

MEDIUM TERM FINANCIAL STRATEGY 2016/17 TO 2019/20

1. INTRODUCTION

1.1. The council's vision statement sets out its 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."

1.2. The focus of the MTFS is to ensure the strategy for forecasting, understanding and protecting the council's financial future ultimately reflects the vision for the council in the medium term. Its purpose is to ensure a stable and sustainable financial position that will allow the council to achieve this vision by delivering its aims and ambitions over the next 4 years (2016/17 to 2019/20).

1.3. The 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 diagram below shows how the MTFS is the overarching framework from which all other financial strategies, plans, policies and decisions hang.

Category	Overall	Revenue	Capital	Treasury Mgmt	Risk Management
Strategies	Medium Term Financial Strategy				
			Capital Strategy	Treasury Mgmt (TM) Strategy	Risk Management
			Asset Mngt Strategy		
Guidance	CIPFA and Technical Guidance	Budget Guidance	Capital Guidelines	CIPFA Code for Practice for TM	Risk Management Guidance
Plans	MTFP Projection	Annual Budget	Capital Programme & Asset Mgmt Plan	Treasury Policy Statements	Risk Register
Governance	Constitution and Annual Governance Statement	Quarterly Performance Reports		Prudential Indicators and Annual Report	Risk Register reporting and regular review
	Contract and Finance Procedure Rules				Audit Committee and Cabinet Reports
	Internal and External Audit Plans and our response to audit review				
Decision making	Cabinet/Council				

- 1.4. The council's external auditor, Grant Thornton, undertakes a Value for Money review each year which assesses the council's finances against National Audit Office (NAO) Code of Audit Practice 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. This review covers six themes, one of which is Strategic Financial Planning focussing 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 which is demonstrated by the MTFS. Grant Thornton's audit findings for 2015/16 including value for money assessment can be found at: https://democracy.cheltenham.gov.uk/documents/s20291/2016_09_21_AUD_ISA_260.pdf
- 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.

2. EXECUTIVE SUMMARY

- 2.1. To produce a robust and thoughtful MTFS which captures the growing needs and continuing aspirations of the council during a period of prolonged public spending austerity the following areas are considered and discussed:
 - SECTION 3 National and Local Financial Risks
 - SECTION 4 Current financial budget gap
 - SECTION 5 Reserves Strategy
 - SECTION 6 Savings Strategy

3. NATIONAL AND LOCAL FINANCIAL RISKS

- 3.1. Local government continues to be overshadowed by continuing reductions in public sector expenditure which is now coupled with a move to 100% business rates retention. The result of this fundamental shift in how local government is funded will see Revenue Support Grant (RSG) rolled into business rates baseline funding by 2019/20 and local government services becoming predominantly reliant on a volatile revenue stream.
- 3.2. The MTFS for 2016/17 to 2019/20 recognises the significant changes to the national funding system as well as locally driven cost pressures and political choices. It has therefore taken a risk based approach in reviewing the financial pressures facing the council and how they should be mitigated across the medium term.

Future Budget Rounds

- 3.3. The Budget 2016 recognised that a further £3.5bn of cuts would fall on government departments. The DCLG is not protected and as such it is likely that any further savings targets allocated will have an impact on Local Government. Since the change in Prime Minister and subsequent change in Chancellor, the desire to have cleared the country's deficit by the end of the Parliament appears to be lessening in light of the uncertainties around the outcome of the BREXIT vote, however the council would be prudent in looking to accelerate the delivery of savings wherever possible and aiming to deliver savings in excess of the funding gap to ensure there is scope to manage further cuts should they arise without having to make "knee-jerk" decisions.

Business Rates Retention

- 3.4. Under the current system roughly £12bn per year of business rates income is kept by Central Government to fund local authority services. This is referred to as the "Central share" and is redistributed to councils in the form of Revenue Support Grant (RSG) and other grants including New Homes Bonus (NHB). In future, when this sum is retained by local authorities, new burdens of a broadly similar value will be passed across to local government. As a result local government will not initially have more funding; over the longer term this will depend on whether business rates grow faster or slower than local authority service demands and costs, and to add further complication will depend on where the revised business rates baseline is set for the council.

- 3.5. The council's DCLG set business rates baseline is £2.651m whilst, as a result of economic growth, £3.240m is now actually being generated and supporting the base budget in 2017/18. It is likely that the new baseline will be set taking into consideration business rates income retained over an average period, (say two years) and this will be compared to the reassessed needs of the district resulting in either a top-up or tariff to manage the difference between the two. If Cheltenham's baseline goes up then in order to retain any additional income the level of growth will need to increase.
- 3.6. Growth will be calculated as business rates income in excess of the revised baseline and will continue to be shared with the upper tier authority; the split of which is yet to be determined and forms part of the current DCLG consultation on Business Rates Retention.
- 3.7. Whilst levies on growth will no longer exist under the new system (the cost of which had to be mitigated through the establishment of the Gloucestershire Business Rates Pool) and it is likely that some form of safety net will remain in place, councils will be subject to local volatilities within its own economies.
- 3.8. In previous years, local authorities have been funded through a mixed structure of grant e.g. RSG and locally driven income e.g. council tax and business rates which provided some mitigation of risk. Moving to a 100% retained system means the risk fully transfers to local government and as such individual councils must assess their level of risk and make appropriate contingency plans to manage the potential costs of the changing system and furthermore the local fluctuations in business rates revenue over time.

Business Rates Appeals

- 3.9. 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 are likely to 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.
- 3.10. DCLG has recently consulted on proposed changes to the Business Rates appeal process and it remains to be seen how these changes will materialise and the subsequent impact they may have.

