

**MEDIUM TERM FINANCIAL STRATEGY 2011/12 TO 2016/17****1. Introduction**

- 1.1 The Medium Term Financial Strategy (MTFS) is the council's key financial planning document. It sets out, and considers the financial implications of the council's objectives and priorities. The aim of the MTFS is to ensure a stable and sustainable financial position that will allow the council to achieve its vision, aims and ambitions over the next 5 years.
- 1.2 The council is committed to maximising the use of scarce resources and directing resources towards its priorities whilst keeping council tax at an affordable level. The MTFS is reviewed regularly and reported to Members during the budget process and at budget setting annually.
- 1.3 The identification of efficiencies and other savings (including increases in fees and charges) has enabled the council to reallocate available resources to achieve the introduction of new or enhanced services (e.g. new recycling initiatives).
- 1.4 The purpose of this document is to formulate a financial strategy which will guide the management of the council's finances during a period of very tight external financial constraint. The strategy considers the factors and influences on the council's resources.
- 1.5 This year's review is once again overshadowed by the national economic climate. The council faces a major challenge in managing the impact of the recession on budgets and services, including the impact of falling interest rates coupled with tight government grant settlements. Most of the issues had already been anticipated but not to the extent now being experienced.
- 1.6 The strategy covers the period 2011/12 - 2016/17 and sets out the resource issues and principles that shape the budget; identifies current issues and considers potential developments / related issues that are likely to provide the basis for future revenue and capital budgets.
- 1.7 The Housing Revenue Account (HRA) is not included, as a separate budget and Business Plan is produced for the HRA to cover its planning processes.

**2. Links to other Council Plans**

- 2.1 Cheltenham Borough Council's Corporate Strategy 2010 to 2015 was agreed in March 2010. The strategy sets out what the council is hoping to achieve over the next five years and what actions were planned to be taken in the first year (2010/11) to support these longer-term plans.
- 2.2 The corporate strategy provides over-arching long term framework for the MTFS, annual budget and action plan which will be reviewed and updated annually.

**The council's objectives**

- 2.3 The council agreed that it should move to fewer high-level objectives to help us be clearer about our priorities and that these objectives must reflect the

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reality of community needs and provide a framework for community outcomes.

- 2.4 The strategy sets out the following three community objectives:
- Enhancing and protecting our environment;
  - Strengthening our economy; and
  - Strengthening our communities.
- 2.5 These are supported by two cross-cutting objectives of:
- Enhancing the provision of arts and culture; and
  - Ensuring we provide value for money services that effectively meet the needs of our customers.

**The council’s outcomes**

- 2.6 The outcomes are critical in that they describe the improvements we will make to improve the well-being of the whole population of Cheltenham. By putting outcomes centre-stage in our strategy, we are making a commitment that our customers and communities will judge us by how well we are improving the quality of life rather than other measures of success.
- 2.7 Some of these outcomes we will be able to deliver by ourselves, but for many other outcomes we will have to work in partnership with other organisations.
- 2.8 From the consultation activities and the needs analysis we are proposing a set of outcomes the council should be focusing on.

Objectives	Outcomes
Enhancing and protecting our environment.	Cheltenham has a clean and well-maintained environment.
	Cheltenham’s natural and built environment is enhanced and protected.
	Carbon emissions are reduced and Cheltenham is able to adapt to the impacts of climate change.
Strengthening our economy.	Cheltenham is able to recover quickly and strongly from the recession.
	We attract more visitors and investors to Cheltenham.
Strengthening our communities.	Communities feel safe and are safe.
	People have access to decent and affordable housing.
	People are able to lead healthy lifestyles.
	Our residents enjoy a strong sense of community and involved in resolving local issues.
Enhancing the provision of arts and culture.	Arts and culture are used as a means to strengthen communities, strengthen the economy and enhance and protect our environment.
Ensuring we provide value for money services that effectively meet the needs of our customers.	The council delivers cashable savings, as well as improved customer satisfaction overall and better performance through the effective commissioning of services.

- 2.9 The outcomes also relate back to the nine community aims set out in Cheltenham’s Sustainable Community Strategy. This means that the council

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is continuing its commitment to support the delivery of the community strategy.

- 2.10 The role of the MTFS is to support the delivery of the council's objectives and outcomes. A key delivery driver for this to be achieved is through joint plans with partners and stakeholders alike which are detailed in section 8 below.

### **3. Financial Projections – Revenue Resource Requirements**

- 3.1 The key aim of the MTFS is to develop a series of financial projections to determine the longer term financial implications, in order to deliver the aims set out in the council's business plan.
- 3.2 As in previous years, the approach is to use the current financial year as a base position, inflate this to the price base of the budget year, and add unavoidable spending pressures and the implications of immediate priorities and previous decisions. This is then measured against the projection of available funding to determine affordability. The package of measures required to equalise the two forms the financial strategy to 'bridge' the funding gap for each financial year.
- 3.3 The projections of the funding gap based on council tax increases of 2.5%, 3.5% and 5% are shown in Table 1. The base budget projection reflects the transfer of responsibility and funding for concessionary fares from CBC to Gloucestershire county council.

