1. INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document for the General Fund budget. It sets out and considers the financial implications of the Council's objectives and priorities and factors in financial pressures, including reducing government funding. 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 (2015/16 – 2019/20).

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 during the budget process and reported to members at budget setting annually.

1.3 This year's review is once again overshadowed by further reductions in public expenditure. The Council faces a major challenge in managing the impact of these cuts on budgets and services, coupled with the impact of sustained low interest rates.

1.4 The Council's external auditor, Grant Thornton, undertakes a Value for Money review each year which assesses the Council's finances against Audit Commission criteria to determine whether or not the Council has proper arrangements in place for securing financial resilience, and challenging how it secures economy, efficiency and effectiveness. The review covers six themes, one of which is Strategic Financial Planning focusing on the MTFS.

1.5 In order to achieve an unqualified value for money conclusion, the external auditor will focus their findings based on the Council having robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. The MTFS therefore has a significant role.

1.6 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. The revised HRA Business Plan, which is a direct response to the budget announcements made in July 2015, will be presented to Cabinet in December 2015.

2. LINKS TO OTHER COUNCIL PLANS

2.1 Cheltenham Borough Council's Corporate Strategy 2015-16 was agreed in March 2015. The strategy sets out the following:

- A vision statement;
- The four priority outcomes that the Council will be working towards;
- The context for the year ahead in terms of needs, challenges and opportunities and proposed commissioning intentions;
- The Council's priority actions to deliver the outcomes;
- The milestones, indicators and risks by which progress will be measured.

2.2 The corporate strategy provides an over-arching long term framework for the MTFS, annual budget and action plan which will be reviewed and updated annually.

Our vision statement

2.3 As part of the development of the 2015-16 corporate strategy, we have developed a vision statement setting out our aspirational goals for the long-term future of Cheltenham.

Our vision is of a Cheltenham that delivers the very best quality of life for its people. We believe that the key elements in achieving this vision are to protect and enhance the built heritage and green spaces that have shaped the unique character of the town; to create the conditions in which businesses can thrive, innovate and provide good quality jobs; to make the town a world-class cultural and learning centre which is outward-looking and welcoming to visitors; to build strong, safe and healthy communities for residents and their families; and to accept our responsibility to present and future generations to live within environmentally sustainable limits.

Our outcomes

2.4 Our corporate strategy 2015-16 focuses our efforts on three high level outcomes covering the issues that matter most to our residents, businesses and visitors. We also have an internal “transformation” outcome covering commissioning, asset management, business improvement and financial management. The outcomes are:

- Cheltenham's environmental quality and heritage is protected, maintained and enhanced
- Sustain and grow Cheltenham’s economic and cultural vitality
- People live in strong, safe and healthy communities
- Transform our council so it can continue to enable delivery of our outcomes for Cheltenham and its residents.

2.5 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 corporate strategy.

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 calculations forms the financial strategy to ‘bridge’ the funding gap for each financial year.

3.3 The projection of the funding gap is shown in Table 1 overleaf.

MEDIUM TERM FINANCIAL STRATEGY 2015/16 TO 2019/20 APPENDIX 3

Table 1: Projection of Funding Gap	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Net Cost of Services brought forward from previous year (assuming a balanced budget has been set)		14,588,385	14,101,112	13,610,801	13,556,238
Increased costs of existing services					
General Inflation		59,300	60,500	61,800	63,000
Employee related expenditure		81,500	81,900	83,200	83,800
Increase in NI contributions		215,200			
Shared Services contract inflation		18,850	19,100	19,300	19,500
Ubico Ltd contract inflation		66,260	67,100	67,700	68,300
Pension costs - 2013 Revaluation		406,000	406,000	406,000	406,000
Living Wage cost					4,000
Regulatory & Environmental Services Transformation (REST)		157,500			
Reduction in Housing Benefit Subsidy Grant		70,000			
Increase in Insurance Premium Tax		9,400			
Removal of Climate Change Levy (CCL) exemption		18,000			
Income					
Fees and Charges inflation		(204,900)	(209,100)	(213,100)	(217,500)
Recyclate income reduction		227,400			
Off-street car parking reduction		335,000			
<u>Provision for income freeze</u>				`	
Car Parking inflation		63,400	64,800	65,800	67,400
Waste & Recycling inflation		19,600	20,100	20,400	20,800
Land Charges inflation		4,400	4,400	4,500	4,600
Reserves					
Reduced contribution to General Balances		(9,365)			
Remove contribution to Business Rates Retention (BRR) Reserve		(100,000)			
Remove contribution to Local Plan Reserve		(100,000)			
Projected Net Cost of Service	**14,588,385**	**15,925,930**	**14,615,912**	**14,126,401**	**14,076,138**
Government Grant support (RSG)	(2,110,549)	(1,779,000)	(1,335,000)	(984,000)	(650,000)
NNDR	(2,507,443)	(2,975,318)	(3,280,000)	(3,380,000)	(3,530,000)
NNDR S31 Grants	(753,259)				
National Non-Domestic Rate - 2013/14 surplus	(187,360)				
National Non-Domestic Rate - 2014/15 surplus	(322,281)	251,963			
New Homes Bonus	(1,080,000)	(1,237,500)	(1,080,000)	(1,080,000)	(1,080,000)
Council Tax Freeze	(81,700)				
Parish Council Tax Support Funding	10,269	10,269	10,269	10,269	10,269
Collection Fund surplus	(111,100)	(150,000)	(50,000)	(50,000)	(50,000)
Contribution from BRR Reserve		(537,300)			
Council Tax (assumes 1.99% increase per annum)	(7,444,962)	(7,684,226)	(7,876,070)	(8,072,507)	(8,273,643)
Projected Funding Gap	**0**	**1,824,818**	**1,005,111**	**570,163**	**502,764**
Cumulative Funding Gap		**1,824,818**	**2,829,929**	**3,400,092**	**3,902,856**

3.4 The MTFS projections above reflect that the funding gap for the period 2016/17 to 2019/20 is **£3.9m** (i.e. the financial gap between what the Council needs to spend to maintain existing services and the funding available). The key assumptions for the preparation of these projections are explained below.

General

3.5 The net cost of services has been estimated by using the approved 2015/16 base budget as the base for future projections through to 2019/20.

3.6 General inflation on insurances, utilities, postage, IT maintenance agreements 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 April 2016. The Council's current energy procurement advisors have said that although gas prices are likely to remain somewhat stable over the next 12-24 months, it is more than likely that when the Council next has to re-tender electricity prices will increase significantly. The reason is that pass through charges resulting from government levies will begin kicking in from April 2016 so a price hike could be felt. Accordingly, budgets have been inflated by 2% per annum in recognition and pending further more detailed cost information.

3.7 Historically, annual premise repairs and maintenance budgets have not been inflated which has resulted in increased pressure to be able to maintain and run the Council's buildings within budget each year as prices continue to rise. To address this, inflation at 2% has been included in each of the years within the MTFS.

3.8 Major contracts and agreements are rolled forward based on the specified inflation indices in the contract or agreement.

Employee related costs

3.9 On the 8th July 2015 (summer 2015 Budget), the Chancellor announced a pay award cap of 1% per annum for 4 years from 2016/17 for public sector workers. Pay awards in local government are covered by collective bargaining between employers and trade unions and this is not subject to direct control from central government. However, it is reasonable to assume that the local government employers will mirror what happens in the rest of the public sector and this assumption has been built into the projections. Pay settlements for the years 2016/17 and onwards are estimated to be 1% per annum.

3.10 The net cost of service assumes an employee turnover saving of £350k per annum by the Council, which equates to 4.27% of base salary budget. This has been allocated across service areas according to headcount and gives managers clear cash targets within which they have to manage.

3.11 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. The triennial revaluation of the Fund based on the position as at 31st March 2013, 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.

