Appendix A

Tewkesbury Borough Council

Medium Term Financial Strategy

2021/22 to 2025/26

Tewkesbury Borough Council

January 2021

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 2021-26 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 local government as it responds to the coronavirus pandemic and looks forward to a post Brexit future and a significant impact on the likely level of resources available for public spending in the long term. Locally, the pandemic has had a considerable impact on our income and expenditure levels whilst nationally the pandemic has added to the uncertainty around public finances and in particular how local government will be funded in the future. This issue, which will be closely followed by the country's exit from the European Union, follows on from 10 years of austerity in local government and leaves many Council's dangerously close to the cliff edge. Given the impact of coronavirus on the country as a whole, the Government, understandably, has taken the decision to only conclude a one year Spending Review for local government meaning that yet again we are forecasting our medium term financial future with only one year of certainty. The MTFS this year contains more uncertainty in its assumptions and projections than in any previous year.

1.3 Whilst the overall financial envelop for public spending in the medium term is uncertain, Local government as a sector awaits clarification from Central Government on a number of specific and critical issues which affect our medium term planning. These include:

- Spending Review – a multi year spending review has not been possible given the current financial climate and a further review will take place in 2021. Whether this settlement will provide a multi year position or just reflect another one year deal given the ongoing financial turmoil remains to be seen
- Fair Funding Review – this has now been delayed for a further year until at least 2022 and possibly later. It is not clear whether the work undertaken to date will be built upon or whether the process will need to start again given the current financial crisis facing local government
- Business rates retention – as with the Fair Funding Review, the move to 75% retention of business rates has been pushed back until 2022. Question marks remain over whether this is a suitable method of funding local government given the impact on business from Coronavirus and whether it is suitable way of taxing business in the future.
- New Homes Bonus – the Government has again outlined its intention to withdraw New Homes Bonus by 23/24 and to replace it with an alternative scheme. A consultation paper on options for the replacement scheme is expected in the New Year.

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 2020-2021 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 2020 – 2024, 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. Transforming our services by maximising the impact of technology, digital channels and modern working practices will also need to play a key part in the Council's future.

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.

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 2020-2024

2.1 In January 2020, the new Council Plan for 2020 – 2024 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 six priorities and a number of objectives within each priority. We will:

Finance & Resources:

- Maintain a low council tax.
- Maintain our assets to provide maximum financial return.
- To ensure the council remains financially secure in the long term
- Deliver the council's commercial strategy

Economic growth:

- Deliver our strategic and economic development plans
- Deliver employment land and infrastructure to facilitate economic growth
- Deliver borough regeneration schemes
- Promote the borough as an attractive place to live and visit

Housing and Communities:

- Deliver the housing needs of our communities
- Ensure development plans provide for the five year land supply requirement
- Support infrastructure and facilities delivery to enable
- sustainable communities

Customer first:

- Maintain our culture of continuous service improvement
- Develop online services to achieve ‘digital by preference, access for all’

Garden Communities:

- Delivery of Tewkesbury Garden Town
- Delivery of Cyber Central Garden Community

Sustainable Environment:

- Deliver the climate emergency action plan
- Promote a healthy and flourishing environment in the borough
- Promote responsible recycling across the borough
- Preserve and enhance the natural assets and built heritage of our borough

3.0 NATIONAL ECONOMIC CONTEXT

3.1 The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements with the bloc, will remain a major influence on the Authority’s treasury management strategy for 2021/22.

3.2 The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150 billion to £895 billion. The Monetary Policy Committee voted unanimously for both, but no mention was made of the potential future use of negative interest rates. Within the latest forecasts, the Bank expects the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

3.3 UK Consumer Price Inflation (CPI) for September 2020 registered 0.5% year on year, up from 0.2% in the previous month. Core inflation, which excludes the more volatile components, rose to 1.3% from 0.9%. The most recent labour market data for the three months to August 2020 showed the unemployment rate rose to 4.5% while the employment rate fell to 75.6%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Q2 2021. In August, the headline 3-month average annual growth rate for wages were 0% for total pay and 0.8% for regular pay. In real terms, after adjusting for inflation, total pay growth fell by -0.8% while regular pay was up 0.1%.