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Table 1: Projection of Funding Gap

	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £
Net Cost of Services brought forward from previous year (assuming a balanced budget has been set)		14,077,293	13,609,666	13,559,089	13,528,263	13,763,639
<b>Increased costs of existing services</b>						
General Inflation		200,000	200,000	200,000	200,000	200,000
Employee related expenditure		57,700	392,100	381,400	387,800	394,700
Pension costs - 2004 Revaluation		50,000	50,000			
Pension costs - 2010 Revaluation		110,000	82,000			
Pension costs - 2013 Revaluation				120,000	120,000	120,000
Landfill Tax		40,000	41,100	41,100		
Maintenance of watercourses, streams and ditches		30,000				
<b>Income</b>						
Fees and Charges		(348,700)	(356,500)	(366,400)	(375,100)	(384,600)
Investment Income		17,400	(77,800)			
Specific grant to fund council tax freeze					197,000	
<b>Reserves</b>						
Property repairs & renewals fund		200,000	200,000	200,000	107,000	
<b>Projected Net Cost of Service</b>	<b>14,077,293</b>	<b>14,433,693</b>	<b>14,140,566</b>	<b>14,135,189</b>	<b>14,164,963</b>	<b>14,093,739</b>
Government Grants	(6,098,332)	(5,473,039)	(5,199,387)	(4,939,418)	(4,939,418)	(4,939,418)
Collection Fund surplus	(59,500)					
Council Tax (assumes 2.5% increase from 2012/13)	(7,919,461)	(8,136,627)	(8,359,702)	(8,588,846)	(8,824,221)	(9,065,998)
<b>Projected Funding Gap</b>	<b>-</b>	<b>824,027</b>	<b>581,477</b>	<b>606,925</b>	<b>401,324</b>	<b>88,323</b>
<b>Cumulative Funding Gap</b>		<b>824,027</b>	<b>1,405,504</b>	<b>2,012,429</b>	<b>2,413,753</b>	<b>2,502,076</b>
<b>Funding Gap Projections:</b>						
Council Tax (assumes 3.5% increase)		744,645	496,947	516,996	305,734	(13,202)
Cumulative Funding Gap		744,645	1,241,592	1,758,588	2,064,322	2,051,120
Council Tax (assumes 5.0% increase)		625,572	367,168	375,785	152,318	(179,639)
Cumulative Funding Gap		625,572	992,740	1,368,525	1,520,843	1,341,204

3.4 The key assumptions for the preparation of these projections are explained below.

#### 4. Key Assumptions

##### General

- 4.1 The net cost of services has been estimated by using the 'approved' 2011/12 base budget (subject to council approval on 11<sup>th</sup> February 2011) as the base for future projections through to 2016/17.
- 4.2 General inflation on supplies, services, and non-domestic rates has been projected based on previous detailed information. Gas and electricity prices will remain static until the contracts come up for renewal at the end of October 2011. Current feedback from our advisors indicates that the council should not expect a significant price rise when entering into new contracts. Work is already starting on the energy tenders and the council will aim to buy from the markets at the most appropriate time to get the lowest prices, given the best

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information available. However, gas transportation and distribution charges are due to increase by around 2% from April 2011. This equates to around £8,400 additional annual cost.

- 4.3 The retail cost of fuel is heavily linked to the global cost of oil and the Dollar/Sterling exchange rate. The recent reduction in the global cost of oil is now being reversed, current prices are rising and although still fluctuating, have now exceeded their peak levels of 2008.
- 4.4 Major contracts and agreements are rolled forward based on the specified inflation indices in the contract or agreement.

**Employee related costs**

- 4.5 In line with the 2010 budget report a pay freeze on public sector pay settlements (excluding increments) in 2011/12 and 2012/13 is factored into the projections. Pay settlements for the years 2013/14 to 2016/17 are estimated to be 2% per annum.
- 4.6 An allowance has been included for incremental progression in 2012/13 as a result of single status. The net cost of service assumes an employee turnover saving of 3% of gross pay budget.
- 4.7 Currently the unions are lobbying for a pay award for lower paid workers for a flat rate of £250 for those earning under £21k per annum. This would cost the authority around £88k. Given the financial settlement and the uncertainty over whether this will be supported, no budgetary provision has been made for this. Had this been built into the budget, additional savings with potential staffing implications would have had to be made. The decision to deal with any financial consequences of an agreement above a pay freeze within the revised budget for 2011/12 is prudent given the uncertainty and implications of allowing for it.
- 4.8 The council is part of the Gloucestershire Pensions Fund, which is administered by the County Council. The rate of contribution paid to the fund by participating employers is set following a triennial revaluation of the Fund by the appointed actuary.
- 4.9 The most recent triennial revaluation of the Fund was based on the position as at 31<sup>st</sup> March 2010, the draft results of which were published in December 2010. The valuation found that the Fund's objective of holding sufficient assets to meet the estimated current cost of providing members' past service benefits was not met at the valuation date.
- 4.10 Contribution rates are calculated on an individual basis for each participating employer. For the council's element of the fund, the funding level was assessed at 66% (compared with 75.3% in 2007), with a shortfall of £34.1m. The fund actuary is aiming for this deficit to be recovered over a 20 year period, giving the following target contribution rates for the council (for this three-year valuation period):
- a 14.65% future service rate which should cover the liabilities scheme member's build up in the future, plus

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- an annual lump sum past service deficit contribution of £1.387m in 2011/12 (rising to £1.728m by 2013/14), to cover the shortfall in the fund.
- 4.11 The net pension fund liability as at 31<sup>st</sup> March 2010 is £70.405m as reported in the 2009/10 Statement of Accounts.
- 4.12 The PBR announced reforms to public service pensions from 2012/13 onwards whereby employer contributions to local government pensions will be capped. Cost increases below the cap will be shared equally between employers and employees, and those above the cap met solely by employees. The Government also expect those earning the highest salaries to pay a greater contribution towards their pension. It is unclear at this stage what cap will be set and we await further confirmation from the Government.
- 4.13 Following recent events, the Section 151 Officer has discussed the current position with the actuary who has indicated that, given the uncertainty over this area of activity future projections of potential increases in contributions resulting from the 2013 revaluation based on 1% per annum over remainder of the period of the MTFS.