3.12 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 60% (compared with 66% in 2010), with a shortfall of £45.3m. 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 14.60% future service rate which should cover the liabilities scheme members will build up in the future, plus

- an annual lump sum past service deficit contribution (£2.780m in 2015/16), to cover the shortfall in the Fund. The Council needs to make cumulative provision for growth in contributions to the Pension Fund of £406,000 for each of the next four years. This is largely due to the value of gilts determining the value of future liabilities to the pension scheme, increased costs associated with increasing life expectancy rates and predicted returns on pension fund assets.

3.13 The creation of the single tier state pension, and the end of contracting out of the second state pension, will negatively impact on employers providing defined benefit pension schemes (such as the Local Government Pension Scheme). Currently, providing that such pension schemes meet statutory requirements, employers pay a reduced National Insurance (NI) contribution – the reduction is 3.4%. The introduction of the single tier pension will have the effect of increasing the employer's NI contributions by the amount of the current reduction – 3.4%. Provision of £215,200 for increased employer NI contributions with effect from 2016/17 has been included within the MTFS.

3.14 From April 2016, a new National Living Wage of £7.20 an hour for those aged 25 and over will be introduced. This will rise to over £9 an hour by 2020. The majority of the Council's staff are already paid above the Living Wage, however for the 11 employees who will remain under £9 per hour by 2020, the cost of £4,000 has been included from 2019/20 to allow for this increase.

3.15 An increase of 1% per annum has been assumed on members' allowances, in line with the anticipated employee annual pay award.

Fees and charges

3.16 A general assumption for a 2.0% increase in non-statutory fees and charges has been factored in. However, reviews of all charges are required annually by Service Managers. A provision to allow for a freeze on car parking and land charge fees has been made over the period of the MTFS.

North Place / Portland Street Car Parking Development

3.17 In the current financial year £335,800 of budgeted car parking income is being funded from a one-off Car Parking Equalisation Reserve. The Reserve was set up to cover the shortfall in car parking income during the intervening period before a multi-storey car park could be returned to the Council as part of the North Place redevelopment. This reserve contribution equated to around the amount due to be received as part of that arrangement. As the progress at this site has been delayed, the Council will continue to cover the cost in 2016/17 from one-off sources until the matter is resolved by 2017/18 (see sections 4.27 and 4.28 for further detail).

Waste & Recycling

3.18 Green Waste take up has continued to rise during 2015/16 and is anticipating an overachievement of income against budget. As volumes are considered to have stabilised with consistent renewals each year, the surplus of £27k has been built into the MTFS to offset some additional costs identified below.

3.19 Since April 2015 recycling prices have been negatively impacted by global events such as a fall in the price of crude oil and the troubles of the Chinese economy. Consequently, the Council is currently experiencing a significant drop in recyclate income with current estimates indicating this to be in the region of £330k.

3.20 However, in October 2015, Ubico takes on bulking operations and the Joint Waste Team will be responsible for managing the contracts with re-processors which should enable a higher level of income to be secured than that currently being achieved via the present re-processor, Printwaste. On this basis, the indicative £330k is hoped to be a pessimistic scenario and likely to be improved upon once further intelligence is available by March 2016. In addition, locally food waste transfer has been rerouted to Bishops Cleeve which has resulted in a loss of recycling credits.

3.21 Trade Waste volumes have continued to decline as fewer businesses take up the service. As a result a base budget reduction of £62k has had to be made to bring it back in line with expectations. However, this has been marginally offset by a boost in Bulky Household Waste collections which recent trends indicate will achieve £21k additional income each year.

3.22 Some cost savings have been identified to offset the fall in income – firstly, £42k from a reduction in food waste disposal costs following the move to reroute from Dymock to the Anaeorobic Digestion Plant at Bishops Cleeve; and secondly from fuel and general efficiencies totalling £75k.

3.23 The net additional cost per annum is £227k and this has been taken account of within the MTFS.

3.24 The MTFS further assumes that the Council will not be able to inflate waste and recycling income budgets with volume reductions at a cost of £19,600 in 2016/17 due to the high volatility in market conditions.

Revenue Support Grant (RSG)

3.25 The main issue in terms of funding availability is the estimation of the level of Revenue Support Grant (RSG) which the Council will receive. Future settlements may impact on effective longer-term financial planning and sustainability.

3.26 The 2015 Spending Review required each unprotected government department, including DCLG, to produce savings plans of 25% and 40%. Whilst the outcome of the Spending Review won't be known until 25th November 2015, previous iterations of the MTFS assumed cuts of 25% over the period to 2018/19. However, it is more than likely that the cut facing Cheltenham will be more severe than this and as such cuts of 31% across the period of the MTFS to 2019/20 have been assumed.

3.27 Should the cuts falling on the Council be ultimately deeper than anticipated, the projected funding gap will worsen by £767k (assuming cuts of 40% compared to 31% across the MTFS).

Retained Business Rates

3.28 The Business Rates Retention Scheme was introduced on 1st April 2013. Under the Scheme, the Council retains some of the business rates raised locally. The business rate yield is divided – 50% locally and 50% to the Government. The Government's share is paid into a central pool and redirected to local government through other grants. Of the 50% local share, the district councils' share has been set at 80%, with the County Council's share being 20%. A tariff is applied to reduce the local share to a baseline funding level set by the Government. Where the value of retained business rates exceeds the baseline funding level, 50% of the surplus is paid over to the Government as a levy; the remaining 50% can be retained by the Council.

3.29 In order to maximise the value of business rates retained within Gloucestershire, the Council entered into the Gloucestershire Business Rates Pool. Being a part of the Pool has the benefit of reducing the government levy from 50% to 19%. Any surpluses generated by the Pool are allocated in accordance with the governance arrangements agreed by the Gloucestershire councils.

3.30 There is a high level of volatility in the business rates system, mainly due to the level and impact of appeals lodged against rateable values but also due to the natural turnover of businesses, properties being left empty or demolished and the increasing trend for commercial properties to be converted into domestic dwellings. Changes to the value of businesses can have a significant impact upon the business rates collected. These factors make it difficult to predict the level of income the Council can retain in the future. Previously, for modelling purposes growth of 3% against the baseline has been predicted. Additional work has now been undertaken to gather intelligence available about any growth or decline in the business rate property base and forecast the level of business rates income over the next 3 years. There is still a degree of uncertainty as forecasting is based on high level information and it is not until the Valuation Office Agency visits a completed building that a final rateable value is known. The estimated timing for new, redeveloped or demolished premises may also be incorrect.

3.31 Furthermore, in 2016/17 there is rising concern about the likely levels of business rates over the next one to two years. The town is seeing increasing levels of redevelopment with the short term impact of reduced business rates income whilst schemes are in progress. Schemes which had been anticipated to be completed during 2015/16 are slipping into 2016/17 and some major redevelopments are unlikely to generate any business rates growth until the latter end of the next financial year. For example, the Brewery development is continuing and it is now known that Tesco's will not return before the end of 2016; the BMW Garage is not due for completion until December 2016; the Racecourse development will be assessed by a specialist rating unit which may result in significant delays in delivering additional income.

3.32 The MTFS assumes a one-off drop in business rates income in 2016/17 of £285k, with income levels recovering as development 'goes live' across 2017/18 and 2018/19.

New Homes Bonus (NHB)

3.33 The Government introduced the NHB as a cash incentive scheme to reward councils for new home completions and for bringing empty homes back into use. This provides match funding of £1,485 for each new property for six years (based on national average for band D property – i.e. £8,910 per dwelling over six years), plus a bonus of £350 for each affordable home (with £2,100 over six years).

3.34 Funding is not ring-fenced and is designed to allow the 'benefits of growth to be returned to communities'. Funding is split 80:20 between district and county authorities.

