MEDIUM TERM FINANCIAL STRATEGY 2012/13 TO 2017/18 APPENDIX 7

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 (2012/13 – 2017/18).

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 the budget setting annually.

1.3 This year's review is once again overshadowed by the national economic climate. The council faces a major challenge in managing the impact of the recession on budgets and services, including the impact of sustained low interest rates coupled with tight government grant settlements.

1.4 The Housing Revenue Account (HRA) is not included, as a separate budget and Business Plan is produced for the HRA to cover its planning processes.

2. Links to other council plans

2.1 Cheltenham Borough Council's Corporate Strategy 2010 to 2015 was agreed in March 2010. The strategy sets out what the council is hoping to achieve over the next five years and what actions were planned to be taken in the first year (2010/11) to support these longer-term plans.

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

The council's objectives

2.3 The council agreed that it should move to fewer high-level objectives to help us be clearer about our priorities and that these objectives must reflect the reality of community needs and provide a framework for community outcomes.

2.4 The strategy sets out the following three community objectives:
- Enhancing and protecting our environment;
- Strengthening our economy; and
- Strengthening our communities.

2.5 These are supported by two cross-cutting objectives of:
- Enhancing the provision of arts and culture; and
- Ensuring we provide value for money services that effectively meet the needs of our customers.

The council's outcomes

2.6 The outcomes are critical in that they describe the improvements we will make to improve the well-being of the whole population of Cheltenham. By putting outcomes centre-stage in our strategy, we are making a commitment that our customers and communities will judge us by how well we are improving the quality of life rather than other measures of success.

2.7 Some of these outcomes we will be able to deliver by ourselves, but for many other outcomes we will have to work in partnership with other organisations.

2.8 From the consultation activities and the needs analysis we are proposing a set of outcomes the council should be focusing on.

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

2.9 The outcomes also relate back to the nine community aims set out in Cheltenham's Sustainable Community Strategy. This means that the council is continuing its commitment to support the delivery of the community strategy.

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

3. Financial projections – revenue resource requirements

3.1 The key aim of the MTFS is to develop a series of financial projections to determine the longer term financial implications, in order to deliver the aims set out in the council's business plan.

3.2 As in previous years, the approach is to use the current financial year as a base position, inflate this to the price base of the budget year, and add unavoidable spending pressures and the implications of immediate priorities and previous decisions. This is then measured against the projection of available funding to determine affordability. The package of measures required to equalise the two forms the financial strategy to 'bridge' the funding gap for each financial year.

3.3 The projections of the funding gap based on council tax increases of 2.5%, 3.5% and 5% are shown in Table 1.

Table 1: Projection of Funding Gap	2012/13 £	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £
Net Cost of Services brought forward from previous year (assuming a balanced budget has been set)		13,715,920	13,652,774	13,635,945	13,888,167	14,137,376
Increased costs of existing services						
General Inflation		200,000	200,000	200,000	200,000	200,000
Employee related expenditure		212,200	190,000	358,800	366,100	373,700
Pension costs - 2004 Revaluation		50,000				
Pension costs - 2010 Revaluation		82,000				
Pension costs - 2013 Revaluation			120,000	120,000	120,000	120,000
Landfill Tax		41,100	41,100			
Income						
Fees and Charges		(280,400)	(290,000)	(299,700)	(309,700)	(319,900)
Investment Income		(32,100)				
Specific grant to fund council tax freeze		199,000		197,987		
Reserves						
Property repairs & renewals fund		200,000	200,000	200,000	107,000	
Projected Net Cost of Service	**13,715,920**	**14,387,720**	**14,113,874**	**14,413,032**	**14,371,567**	**14,511,176**
Government Grants	(5,716,446)	(5,430,624)	(5,159,093)	(5,159,093)	(5,159,093)	(5,159,093)
Collection Fund surplus	(34,000)					
Council Tax (assumes 2.5% increase from 2012/13)	(7,965,474)	(8,222,150)	(8,476,852)	(8,729,075)	(8,978,284)	(9,223,912)
Projected Funding Gap	**-**	**734,946**	**477,929**	**524,864**	**234,190**	**128,171**
Cumulative Funding Gap		**734,946**	**1,212,875**	**1,737,739**	**1,971,929**	**2,100,100**
Funding Gap Projections:						
Council Tax (assumes 3.5% increase)		(654,730)	(391,937)	(433,087)	(136,644)	(24,892)
Cumulative Funding Gap		(654,730)	(1,046,667)	(1,479,754)	(1,616,398)	(1,641,290)
Council Tax (assumes 5.0% increase)		(534,406)	(217,563)	(241,773)	24,696	149,368
Cumulative Funding Gap		(534,406)	(751,969)	(993,742)	(969,046)	(819,678)