3.4 GDP growth fell by -19.8% in the second quarter of 2020, a much sharper contraction from -2.0% in the previous three months, with the annual rate falling -21.5% from -1.6%. All sectors fell quarter-on-quarter, with dramatic declines in construction (-35.7%), services (-19.2%) and production (-16.3%), and a more modest fall in agriculture (-5.9%). Monthly GDP estimates have shown the economy is recovering but remains well below its pre-pandemic peak. Looking ahead, the BoE’s November Monetary Policy Report forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023.

3.5 GDP growth in the euro zone rebounded by 12.7% in Q3 2020 after contracting by -3.7% and -11.8% in the first and second quarters, respectively. Headline inflation, however, remains extremely weak, registering -0.3% year-on-year in October, the third successive month of deflation. Core inflation registered 0.2% y/y, well below the European Central Bank's (ECB) target of 'below, but close to 2%'. The ECB is expected to continue holding its main interest rate of 0% and deposit facility rate of -0.5% for some time with further monetary stimulus expected later in 2020.

3.6 The US economy contracted at an annualised rate of 31.7% in Q2 2020 and then rebounded by 33.1% in Q3. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% and announced a change to its inflation targeting regime to a more flexible form of average targeting. The Fed also provided strong indications that interest rates are unlikely to change from current levels over the next three years.

3.7 The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

3.8 Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth/inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.5% and 0.75% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

3.9 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-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30
Arlingclose central forecast	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.10	-0.20	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

4.0 LOCAL GOVERNMENT FINANCE SETTLEMENT

4.1 The Local Government Finance Settlement confirms the forthcoming position with regards to needs based funding as well as some of the performance led funding streams. 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 Having previously put in place a one year settlement, 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 for 2021-22 onwards. However, in light of the financial turmoil caused by Coronavirus, the Government has put forward a one year only Spending Review covering the financial year 2021-22. 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 funding will be beyond 12 months.

4.3 It is hoped that the next Spending Review will prioritise delivering a new multi-year settlement to provide some of the certainty required by the sector, but another one year settlement is a distinct possibility. Regardless of the timeframe covered by the Spending Review, it is likely that local government, as an unprotected department, will see little if any real terms growth in its funding envelope given the commitments being made to other parts of the public sector including the NHS, Defence and the Police. It is also likely that any new money for local government will be directed towards upper tier authorities and in particular social care provision.

4.4 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. Much work had been undertaken pre-pandemic to review the allocation methodology but it is unclear what the impact of the pandemic has been to this review and the ability of local government to withstand the changes that would flow from a change in methodology. It is not yet clear how the FFR will progress in 2021.

4.5 As 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. Looking at the discussions held and the general direction of travel for the review, it is clear that District councils are in danger of losing funding under the review. Whilst there is a myriad of potential outcomes from the review, our MTFS has followed a mid point of the potential outcomes and modelled a fall in needs based funding of nearly £250,000 in the year the FFR comes into effect.

4.6 Table 2 highlights this reduction in funding. It also shows the expected elimination of Revenue Support Grant and Rural Services Delivery Grant from 22-23 onwards. The final element of our needs based funding assumes a 1% annual increase in the business rates baseline funding level driven by the increasing business rates multiplier, although this is equalised out through the FFR reductions. Overall, it is forecast that our needs based funding will see a significant reduction upon the implementation of the FFR and then remain cash flat thereafter – a real terms funding reduction.

Table 2 – Core Government support 2020 – 2026

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'001
Revenue Support Grant	23	23	0	0	0	0
Business Rates baseline	1,848	1,848	1,866	1,885	1,904	1,923
Rural Services Delivery Grant	14	14	0	0	0	0
Fair Funding Review adjustments	0	0	-242	-261	-280	-299
Total	**1,885**	**1,885**	**1,624**	**1,624**	**1,624**	**1,624**
Change	32	0	-261	0	0	0
Change %	1.7%	0.0%	-13.8%	0.0%	0.0%	0.0%

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 during the operation of the scheme and effectively offsetting some of the reductions seen in needs based funding.

