, some of those suggested are yet to be established and will require many months or even years to develop viable business cases. It is of equal importance to note that the suggested deficit reduction programme is based on our current assumptions around the likely deficit. Should the actual position be more favourable in the coming years then not all of the programme will be required. Equally other ideas to meet the deficit could emerge which may replace some of the suggestions made in the following paragraphs and table 11. The key message though is that preparatory work must start now in order to deliver some of our longer term requirements. We cannot wait until final confirmation of actual budgets is in place before we embark on some of this programme, even if the actions are ultimately not required.

12.3 The Council is benefiting from increased treasury management balances but an average return of circa 1.4% could be bettered by redirecting surplus funds towards alternative investment vehicles. These would include multi-asset and equity based funds which could see average returns of 4.5% being generated. This would complement the existing £4m invested with the CCLA property fund.

12.4 The Council continues to investigate ways of providing the same level of service at a reduced cost. The recent trialling of a car pool to undertake business travel has proved to be successful and as a result will now become permanent. The provision of the car pool will mean that the Essential Car user allowance can also be withdrawn. As a result, the Council will still be able to undertake the business travel necessary but at a reduced cost of approximately £86,000.

12.5 The triennial valuation of the Gloucestershire Local Government Pension Scheme is currently taking place. Initial estimates suggest that Tewkesbury could see a significant reduction in its contributions towards the outstanding pension deficit whilst there may be some increase in the rate charged for current employees.

12.6 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.

12.7 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. In addition, given the financial pressures it is facing, the Council may need to consider the level of provision in its waste collection service and undertake a review of the viability of moving towards a three weekly or even a monthly collection of residual waste.

12.8 It is anticipated that the Borough will see some significant business development in the next five years, particularly in relation to land around junction 9 of the M5. An estimate of growth above the baseline, and after the full reset of the retention system, has been made which suggests levels of growth could approach £1m over the next five years. The duration of enjoyment of these growth levels will be determined under the current review.

12.9 The capital programme currently contains an estimate of funding potentially required to help regenerate the Spring Gardens area of Tewkesbury. It would be expected that, alongside the social and economic value to the community of the development, the Council would see some return on the investment being made and hence a prudent estimate has been included.

12.10 A major element of the increased deficit reported in this MTFS is as a result of the removal of the NHB scheme over the next couple of years. In moving towards this, the Government has restated its intention to consult on a replacement scheme that will continue to incentivise housing growth. Given this intention, it is right to include a prudent estimate of potential funding from this scheme. A figure of £1m has been included which is just over 25% of the current funding level associated with NHB.

12.11 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. In addition or alternatively, the Council may consider shared service opportunities or the viability of reducing its management structure. Whilst the Council would not wish to see a reduction in service provision, 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.

12.12 In order to summarise both the overall deficit and the various strategies which have been highlighted to tackle the deficit, a high level five year projection of a potential deficit reduction programme has been compiled – see table 11. The monetary amounts allocated against each area are indications of potential given current expenditure or income levels. Detailed business cases will be needed to establish the viability of a number of the suggestions and the actual amounts achievable.

Table 11 – Summary of potential deficit reduction programme

Income from Council Tax increases	£926,000
Treasury Management	£230,000
Business travel costs	£86,000
Pension deficit contributions	£450,000
Waste and recycling costs	£400,000
Open spaces reserve	£60,000
Council tax schemes and discounts	£32,000
Business rates retention growth	£960,000
Replacement housing incentive scheme	£1,000,000
Regeneration and housing schemes	£150,000
Commercial activities	£265,000
Service reviews	£500,000
	£5,059,000

12.13 The potential deficit reduction programme has been compiled against the current assumptions of increasing cost and local government funding. Clearly this position is subject change and further detrimental impacts on the Council's funding position cannot be ruled out. Should the projected deficit therefore increase, it will be necessary to identify further savings or income generation targets in order to balance the position.

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. In recognition of the very low levels of reserve held in the working balance, and highlighted in CIPFA's Financial Resilience Index, this reserve had been increased from £450,000 to £800,000 over the last two years which now equates to approximately 9.1% of net revenue budget for the year 2019/20.

13.3 Given the increasing risk associated with a political and economic uncertainty and the specific threat to local government funding streams, 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 head into 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 in the MTFS.

13.4 As at the 31 March 2018, the Council had £8.01m 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.

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

13.6 Given the £5m deficit faced by the Council in the next five years it may be necessary to use a substantial amount of reserves to help smooth the deficit. In addition, one-off funding could be required to make significant changes to the council structure and operating model as it adjusts to lower levels of funding. The Council currently has £1,000,000 in reserve to support the budget and meet any one-off costs required.

13.7 Section 25 of the Local Government Act 2003 requires 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 2020.

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.