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

4. General

4.1 The net cost of services has been estimated by using the ‘approved’ 2012/13 base budget (subject to council approval on 10th February 2012) as the base for future projections through to 2017/18.

4.2 General inflation on supplies, services, and non-domestic rates has been projected based on previous detailed information. Gas and electricity prices will remain static until the contracts come up for renewal at the end of April 2012. Current feedback from our advisors indicates that the council should not expect a significant price rise when entering into new contracts. Work is ongoing in respect of the energy tenders and the council will aim to buy from the market at the most appropriate time to get the lowest prices, given the best information available. Gas transportation and distribution charges have increased by around 2% since April 2011. This equates to around £8,400 additional annual cost. Further price increases may occur over the length of the MTFS, although at present these are unknown.

4.3 The retail cost of fuel is heavily linked to the global cost of oil and the Dollar/Sterling exchange rate. The recent increase in the global cost of oil appears to have now stabilised, however, current prices are still fluctuating resulting in an uncertain picture for the future.

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

Employee related costs

4.5 In line with the 2010 budget report a pay freeze on public sector pay settlements (excluding increments) in 2011/12 and 2012/13 is factored into the projections. The Chancellor's autumn statement announced that public sector pay increases for 2013/14 and 2014/15 will be capped at 1%. 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 2% per annum.

4.6 The net cost of service assumes an employee turnover saving of 3% of gross pay budget.

4.7 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 was based on the position as at 31st March 2010, 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.

4.8 Contribution rates are calculated on an individual basis for each participating employer. For the council's element of the fund, the funding level was assessed at 66% (compared with 75.3% in 2007), with a shortfall of £38.1m. The fund actuary is aiming for this deficit to be recovered over a 20 year period, giving the following target contribution rates for the council (for this three-year valuation period):

- a 14.60% future service rate which should cover the liabilities scheme member's build up in the future, plus

- an annual lump sum past service deficit contribution of £1.525m, to cover the shortfall in the fund.

4.9 The Secretary of State for Communities & Local Government announced in November 2011 that new reforms to public service pensions will be introduced on 1st April 2014, with regulations in place from 1st April 2013. The single solution will be built on the basis of career average earnings and can include zero increases in employee contributions, provided that overall financial constraints set by the government can be met. The flexible retirement age will be built around the scheme's normal retirement age, equal to the State pension age, or 65, whichever is the later, and applies to both active members and deferred members (new scheme service only).

4.10 Following recent events, the Director of Resources (Section 151 Officer) has discussed the current position with the actuary who has indicated that, given the uncertainty over this area of activity future projections of potential increases in contributions resulting from the 2013 revaluation should be based on 1% per annum over remainder of the period of the MTFS.

Landfill tax

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

Fees and charges

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

Treasury management

4.13 Investment income from cash investments falls in 2012/13. This is largely due to maturing deposits being used to reduce temporary borrowing balances throughout the year. Whilst there is an option to take out prudential borrowing, it has been assumed for MTFS purposes that the capital programme will continue to be financed from capital receipts, grants (including S106 developer contributions), and revenue contributions and that borrowing will only take place if absolutely necessary.

4.14 Debt interest is forecast to be £32,100 favourable in 2013/14 as the impact of a maturing loan takes effect.

Specific grant – Council Tax freeze

4.15 The Government has confirmed a second year of council tax freeze grant equivalent to a 2.5% tax increase. Unlike 2011/12, the government has confirmed that this grant will only be payable in 2012/13 and this has been factored into the MTFS. For Cheltenham this equates to £199,000.

4.16 The council tax freeze grant of £197,987 to support a council tax freeze in 2011/12 has now been built into the government support grant. However, for financial planning purposes, it is assumed that this grant will cease at the end of the current spending review in 2015/16 and has been built into the projections.