5.3 The Government has already amended the scheme to reduce the bonus down from six years to four years and introduce a deadweight threshold of 0.4% of growth. These changes reduced the potential benefit to Tewkesbury by over a third. Over the last eighteen months the Government has made it clear that it wishes to withdraw the NHB and potentially replace it with a different scheme that rewards housing growth. To aid that withdrawal, the Government only provided one year of funding for the new 20-21 reward year rather than the usual four.

5.4 The Provisional Settlement for 2021/22 confirmed the direction of travel and makes clear that NHB will be phased out over the following two years. The following chart illustrates this phasing out of the scheme and compares it to the current four year scheme and the previous six year scheme.

Chart 1 – Value of NHB scheme

5.5 As can be seen from the chart, there is a steep reduction in the value of NHB over the next three years. Table 3 highlights the monetary forecast of this change in government policy.

Table 3 – Forecast New Homes Bonus

	2020/21	2021/22 Projection	2022/23 Projection	2023/24 Projection
Year 6	£0	£0	£0	£0
Year 7	£750,088	£0	£0	£0
Year 8	£898,713	£898,713	£0	£0
Year 9	£965,166	£965,166	£965,166	£0
Year 10	£1,148,789	£0	£0	£0
Year 11	£0	£644,982	£0	£0
Year 12	£0	£0	£0	£0
Year 13	£0	£0	£0	£0
	£3,762,756	**£2,508,861**	**£965,166**	**£0**

5.6 This withdrawal of NHB 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 – impact of withdrawal of NHB

	2021/22 Projection	2022/23 Projection	2023/24 Projection
Reduction in NHB	£1,253,895	£1,543,695	£965,166
Impact on one-off use	-£952,000	0	0
Impact on base budget support	-£301,895	-£1,543,695	-£965,166

5.7 As the Government reduces the benefit from NHB, a surplus within the £900m national is derived. The scheme governance suggests that any surplus should be returned to local government in line with national funding shares. However, the Government has chosen to use the 2021/22 surplus to fund one off grants to support social care and lower tier services. Therefore, no returned NHB surplus is forecast within the MTFS.

5.8 The Provisional Settlement also makes clear that a consultation on a replacement scheme will take place early in 2021. 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 £740,000 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 second year with a new implementation date of April 2022, as has the planned reset of the system which would see accumulated growth in business rates redistributed across the country.

6.4 In addition to the forecast changes to the scheme, there will undoubtably be a severe impact on the value of business rates as an income stream as a result of coronavirus. Many businesses will cease to exist in the near future and many more will be looking at re-valuations of their business rates liability in view of the impact of the pandemic. There is a question as to what income can be produced locally and nationally from business rates in the short to medium term given the impact of coronavirus. It is extremely difficult to project this impact at the current time given the ongoing situation and so MTFS forecasts have focussed on the proposed changes to the system only. It is entirely feasible that annual retention from business rates could disappear in its totality from the Council’s income streams.

6.5 Table 5 highlights our current best estimates in relation to future business rates retention.

Table 5 – Business rate retention estimate

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Business rates retained	£738,836	£542,000	£448,000	£181,000	£207,000	£305,000
Total	**£738,836**	**£542,000**	**£448,000**	**£181,000**	**£207,000**	**£305,000**

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.

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 to enable the continued delivery of its core services and to progress the ambitions of the Council. Growth can take a number of forms including both simple inflationary assumptions around existing costs and the expanding resource requirement to deliver services to a growing Borough and deliver major projects outside of the core service arena.

7.2 Employees is the area of single greatest spend with around £10.4m per annum being consumed by employee related expenditure. Of this total, around £8.6m is spent directly on employee salaries and associated on-costs 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.