New Homes Bonus (NHB)

- 3.11. DCLG have recently consulted on proposed changes to the current New Homes Bonus scheme which is intended to incentivise house building within local authority boundaries. The outcome of the consultation is not yet known and it is thought this may be wrapped up in the outcome of the 100% Business Rates Retention consultation.
- 3.12. The major risk is that the payment term for NHB may reduce from 6 years to 4 years in addition to a number of other proposed measures made to reduce the amount of funding allocated to local government through NHB. The council currently uses £1.75m per annum of NHB to fund the base revenue budget – this represents a scaled back amount following the government's intention to reduce the overall funding pot available to local government.
- 3.13. The councils forecasted NHB now assumes only 4 years of funding will be received from 2018/19 onwards and continues to project that housing will continue to grow in line with expectations; however this is not guaranteed and can be negatively or positively impacted by changes in the local and national economy. The current funding gap could worsen further should the level of NHB currently factored into the budget become unsustainable following the outcome of the consultation.

Council Tax

- 3.14. Council tax is considered an increasingly important mode of local government financing by Central Government. This is reflected in the decision to allow districts to increase council tax by £5 per annum or up to 2%, whichever is higher. However, although the proposal was for this to be available across the next 3 years it has only actually been voted for in Parliament for 2016/17. There is therefore some margin of risk that the assumption now made in the MTFS for future years may not get formal approval. Current projections also assume growth in the taxbase of 0.75% per annum.
- 3.15. The assumptions were made by the Government when establishing the reduction in RSG linked to the level of council tax base growth; however, locally the council will need to consider what levels of growth are likely and financially sustainable.
- 3.16. Furthermore, there is a corresponding cost to increasing the tax base with additional properties and residents to service which needs to be recognised and captured at certain steps or “trigger” points e.g. refuse / recycling collections. Council tax revenue appears to be being seen nationally as a future “cash cow” and it may be possible that the current limits in increases are raised, particularly given the likelihood of further funding cuts.

Fees & Charges

- 3.17. A significant proportion of the council’s funding comes from fees and charges. This is fast becoming an ever more important funding mechanism and one which is within the council’s gift to control, subject to any legislative, economic or political constraints.
- 3.18. However, as more reliance is placed on income there is increased pressure to understand current performance levels coupled with the risks and opportunities arising from each income stream. It is also important to consider how “recession-proof” an income stream is so that appropriate levels of mitigation can be put in place under a Reserves Strategy to meet dips arising in a recession.

Capital Expenditure Funded through Borrowing

- 3.19. The council’s available capital resources are scarce and the council continues to look for innovative ways to use its available financial tools to generate sustainable revenue streams on a background of financial volatility. However the credit rating agency, Moody’s, have highlighted a credit risk linked to such an approach.
- 3.20. Moody’s have said they expect to see an “adverse impact” on the credit profile of local authorities that have increased borrowing to fund commercial projects using capital spending. In a report called “English Local Authorities: Plans to Boost Revenue through Capex Adds Risk”, Moody’s have stated that the borrowing would bring added credit risk for authorities, while revenues from such projects are not necessarily guaranteed. This report adds to concern about the debt levels of local authorities following a paper from the National Audit Office in June 2016 which said servicing debt could threaten revenue spending.
- 3.21. The council will need to balance the inherent uncertainty associated from revenues with the credit risk arising from borrowing to invest in commercial projects. The hard liability associated with an investment will be on the council’s balance sheet potentially without the increased income on which the original business case based investment decision was made.

Recession

- 3.22. The last recognised recession was in 2008; as a result it is likely that the country is closer than ever to the next economic dip. Economic peaks and troughs are a recognised inevitability and the council’s finances should be managed with this in mind – save during the peak years and spend during the troughs. Taking this approach will see more emphasis than in previous financial years placed on maintaining increasing levels of reserves.

Resources

- 3.23. Concerns around the council's capacity and resources available to deliver multiple competing priorities has been raised and this is a key consideration for Executive Board and Cabinet when determining their priorities and the delivery of the proposed Savings Strategy. In particular, there will be a necessity to both realign base budgets and make one-off budgetary provision to support the delivery of priority schemes being supported and delivered by Regulatory & Environmental Services. This specifically relates to the deliver major growth, public realm & infrastructure schemes which will be crucial to the delivery of the council's Savings Strategy. This is further considered under sections 6.37 – 6.39.
- 3.24. The key risk is that if resource is not deployed to allow focus on the schemes which are of financial importance to the council the proposed Savings Strategy will not be delivered within the timescales required resulting in a less managed response to necessary budget cuts.

Pensions (LGPS)

- 3.25. 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 period 2010 to 2014, to a 2% increase per annum (£406k) for the 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.
- 3.26. Table 1 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 1: Funding level 2010 66% - 2013 60%	2010 £000's	2013 £000's	Increase (Decrease) £000's	Increase (Decrease) %
Past service liabilities				
Actives	33,603	28,111	(5,492)	
Deferred pensioners	17,485	20,897	3,412	
Pensioners	48,689	64,263	15,574	
Total	99,537	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%

- 3.27. 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.

3.28. As at 31st March 2013 the number of active members of the pension fund has reduced by 38.6% when compared with the position at 31st March 2010. The main reason behind this significant reduction being the commissioning of services such as Ubico and GO Shared Services.

3.29. Table 2 illustrates the extrapolated position at 31st March 2015 based on decisions already made; the creation of The Cheltenham Trust, shared ICT service with Forest of Dean District Council, Housing Options transferred to Cheltenham Borough Homes and the loss of the Civil Parking Enforcement contract.

Table 2: Extrapolation of Pension Fund Membership 2010 to 2015	2010	2015	Increase (Decrease)	% Increase (Decrease)
Actives	573	237	(336)	(58.6%)
Deferred	779	841	62	+7.9%
Pensioners	657	779	122	+18.6%

3.30. When taking the above into account it is far easier to understand why the council has a negative cashflow which ultimately increases the deficit on the fund despite improving investment returns and 'capped' pay increases. Equally, austerity cuts since 2009/10 have left the council with little choice in terms of reducing the cost of its workforce to 'balance' the budget.