3.35 The Council currently includes 65% of its New Homes Bonus funding within base budget equating to £1.050m.

3.36 In 2016/17, the Council has already agreed to 'top slice' NHB by up to £157.5k to cover the interim costs of the recently approved senior management structure for Regulatory and Environmental Services and to use £200k as this Council's local contribution towards the 2020 Vision programme costs.

Council Tax

3.37 Collection fund surpluses arise from higher than anticipated rates of collection of the council tax collection rates. This is assessed annually and an estimate of £50k per annum has been assumed for the period covered in this MTFS with the exception of 2016/17 which has been calculated based on data held.

3.38 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 forecast to increase by 0.5% each year for the purposes of modelling the MTFS and a council tax increase of 1.99% is assumed from 2016/17.

Property maintenance

3.39 Current projections include a contribution to the Property Maintenance Reserve of £700k per annum. This has been 'top sliced' by £100k per annum to support maintenance costs arising from Delta Place. Previously the Council had been intending to increase this contribution annually to get to £1.0m per annum. However, in recent years this increase has been reassessed as the Council rationalises its asset portfolio and focuses on programme maintenance works which address health and safety priorities, with the support of the Asset Management Working Group.

Funding gap

3.40 Given the expectations on councils to make a significant contribution to reducing the national budget deficit, this Council faces a significantly more challenging financial position in the early years of the MTFS. The latest projections indicate a gap of **£3.9m** for the period of the MTFS (2016/17 to 2019/20).

4. STRATEGY FOR 'BRIDGING' THE PROJECTED FUNDING GAP

4.1 The Section 151 Officer and the Executive Board have identified a number of work-streams which form the longer term strategy for 'bridging the projected funding gap' which are detailed below:

Service reviews and 'Systems Thinking'

4.2 The Council is keen to ensure that services are of the highest quality and lowest cost. Service reviews, which involve benchmarking, have been used to support the commissioning programme. Also the Council uses 'systems thinking' as 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

4.3 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.

4.4 In July 2015, Council endorsed the proposals put forward in respect of the Environmental and Regulatory Services Division, referred to as the 'REST' project. The objective of the proposal was to create senior capacity to achieve better, more focussed and more efficient services in the longer term.

4.5 Whilst the proposal came with an up-front cost, funded from a one-off allocation through New Homes Bonus, the intention was that the additional cost would be recouped through organisational changes elsewhere in the division as part of a phase 2 restructure.

Shared services

4.6 There has been major progress in the establishment of shared service arrangements with some significant efficiency improvements being achieved. The Council has established a shared ICT service with the Forest of Dean District Council acting as lead employing authority and continues to benefit from Audit Cotswolds, a shared audit service with Cotswold District Council and West Oxfordshire District Council and shared Legal and Building Control services with Tewkesbury Borough Council. In 2015/16, Gloucester City Council joined One Legal further expanding the services it provides.

4.7 The programme for a shared Enterprise Resource Planning (ERP) system which replaced individual payroll, HR, finance and procurement systems with three other councils (Cotswold District Council, Forest of Dean District Council and West Oxfordshire District Council) has acted as a catalyst for potential future shared working. This system became the platform for a full shared service, referred to as GO Shared Services (GOSS), which has reduced the cost of 'back office' functions and management structures.

4.8 Additionally, the Council worked with Cotswold District Council to form a company called Ubico Ltd in April 2012, which provides environmental services including waste and recycling collections and street cleaning, producing savings for both councils. More recently Forest of Dean District Council, West Oxfordshire District Council, Tewkesbury Borough Council and Stroud District Council have joined Ubico which is benefiting from this significant expansion and is anticipated to result in a streamlining of services and reduction in costs for the benefit of its shareholder councils - £39k in 2016/17 and potentially £40k in 2018/19.

4.9 Looking further into the future and bearing in mind the need to close the budget gap over the whole period of the MTFS, the 2020 Vision for joint working with our GO partner councils is one potential means of delivering further savings, building as it does on an already shared ERP, data communications and Network Connectivity. Furthermore, access to £3.8m Transformational Challenge Award (TCA) funding will also enable further 'joining up' of application software and infrastructure across the partnership.

4.10 The major efficiency savings from this programme would be gained by closer partnership working and sharing services, achieving reductions in management and operational costs whilst retaining local democracy and local decision making. Current estimates suggest that the programme could deliver £581k of efficiency savings for Cheltenham across the period covered by the MTFS, thus making a significant contribution to closing the medium term funding gap.

4.11 The above identified savings do not at this stage assume a different delivery vehicle other than the traditional Section 101/102 model used for existing shared services and therefore do not assume any changes arising from pensions. However the Local Government Pension Scheme (LGPS) is currently, and will continue to be, a financial burden to this Council which is unsustainable in the long term.

4.12 Establishment of a local authority-owned company model may allow the development of staff terms and conditions which are modern, fit for purpose, and designed to attract new employees whilst retaining existing valued staff. The gradual move away from the LGPS (by using a stakeholder pension scheme for *new* employees) is likely to enable pension costs to be manageable and avoid the hikes in annual contributions experienced under the LGPS, and therefore, contribute additional savings by 2019/20 – estimated at £1m across the partnership, and £227k specifically to this Council.

4.13 To summarise:

- The move to alternative models has allowed the core organisation to shrink down, delivering senior management savings.
- There is now a collaborative approach across the existing partnership with much sharing of information, reports and approaches to issues.
- This has reduced the Council's overall accommodation needs thereby increasing the potential for bigger savings arising from the accommodation strategy and relocation from the Municipal Offices.

Commissioning

4.14 Commissioning is defined by the Cabinet Office as "the cycle of assessing the needs of people in an area, designing and then securing appropriate service". Commissioning requires a better focus on clearly defined local outcomes that are desired from a service and a willingness to consider alternative models for service delivery.

4.15 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 and Parish Councils) approach to delivery of services may result. The key tests for successful commissioning will be good quality services, with good outcomes for the citizen and community and long term financial viability.

4.16 The MTFS assumes continued savings arising from the establishment of The Cheltenham Trust, a charitable trust set up to deliver the town's leisure and culture services – an additional £425k in total across 2016/17 to 2018/19 which will deliver total savings in the provision of these services of £709,400.

4.17 The Central Depot Bulking Facility project is anticipated to deliver total savings of £92k, of which £46k is due to be delivered in 2015/16 and £46k in 2016/17.

4.18 The Budget Strategy includes an aspiration to deliver £50k of savings in respect of Waste and Recycling services by 2019/20. The specifics of delivery have not been established and this target will form the basis for discussions between the Council, the Joint Management Unit and Ubico Ltd so that firm proposals can be developed across the period of the MTFS.

4.19 An alternative method for delivering these savings targets may be a procurement exercise whereby we state the value of the contract and we ask the 'Market' to respond in terms of what could be delivered within that sum.

Income

4.20 The fees and charges the Council makes for its services are an important and potentially vulnerable income stream. It is essential to the Council's financial health that these charges are set appropriately and in line with the Financial Procedure Rules.

4.21 The Audit Commission published in 2008 a comprehensive report entitled "Positively Charged - Maximising the benefits of local public service charges", in which it examined in detail the use of fees and charges. Although the report is now seven years old, its basis remains valid and provides a sound foundation for understanding the pressures on Local Authorities in managing charging schemes. The report recognised that councils do not always make the most effective use of their charging powers.

4.22 Over the course of the MTFS, officers will review the level of fees and demand in line with current legislation, including a review of any concessions in order to maximise this workstream in delivering savings.

4.23 No new revenue projections are presented within phase 1 of the 2020 Vision business case. However, the opportunity to trade services is still of interest to members across the partnership and will be retained as a future objective, potentially deliverable through the creation of a teckal company.

4.24 As highlighted above, Council recently approved a restructuring proposal in respect of the Environmental and Regulatory Services Division to create senior capacity to achieve better, more focussed and more efficient services in the longer term.