7.3 The MTFS has a 2% pay award assumption built into each year of the forecast. This is based on the Government's target for the rate of inflation and adds around £160,000 to the cost of the Council each year. Within the Spending Review, the Chancellor has called for 'public sector pay restraint' and whilst the detailed 2021/22 budget is likely to reflect this call, the MTFS continues with forecasts at 2%.

7.4 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 affected by a number of factors including the cost of maintaining vehicles and the costs of the corporate core as well as the ongoing operational costs. 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.

In addition to the Ubico contract, the waste and recycling service is likely to see a significant increase in the cost of disposing of recyclate. A new MRF contract will come into place in March 2021 and together with an increase in the tonnages collected is likely to cost the council an additional £150,000 per annum.

7.5 A detailed exercise has been carried out with services in 2020 to establish the potential need for additional resources for the first half of the next decade. The exercise looked at a variety of potential additional costs including those arising from:

- The withdrawal of new homes bonus, previously used to fund items on a one off basis
- Increasing demand from a growing Borough
- The cost of delivering the council's priorities and ambitions
- The revenue cost of additional borrowing to support an expanded capital programme

7.6 This exercise was invaluable in establishing the likely true cost of Council activity over the next five years. Potential additional annual costs of circa £3.1m were captured during this exercise and the next few paragraphs highlight some of those areas that are generating this potential additional requirement.

7.7 A number of lines have expenditure have been funded directly from NHB over an extended period. It is clear that the Government will withdraw NHB in the coming years and so consideration must be given to the re-inclusion in the base budget of these items. Areas that have been funded from the 'one-off' NHB allocation include:

- Borough elections
- Asset Management Plan
- IT replacement programme
- Planning appeals
- Community grants

7.8 The Borough has experienced significant growth in recent years with this trend expected to continue across the next decade. Whilst investment in technology and more efficient working practices can offset this cost to an extent, there will inevitably come a time when further investment is required in a number of service areas. Some of those areas likely to require investment are highlighted below:

- Waste and recycling rounds
- Revenues
- Environmental health
- Licensing

7.9 Many of the Council's ambitions will require additional finance to ensure delivery. This may be in the form of external costs or additional internal resource requirements. Examples of the potential costs within this area include:

- Tewkesbury Town centre regeneration
- Carbon neutrality
- West Cheltenham development

7.10 Associated with some of the Council's ambitions and needs is the potential for significant capital expenditure. Having expended all but the last few pounds of the Council's own capital receipts, any future capital expenditure is likely to be funded from borrowing. This will have a revenue impact in the form of both interest costs and the Minimum Revenue Provision as well as other pre-development costs. Examples of areas which may require capital funding include:

- Tewkesbury Town Centre regeneration

- The Garden Town
- New depot facility

7.11 The above paragraphs are not exhaustive and there are many more calls for funding not listed. At £3.1m, the requests for funding total 35% of the current total base budget and, even in stronger financial times, may not have been affordable. Given the financial challenges faced by the Council, it is clear that this level of growth cannot be afforded and growth will need to be prioritised within the resource envelope available.

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 just over £24m will be spent on Capital Programme schemes during 2020/2021 which are to be funded by a combination of usable capital receipts reserve (£0.175m), capital grants (£3.266m), revenue resources (£0.612m), internal borrowing (£10m) and external borrowing (£10m). The programme includes the acquisition of a further commercial property to the Council's portfolio, the purchase of vehicles for the grounds maintenance operation, the delivery of Disabled Facilities Grants and the early phases of the Ashchurch Bridge.

8.3 Looking ahead, the total value of the currently approved Capital Programme over the following five years is much reduced at approximately £11.7m and is primarily focussed on the completion of the Ashchurch Bridge and the replacement of the waste and recycling vehicle fleet as well as the ongoing delivery of Disabled Facilities Grants. Table 5 summarises the planned capital expenditure for future years, together with information on the funding of that expenditure.