3.31. Table 3 analyses the cash-flow data for the period 1st April 2010 to 31st March 2013 and extrapolates the data through to 31st March 2020 based on the 2013 formal valuation results and decisions surrounding service provision that have already been made.

Table 3: Cash-flow data 1st April 2010 to 31st March 2020	Employer Contributions Fixed Sum £000's	Employer Contributions % of payroll £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	1,111	500	(4,951)	(1,612)
2014/15	2,394	1,127	478	(5,230)	(1,231)
2015/16	2,780	843	412	(5,008)	(973)
Projected forward:					
2016/17	3,186	851	416	(5,108)	(655)
2017/18	3,592	860	420	(5,210)	(338)
2018/19	3,998	869	424	(5,315)	(24)
2019/20	4,248	877	428	(5,421)	132

3.32. 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 cashflow. 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.

- 3.33. Table 3 illustrates that by 31st March 2020, based on decisions already made and the assumptions made within our MTFS, the net cashflow will turn positive. However, in order to achieve this, the council has had to increase its employer pension contributions by more than £2m over the last 10 years.
- 3.34. Specialist advisors (AON Hewitt) were commissioned to provide actuarial advice to support the development of the 2020 business case for further joined up working with the aim of delivering potential savings in pension fund contributions for the four partner councils.
- 3.35. Based on their assumptions, the percentage of pay contributions to the LGPS for each of the partner councils is expected to increase over time as the pensionable payroll increases with salary increases. Total annual contributions are projected to double in 20 years' time in cash terms. This analysis demonstrates that the LGPS is financially unsustainable for the council under the current arrangements.
- 3.36. The implications of the current and future deficits of the LGPS and the impact on the council's financial position need to be examined as part of the business case for any current and future commissioning reviews e.g. outsourcing, sharing services with other Gloucestershire LGPS members, creating new companies.
- 3.37. Employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risk of this approach and should consider making additional payments to the Fund if possible.
- 3.38. There are a number of pros and cons surrounding the LGPS. Fundamentally though, the LGPS provides salary-related, defined benefits, which are not dependent upon investment performance. As it is a statutory funded pension scheme, it is a secure pension arrangement with rules set out in legislation under an Act of Parliament.
- 3.39. Alternatively, a defined contribution scheme such as a stakeholder scheme gives employers more control over its costs, as unlike to LGPS, the benefits paid on retirement are dependent upon investment performance.
- 3.40. Under the existing strategy the council will move into a positive cashflow position by 2019/20 and it is at this point that it is anticipated that the council's annual 'cumulative' contribution will decrease. These assumptions are discussed further in section 4.13

4. CURRENT FINANCIAL BUDGET GAP

- 4.1. The MTFS develops a series of financial projections to determine the longer term financial implications, in order to deliver the council's aims. 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 which determines the funding gap. The package of measures required to equalise the two calculations forms the "Savings Strategy" identified in section 6.
- 4.2. The projection of the funding gap is shown in Table 4 below:

Table 4: Projection of Funding Gap	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Net Cost of Services brought forward from previous year (assuming a balanced budget has been set)		13,676,739	15,474,925	16,482,525
IN YEAR BUDGET VARIATIONS				
Increased costs of existing services				
General Inflation		60,300	61,400	63,200
Shared Services contract inflation		20,300	20,500	20,500
Ubico Ltd contract inflation		78,604	79,500	80,400
Employee related expenditure		84,400	85,200	86,200
Living Wage costs				4,000
Pension costs - 2016 Revaluation		406,000	406,000	250,000
GROWTH				
Waste & Recycling - additional structural cost arising from essential service change		146,500		
2016/17 one-off JCS contribution		(85,000)		
Contribution from ICT R&R Reserve		5,236		
INCOME				
Green Waste - inflationary increase		(10,870)	(11,100)	(11,300)
Cemetery & Crematorium - inflationary increase		(33,200)	(33,900)	(34,700)
Loss of CCTV sponsorship		2,000		
Minimum / Voluntary Revenue Provision			400,000	
RESERVES				
Net Contribution from BRR Reserve		1,123,916		
Projected Net Cost of Service	13,676,739	15,474,925	16,482,525	16,940,825
Government Grant support (RSG)	(1,272,960)	(544,030)	(102,300)	0
NNDR	(2,838,470)	(3,200,400)	(3,563,800)	(3,361,000)
NNDR S31 Grants	(530,575)			
National Non-Domestic Rate - 2014/15 surplus / deficit	220,026			
National Non-Domestic Rate - 2015/16 surplus / deficit	809,477			
New Homes Bonus	(2,075,500)	(1,750,000)	(1,750,000)	(1,750,000)
Parish Council Tax Support Funding	10,269	10,269	10,269	10,269
Collection Fund surplus contribution	(163,800)	(128,000)	(50,000)	(50,000)
Transition Grant	(74,461)	(74,197)		
Council tax income assuming council tax increases by £5 per annum from 2016/17	(7,760,745)	(8,067,570)	(8,332,842)	(8,601,114)
Projected Funding	(13,676,739)	(13,753,928)	(13,788,673)	(13,751,845)
Cumulative Funding Gap	0	1,720,997	2,693,852	3,188,980

- 4.3. The projections above reflect a funding gap for the period 2017/18 to 2019/20 of £3.189m (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

- 4.4. The net costs of services have been estimated by using the approved 2016/17 base budget as the base for future projections though to 2019/20.