**Landfill Tax**

- 4.14 Central Government is applying a cost escalator for landfill tax which increases the cost of commercial waste disposal by £8 per tonne, year on year until 2014/15. Although factored into the projections at £41,100 per annum, it is worth noting that all commercial operators will face the same cost challenge. It is not unreasonable, therefore, to expect the market to stand an above inflationary increase in fees to cover this additional cost. This does not give the Authority a disadvantageous cost structure compared with the local competition.

**Flood Resilience**

- 4.15 The council was successful in applying for a one-off grant to deal with restoration work following the July 2007 floods. In setting the 2009/10 budget, the Cabinet decided that £90,000 of the grant should be earmarked for the maintenance of watercourses, streams and ditches over a three-year period. Given the desire to ensure maintenance continues, funding will need to be built into the base budget from 2012/13.

**Fees and Charges**

- 4.16 A general assumption for a 2.5% increase in fees and charges (including car parking) has been factored in, but reviews of all charges are required annually by Service Managers.

**Treasury Management**

- 4.17 Investment income from cash investments falls in 2012/13. This trend was acknowledged in the previous MTFS and is largely due to cash balances (i.e. ear-marked reserves) being consumed, essentially to finance the council's

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capital programme and to fund property maintenance, single status and increased pension contributions. Whilst there is an option to take out prudential borrowing, it has been assumed for MTFS purposes that the capital programme will continue to be financed from capital receipts, grants (including S106 developer contributions), and revenue contributions and that borrowing will only take place if absolutely necessary.

- 4.18 Investment interest is forecast to be £77,800 favourable in 2013/14 as interest rates are forecast to rise to around 3%. The consolidated rate for borrowing should also increase over the MTFS which would entail the HRA making an increase in debt repayments to the GF.

**Specific Grant – Council Tax freeze**

- 4.19 The Government has confirmed that a specific grant will be paid to authorities who set their basic amount of council tax for 2011/12 at a level which is no more than its basic amount of council tax for 2010/11 equivalent to a 2.5% increase in its 2010/11 basic amount of council tax multiplied by the authority's tax base for 2011/12. For Cheltenham this equates to £197,000.
- 4.20 The spending review concluded that funding can only be provided to support a council tax freeze in 2011/12. However, the Government intends to provide supplementary funding to authorities throughout this spending review via a specific section 31 grant to compensate them for the council tax foregone during the period of the freeze. For financial planning purposes, it is assumed that this grant will cease at the end of this spending review in 2015/16.

**Property Maintenance**

- 4.21 Current projections (as detailed in the amended 20 year maintenance programme) indicate a requirement to fund property maintenance of circa £1.4m per annum from revenue contributions which will be achieved in 2015/16.

**Government Support**

- 4.22 The main issue in terms of funding availability is the estimation of the level of Government grant which the council will receive. Although this has been set for the period to 2012/13 as part of the Comprehensive Spending Review 2010 (CSR10), future settlements may impact on effective longer-term financial planning and sustainability.
- 4.23 Given the severity of the cuts to funding levels, the two year proposal and the lateness of the settlement, does not provide stability and predictability in local government funding.
- 4.24 For the purpose of projecting the funding gap, it is estimated that the level of government grant and share of the national non domestic rates pool will decrease by a further 5% in 2013/14 and 5% reduction in 2014/15 (i.e. a 31.28% reduction overall for the period of the spending review CSR10).

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- 4.25 Collection fund surpluses arise from higher than anticipated rates of collection of the council tax collection rates. This is assessed annually although the current economic climate could have an adverse impact on this source of one off funding and therefore no increases have been assumed for the period covered in this MTFS.
- 4.26 The taxbase represents the total number of chargeable properties in the borough, expressed as band D. The net budget requirement is divided by the taxbase to calculate the level of council tax for band D each year. The council's taxbase is estimated to increase by 100 each year for the purposes of the MTFS. This is a lesser increase than in recent years and reflects the slowdown in the housing market and the reduction in the number of new properties being built.

**Funding Gap**

- 4.27 Given Government restrictions on local authorities increasing council tax and the subsequent reduction in government funding, the council has faced a significantly more challenging financial position. The latest projections indicate a gap of £2.502m for the period of the MTFS (2012/13 to 2015/16) assuming a 'standstill' position in central government funding with 2.5% annual increase in council tax. The improvement in the baseline 5 year projection reflects the following:
- impact of capping pay increases on pay
  - delivery of the BtG programme savings in the earlier years
  - achieving the target annual funding level for property maintenance

**5. Strategy for 'bridging' the projected funding gap**

- 5.1 The council could reduce the projected funding gap by increasing council tax above 2.5%. Council tax increases of 5% would generate an additional circa £200,000 per annum although this approach would be unpopular in the current economic climate.
- 5.2 The council has identified a number of work-streams which form the longer term strategy for 'bridging the gap' which are detailed below.

**5.3 Service Reviews and Benchmarking**

- 5.3.1 The council is keen to ensure that services are of the highest quality and lowest cost. Understanding the council's own costs and how they compare with others is key to achieving this. Many of the council's services undertake annual benchmarking exercises using statistical data and analysis that already exists, e.g. Chartered Institute of Public Finance and Accountancy Statistical Information Service (CIPFA S.I.S.) statistics and benchmarking clubs.



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5.3.2 In preparation for commissioning, the council is keen to see all services benchmarked but recognises the volume of work required to continually do so. In preparation for commissioning, a programme of service reviews and benchmarking will be developed to support the commissioning programme over the MTFs. This will help facilitate work with SLT and Members, via the budget working group, on the developing future outcomes for services.

### 5.4 Asset Management

5.4.1 The council has a significant property portfolio including some key public buildings which place significant pressure on the council's budget and represents a significant cost to the tax payer. Annually the council is planning to increase its budget by some £200k (equivalent to 2.5% council tax) in order to pay the annual cost of around £1.4m on the maintenance of public buildings.