Table 6 – Capital programme

	2020/21 £'000	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**	**2025/26 £'000**	**TOTAL £'000**
Capital expenditure	24,053	5,966	650	600	3,962	500	**35,731**
Funded by:							
Capital receipts reserve	175	100	100	100	100	0	**575**
Capital Grants	3,266	5,866	500	500	500	500	**11,132**
External Borrowing	10,000	0	0	0	0	0	**10,000**
Internal Borrowing	10,000	0	0	0	0	0	**10,000**
Revenue Reserves	612	0	50	0	3,362	0	**4,024**
Total	**24,053**	**5,966**	**650**	**600**	**3,962**	**500**	**35,731**

8.4 As highlighted in the previous section on growth, there is a potential for the capital programme to see further increases in planned expenditure in future years as new investment plans, such as land acquisition and a new depot facility 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 February 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 £37m 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. The Council has also taken the opportunity to borrow internally given the level of balances held and the low return on investments.

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 £1.4m 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 were highlighted at 3.9 and show a medium term outlook of very low rates with potential for those rates to become negative. The Councils investments returns are boosted by holdings in property, equity and multi-asset funds which are forecast to deliver higher returns than traditional treasury activities. These investments are held for long term income benefit and whilst capital values of these investments have fallen in the short term, it is expected that they will recover in the medium term.

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 2021/22 and 2025/26 and includes the assumptions on financing streams previously highlighted. This is summarised in table 7.

Table 7 – Medium Term Financial Projection

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000	£'000

Total (Base budget)	8,956	8,324	8,538	8,855	9,229	9,602
Other expenditure	1,903	1,487	1,510	1,534	1,558	1,583
Growth	0	1,775	2,523	2,898	3,046	3,146
Net budget	**10,859**	**11,586**	**12,571**	**13,287**	**13,833**	**14,331**
Financed by:						
Settlement Funding	-1,883	-1,883	-1,624	-1,624	-1,624	-1,624
Retained Business Rates	-738	-542	-448	-181	-207	-305
Collection Fund Surplus	-82	0	-25	-50	-50	-50
New Homes Bonus	-3,762	-2,501	-965	0	0	0
Council tax income	-4,394	-4,402	-4,502	-4,656	-4,811	-4,953
Total financing	**-10,859**	**-9,328**	**-7,564**	**-6,511**	**-6,692**	**-6,932**
Deficit (cumulative)	0	2,258	5,007	6,776	7,141	7,399
Deficit (annual)	0	2,258	2,749	1,769	365	258

10.2 The table illustrates a funding gap of £7.4m 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 and the acceptance or rejection of growth bids.