- 4.5. This has included general inflation at 2% on insurances, utilities, postage, IT maintenance agreements and non-domestic rates. Where information is available, major contracts and agreements are rolled forward based on the specified inflation indices in the contract or agreement.
- 4.6. An inflationary increase of 1% on shared service contracts has been included to take account of the increase in staff costs incurred in employing councils which will be recharged to the council. Furthermore a 1% increase on the current Ubico Ltd contract has been included however this assumption will be refined and amended as Ubico prepare their budgets for 2017/18.
- 4.7. Historically, annual premises 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.
- 4.8. An alternative to the budgeting approach detailed above is zero based budgeting. Whilst there a number of advantages to this approach, the main downside is the exceptionally high level of effort required to investigate and document service activities. This is a difficult task even once a year, and therefore is often used by organisations on a periodic basis when there are significant changes within the organisation. It is however considered to be a valuable tool which Regulatory & Environmental Services will need to implement, with the support of GO Shared Services, when undertaking their transformation programme, more details of which will be discussed under section 6.4 of the Savings Strategy.

Employee related costs

- 4.9. The Chancellor has previously announced that public sector pay increases will be capped at 1%, and whilst pay awards in local government are covered by collective bargaining between employers and trade unions, and not subject to direct control from central government, it is not unreasonable to assume that the local government employers will mirror what happens in the rest of the public sector. Following a meeting of local government representatives, trade unions accepted the proposal made by the Local Government Association's National Employers group for a 1% increase for most staff in 2016/17 and 2017/18.
- 4.10. The net cost of service assumes an employee turnover saving of £350k per annum by the Council, which equates to 4.29% of base salary budget. This is allocated across service areas according to headcount and gives managers clear cash targets within which they have to manage.
- 4.11. The Council is part of the Gloucestershire Pensions Fund, which is administered by Gloucestershire 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.
- 4.12. The triennial revaluation as at 31st March 2016 will be received in November 2016 which may result in a change to the forecasts currently included however at the present time, based on the information available, prudent assumptions continue to be made.
- 4.13. 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. Under the existing strategy the council will move to a positive cashflow position by 2019/20. This works on the assumption, as built into the MTFs, that the council pays a cumulative increase of £406k per annum reducing to £250k per annum in 2019/20 when the council moves to a positive cashflow position.

- 4.14. 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.
- 4.15. An increase of 1% per annum has been assumed on members' allowances, in line with the anticipated employee annual pay award. This is included within staff costs and totals c. £3.3k per annum.

Waste & Recycling

- 4.16. As the current fleet of recycling vehicles reach the end of their usable life in 2017, Ubico and the Joint Waste Team were asked to undertake an appraisal of the recycling collection service options available to the council from 2017/18 onwards. The current vehicles used for recycling collection are not available in the future which has effectively meant that the "do nothing" option is not an option.
- 4.17. The next available alternative option offers an enhanced service of weekly food waste collection, with fortnightly chargeable green waste, fortnightly refuse with the addition of OCC (brown corrugated) cardboard and PTT (plastic – pots, tubs and trays) being added to the fortnightly kerbside sort recycling collections. Due to the necessity to replace the recycling vehicles there is an additional structural cost arising of £146,500 which has been built into the budget gap forecasts.
- 4.18. Should a further more expensive alternative be desired, the cost over and above the increased base budget cost of £146,500 will need to be met by corresponding alternative savings above those identified within the Savings Strategy. However, any decision regarding an alternative option will not be made until after public consultation.

Fees & Charges

- 4.19. In previous years, a general assumption for a 2% increase in non-statutory fees and charges has been factored in. However, this has resulted in an increasing necessity to freeze prices within certain service areas that would be detrimentally impacted as a result either through local pressures e.g. car parking or as a result of national legislative requirements e.g. land charges.
- 4.20. Rather than continue with this approach, the MTFS no longer assumes a 2% inflationary increase but instead has opted for a fundamental year on year review of fees and charges to ensure they consider the costs of service provision, legislative requirements and competitive pricing structures. This is discussed further under section 6.7 as part of the Savings Strategy.

Revenue Support Grant (RSG)

- 4.21. On 8th February 2016, the Secretary of State for Communities and Local Government announced the final local government settlement for 2016/17. In addition to the detailed proposals for 2016/17, illustrative figures were also provided for each financial year up to 2019/20. The proposed settlement for 2017/18 indicates a further grant reduction in cash terms of £0.677m or 17.5%.
- 4.22. It is intended that RSG be rolled into the Business Rates Retention Scheme and as such by 2019/20 the local government finance proposed settlement for the council indicates that it will no longer be in receipt of a grant from central government and will be wholly reliant on locally generated funding sources.

Retained Business Rates

- 4.23. 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.
- 4.24. 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 8%. Any surpluses generated by the Pool are allocated in accordance with the governance arrangements agreed by the Gloucestershire councils.

- 4.25. 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 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.
- 4.26. A one-off fall in business rates income arising from major developments in the town was identified in 2016/17 and was funded through a £1.124m contribution from the Business Rates Retention Reserve. Current forecasts indicate this shortfall will have recovered in 2017/18 and the reserve will not be required to “prop up” the funding required to support the base budget.

New Homes Bonus

- 4.27. 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).
- 4.28. 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.
- 4.29. The Council currently includes 74% of its New Homes Bonus funding within base budget equating to £1.750m. As detailed under sections 3.11 – 3.13 the current NHB scheme is out for consultation and there may be significant changes to the current arrangements albeit for 2017/18 the MTFS assumes the current scheme will remain in place.
- 4.30. In 2017/18, the Council has already agreed to ‘top slice’ NHB by £300k as this Council’s local contribution towards the 2020 Vision programme costs and will be credited to the New Initiatives Reserve.

Council Tax

- 4.31. 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 2017/18 which has been calculated based on data held.
- 4.32. 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 0.75% each year for the purposes of modelling the MTFS and a council tax increase of £5 per annum is assumed from 2017/18 following the February 2016 announcement by the Chancellor.

Funding Gap

- 4.33. 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 **£3.189m** for the period of the MTFS (2017/18 to 2019/20).
- 4.34. To enable time to deliver such a significant savings target over the period to 2019/20, to mitigate the financial risks captured in section 3 and to smooth out fluctuations in income levels a robust Reserves Strategy is required to supplement and support the forthcoming Savings Strategy.