5.4.2 The council is aiming to reduce the net cost of the council's property portfolio through increasing income streams or reducing management and operational costs of the council's property portfolio. The council has produced an updated Asset Management Plan which will outline the council's strategic approach to asset management.

5.4.3 A review of the asset base could identify potential property disposals which will both raise capital resources (capital receipts) and reduce the incidental costs of holding properties (e.g. on-going maintenance costs, business rates, etc). Similarly, vacant properties are being reviewed to identify alternative uses that might better support the council's business plan objectives and generate an income. It is worth noting however, that it has proved difficult to release savings from property rationalisation in the current economic climate.

### 5.5 Service Improvement through 'Systems Thinking'

5.5.1 The council has adopted a strategy for improving service delivery by:

- designing the service to meet customers needs and expectations, and
- optimising the realisation of cashable efficiency gains by removing failure demand and waste from the system

5.5.2 The principal aim of the work is to examine how services are provided in order to seek improvements and efficiencies and reduce costs through the use of 'systems thinking' analytical approaches. This has also been very successful with 'interventions' in a number of areas which have resulted in more efficient services and are projected to deliver savings in the process.

### 5.6 Shared Services

5.6.1 There has been major progress in the establishment of shared service arrangements with some significant achievements being made over a relatively short period of time. Recently the council has established a shared

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audit service with Cotswold District council and West Oxfordshire District council and shared Legal and Building Control services with Tewkesbury Borough council.

- 5.6.2 A more significant and complex piece of work is the programme for a shared Enterprise Resource Planning (ERP) system to replace individual payroll, HR, finance and procurement systems in 4 district councils (the other 3 districts are Cotswold District Council, Forest of Dean District Council and West Oxfordshire District Council) and Cheltenham Borough Homes with one system which will be a platform for a shared service for Finance and HR across these 4 districts.
- 5.6.3 Both Cheltenham Borough council and Tewkesbury Borough council have been examining options for joint working in waste services as members of the Gloucestershire Waste Partnership. The Joint Municipal Waste Management Strategy 2007 – 2020 makes a clear commitment to partnership working to make waste management more sustainable, including the development of service delivery partnerships with other authorities and the private sector. Both councils subsequently considered and accepted a detailed business case that outlines a programme of change to deliver significant efficiency savings across the partnership, with savings being achieved on both collection and disposal budgets. The timeline for change and realisation of the full range of savings is stretched over a period of 10 years.

### 5.7 SLT options

- 5.7.1 As part of the BtG work, the Senior Leadership Team was asked to consider the implications in their services of a 20% cut in order to generate ideas. The Cabinet considered these options in arriving at their budget proposals.
- 5.7.2 'Invest to save' initiatives will be encouraged to ensure long-term efficiencies in service delivery and value for money are delivered. These initiatives may well require some up-front capital investment, the criteria for which are outlined in the capital strategy which was approved by council in February 2009.

### 5.8 Commissioning

- 5.8.1 Over the last 2 years the "bridging the gap" programme has been successful in delivering savings to close the budget gap without any detrimental impact upon service delivery. However, the unprecedented financial pressures now being faced by the council, and outlined in this MTFs, require a different strategy to be adopted for service design and delivery. The objective of adopting a different approach is to deliver the best outcomes for individuals and communities in the context of the MTFs. When services are redesigned it is important that citizens, service users and council tax payers are the focus and to this end the council is working towards becoming a commissioning council adopting a strategic commissioning approach.
- 5.8.2 Strategic commissioning is not a new idea; the NHS has been using commissioning extensively for many years and legislation particularly in the social care and children's service areas has moved service design to embrace a commissioning approach. Commissioning is defined by the

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Cabinet Office as "the cycle of assessing the needs of people in an area, designing and then securing appropriate service". Commissioning requires better partnership/cross agency working, prioritisation to ensure resources (finance, people and assets) are used to best effect to deliver clearly defined outcomes which all parties to the commissioning approach are aligned behind. Commissioning judgements will be made transparently and objectively with a focus on outcomes leaving the method of delivery to the provider of the service. By adopting this strategic approach services will be transformed, where warranted, and may not necessarily as at present be provided through a directly employed workforce; a mixed economy (sharing services, outsourcing, creation of "not for profit" vehicles, third sector) approach to delivery of services may result. The key tests for commissioning will be good quality services, with outcomes for the citizen and community at the heart of their provision and which have long term financial viability.

- 5.8.3 The MTFS assumes some initial savings from commissioning as a result of the senior management restructure approved by council. Whilst there are currently no target for specific commissioning projects there is an expectation, from within the organisation and amongst members, that this approach will deliver savings over the period of the MTFS.

### 5.9 The Residual Funding Gap

- 5.9.1 Taking into account that the identified work-streams are delivered throughout the period covered by this MTFS, the projected residual funding gap (assuming a 2.5% increase in council tax annually) is shown below in Table 2.

Table 2: Projection of Residual Funding Gap

	2012/13	2013/14	2014/15	2015/16	2016/17
	£	£	£	£	£
<b>Projected Funding Gap @ 2.5% Council Tax (Table 1)</b>	<b>824,027</b>	<b>581,477</b>	<b>606,926</b>	<b>401,324</b>	<b>88,323</b>
<b>Identified Work-streams</b>					
Service Reviews	(153,100)	(18,400)	(6,000)	(300)	
Asset Management	(29,700)	(111,100)	(37,900)	(11,100)	
Service Improvement	(115,000)				
Shared Services	(50,000)	(178,800)			
Commissioning	(69,000)	(15,000)			
Other Major Projects	(168,800)				
<b>Projected Residual Funding Gap</b>	<b>238,427</b>	<b>258,177</b>	<b>563,026</b>	<b>389,924</b>	<b>88,323</b>
<b>Cumulative Projected Residual Funding Gap</b>	<b>238,427</b>	<b>496,604</b>	<b>1,059,630</b>	<b>1,449,554</b>	<b>1,537,877</b>

- 5.9.2 It should be noted that the current MTFS does not assume any recovery in the current economic climate and therefore, the view could be taken that the current MTFS predicts the worst case scenario.
- 5.9.3 The council is seeing the impact of the economic downturn on many services. As the economic crisis has deepened, the council has witnessed a more significant reduction in income levels for many of its service areas resulting in the need to revise income estimates further downwards. The income from development control, property rentals, land charges and car parking has declined to unprecedented levels.