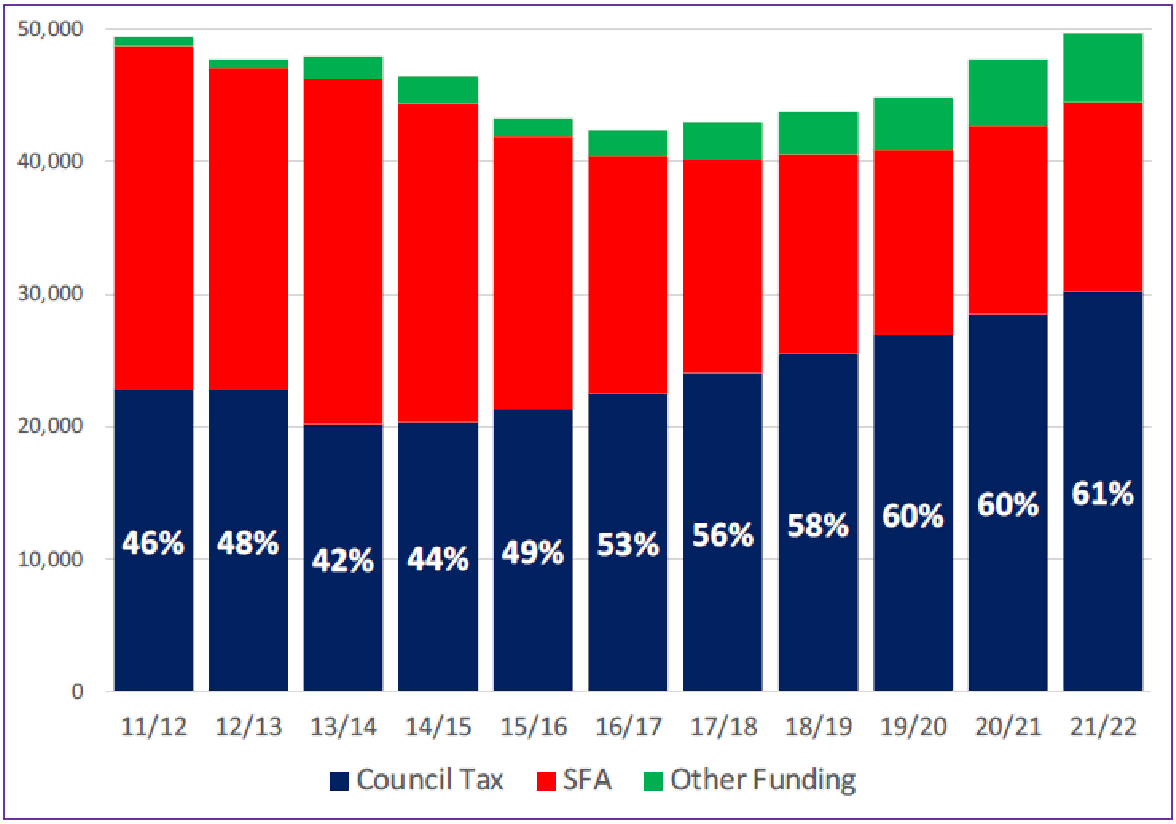
11.0 COUNCIL TAX

11.1 The current Band D Council Tax for the authority is £124.36 per annum and is the fifth lowest in England for a District Council. The current year charge was an increase of £5 or 4.2% 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 fifth 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 Government has again put forward an excessive council tax threshold of £5 or 2%, whichever is higher, for a District Council in 21/22. This is a continuation of the Governments policy and 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.

It is interesting to note that of the extra £2.2bn (4.5%) available for local government according to the current Spending Review, around 87% of this is expected to be raised by council tax increases. The Government assumes that Council's will continue to increase council tax by the maximum permissible and, given the funding settlements awarded to local government, it makes this assumption almost inevitable. An analysis of the funding of local government shows the increasing dependency on council tax over the last eleven years.

Chart 2 – Spending Power analysis



11.3 The Borough continues to develop with significant growth expected to be delivered in the next 5 years. Growth in properties usually translates into significant increases in the council tax base with average increases being in excess of 2% in recent years. However, once again the impact of the pandemic is likely to be felt with a slow down in growth in the short term and a significant increase in the number of working age claimants for the Local Council Tax Reduction Scheme. This upsurge will see an increase in the amount of council tax discount awarded and in turn will reduce the Council tax base at least in the short term.

Table 8 forecasts the growth in the tax base.

Table 8 – Council Tax base

	2020-21	2021-22	2022-23	2023-24	2024-25	2024-26	Total
Tax base	35,341	35,403	36,208	37,437	38,961	39,829	
Increase	756	62	805	1,229	1,524	868	5,244
Increase	2.19%	0.18%	2.27%	3.39%	4.07%	2.23%	14.84%

11.4 The Council Plan 2020-2024 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. Given the changes proposed by Government to funding streams, 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	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Band D Council Tax	£129.36	£134.36	£139.36	£144.36	£149.36	
Increase (£)	£5.00	£5.00	£5.00	£5.00	£5.00	
Increase (%)	4.02%	3.87%	3.72%	3.59%	3.46%	
Additional council tax income generated	£177,015	£181,040	£187,185	£194,805	£199,145	£939,190