5. RESERVES STRATEGY

- 5.1. The 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”.

- 5.2. 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 and also mitigate known risks and forecast cost pressures, particularly those arising from changes in the way local government is financed post 2019/20.

Budget Strategy Support Reserve

- 5.3. As part of the 2016/17 budget setting process, the Budget Strategy Support Reserve (BSSR) was established to provide greater resilience and time for the council to embed its savings strategy and allow for slippage in savings delivery.
- 5.4. Savings previously identified as part of the last iteration of the MTFs have indeed slipped and this version adopts an alternative approach to delivering a Savings Strategy which will in turn take time to deliver and furthermore may inevitably suffer from slippage. As a result the BSSR will need to be suitably resourced to not only mitigate the forecast delay in the delivery of savings but also be robust enough to support any reported slippage during the MTFs period.
- 5.5. The Savings Strategy, which will be looked at in more detail in Section 6, identifies a need to fund £1.666m from the Budget Strategy Support Reserve in addition to the £274k used to support the 2016/17 budget, a total need of £1.940m. There is currently £973k in the BSSR as at 1st April 2016 and following a review of existing earmarked reserves £309.5k has been identified to be realigned into the BSSR. It is anticipated that a further £300k could be allocated to the BSSR from excess NHB provided the 2017/18 allocation remains in line with the current scheme and the Government proposal to reduce payment from 6 years to 4 is not introduced early.
- 5.6. The balance of £350k will need to be delivered through in-year one-off underspends or through the allocation of fortuitous windfalls to the BSSR. Executive Board and Cabinet will need to be mindful of this additional pressure during the course of each financial year and it will need to be monitored as part of the delivery of the proposed Savings Strategy.
- 5.7. However, this projection assumes the Savings Strategy can be delivered in full and on time and it would be prudent to further build up the BSSR to allow for a 10% slippage in savings, an additional c. £320k. This should be sourced as above through in-year underspends and fortuitous windfalls.

Business Rates Retention Reserve

- 5.8. The move to 100% locally driven funding following the introduction of 100% Business Rates Retention will build in an increased risk of volatility in the council’s financial planning. This needs to be appropriately managed and understood by the organisation as full reliance will be placed on the performance of the local economy with a drop in business rates income having the potential to force further service cuts. As such the Business Rates Retention Reserve needs to be strengthened to mitigate the risks outlined in sections 3.4-3.8.
- 5.9. The BRRR should be increased to a target of £500k to allow for the potential reduction in income arising from the risks as identified. There is currently £150k in general balances specifically to cover fluctuations arising from pooling arrangements which will be required in 2017/18 to cover continuing fluctuations in income levels; this further enhances the rationale for increasing the BRRR wherever possible. The council is already mitigating fluctuations in income levels arising from changes in the local economy and moving forward will face even greater exposure to such volatilities under the reformed retention system.
- 5.10. Any Collection Fund and Pool surpluses over and above those assumed in the Savings Strategy should be earmarked for the BRRR to ensure a base level of reserve is in place in advance of the implementation of 100% Business Rates Retention.

General Balances

- 5.11. The General Reserve currently makes an allowance in respect of fees and charges of 1% or £102,300 for volatility in income levels but given the increasing pressure on Fees and Charges to be a key funding mechanism for local government and the risk of recession this reserve should also be reinforced so that it can be drawn upon to support the council through dips in income arising from recession.
- 5.12. As such a realignment of funding within general balances has been undertaken as part of the Working Balance calculation at Annex A to recognise the inherent risk around income levels.
- 5.13. The General Reserve is held to protect existing service levels from reductions in income levels as a result of economic downturn and other unforeseen circumstances. CIPFA's Local Authority Accounting Panel (LAAP) issued a guidance bulletin on local authorities' reserves and balances.
- 5.14. 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.
- 5.15. 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 S151 Officer. Over the course of this MTFS, the value of earmarked reserves will be reduced as they are used to finance planned expenditure.

6. SAVINGS STRATEGY

- 6.1. As detailed in the previous sections, the council has a significant funding gap to resolve as well as a number of financial risks to manage. Given the ambitious nature of the council and its desire to ensure Cheltenham is a place where residents and visitors wish to work, visit and live the Savings Strategy for the medium term must reflect these aspirations and not jeopardise these core priorities whilst recognising that the net cost of the council's services must reduce over time.
- 6.2. The Section 151 Officer and the Executive Board have identified a focussed "6-pronged" approach which draws on the direction of travel outlined by the Cabinet. This is discussed fully in the forthcoming sections.
- 6.3. The Savings Strategy looks inwards at service transformation and outwards at economic growth and investment, whilst recognising that this alone will be insufficient to meet the massive challenge facing the council. As such it captures the need to make cuts in levels of discretionary services. This final aspect has long been avoided by the council as it is recognised that much of the spend made on discretionary services is what "makes Cheltenham, Cheltenham", however the financial future facing the council has meant that this final option can no longer be excluded.

(1) Regulatory & Environmental Services Transformation

- 6.4. The Regulatory & Environmental Services Directorate (RES) was formed following the creation of a new post within the council's Executive Board – MD for Place & Economic Development – plus two director level posts covering Planning and Environment. The initial cost of the new structure was intended to be a one-off cost of £157,500 in 2016/17 funded from NHB subsequently recouped through the restructuring of the directorate by 2017/18.
- 6.5. The "Regulatory and Environmental Services – Commercial Transformation Programme" report to Cabinet on 12th July 2016 recommended the savings target be delayed until 2018/19 to allow sufficient time and resource for the MD for Place & Economic Development to deliver this transformation programme.