4.25 The other key influence on the proposal was the urgent need to create senior level capacity to improve Cheltenham's economic performance in the light of the Athey Consulting report. It emphasised the need for collaboration with Cheltenham Development Task Force, GFirst LEP, government agencies and local businesses. Government policy continues to promote economic growth and reward local authorities who are successful in this objective through the business rates retention scheme and via New Homes Bonus. The 'REST' project is therefore, crucial to shaping the Council's response to the need for economic growth in that it embraces the land use and infrastructure planning functions which are crucial to unlocking growth potential by facilitating the growth in existing business.

4.26 As a consequence of these decisions, a base budget target of **£500k** has been identified in 2019/20 to deliver on this aspiration of improved economic performance. This is further explored in Section 5 and it will be for the Managing Director (MD) of Place and Economic Development to develop, in conjunction with Cabinet, a strategy for delivery.

4.27 With regards to the North Place / Portland Street development, the Council had anticipated the guaranteed initial income of £350k pa in the 2016/17 financial year on the basis of the build completion of the 300 space multi storey car park on North Place by December 2016.

4.28 As the developer remains in legal dispute with Morrisons the delivery timescale of the car park is therefore unlikely to be met, and in the short term it is suggested that the best solution is to meet the 2016/2017 shortfall from reserves on a one off basis, pending recourse to further negotiations and if need be legal action to deliver an increase stream by 2017/18 as reflected in the Budget Strategy.

4.29 Over a number of years the Council has been developing a co-ordinated approach to advertising and sponsorship opportunities which could support the costs of maintaining and improving a number of its assets around the town. This started with the approval of an Advertising and Sponsorship policy and during 2015/16 has resulted in the award of contracts for the management of the letting of advertising space on roundabouts, banners, boundary signs, car parks and open spaces for advertising and sponsorship opportunities. These contracts will contribute an additional £63,100 towards the costs of maintaining the assets being used for advertising and sponsorship, which in turn helps to protect and improve them for the benefit of our residents.

Asset management

4.30 The Council has a significant property portfolio including some key public buildings which place significant pressure on our budget and represents a significant cost to the tax payer. Annually the Council allocates £700k towards the planned maintenance of public buildings.

4.31 The Council is aiming to reduce the net cost of its property portfolio through increasing income streams or reducing management and operational costs. The Council has an updated Asset Management Policy which outlines its strategic approach to asset management.

4.31 The asset base is under constant review to identify potential property disposals which could 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 and land are being reviewed to identify alternative uses that might better support the Council's corporate plan objectives and generate an income. It is anticipated that this approach will deliver either increased rental income and/or reduced costs and a target of £30k across 2016/17 and 2017/18 has been included to reflect this ambition.

4.33 Other workstreams identified for consideration will include looking into the viability of holding an asset management investment portfolio as well as giving consideration to enable projects within the borough with our partners through our access to capital resources and borrowing capability.

4.34 The Council currently holds a base budget of £297,300 for vehicle operating leases on behalf of Ubico. A further review of the financing of this arrangement has resulted in a realignment of the budgetary requirement allowing £97,300 to be made available to support the budget gap.

4.35 As part of the Accommodation Strategy, the Council has recently purchased Delta Place which will be held as an investment property until the Council is able to vacate the Municipal Offices and make Delta Place its main base in the town. This will generate a rental income in the short to medium term contributing towards the Council's funding gap, and as options for alternative use of the Municipal Offices come forward there will be opportunities to maximise the revenue stream and / or capital receipts arising from this strategic asset.

4.36 As a result of a detailed debt profiling exercise, the acquisition of Delta Place will realise a saving of £100k per annum from 2016/17.

4.37 A further target in 2019/20 of £100k is included in recognition of the second stage of the Accommodation Strategy. As outlined in the Accommodation Strategy report to Council on 14th April 2015, officers are investigating options for the future of the Municipal Offices, including the process for securing a partner to enter into a joint venture for the redevelopment of the Municipal

Offices and further reports will be made to Cabinet / Council as more detail becomes available and decisions are required.

Use of New Homes Bonus

4.38 The Council currently includes 65% of its New Homes Bonus (NHB) funding within base budget (2015/16) which equates to £1.050m. The Council will need to decide how it wishes to budget further NHB income as it will be an important element of future financing arrangements. This will be dependent on 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. The estimate of NHB for 2016/17 is £2.127m which is considered to be sustainable over the period of the MTFS.

4.39 A recent canvass of the other Gloucestershire Districts confirmed that four already use 100% of NHB to fund its base budget with the other council having an annual ‘cap’ at £2.2m.

4.40 Given the Government’s view that the NHB is part of local authorities’ income stream, and not simply a “nice to have” extra, the MTFS assumes this will incrementally increase to £2.1m. The assumptions behind the projections are that a sustainable level of prudent growth year on year equates to an additional 300 properties per annum (Source: CBC Strategic Land Use Team).

The residual funding gap

4.41 Taking into account that the identified work-streams are delivered throughout the period covered by this MTFS, the projected residual funding gap (assuming a 1.99% increase in council tax annually from 2016/17) is shown below in Table 2.

BRIDGING THE GAP STRATEGY					
	2016/17	2017/18	2018/19	2019/20	Total
Total Current MTFS Funding Deficit	**1,824,818**	**1,005,111**	**570,163**	**502,764**	**3,902,856**
Service Reviews & 'Systems' Thinking					
REST		157,500			157,500
Shared Services					
2020 Vision - Shared Services	150,900	224,100	124,000	82,000	581,000
2020 Vision - Teckal Company				227,000	227,000
Additional waste target from new joiners	39,000		40,000		79,000
Efficiency gain on procurement					
- GOSS re-tendering of banking arrangements	10,000				10,000
Commissioning					
L&C Review - trust savings	231,500	150,500	43,000		425,000
Central Depot Bulking Facility	46,000				46,000
Joint Management Unit for Waste				50,000	50,000
Income					
Additional income target through economic growth - role of MD Place and Economic Development				500,000	500,000
Business Rates additional target through pooling			50,000		50,000
North Place development income		350,000			350,000
Advertising & Sponsorship contract	63,100				63,100
Asset Management					
Rationalisation of asset portfolio & Review of Investment Property	10,000	20,000			30,000
Vehicle Operating Lease - reduction to base budget	97,300				97,300
Accommodation Strategy	100,000			100,000	200,000
Other					
Use of NHB to support Base Budget	700,000	250,000	100,000		1,050,000
Total Identified Savings/Income	**1,447,800**	**1,152,100**	**357,000**	**959,000**	**3,915,900**
Shortfall / (Surplus) against MTFS Funding Gap	**377,018**	**(146,989)**	**213,163**	**(456,236)**	**(13,044)**

NB: traffic lights denote risk associated with delivery

4.42 It is worth noting that whilst economic recovery over the course of the current MTFS would obviously assist in closing the projected funding gap, some costs (e.g. pay awards) may also increase.

4.43 The MTFS and more specifically Table 2 above, indicates broadly how the Council may close the projected funding gap over the period of the MTFS. In some instances it includes savings targets rather than necessarily specific worked up projections of cost savings and includes further shared services; asset management reviews; future waste initiatives and savings targets for commissioning reviews.

4.44 Of the identified budget gap of £3.9m, savings targets of the full £3.9m have been identified. To assist in closing the gap, it is proposed to create a specific earmarked reserve; a ‘budget strategy (support) reserve', at the earliest opportunity. This will provide greater resilience and time for the Council to embed its strategy for closing the gap and will also allow for slippage in savings delivery.

4.45 The Executive Board have reviewed the current levels of existing earmarked reserves and are able to recommend the realignment of £229,229 into a newly created budget strategy (support) reserve. In addition the Section 151 Officer has undertaken an adequate risk-assessed approach to the level of general balances that should be held to meet unforeseen expenditure. The determination is that general balances should not fall below £1,334,100 (Annex A). With the balance held at 31st March 2015 amounting to £1.599m, the Section 151 Officer is able to recommend a further transfer to the budget strategy (support) reserve of £200,000; giving a total in that reserve of £429,229.