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- 5.9.4 In addition, the Bank of England base rate cut to 0.5% has resulted in a significant reduction in the base budget for investment interest.
- 5.9.5 Recovery within the economy over the course of the current MTFs would obviously assist in closing the projected funding gap although some costs (e.g. pay awards) may also increase.

### 6. Financial Projections – Capital Resource Requirements

- 6.1 The council's capital strategy is geared towards ensuring the maximisation of resources available to the council.
- 6.2 The council has budgeted to make a revenue contribution to capital outlay (RCCO) Capital Reserve of £700,000 in 2011/12. This reserve funds part of the capital programme which generally consists of 3 areas of expenditure (i) replacement of play equipment (ii) replacement of CCTV equipment and (iii) mandatory costs of disabled facilities grant, totalling £500,000. Assuming additional one off schemes of circa £200,000, the council has an approximate capital programme to be funded from RCCO of £700,000 annually which is now fully budgeted for.
- 6.3 The remainder of the capital programme is funded from other sources e.g. specific grants; however, the Private Sector Renewal Policy requires amendment following the Government's decision to cease providing private sector renewal funding. Capital received over the last two years, partly as a result of bidding and partly as a result of formulae allocation, has been carefully managed to avoid over commitment if government funding should cease. This careful planning means that loans to safeguard the health and safety of the most vulnerable people in Cheltenham will still be available while previous funding lasts. Limited funding now means that only the most financially vulnerable residents should be able to access funds, where their health and safety is at risk from a category 1 health hazard, as measured by the Health and Safety Rating System. The hope remains that other sources of Government funding to finance this important area become available in the future
- 6.4 In order to progress new capital schemes not already identified within the MTFs, the council will need to prioritise the use of available resources detailed in the Capital Strategy which could involve the disposal of existing assets or prudential borrowing on a scheme by scheme basis.

### 7. Financial Projections - Reserves

- 7.1 A review of earmarked reserves in February 2009 resulted in an increase to the General Reserve. This reserve is held to protect existing service levels from further fluctuations in interest rates, potential implications from the Icelandic banks situation and reduction in income levels as a result of the economic downturn
- 7.2 External factors such as the flooding in 2007 and the problems experienced by the global financial markets in 2008 have highlighted the importance for authorities to maintain an appropriate level of reserves. This prompted

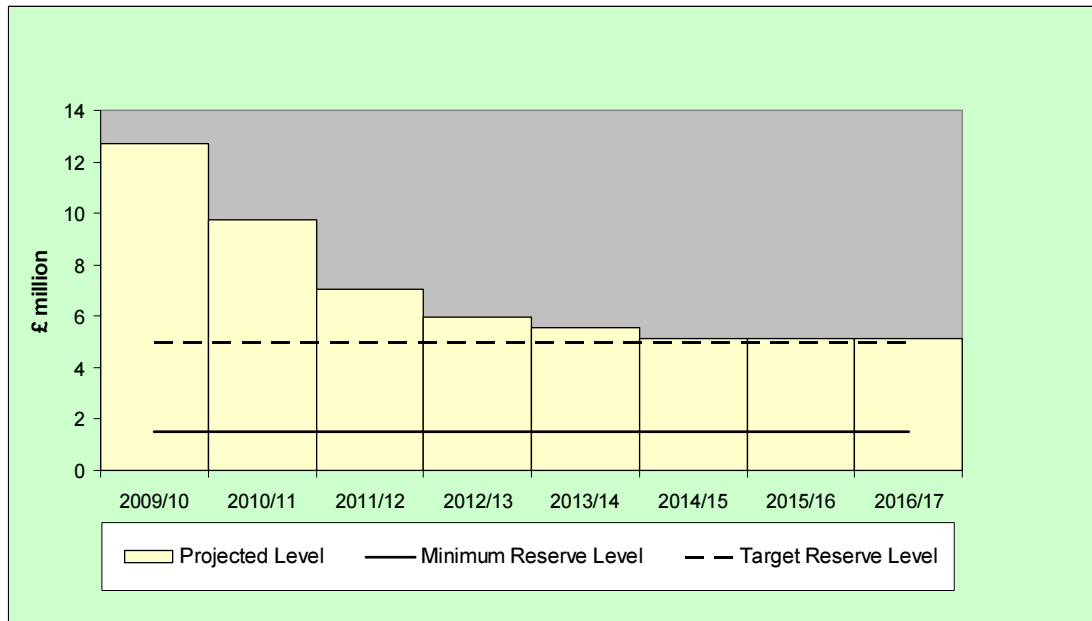
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CIPFA's Local Authority Accounting Panel (LAAP) to issue a bulletin on local authorities' reserves and balances.