- 6.6. The savings target under RES Transformation for *Cost of Service Reduction (£157.5k)* is now highlighted under (1.a) of the Savings Strategy scheduled for delivery by 2018/19 as approved by Cabinet.
- 6.7. Following the change in approach to income inflation within the forecast for the funding gap, a new target has been introduced under RES Transformation (1.b) covering a *Review of Fees & Charges and Income Generation Opportunities (£50k per annum 2017/18 to 2019/20)*. This reflects that whilst it is recognised that a flat 2% inflationary increase is no longer appropriate, a review of the fees & charges made by the services within RES should year-on-year result in an additional base budget contribution. The £50k per annum target represents roughly 0.86% of RES 2016/17 income budgets, inclusive of car parking and excluding cemetery & crematorium which is subject to inflationary increase.
- 6.8. The final savings target for RES under (1.c) is the *Transformation of Service Delivery (£100k 2019/20)* which reflects that the investment made into reviewing the way services are provided is anticipated to result in a reduced net cost of service. The outcome of this will form part of the Commercial Transformation Programme for RES which was approved by Cabinet in July 2016, albeit the introduction of a further savings target has arisen due to the overall worsening financial position of the council.

(2) Rolling Approach to Commissioned Services

- 6.9. 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 focus on clearly defined local outcomes that are desired by a service and a willingness to consider alternative models for service delivery.
- 6.10. In recent years, the council has taken a Commissioning approach to the delivery of its services which has seen the creation of Cheltenham Borough Homes, Ubico Ltd, The Cheltenham Trust, One Legal and GO Shared Services. These fundamental changes in delivery model have delivered significant savings to the council which in previous years have supported funding gaps and in the case of The Cheltenham Trust will continue to deliver further savings across 2017/18 and 2018/19.
- 6.11. However whilst the savings delivered to date have been remarkable in light of current financial pressures and in line with the cyclical nature of the commissioning approach, the services funded by the council through alternative delivery models which are outside of RES and the 2020 Partnership will be subject to a secondary review to establish if the local outcomes currently delivered by each service remain appropriate and affordable.
- 6.12. The *Review of Current Shared / Commissioned Services (£100k 2018/19)* under (2.a) establishes the direction of travel and sets a target for reducing the cost of previously shared or commissioned services which can only be achieved through joint working with the council’s service delivery partners.
- 6.13. (2.a) *Review of Internal Audit and Corporate Fraud Unit (£43k 2017/18)* reflects the outcome of a recent review of the current internal audit provision and a business case for the extension of the shared Corporate Fraud Unit. The outcomes of both are subject to Cabinet approval which is anticipated to be forthcoming shortly.
- 6.14. The shareholding of Ubico Ltd continues to grow and with each new joiner there is anticipated to be a further sharing of the overheads of the organisation. The further target under (2.c) *Additional Waste Target from New Joiners (£40k 2018/19)* captures the intention for the current indications of future shareholders.
- 6.15. The council’s Green Waste collection service continues to be a growing success which is administered by the council and delivered by Ubico Ltd. In recent years to encourage customers to renew their annual licences an “early bird” discount of £2 has been given to those signing up before their renewal date. This has been successful in delivering the intended outcome of increased renewals and there is now a solid base of regular customers who renew on an annual basis. While an above inflation increase of £4 is proposed it is also intended to increase the discount to £3 to retain the incentive to renew while generating increased income. (2.d) *Increase Green Waste by £4 and increase Discount to £3 (£40k 2017/18)* reflects this proposed change.

(3) Review of Accommodation

- 6.16. 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 investment is already contributing £100k per annum to the council's budget. This is generating a rental income in the short to medium term which is contributing already to 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.
- 6.17. (3.b) identifies *Municipal Offices – Relocation & Site Regeneration (£200k 2019/20)* with £100k of savings already delivered in 2016/17 following Delta Place's purchase. The council is unable to relocate to Delta Place until 2024 when the current head lease terminates. The Savings Strategy captures a significant target in 2019/20 which is four years in advance of the date for permanent relocation. As such, the strategy for relocating the council is likely to require a temporary interim move in advance of moving into Delta Place if the council is to release the Municipal Offices as a strategic asset to open up significant regeneration opportunities for the town and deliver much needed savings to support the council's financial position.
- 6.18. The options for how this is delivered will need to be worked through by the Accommodation Strategy Programme Board and recommendations made to Cabinet. A temporary move will no doubt require one off funding, for example should it be necessary to rent alternative temporary accommodation, however it is likely that there will be corresponding interim savings from relocating that can be used to resource and consideration given to existing council owned accommodation.
- 6.19. The other strategic accommodation site owned and used by the council and its partners is the Central Depot. (3.a) *Depot – Rationalisation of Site (£300k across 2018/19 and 2019/20)* recognises a growing desire both at a member and officer level a fundamental review of the use of the site and to drive out its financial potential. The savings target is staggered across two financial years and progressing such a strategic project will require significant levels of internal resourcing and partnership working.

(4) Economic Growth / Investment

- 6.20. 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 the rest of the UK. This will serve latent demand in the marketplace and provide space required to enable businesses to grow; particularly in 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.
- 6.21. A 64 hectare site in Fiddlers Green, Cheltenham, has been identified to accommodate GCHQ's 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, of which under existing regulations, Cheltenham would retain 40%. There are obvious constraints such as planning, which will need to be considered alongside the Joint Core Strategy and furthermore the proposed changes to the Business Rates Retention Scheme mean that it is currently unclear how growth would firstly be retained by, and secondly shared between upper and lower tier authorities. To recognise both the significant opportunity and the risks to delivery, a prudent target under (4.b) *West Cheltenham – Increase in Business Rates (£25k 2019/20)* has been included.
- 6.22. A further target under (4.c) *North West Cheltenham – Increase in Business Rates (£25k 2019/20)* has similarly been included to recognise the anticipated economic growth arising from development at this site. Although the majority of the NW Cheltenham growth is outside of the borough, there is a considerable area that is in Cheltenham. A planning application has recently been submitted and subject to the usual safeguards regarding economic pressures and planning constraints, it is prudent to estimate business NNDR growth from 19/20.