4.46 It is a further recommendation from the S151 Officer (as detailed in Section 6) that any future underspends or fortuitous windfalls are earmarked for transfer to either general balances or the budget strategy (support) reserve.

5. ALTERNATIVE SOLUTIONS TO BRIDGING THE FUNDING GAP

5.1 The Section 151 Officer, in consultation with the Executive Board, was tasked with reviewing alternative solutions, in particular should there not be political support for 2020 Vision, to the Council's funding gap. These are considered below.

Council Tax increase above 1.99%

5.2 The Council could reduce the projected funding gap by increasing council tax above 1.99%. Council tax increases of 5% would generate an additional circa £230,000 income per annum. This approach would be unpopular in the current economic climate and we should bear in mind that the electorate now have the right under the Localism Act to call a referendum if it is felt that a council tax increase is too high.

5.3 Given the size of the projected funding gap and the level of uncertainty surrounding future government grant settlements, a more radical approach will be required to identify alternative solutions if there is no appetite for the 2020 Vision. To abandon 2020 Vision will leave a 'hole' in the strategy of at least £800k, assuming that all the other work-streams can be delivered. It will also put some 'commissioning' projects at risk; such as the provision of leisure and cultural services, as any alternative ways of reducing expenditure may involve complete closure of some of these facilities. The following alternatives have been considered:

Unitary status / Devolution

5.4 There does not appear to be any 'appetite' from across the district councils to consider Unitary Authority status for Gloucestershire; indeed one of the main drivers for the 2020 Vision is surrounding democracy and the need to have sufficient resources to be able to exercise choices so that it can address local needs and priorities.

5.5 Both Gloucestershire and Oxfordshire councils have signalled their intent to seek further powers from Government as part of the current devolution agenda. In both cases the aim is to bring responsibility for significant public expenditure to a single point of control, thus creating the potential to secure higher quality outcomes for local people in the context of reduced public expenditure.

5.6 Devolution is not an alternative to the 2020 Vision Programme – the two concepts would work well together. Devolution is about securing higher level strategic decision making powers from Government or other national agencies together with additional funding that goes with those powers. The 2020 Vision Programme is about finding more cost effective ways of retaining local service delivery in light of the continuing squeeze on local funding. The 2020 Vision Programme does not undermine any devolution conversations; if the Government supports the devolution proposals it would enhance our collective ability to respond to any powers that might be devolved because the partners would have a louder voice together than they would alone.

5.7 Given the scale, cost and timeliness associated with the setting up of a Unitary Authority in Gloucestershire and the uncertainties surrounding a devolution deal, the Section 151 Officer does not believe this to be a viable alternative over the period covered by this MTFS.

Sharing with the County Council

5.8 In order for shared services to be successful, two factors are crucial; common ICT systems and common services.

5.9 The only strong commonality of services that district and county councils could share is back-office functions and senior management. Given that this Council is already sharing the majority of its back-office functions, that it has invested in a shared ERP through the GO partnership and in addition is sharing two of its statutory posts, the Section 151 Officer is of the opinion that this route will not deliver the substantial savings required to close the funding gap.

Looking to alternative partners

5.10 Despite not having natural geographical boundaries with our existing GO Shared Services partner councils, the willingness to work together and share best practice has already delivered considerable success. It is worth reminding ourselves what the key objectives were from the original GO Programme:

- **Cashable savings** – All GO organisations have within their strategic aims and ambitions, the need to find solutions to budgetary pressures.

- **Staff retention and opportunities** – It is essential to retain good staff in local government to meet the challenges currently being faced by councils. In addition, it is essential that jobs remain in the borough.

- **Service efficiencies** – All councils undertake similar work, thus creating duplication of effort and resources. Joint training, single sourcing and standardised documentation also provide opportunities for service efficiencies.

- **Service resilience** – All councils lack capacity and resilience to respond to peaks in demand or absence of staff. The lack of capacity also leads to buying in external expertise which can be expensive.

- **Enhanced reputation** – At a strategic level, the implementation of a shared ERP application and service across Gloucestershire and West Oxfordshire may provide a catalyst for future shared services. If the approach can deliver successful outcomes then it may well serve as a proof of concept that other potential shared services could adopt.

5.11 The Council adopted these objectives within the original business case at the time it agreed to join the GO Programme, and with the exception of reviewing the delivery vehicle mechanisms, in broad terms the objectives of the 2020 Vision remain the same whilst respecting and maintaining the political independence of each council.

5.12 An alternative solution may be to look at authorities who share natural geographical boundaries (e.g. Tewkesbury Borough Council, Gloucester City Council) although this will require detailed early negotiations to start now and will require a 'willingness' from those councils to want to share services with us. Periodic informal approaches from officers to/from other Gloucestershire district authorities have not proved fruitful. In addition, the lack of a shared ERP system and data communications / network connectivity would complicate the sharing of any transactional services and require substantial up-front investment.

5.13 Whilst the Section 151 Officer considers this 'potentially' to be a viable alternative, it may be more prudent to ensure that the existing 2020 Vision allows additional partners to join the existing partnership, thus releasing greater economies and efficiencies for the benefit of taxpayers and stakeholders.

Outsourcing

5.14 Where staff move to a transferee admission body within the LGPS, the funding deficit relating to those staff would normally remain with the transferring employer i.e. Cheltenham Borough Council (CBC). In theory contractors could be asked to take on this deficit but it would be surprising to receive any bids for the contract if this were the case.

5.15 Even if they were prepared to take on the deficit the contractor would factor this additional burden into the contract price. It should also be noted that the transferring employer (CBC) has to guarantee any pension liabilities of the new admission body.

5.16 Therefore, the transferring employer (CBC) retains this deficit but has fewer members to fund it, and whilst any future liability is removed a guarantee still remains in place. The transferring body would then have to pay the new body for the use of their services and it is assumed that their cost would include their superannuation costs.

5.17 It is important that any transferring employer such as CBC retains sufficient budget to cover the deficit contribution costs for the staff that transfer to another employer and this ongoing cost needs to be factored into the business case exercise when considering the outsourcing option.

5.18 Based on the 2013 valuation report for CBC, the annual deficit contribution should be £3.433m per annum over 20 years. This follows the actuary assumption that this equates to 30.9% of CBC's pay base at 31st March 2013. The actuary has assumed annual salary growth over the repayment period in arriving at this annual cash figure. However, as staff transfer to other organisations, the pay base has reduced, thus potentially increasing the cost of future contributions required by CBC to stabilise the scheme.

5.19 In addition to this cost the newly admitted body will have a revised contribution rate which the contractor would request is 'added' to the contract sum.

5.20 When factoring in both this additional cost and the requirement to preserve stabilisation within the LGPS, it is the opinion of the Section 151 Officer, that further outsourcing to private contractors, is no longer a viable option for CBC.

5.21 It should be noted that in the case of a local authority-owned company model, an element of control is retained by the Council.

Contribution of 'arms-length' services and the Housing Revenue Account

5.22 On 8th July 2015, the Chancellor announced that rents in social housing would be reduced by 1% a year, cumulative, for four years resulting in a Government estimated 12% reduction in average rents by 2020/21. The impact of the changes in housing and welfare policy will be reflected in the updated HRA business plan but the headline figure suggests an estimated loss of rental income of **£6.7m** to 31st March 2020.

5.23 Officers and Members constantly review the performance of Cheltenham Borough Homes (CBH) in the context of the savings challenge. This has thrown up a number of issues and potential advantages in considering the contribution which the Housing Revenue Account (HRA) might make in helping to address the MTFS funding challenge.