11.5 The next table extrapolates table 9 and shows the proposed charge against all bandings for each of the five years.

Table 10 – Impact of potential charges per Council Tax band

Year	Number of properties	% of total	2021/22	2022/23	2023/24	2024/25	2025/26
Band A charge	6,613	15.53%	£86.24	£89.57	£92.91	£96.24	£99.57
Band B charge	6,716	15.77%	£100.61	£104.50	£108.39	£112.28	£116.17
Band C charge	11,926	28.01%	£114.99	£119.43	£123.88	£128.32	£132.76
Band D charge	6,209	14.58%	£129.36	£134.36	£139.36	£144.36	£149.36
Band E charge	5,458	12.82%	£158.11	£164.22	£170.33	£176.44	£182.55
Band F charge	3,475	8.16%	£186.85	£194.08	£201.30	£208.52	£215.74
Band G charge	1,988	4.67%	£215.60	£223.93	£232.27	£240.60	£248.93
Band H charge	200	0.47%	£258.72	£268.72	£278.72	£288.72	£298.72

11.6 The proposed Council Tax for the next financial year of £129.36 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 has been postponed in the current year and will now be undertaken early in 2021 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 £6.4m to be found in order to set balanced budgets over the life of the MTFS.

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 2021-22 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. 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 Whilst the following paragraphs describe some of the initiatives that will need to be followed to reduce the deficit, it is clear, with the size of the deficit faced by the Council, that a significant proportion of the savings required will need to come from the staffing resource. Direct staffing cots total £8.6m and equate to 44% of ongoing expenditure excluding housing benefits. Reductions to staffing can be delivered in many ways including internal restructures, service cessation, shared service etc but the Council will need to be careful that the overall resilience of the Council is not compromised by proposed staff savings. Assessment of the options will need to begin in early 2021 in order to progress and start to have some impact in the 22/23 financial year.

12.4 The introduction of the car pool has already saved the Council approximately £86,000 in business travel. The Council can further benefit from reduced business travel as the adopted working practices from the Coronavirus pandemic become accepted ongoing working practices resulting in less travel for Council business. For the travel that is necessary, the Council will need to look at the provision of an electric fleet of pool cars and establish whether it can generate its own electricity to meet needs.

12.5 The carbon neutrality strategy and action plan were established in 2020 and contains a number of actions that could result in either cost reduction or increased income. Business cases will need to be established for a number of options to see if the headline figures can be delivered and a programme of activity will be established to deliver both financial savings as well as CO_2 savings.

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 is currently considering its existing commercial services such as trade waste and bulky waste 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 and Brockworth business park. This could see a major increase in the level of retained rates in the Borough but it is also acknowledged that there is great uncertainty around the future of business rates and the retention system.

12.9 A number of the potential capital based actions could result in increased income or cost reduction for the council. All are at the embryonic stage of business case development and further work is needed to establish the financial case for these projects.

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 assume a new scheme would have some financial benefit for an authority like Tewkesbury, where growth is actively planned and promoted. Whilst it is highly unlikely that the replacement scheme will result in the same level of bonus being awarded, a scheme generating around 50% of the value could be envisaged. If this is the case, Tewkesbury could generate around £2m towards the stated deficit.

12.11 As previously stated within the growth section, £3.1m of new growth cannot be afforded and decisions will need to be made on how to programme the growth requirement and indeed which elements may not be possible in the current financial climate.

12.12 The Council faces a mighty task in eliminating a £7.4m projected deficit and work will begin in the early part of 2021 to assess the actions required to be delivered that will have the greatest impact on reducing the deficit, ensuring the Council remains financially sustainable and avoiding the threat of issuing a s114 notice.

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 2020/21.

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 2020, the Council had £7.33m 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. It is anticipated that these reserves will be boosted at the year for 20/21 with a substantial collection fund surplus on the Council's business rates position. An additional £3m is forecast to be set aside to re-establish the Council's MTFS reserve which can support future budget requirements and assist the Council to manage change within the organisation.

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 deficit faced by the Council in the next five years it will 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.

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 2021.