- 7.3 As part of the annual budget setting process and in reviewing the MTFS, the council needs to consider the establishment and maintenance of reserves. These can be held for three main purposes:
- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
  - a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
  - a means of building up funds (earmarked reserves) to meet known or predicted requirements.
- 7.4 The council has benefited from a strong economy over a number of years which has enabled it to earmark significant funds to specific reserves. These are reviewed twice yearly by full council under the guidance of the Chief Finance Officer.
- 7.5 Over the course of this MTFS, a number of earmarked reserves will be depleted as they are used to finance planned expenditure. It is also the case that reserves used to finance the capital programme and property maintenance will reach the levels required to fund existing commitments within this MTFS
- 7.6 The proposed net budget requirement for 2011/12 is £14,077,293, which includes a net transfer to reserves of £429,543. When taking into account the proposals to support one-off growth in 2011/12 and revenue contributions used to fund the capital programme in 2010/11 and 2011/12, the level of reserves held by the council is projected to be £7,048,122 by 31<sup>st</sup> March 2012
- 7.7 The projected position for General Fund reserves to 2016/17 is shown below in Table 4:

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Table 4: General Fund Reserves Projection 2009/10 to 2016/17



- 7.8 In view of the current economic climate and the risks associated with holding Icelandic investments, the Chief Finance Officer has maintained that General Reserves should be maintained in the range of £1.5m to £2m. In order to ensure that the council holds significant reserves to cover the purposes for holding reserves (as outlined in 7.4) a target projected reserve level of £5m has been set.
- 7.9 The projection shown in Table 4 is important as it demonstrates that the uneven impact of unavoidable cost pressures can be handled, whilst providing temporary use of reserves to support the budget if required.
- 7.10 The graph demonstrates that the level of reserves held over the course of the MTFS is projected to remain above the projected target of £5m throughout the course of this MTFS.
- 7.11 Risk analysis and a determination of the adequacy of the level of reserves will remain a key element within the Chief Finance Officer's annual section 25 report, in conjunction with the final budget proposals.

## 8. Working in Partnership

- 8.1 Partnerships form the basis of an increasing range of the council's services and extend from joint activities within a loose working arrangement to complex and formally structured vehicles for service delivery.
- 8.2 The council welcomes the opportunity to work with partner organisations to deliver our proposed outcomes as this adds value for the taxpayers of Cheltenham but will always seek to ensure that the:
- Financial viability of partners is assured before committing to an agreement

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- Responsibilities and liabilities of each of the partners is clearly understood by parties to any agreement;
- Accounting arrangements are established before any payments are made; and
- Implications of the terms and conditions of any funding arrangements are considered before any monies are accepted.

**8.3 Cheltenham has a clean and well-maintained environment**

- 8.3.1 The council works with a range of community-based organisations to promote a clean and well-maintained environment such as Cheltenham in Bloom to promote awareness of the importance of Cheltenham's floral heritage amongst the borough's residents and businesses and to involve the community in celebrating the borough's beauty and the Tidy Cheltenham Group to promote a clean environment.

**8.4 Cheltenham's natural and built environment is enhanced and protected**

- 8.4.1 We are working in partnership with Gloucestershire County Council and other partners to coordinate the Cheltenham Local Development Taskforce project that will result in significant investment into the borough to secure its longer-term economic success whilst improving its look, its ambience and its associated transport infrastructure.

**8.5 Carbon emissions are reduced and Cheltenham is able to adapt to the impacts of climate change**

- 8.5.1 The council supports partnership working in the county through the Gloucestershire Waste Partnership and has adopted a county wide Joint Municipal Waste Management Strategy. It is also proposed to share a waste management team with Tewkesbury Borough Council, to progress towards shared service delivery in waste management by April 2012. This will be achieved in a structured and incremental way with progress dependant on individual authority agreement at key milestones. The council also works in partnership with Vision 21 Gloucestershire to support Community Recycling Champions who promote waste reduction, re-use and recycling within their local community and puts £5,200 per annum to support the work of the Low Carbon Partnership which is focusing on reducing carbon emissions from energy and transport use.

**8.6 Cheltenham has improved access and travel options**

- 8.6.1 The council works closely with the Highway Authority, Gloucestershire County Council, and its delivery arm, Gloucestershire Highways, to enhance and maintain the street scene. In recognition of the added value that Cheltenham Borough Council can deliver to street scene services a highway agency agreement for grounds maintenance was adopted in April 2008, with the Borough carrying out a range of services on behalf of the County and match funding the replacement programme for street trees

**MEDIUM TERM FINANCIAL STRATEGY 2011/12 TO 2016/17****8.7 Cheltenham is able to recover quickly and strongly from the recession**

- 8.7.1 The council has 15 service level agreements in place with a range of partners to secure delivery of its economic development strategy worth over £240,000; significant SLA's include those with Gloucestershire First, Adult Education department of Gloucestershire County Council and Severn Wye Energy Agency.
- 8.7.2 We work in partnership through the Public Sector Employment Partnership to develop a range of workforce development initiatives such as improved NVQ training and the apprenticeship scheme.

**8.8 We attract more visitors and investors to Cheltenham**

- 8.8.1 We work with the Cotswold and Forest destination management organisation to ensure that there is a coordinated approach to promoting the county.

**8.9 Communities feel safe and are safe**

- 8.9.1 Tackling crime is consistently the highest priority for our residents and the council invests significantly in this work. It directly employs three officers who support the work of the community safety partnership, including our anti-social behaviour officer, but also supports a number of other council services that meet the aims of the partnership such as Cheltenham Safe, street cleaning, graffiti removal service and summer holiday play schemes.

**8.10 People have access to decent and affordable housing**

- 8.10.1 The council has over 4,500 properties which are managed by Cheltenham Borough Homes which is our Arms Length Management Organisation (ALMO) under the terms of a management agreement. It is a company limited by guarantee, with the council as the only guarantor. The council has continued to enable the delivery of affordable homes through the Cheltenham and Tewkesbury Housing Market Partnership which has delivered 20 affordable homes since 1<sup>st</sup> April 2008. We are on track to deliver over 40 homes in the financial year.