5.24 Whilst the services delivered by CBH are largely funded via the ring-fenced Housing Revenue Account (HRA), there may be opportunities to share further costs and thereby generate savings within the general fund. A potential example of this would be through shared accommodation arrangements when CBH's existing lease comes up for renewal. CBH are currently examining all opportunities for cost savings as part of the HRA Business Plan review although these efficiency savings would be to the benefit of the HRA.

5.25 Whilst the Section 151 Officer considers some merit in exploring these opportunities, the recent Government proposals will place significant burden on the HRA.

Large Scale Voluntary Transfer (LSVT) of the housing stock

5.26 Stock transfer is a tried and tested method of releasing financial capacity for investment in housing and associated services, free from the constraints of the HRA (Housing Revenue Account) debt cap.

5.27 A transfer would require the support of a majority of the Council's secure and introductory tenants who voted in a ballot. The previous stock transfer ballot in Cheltenham took place in 1997 and was a "no" vote in the ratio 2:1.

5.28 The model would see housing stock transfer from CBC to CBH. The transfer would involve the conversion of CBH from a company wholly owned by Cheltenham Borough Council to an independent body.

5.29 A value for transfer of the stock would be agreed between CBC and CBH. The valuation would be derived from a 30 year discounted cash-flow model, applying a discount rate to future incomes and expenditures.

5.30 As a direct result of the proposed changes in housing and welfare policy mentioned above, high level modelling has suggested that the capital receipt to be gained is not significant, and with the other conditions that would need to be in place (tenant and political support) the Section 151 Officer does not consider this option as a viable alternative.

Commercial focus and economic growth

5.31 Cheltenham is uniquely placed to grow. The creation of a growth zone, as promoted in the Strategic Economic Plan (SEP), is to ensure the availability of quality employment land in proximity to the M5 motorway, attractive to businesses and with excellent connectivity throughout Gloucestershire and rest of the UK. This will serve latent demand in the marketplace and provide space required to enable businesses to grow; particularly on the town's margins and with the neighbouring district of Tewkesbury, which is also geographically well positioned to deliver growth development to the north-west of Cheltenham and along the M5 corridor.

5.32 The Gloucestershire Business Rates Pool was set up in 2013/14 to maximise the business rate income retained within the County and to support economic growth within the area of the Local Enterprise Partnership. In the first year of operation the Pool reported a surplus of £774,862.

5.33 In 2014/15, the pool suffered a significant loss due to the impact of backdated appeals on rateable values and, in particular, the successful backdated appeal by Virgin Media, the largest valued business in Tewkesbury. The final pool position for 2014/15 published a deficit of £2.3m following a safety net payment to Tewkesbury of £3.9m, as reported to Council in July 2015.

5.34 Despite writing to the then Secretary of State, informing him of the serious impact of the Government's policy on backdated appeals of business rates, to date no financial compensation or other consideration has been received. Letters have now been sent to the new Secretary of State on the advice of the Local Government Association setting out the latest position and the ongoing uncertainty surrounding the Virgin Media issue.

5.35 The ongoing issue with Virgin Media relates to their request for a single listing. They are currently listed with 68 different councils. Following meetings with the DCLG and the LGA recently, it was made clear that this will not be resolved quickly. Further information is needed from Virgin Media in order for the Valuation Office to consider the matter and due to the size, complexity and potential impact for many councils and the DCLG, it is unlikely to be resolved this financial year. However, there is a small risk that the Virgin Media issue may be fast tracked and resolved this financial year which would have a serious impact on the Gloucestershire business rates pool.

5.36 As reported to Cabinet in July 2015, the Chief Finance Officers agreed to look at the composition of the pool and determine whether the amount of business rates retained in Gloucestershire could be maximised by having fewer members in the pool and lowering the levy rate. There is a technical working group currently modelling the various options.

5.37 There are a number of options but with each option it is important to continue to support the principle of maximising the benefit of business rate growth in Gloucestershire to encourage future economic growth. Given the above outlined risk regarding Virgin Media it is highly likely that Tewkesbury will remove themselves from the pool until 2020. Therefore any growth development to the north-west of Cheltenham and along the M5 corridor is unlikely to benefit from pooling until after this date when the Government is due to re-set the baseline funding targets.

5.38 A 64 hectare site in Fiddlers Green, Cheltenham, has been identified to accommodate GCHQ expansion and development of a Cyber Park to include supply chain providers. Initial estimates suggest that this site alone could generate significant additional business rates, which, under the existing regulations, Cheltenham would retain 40%. There are obvious constraints such as planning, which will need to be carefully considered alongside the Joint Core Strategy.

5.39 The Section 151 Officer considers this to be a unique opportunity available to Cheltenham but is of the opinion that it is a high risk strategy on its own. His opinion is therefore that this strategy should be considered alongside, rather than as an alternative, to the 2020 Vision and further supports the target of £500k attributed to the new Managing Director of Place and Economic Development in 2019/20.

Borrowing to fund investment property and prudent use of capital resources

5.40 The Cheltenham Development Task Force with its panel of experts has demonstrated that growth can be delivered to the benefit of the town on a relatively low cost margin. Net direct receipts (circa £12m) have been amassed from strategic disposals at Midwinter and North Place and these could have been ring-fenced to deliver longer term revenue streams.

5.41 In April 2015, Council approved the provisional allocation of the capital receipt from the sale of the North Place and Portland Street car parks to support key property investment aspirations. Whilst the majority of the allocated schemes will provide a social return on investment very few will provide a financial return. At the Council meeting on 14th April 2015, there were some worthy alternative options put forward for the use of sums allocated to the purchase of Delta Place which would also not deliver a financial return on investment.

5.42 The current allocation of £2.5m towards the purchase of Delta Place will provide a return on investment of £100k per annum (4%). Had the Council been in a position to allocate £9m towards the purchase, the return on investment could have equated to circa £460k per annum (5.1%).

5.43 The UK commercial property market, according to M&G Real Estate's research, anticipates the market delivering returns of between 6% and 8%, significantly high when compared against the bank forecast for interest rates. With liquidity in the market and increased investor confidence, performance for the current year is forecast to be exceptional.

5.44 There have been aspirations around purchasing further investment properties to return an annual revenue stream to the Council which could support the base budget. The Council is at liberty to do this by relying on its s12 Investment Power. However, this power assumes that if the main purpose of the acquisition was to provide an income stream the Council would not borrow to finance the activity. If the Council did, it could be opened up to a challenge of borrowing to invest which breaches one of the golden rules and could be classified as an ultra vires activity.

5.45 However, the Localism Act 2011 introduced a general power of competence for local authorities in England to allow them to do “anything that individuals generally may do”. Authorities such as Mansfield District Council are using this power to borrow and invest in property which may be a future opportunity for this Council, albeit any proposals will be dependent on market conditions and prevalent interest rates.

5.46 The Council should prioritise the use of its future investment capability to help drive local growth, supporting business expansion by meeting the local demand for flexible business space, thus creating a self-reinforcing positive benefit in terms of business rates growth.

5.47 In order to achieve this aspiration the Council will need to adopt a more hard-headed approach to capital investment, at least in the short term, to avoid adding further financial liabilities where the authority is extending its direct on-going revenue liabilities, or effectively underwriting the project-related risks of partner organisations. This may well include a minimum target for the internal return expected on capital investment.

5.48 The Council has currently allocated its existing capital resources to identified projects, and so the Section 151 Officer recommends the Director of Resources and Special Projects, in conjunction with One Legal, investigates how the Council may use its general power of competence to facilitate investment opportunities. Council may wish to make a future recommendation that all future proceeds be ‘earmarked’ for investment activity that provide for a specified minimum rate of return.

Cutting discretionary services

5.49 It is the opinion of the Section 151 Officer that the only ‘serious’ alternative to achieving a balanced budget over such a short timescale is through a reduction in discretionary services and scaling back statutory services, although it is recognised this will be viewed as the most ‘brutal’ alternative.