- 6.23. 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. The main benefit being that the pool is not required to pay a levy on the growth it generates and as such there is more available to redistribute back to the partners for retention in the County. The Savings Strategy assumes that the surpluses generated by the pool will continue across the MTFs period and this is captured under (4.d) *Business Rates Additional Target through Pooling (£350k 2017/18 to 2019/20)*.
- 6.24. With regards to (4.e) *North Place Development Income (£350k 2019/20)*, the council had anticipated a guaranteed initial income of £350k pa in 2016/17 on the basis of the build completion of a 300 space multi-storey car parking on North Place by December 2016.
- 6.25. Unfortunately the developer ended up in an unsuccessful legal dispute with Morrisons who were the intended operator on the site. Since the outcome of the legal dispute, the council has been working with the developer to establish an alternative route. As such the savings target has been further pushed back to 2019/20 to recognise the issues being faced.
- 6.26. In recent financial years, there has been a steady increase in car parking revenue. The council has taken a watching brief as trends emerged over time as these have been impacted by temporary changes such as the closure of Beechwood Arcade. However, there is growing confidence in the base level of car parking revenue being generated which will be further bolstered by the opening of car parking at the Shopfitters site by the end of 2016. To reflect this, (4.f) *Increase in Car Parking Revenue based on Volume Growth (£200k 2017/18)* has been included in the Savings Strategy to bring this growth into the council's base budget.
- 6.27. Finally, the council has aspirations to grow its already successful investment property portfolio with a view to generating much needed revenue support to the council's budget. This target is captured in (4.a) *Investment Portfolio Income Generation (£300k 2018/19 to 2019/20)* and will form the basis of an Investment Property Portfolio Strategy to be proposed to Council for the establishment of a £10m "pot" funded through borrowing to purchase investment properties generating a return on investment, after borrowing costs, of at least 5%. One such opportunity could be to build out or refurbish hangars at Gloucestershire Airport Ltd which have the potential to generate a significant revenue stream whilst supporting the airport and the local economy.

(5) Service Cuts

- 6.28. As briefly covered under 6.3 above, a Savings Strategy to deliver a funding gap this significant after so many consecutive years of central government cuts would be remiss if it failed to include a need to reduce discretionary services. (5.a) *Review and Decrease the Cost of Services / Activities (£416k 2017/18 to 2019/20)* is a significant target and some difficult decisions will need to be made at both a political and operational level in order for it to be achieved. However, the staging of the savings target allows for sufficient time to be taken to plan how best for this target to be achieved.
- 6.29. Executive Board will need to work closely with Cabinet to identify the areas they wish to consider so that further detailed research into the costings and implications can be undertaken. It will also be crucial to consider the importance of public consultation and how best to engage with residents and partners when considering the future of the council's discretionary services.
- 6.30. The previous MTFs included targets for savings within Property Services, Corporate Overheads and Commissioning – these targets remain included under (4.b) *Property Services (£25k 2017/18)*, (4.c) *Commissioning (£115k 2017/18 to 2018/19)* and (4.d) *Corporate Overheads (£8.3k 2017/18) – Reduction in Costs*.

(6) Use of Reserves

6.31. As has been outlined in section 5, the Savings Strategy will take time and resource to deliver and the front-loading of the funding gap exacerbates the financial position. The council must therefore draw on its reserves to provide short-term support in the short –term, specifically the Budget Strategy Support Reserve (BSSR).

6.32. In addition to using the BSSR, (6.a) *Use of One-Off Payment Holiday on Delta Place VRP (£400k 2017/18)* identifies an additional one-off amount that can be used to support the 2017/18 budget. The business case for the purchase of Delta Place used £6.5m of internally borrowed funds – the benefit of this is maximising the use of the council’s cash balances rather than paying interest on PWLB loans. However, as with any form of borrowing, this must be repaid. Generally this is done over the life of the asset – in this case 30 years – and is referred to as Minimum Revenue Provision (MRP).

6.33. A Voluntary Revenue Provision (VRP) is made should it be financially prudent and affordable to repay the internal borrowing sooner. The Delta Place model assumed VRP of £400k per annum each year up to 2019/20 funded from the rental income stream being received until the head lease terminates. The benefit of this being to subsequently reduce the annual MRP amounts once the council occupies Delta Place post 2024 and the inflated rental stream received under the head lease is no longer available.

6.34. A review of the financial modelling has indicated that a one-off payment holiday in 2017/18 could be afforded without putting undue pressure on future financial years and as such the £400k VRP will not be made leaving £400k of Delta Place rental income available to support the 2017/18 budget gap.

SAVINGS STRATEGY					
	2016/17	2017/18	2018/19	2019/20	Total 2017/18 to 2019/20
Total Current MTFS Funding Deficit	1,754,619	1,720,997	972,855	495,128	3,188,980
1. Regulatory & Environmental Services Transformation					
a) Cost of service reduction			157,500		157,500
b) Review of fees & charges and income generation opportunities		50,000	50,000	50,000	150,000
c) Transformation of service delivery				100,000	100,000
Total	0	50,000	207,500	150,000	407,500
2. Rolling Approach to Commissioned Services					
a) Review of Internal Audit and Corporate Fraud Unit		43,000			43,000
b) Review of current shared / commissioned services e.g. One Legal, The Cheltenham Trust, Ubico, Cheltenham Borough Homes			100,000		100,000
c) Additional waste target from new joiners	29,000		40,000		40,000
d) Increase Green Waste by £4 and increase Discount to £3		40,000			40,000
Total	29,000	83,000	140,000	0	223,000
3. Review of Accommodation					
a) Depot - rationalisation of site			100,000	200,000	300,000
b) Municipal offices - relocation and site regeneration	100,000			200,000	200,000
Total	100,000	0	100,000	400,000	500,000