**8.11 People are able to lead healthy lifestyles**

- 8.11.1 Under Section 31 of the Health Act 1999 health and local authorities are encouraged to work together to improve the lives of residents. Gloucestershire PCT and the council jointly-fund a Healthy lifestyles development officer who delivers a programme of activities in the borough to improve their health and wellbeing. The PCT also committed £25,000 in 2008/09 to the CSP to reduce health inequalities in Cheltenham.

**8.12 Our residents enjoy a strong sense of community and are involved in identifying and resolving local issues**

- 8.12.1 We recognise that the Voluntary Sector is central in creating strong communities both through larger voluntary sector organisations which provide services to communities and the wide range of local community groups and organisations. Consequently we provide a range of grant funding to Voluntary



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Sector partners who are able to deliver cost effective services to their communities, including Cheltenham Voluntary and Community Action (CVA) which is responsible for co-ordinating and representing the voluntary sector in the town.

### **8.13 Arts and culture are used as a means to strengthen communities, strengthen the economy and enhance and protect our environment**

8.13.1 The council has committed £2m (in addition to £500,000 already earmarked from the sale of the Axiom) to secure the improvement of Cheltenham Art Gallery & Museum. This has levered in a grant of £750,000 from a Charitable Trust. With these financial foundations, we can now move forward towards planning approval and further fundraising. Subject to these, it is hoped to begin building work in 2010 with a total budget estimated at £6.3m.

8.13.2 The council has a service level agreement with Cheltenham Festivals (CF) to provide four annual festivals of jazz, science, music and literature. The programme of festival activity includes a wide range of community and educational activities within Cheltenham, concentrating particularly on the most disadvantaged communities. The current agreement is for the period 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2011 and a new agreement will be made with effect from 1<sup>st</sup> April 2011. The council provides annual in-kind support to CF, totalling £195,000 in 2010/11.

### **8.14 The council delivers cashable savings, as well as improved customer satisfaction overall and better performance through the effective commissioning of services**

8.14.1 The council is working with other district councils to help realise the cost savings from sharing services. We have already launched shared services for Audit (with Cotswold District Council), Legal Services and Building Control (both with Tewkesbury Borough Council).

### **8.15 Infrastructure Delivery Planning**

8.15.1 A key work stream within the context of partnership working over the period of the MTFS is the preparation of a strategic infrastructure delivery plan for Gloucestershire. The primary objective of this work is to deliver the infrastructure required over the next 15-20 years to support the development needs of Gloucestershire and support the visions of sustainable community strategies. This will require joint working across public sector organisations to release added value in capital projects and other public sector investment. This may have implications in the future development of the Capital Strategy.

## **9. Areas of Uncertainty associated with the MTFS**

9.1 The review has also highlighted a significant number of areas where the impact on revenue spending cannot be quantified with sufficient accuracy, at this point in the process. These have been included as 'Uncertainties associated with the MTFS' and these areas will form the basis for ongoing review through the period of the 2011/12 budget process.

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### VAT on Car Parks

- 9.2 The Isle of Wight (I.O.W.) local authority, along with three others, successfully argued at a VAT Tribunal, that they should not have to charge VAT on off-street car parking. This was principally on the basis that it would not, despite protests by HM Revenue and Customs (HMRC), create a significant distortion of competition (a key factor in determining VAT liability).
- 9.2.1 The Tribunal considered the implications of these local authorities not charging VAT by looking at the effect on their pricing policies, on customer usage and on potential private providers. It found that prices were set at levels to either stimulate customer numbers or discourage car use; were generally below those set by the private sector and were not an overriding factor in customers choosing where to park (they would park nearest to the facility they needed rather than choosing solely on price). It could not find any evidence of distortion of competition in respect of the local authorities represented at the Tribunal.
- 9.2.2 In conclusion it was unlikely that a change in VAT liability would result in either a change in price or parking policies.
- 9.2.3 In anticipation of HMRC being compelled to change the VAT liability of off-street car parking for all local authorities, from 'standard rate' to 'non-business' (i.e. no VAT chargeable), Cheltenham Borough Council, along with many other local authorities, under advisement, submitted repayment claims to HMRC requesting reimbursement of the VAT already paid on off-street car parking since 1998 (the furthest back allowed at the time).
- 9.2.4 Total claims lodged to that date amount to £6,337,701. Claims averaging circa £650,000 per annum for 2009/10 and the current year have yet to be submitted. Subsequent changes in the law have now allowed the council to go back even further - to the start of VAT in April 1973. VAT advisors have prepared a claim which has been submitted, and subsequently rejected by HMRC, pending the case's outcome. This claim amounts to £5,000,825 covering the period 1<sup>st</sup> April 1973 to 30<sup>th</sup> November 1996.
- 9.2.5 However, HMRC did not agree with the Tribunal decision and lodged an appeal to the High Court. This was heard in November 2006 and on 16<sup>th</sup> February 2007, the High Court decided to refer the case to the European Court of Justice (ECJ). The ECJ delivered its judgement on 16<sup>th</sup> September 2008 which was not favourable towards IOW. It focussed strongly on the issue of fiscal neutrality i.e. that two operators engaged in the same activity should not be treated differently in respect of levying a tax.
- 9.2.6 The matter has now been returned to the High Court who referred the issue back to the Tribunal to consider. The Tribunal will commence on 11<sup>th</sup> March 2011 and HMRC have submitted requests for further information from the four litigant councils involved in the case.
- 9.2.7 This remains a situation which has the potential for significant revenue receipts for the council should HMRC lose their case. However, the ECJ's

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opinion does diminish the likelihood of success for the plaintiff councils. The Tribunal will consider the issues referred to them and a better idea of the likelihood of success going forward will be known once the Tribunal has reached its decision.