5.50 The Council currently spends in excess of £1.8m on discretionary services which includes leisure and cultural provision, parks and gardens, tourism, community development, and support to the third sector, although arguably it is this ‘spend’ that makes Cheltenham a great place to live, work and stay and helps to ensure that we meet our customers’ needs as outlined in our vision statement.

5.51 Contrary to public perception, Cheltenham does not spend significantly more than the average district council on cultural related expenditure per head of population. According to the CIPFA local authority budget comparative profile 2015/16, Cheltenham spends £23 per head of population with the average across all district councils at £22 per head.

5.52 Any cuts to these services will undermine our priorities and objectives, identified within the Council’s Corporate Plan 2013 to 2017, although it is becoming clear that we can only rely on Central Government funding to cover the costs of our statutory functions.

6. FINANCIAL PROJECTIONS - RESERVES

6.1 This Council is aspirational and horizon scanning in the approach it takes to delivering its services, and supporting those it works with in partnership to ensure Cheltenham is a vibrant and desirable place to live, work and invest. As a result, when funding has become available either through budget underspends or one-off funding, a strategy of utilising opportunities for improving and investing in the town has been followed, as opposed to the alternative of retaining in reserves for a "rainy day".

6.2 However, recognising the change in the Council's short to medium term finances will require an alternative approach to be taken over the next few financial years with a focus on delivering services within approved budgets and bolstering the Council's reserves to ensure it is able to meet any unforeseen costs in the future.

6.3 The General Reserve is held to protect existing service levels from reductions in income levels as a result of the economic downturn and other unforeseen circumstances. CIPFA's Local Authority Accounting Panel (LAAP) issued a guidance bulletin on local authorities' reserves and balances.

6.4 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.

6.5 The Council has, over a number of years, earmarked significant funds for specific reserves. These are reviewed twice yearly by full council under the guidance of the Section 151 Officer. Over the course of this MTFS, the value of earmarked reserves will be reduced as they are used to finance planned expenditure.

6.6 Given this scenario it is important that any future budget underspends or available one-off funding sources are primarily transferred to specific earmarked reserves or general balances to provide greater resilience. A review of the adequacy of the level of reserves remains a key element of the Section 151 Officer's annual review of budget.

7. WORKING IN PARTNERSHIP

7.1 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.

7.2 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
- Responsibilities and liabilities of each of the partners are clearly understood by parties to any agreement;
- Accounting arrangements are established before any payments are made; and
- The implications of the terms and conditions of any funding arrangements are considered before any monies are accepted.

7.3 Some of the areas that we are working in partnership include:

- We have established a joint local authority company with Cotswold District Council that will deliver a range of environmental services including waste and recycling collections and environmental maintenance;
- We work with a wide range of community groups such as friends of groups, Tidy Cheltenham, Cheltenham in Bloom, who are leading the way in improving their local environment;
- We are working in partnership with Gloucestershire County Council and other partners to coordinate the Cheltenham Development Taskforce project that will result in significant investment into the borough to secure its longer-term economic success;
- 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;
- We work with the Cotswold Destination Management Organisation to ensure that there is a coordinated approach to promoting the county;
- The Council has over 4,500 properties which are managed by Cheltenham Borough Homes which is our Arms Length Management Organisation (ALMO);
- Gloucestershire NHS 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;
- We provide a range of grant funding to voluntary sector partners who are able to deliver cost effective services to their communities, including Gloucestershire Association for Voluntary and Community Action which is responsible for co-ordinating and representing the voluntary sector in the town;
- We have created an independent Trust to deliver our leisure and culture services and we also support a wide range of organisations that are providing a diverse range of arts and cultural activities in the borough such as Cheltenham Festivals and the Everyman Theatre.
- We are working in partnership with a range of commissioners and support service providers to ensure that our local response in Cheltenham supports a coordinated approach to supporting victims of domestic abuse and sexual violence

8. AREAS OF UNCERTAINTY ASSOCIATED WITH THE MTFS

8.1 There are inevitable risks associated with the assumptions made within this document. 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, reduced income following fall in demand, or for new responsibilities which are inadequately provided for within government grant.

8.2 There are additional risks associated with the wider economic situation. Inflation and interest rate assumptions may prove to be incorrect, and the formulae and mechanisms used to calculate local government funding may change. A number of areas of uncertainty are considered below:

Central Government Funding

8.3 The key forthcoming events regarding Central Government are the outcome of the Spending Review on 25th November 2015, the provisional settlement later in December 2015 and the Budget in March 2016. On all these occasions, ministers will have the chance to change funding, council tax or the rates retention scheme.

8.4 Over the last and current parliaments, the Government has followed a very clear agenda of rewarding growth in housing and business rates. In contrast to the previous distribution of funding via RSG, funding doesn't automatically flow to those with a growing population, but has been used to reward and incentivise growth in housing and economic development. This has resulted in a different distribution and some very clear winners and losers.

8.5 New mechanisms have been introduced to redirect funding, principally New Homes Bonus and the Retained Business Rates scheme. These changes have forced local authorities to engage much more with what is happening on the ground in their areas, and how this might impact on their funding. A significant level of risk still remains due to the volume of outstanding business rates appeals which are being processed by the Valuation Office. Where appeals are successful, refunds of business rates are generally repayable back to the 2010/11 financial year (occasionally 2005/06) which reduces the business rates yield in the year in which the refund is made.

8.6 The Council will need to decide how it wishes to budget further NHB income as it will be an important element of future financing arrangements. This will be 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.

8.7 The current government is continuing to pursue a very clear fiscal policy which has resulted in significant funding cuts for local government. All the indications are that there will be continued downward pressure on funding for local government at the next Spending Review.

Pensions (LGPS)

8.8 The stabilisation process introduced for this Council following the 2010 valuation is still operating but given the increased deficit and the negative cash-flow position, the level of annual (cash) contribution increases have gone up from the 1% increase per annum over the last 3 years to a 2% increase per annum (£406k) for the next 3 years beginning 1st April 2014. By operating the stabilisation process, this Council's contribution rate is still well below the true employer contribution rate that would have applied without stabilisation.

8.9 Table 3 illustrates the funding level changes between the 2010 triennial valuation and the 2013 triennial valuation and provides a position statement on the levels of pension fund members at 31st March 2010 and 2013 respectively:

Table 3: Funding level 2010 64% - 2013 61%	**2010 £000's**	**2013 £000's**	**Increase (Decrease) £000's**	**Increase (Decrease) %**
Past service liabilities				
Actives	33,603	28,111	(5,492)	
Deferred pensioners	17,245	20,897	3,412	
Pensioners	48,689	64,263	15,574	
Total	**99,777**	**113,271**	**13,494**	
Assets	**65,724**	**67,984**	**2,260**	
Surplus / (deficit)	**(34,053)**	**(45,287)**	**(11,234)**	
Funding Level	**66%**	**60%**		**(6%)**
	Number 2010	**Number 2013**	**Increase (Decrease)**	**Increase (Decrease)**
Membership				
Actives	573	352	(221)	(38.6 %)
Deferred pensioners	779	821	(42	5.4%
Pensioners	657	749	92	14.0%

8.10 When reducing staff, if there were to be a recruitment freeze the modelling suggests that the number of pensioners would continue to rise long after the remaining workforce has stabilised. If the workforce was reduced by early retirement then pensioners would rise more quickly. A report by the Audit Commission in 2010 indicated that the LGPS could sustain a reduction in members of around 20% (down to 2004 staffing levels) without affecting the financial health of the LGPS. Given the reduction in active members of the LGPS for this Council for the period 2010 to 2013 equates to circa 38% you would have to question the sustainability of the scheme for this Council.

8.11 Table 4 analyses the cash-flow data for the period 1st April 2010 to 31st March 2013 and extrapolates the data through to 31st March 2019 based on the 2013 formal valuation results and decisions surrounding service provision that have already been made.