4. Economic Growth / Investment					
a) Investment portfolio income generation			100,000	200,000	300,000
b) West Cheltenham - increase in business rates				25,000	25,000
c) North West Cheltenham - increase in business rates				25,000	25,000
d) Business Rates additional target through pooling		200,000	100,000	50,000	350,000
e) North Place development income				350,000	350,000
f) Increase in car parking revenue based on volume growth		200,000			200,000
Total	0	400,000	200,000	650,000	1,250,000
5. Service Cuts					
a) Review and decrease the cost of services / activities		16,000	200,000	200,000	416,000
b) Property Services - reduction in cost of service		25,000			25,000
c) Commissioning - reduction in cost of service		50,000	65,000		115,000
d) Corporate Overheads - reduction in costs		8,300			8,300
Total	0	99,300	265,000	200,000	564,300
6. Use of Reserves					
a) Use of one-off payment holiday on VRP		400,000			400,000
* Use of Budget Strategy (Support) Reserve	273,919	812,116	829,471		1,641,587
* B/Fwd deficit funded by Budget Strategy (Support) Reserve in previous year		(273,919)	(812,116)	(829,471)	-1,915,506
Total	273,919	938,197	17,355	(829,471)	126,081
Previously Delivered Savings Targets					
Use of NHB to support base budget	700,000				0
L&C Review - trust savings	231,500	150,500	43,000		193,500
2020 Vision - Shared Services	150,900				0
Discontinuation of partnership contribution to 'Safe at Home' contract	32,000				0
Democratic Services Unit - reduction in cost of service	10,900				0
GOSS retendering of banking arrangements	10,000				0
Review of Investment Property	10,000				0
Vehicle Operating Lease - reduction in base budget	97,300				0
Central Depot Bulking Facility	46,000				0
Advertising & Sponsorship contract	63,100				0
Total	1,351,700	150,500	43,000	0	193,500
Total Identified Savings/Income	1,754,619	1,720,997	972,855	570,529	3,264,381
Target one-off underspend to boost budget strategy reserve	(350,000)				
Shortfall / (Surplus) against MTFS Funding Gap	(350,000)	0	0	(75,401)	(75,401)

6.35. The table above summarises the work streams and uses a traffic light system to denote the risks associated with delivery.

Risks Associated with Delivery

6.36. Those treated as green are on target for delivery and the risks of failing to deliver are considered low – for example, the savings have already been approved / implemented. Savings treated as amber are considered to have risks associated with delivery however initial work has commenced to establish that the targets are realistic and deliverable albeit more work is required before they can be “banked”. However, the savings considered red have significant risks associated with them – they are in essence, high level strategic targets and will require initial planning and resourcing to firstly identify how the intended outcomes will be delivered and secondly to confirm the feasibility of the targets set. It should be noted that of a £3.264m Savings Strategy, £1.840m or 56% is considered red in terms of risk.

Resource Prioritisation

6.37. The targets set in the Savings Strategy will be challenging and the level of resource and capacity required to deliver them should not be underestimated. As mentioned in 3.23, both budget realignment and one-off budgetary provision is likely to be needed to provide sufficient resource to deliver such an ambitious Savings Strategy. The Cabinet and Executive Board should ensure that resource is focussed to deliver the key priorities outlined in the strategy which will ensure the council’s financial future and avoid further “knee-jerk” budget cuts whilst ensuring that appropriate budgetary provision is made for identified funding needs.

6.38. Resource and capacity within the council continues to be limited and will be further restricted through the savings targets identified for delivery across Regulatory & Environmental Services, Property Services and the Commissioning Division, coupled with the need to use windfalls and underspends to support the Budget Strategy Support Reserve.

6.39. As such, if resource is not successfully prioritised and officers’ time is diverted from the delivery of the Savings Strategy the challenging targets will not be delivered and the council’s financial future will be detrimentally impacted. The financial risks around the changes to local government finances and the national financial climate outlined in section 2 clearly explain why the council’s focus must be on delivering the Savings Strategy in the medium term which in turn will require other corporate priorities to be pushed into the longer term.

7. CONCLUSION

7.1. The council has a track record of strong financial management but is now in a period of significant volatility and uncertainty. The council must plan now to ensure its financial position is protected across the medium term as changes to local government finances crystallise and the implications are known.

7.2. Both the Reserves and Savings Strategy should be followed in tandem with Cabinet and Executive Board leading the way with delivery to ensure financial stability and sustainability with the achievement of the council’s vision for the future of Cheltenham.

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 £1,400,000). 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 savings measures
- 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. However Government has indicated a 1% pay award per annum for the four years up to 2019/20. 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 2016/17 contract value suggest a figure of £78,600 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. However following the 2016 triennial review to be received in November 2016 further consideration to provision will need to be given.
3.	Planned savings measures	The Savings Strategy identifies £3.264m of savings targets to be delivered across 2017/18 to 2019/20. Slippage can occur and the Red Amber Green (RAG) system for identifying those work streams at risk of slippage within the Savings Strategy. Currently the strategy notes £408,000 of work streams considered 'amber' or 'red' for 2017/18 in terms of delivery and so these are accommodated within the working balance (exclusive of car parking increase which is covered under volume variations). The Council's base budget includes an annual target of £350k to recognise staff vacancy management which has been allocated out to cost centre managers which has ensured more transparency and ownership of the target. However, a smaller workforce coupled with reducing opportunities in a depressed public sector could impact on this budget principle and therefore a 10% allowance, equivalent to £35,000 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 2017/18.
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 however the risks associated with volatility should be better reflected particularly given recent fluctuations in planning, car parking and building control income. As such a 2% provision amounting to £206,400 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	The level of risk associated with litigation is considered to be reducing over time however risk does still remain and as such a provision of £200,000 is retained. The council holds a separate earmarked reserve for planning appeals which is also available if required.
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.
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 £1,330,000 suggesting that we strive to maintain a working balance around this figure during 2017/18. The Council should not allow the working balance to fall below this figure. The current working balance is £1,358,591 at 31st March 2017.