- 9.2.8 Cheltenham Borough Council will continue to account for VAT on off-street car parking but will also continue lodging claims with HMRC for repayment, in order to protect its position.

**Compound interest claim**

- 9.2.9 The 'Sempra Metals' case has been brought before the High Court to determine whether taxpayers should be entitled to compound interest on overpaid VAT. The High Court has agreed to this in principal but has allowed the six year time limit under the Limitation Act to stand meaning their claim falls out of time. However, the time limit point has been appealed to the Court of Appeal. A decision is due out on this in April 2011; however any decision favourable to the taxpayer will be appealed by HMRC.
- 9.2.10 Following the High Court's decision, the council has, under advisement, instructed DLA Piper to pursue a compound interest claim in the High Court. This follows claims being pursued by other local authorities, including Bristol City Council.
- 9.2.11 Should the council be successful in this claim, the council's initial interest payment of £583k would be repaid again, potentially two or three-fold.
- 9.2.12 Progress of the court case continues to be monitored and, although a result is not expected in the near future, the council's interests in this case are protected should the outcome be favourable.

**Adequacy of Capital Resources and Property Repairs and Renewals Fund (Reserve)**

- 9.3 The Chief Finance Officer has raised the issue of the long term financing of both the council's capital programme and 20 year maintenance programme on a number of occasions. The work to update the Asset Management Plan identifies additional funding requirements over the coming years and may consider alternative forms of financing, including prudential borrowing.

**New Homes Bonus**

- 9.4 The government proposes to introduce a new cash incentive scheme to reward councils for new home completions and for bringing empty homes back into use.
- 9.4.1 Subject to the result of recent consultation, the New Homes Bonus will provide match funding of Council Tax for six years (based on national average for Band D property – i.e. £8,600 per dwelling over six years), plus a bonus of £350 for each affordable home (worth £2,100 over six years).
- 9.4.2 First allocations will be in 2011 - funding will not be ring-fenced and is designed to allow the 'benefits of growth to be returned to communities'. It

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has been suggested that funding will be split 80:20 between district and county authorities.

- 9.4.3 The government intends that this funding should become a permanent feature of the local government finance system with an extra £450 million available nationally over the first two years, with additional costs being met from the redistribution of formula grant.
- 9.4.4 The Council will need to decide how it wishes to budget for this new funding stream, as it will be an important element of future financing arrangements, dependent on both the rate of housing delivery locally and how this compares with delivery in other authorities across England. However, housing projections are notoriously difficult to predict accurately over the longer term and will need to be assessed prudently in making any assumptions about likely resource availability.

**Off-Street Parking income**

- 9.5 Income from off-street parking continues to fall as a result of a variety of supply and demand factors. There are two income streams which form the majority of the budgeted income i.e. fees and fines. The 2011/12 budget has addressed the recent shortfall in fee and fine income with a reduction of £500,000 in the income target. The VAT rate change to 20% has also been reflected in the base budget for 2011/12 with a further reduction in income targets of £90,000. Any continuation of the economic downturn is likely to result in this reduced level of activity being sustained into the near future years. The continuation of the concessionary fares scheme at national level is also likely to suppress future demand for parking services locally.

**2012 Olympics**

- 9.6 The council is in the process of assessing the impact and opportunities arising from the 2012 Olympics in terms of adding value to existing service provision, maximising legacy i.e. making sure that clubs and facilities can cater for the enthusiasm generated by 2012; and managing the potential impact on infrastructure and services.
- 9.7 To complement this work the council committed £30,000 of the 2009/10 LAGBI allocation towards providing sport and play activities for young people in the run-up to the Olympics. Spread over three years, a range of programmes and events will take place throughout the town, which will expand and develop the youth focused sporting offer provided by the council's sports development team and Active Gloucestershire.
- 9.8 Furthermore, the recent successful CSPAN funding bid has secured funding from Sport England which will be used to provide a bursary scheme to support Cheltenham's gifted and talented athletes up until the 2012 Olympics.

**Icelandic Banks**

- 9.9 The council has £9.41m of un-recovered investments with Icelandic banks which went into administration in October 2008. The council has logged claims for recovery of the deposits with the banks administrators, and court

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proceedings are due to commence in the spring of 2011. The MTFS assumes the impact of a worst case scenario based on best information available but the situation remains uncertain.

### 10. Risk associated with the MTFS

- 10.1 There are inevitable risks associated with the assumptions for both revenue and capital projections. Employee turnover may vary from that assumed with both financial and service consequences. Net expenditure may be more than has been assumed, either as a consequence of additional demand, e.g. for concessionary fares; reduced income following a fall in demand e.g. car parking; or for new responsibilities which are inadequately provided for within government grant.
- 10.2 On the capital side, major projects that require additional resources and rely on a level of new capital receipts may prove to be optimistic in the current economic climate.
- 10.3 Furthermore, the current MTFS assumes that the current system of local government funding will continue.
- 10.4 However, we now also need to consider additional risks associated with the wider economic situation. Inflation and interest rate assumptions may prove to be incorrect, although this has been factored in to some extent by assuming the worst case scenario.
- 10.5 The prospect of business failures and a reduction in available tenants may result in rent reductions or rent free periods in order to attract new occupiers to the council's commercial property portfolio.
- 10.6 It will continue to be necessary to review the MTFS each year and update it for latest information. In year budget monitoring is crucial to ensure that variances and trends are highlighted at the earliest opportunity.

### 11. Conclusion

- 11.1 The council has a track record of strong financial management but is now in a period of significant volatility and uncertainty. The council needs to plan now to ensure that its strong financial position continues throughout the period covered by this MTFS and beyond.
- 11.2 The development of this strategy for closing the budget gap is an important and on-going issue for the council.