Table 4: Cash-flow data 1st April 2010 to 31st March 2018	Employer Contributions Fixed Sum £000's	Employer Contributions 14.6% £000's	Employee Contributions £000's	Benefits Paid £000's	Net Cash-flow £000's
2010/11	1,254	1,782	819	4,355	(500)
2011/12	1,387	1,656	760	4,502	(699)
2012/13	1,525	1,167	537	4,490	(1,261)
2013/14	1,728	1,095	503	4,500	(1,174)
2014/15	2,374	952	437	4,590	(827)
2015/16	2,780	837	384	4,682	(681)
2016/17	3,186	854	392	4,775	(343)
2017/18	3,592	871	400	4,871	(8)
2018/19	3,998	871	400	4,968	301

8.12 It is clear from the above that, unless this Council increases its contributions above those modelled in this MTFS, it will only achieve a net positive cash-flow from 2019; a difficult scenario to balance given the necessity to make further reductions in net expenditure. This analysis further demonstrates that the LGPS is a financial burden to this council.

8.13 While a reducing workforce reduces cash flow in the short term it also reduces the future liabilities and these make up the majority of the cost of pension funding. The past service deficit still needs to be funded (as do the remaining future liabilities) therefore there needs to be sufficient levels of contributions from both employers and employees as well as an appropriate investment strategy to achieve the objective of the pension fund.

8.14 Whilst there are undoubtedly cashable benefits in future years from reverting active pension fund members to stakeholder schemes, these benefits will not be realised until the fund has been stabilised and returned to a positive cash-flow. Once this position is reached, the fund will be in a position to invest surplus cash rather than having to sell assets to fund its current pension liabilities.

8.15 Employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

Adequacy of capital resources and property repairs and renewals fund (reserve)

8.16 The Director of Resources has raised the issue of the long term financing of the Council's capital programme on a number of occasions. The work to cost the Asset Management Plan remains outstanding. This work should identify additional funding requirements over the coming years and may consider alternative forms of financing, including prudential borrowing.

Business rates appeals

8.17 The impact of appeals remains volatile and there are a large number of appeals outstanding. Changes to the value of businesses can have a significant impact upon business rates collected and provision is made in the business rates estimate for future appeals which is reviewed annually. The 2017 revaluation when all rateable values are reset will result in a new round of appeals being lodged. Based on previous revaluations a very large number of appeals will be lodged. Initially there will be no evidence to indicate the accuracy of the new rateable values and the likely success rate of appeals, therefore a significant increase in the provision will be necessary to address the high volatility.

Business rates – resetting of the baseline in 2020

8.18 The Council is able to retain 40% of any growth in business rates income measured against the Baseline, which was set when the business rates retention scheme was introduced in 2013/14. The baseline is due to be reset in 2020 which adds to the uncertainty. If Cheltenham's baseline goes up then in order to retain any additional income the level of growth will need to increase.

Cap on reserves

8.19 The Government is discussing plans to place a cap on the level of councils' reserves. This has been openly criticised by local government representatives as this could place further financial risk on local government and fails to recognise local issues including the differentiation between 'general' and 'earmarked' reserves. Should firm proposals come forward appropriate representation to the Government reflective of this Council's position will need to be made.

9. RISKS ASSOCIATED WITH THE MTFS

9.1 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, reduced income following falls in demand e.g. further reductions in car parking revenues, or for new responsibilities which are inadequately provided for within government grant e.g. Syrian refugee crisis.

9.2 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.

9.3 The MTFS assumes that the current system of local government funding will continue.

9.4 There are 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.

9.5 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.

9.6 The Council continues to review the MTFS regularly and highlight changes to the Bridging the Gap programme board and the Council's Senior Leadership Team.

10. Conclusion

10.1 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.

10.2 The development of this strategy for bridging the budget gap is an important contribution to the ongoing financial stability of the Council and the achievement of its corporate objectives.

ANNEX A: WORKING BALANCE – CALCULATION OF OPTIMUM LEVEL

Background

There are two approaches for deciding the optimum level of working balance. One approach is to apply a percentage to Net Budget Requirement, currently assessed as 10% (giving approximately £1,500,000). The alternative is a level based upon a risk assessment of the budget.

The Council uses a risk based approach to assess the appropriate level of working balance.

The framework for assessing the risks surrounding the budget needs to consider the following:

- Inflationary pressures.
- Pension Fund changes.
- Planned economy measures/service reductions.
- Interest rate variations.
- Volume variations on demand-led services such as planning charges, land charges.
- New services/initiatives.
- The risk of litigation.
- Emergency planning.
- Financial guarantees.
- Grant income.
- Future budget projections.

	Area of Risk	Explanation
1.	Inflationary Pressures	Historically the cost of pay awards has caused major variations to budget estimates. As at July 2015 it appears likely that there will be pressure to pay more than a 1% pay award in 2016/2017. A provision of £82,000 (1%) is recommended within the working balance to offset this risk. Inflationary risks on other costs are a factor elsewhere. The Ubico contract is driven by fuel and pay increases and a provision of 1% on the 2015/16 contract value suggest a figure of £66,400 should be kept as a provision in the working balance.
2.	Pension Fund Changes	The 2013 triennial review has brought a degree of certainty to future pension costs for 2014-2017. These should not impact adversely on the Council in the next 12 months so no specific provision is required at this point.
3.	Planned savings measures	The Medium Term Financial Plan includes numerous work streams for ‘bridging’ the Council’s funding gap. Slippage can occur and the ‘Bridging the Gap’ Strategy uses a Red Amber Green (RAG) system for identifying those work streams at risk of slippage. Currently the strategy notes £200k of work streams considered ‘amber’ in terms of delivery and so these are accommodated within the working balance. The Council’s base budget includes an annual target of £350k to recognise staff vacancy management. A smaller workforce coupled with reducing opportunities in a depressed public sector could impact on this budget principle and therefore a 25% allowance, equivalent to £87.5k for this is included within the working balance.

	Area of Risk	Explanation
4.	Interest rate variations	The current very low level of investment rates suggest that there is little down-side risk at present and no specific provision is recommended for 2016/2017.
5.	Volume variations demand led	During the economic downturn the Council was vulnerable to drops in key income streams, e.g. planning fees, car parking income etc. Our budget projections reflect current levels of income but a 1% provision amounting to £103,200 to reflect the volatility is recognised in the working balance.
6.	New services/ initiatives	No new initiatives have been identified that require specific provision within the working balance.
7.	Risk of litigation contingency	During 2015/2016 the budget has come under pressure as a result of the cost of planning appeals and other judicial challenges. The costs are uncertain but in recognition of current intelligence a provision of £350,000 is recommended.
8.	Emergency planning	Whilst the government will step in to assist in the event of a major disaster there are thresholds at which assistance is given. This threshold is 0.2% of the net budget. Financial support is then given at 85% of costs above this level. Provision of £1m would cost this Council £170,000; the cash flow impact would need to be handled from invested capital reserves.
9.	Financial guarantees/ contingent liabilities	Run-off of the old Municipal Mutual Insurance claims has begun but no provision is required at this stage. The Council has agreed to underwrite the Tour of Britain by up to £75k and as such provision for this amount has been made from the working balance. The Joint Core Strategy continues to require ongoing resource and a provision of £50k is included should the risk of additional costs arising be realised.
10.	Grant income	No new grant streams are anticipated in the 2016/2017 budget. No risks have been identified around existing grant flows that require specific provision in the working balance.
11.	Business rates retention	As part of the pooling arrangement, the Council could be required to contribute to large scale revaluations such as occurred with Virgin Media via Tewkesbury Borough Council. Provision for such occurrences should therefore be included within the working balance and as such £150,000 is estimated.

CONCLUSION

The assumptions above total £1,334,100 suggesting that we strive to maintain a working balance around this figure during 2016/17. The Council should not allow the working balance to fall below this figure. The current working balance is £1,599,226.