Property maintenance

4.17 Current projections (as detailed in the amended 20 year maintenance programme) indicate a requirement to fund property maintenance of circa £1.4m per annum from revenue contributions which will be achieved in 2016/17.

Government support

4.18 The main issue in terms of funding availability is the estimation of the level of Government grant which the council will receive. Although this has been set for the period to 2012/13 as part of the Comprehensive Spending Review 2010 (CSR10), future settlements may impact on effective longer-term financial planning and sustainability.

4.19 Given the severity of the cuts to funding levels, the two year proposal does not provide stability and predictability in local government funding.

4.20 For the purpose of projecting the funding gap, it is estimated that the level of government grant and share of the national non domestic rates pool will decrease by a further 5% in 2013/14 and 5% reduction in 2014/15 (i.e. a 31.28% reduction overall for the period of the spending review CSR10).

Council Tax

4.21 Collection fund surpluses arise from higher than anticipated rates of collection of the council tax collection rates. This is assessed annually although the current economic climate could have an adverse impact on this source of one off funding and therefore no increases have been assumed for the period covered in this MTFS.

4.22 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 expected to increase each year for the purposes of modelling the MTFS.

Funding gap

4.23 Given Government restrictions on local authorities increasing council tax and the subsequent reduction in government funding, the council has faced a significantly more challenging financial position. The latest projections indicate a gap of £2.1m for the period of the MTFS (2012/13 to 2017/18) assuming a 'standstill' position in central government funding with 2.5% annual increase in council tax. The improvement in the baseline 5 year projection reflects the following:

- impact of capping pay increases on pay
- delivery of the BtG programme savings in the earlier years
- achieving the target annual funding level for property maintenance

5. Strategy for 'bridging' the projected funding gap

5.1 The council could reduce the projected funding gap by increasing council tax above 2.5%. Council tax increases of 5% would generate an additional circa £200,000 income per annum although this approach would be unpopular in the current economic climate and 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.

5.2 The council has identified a number of work-streams which form the longer term strategy for 'bridging the gap' which are detailed below.

Service reviews and 'Systems Thinking'

5.3 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

5.4 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.

Asset management

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

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

5.7 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 are being reviewed to identify alternative uses that might better support the council's business plan objectives and generate an income.

Shared services

5.8 There has been major progress in the establishment of shared service arrangements with some significant achievements being made. The council has established a shared audit service with Cotswold District council and West Oxfordshire District council and shared Legal and Building Control services with Tewkesbury Borough council.

5.9 A more significant and complex piece of work is the programme for a shared Enterprise Resource Planning (ERP) system to replace individual payroll, HR, finance and procurement systems with 3 other districts (Cotswold District Council, Forest of Dean District Council and West Oxfordshire District Council) and Cheltenham Borough Homes. This system will become the platform for a full shared service which will help to reduce the cost of 'back office' functions and management structures.

5.10 Additionally, we're uniting with Cotswold District Council to form a company called Ubico Ltd from April 2012, a company which will provide high quality environmental services including waste and recycling collections and street cleaning, producing savings for both councils.

Commissioning

5.11.1 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 better partnership/cross agency working, prioritisation to ensure resources (finance, people and assets) are used to best effect to deliver clearly defined outcomes which all parties to the commissioning approach are aligned behind.

5.11.2 By adopting this strategic approach services will be transformed, where warranted, and may not necessarily as at present be provided through a directly employed workforce; a mixed economy (sharing services, outsourcing, creation of "not for profit" vehicles, third sector) approach to delivery of services may result. The key tests for commissioning will be good quality services, with outcomes for the citizen and community at the heart of their provision and which have long term financial viability.

5.12 The MTFS assumes some initial savings targets from commissioning from the initial review of the services stage. Whilst there are currently no targets for specific commissioning projects there is an expectation, from within the organisation and amongst members, that this approach will deliver savings over the period of the MTFS.

The residual funding gap

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

Table 2: Projection of Residual Funding Gap	2013/14 £	2014/15 £	2015/16 £	2016/17 £	2017/18 £
Projected Funding Gap @ 2.5% Council Tax (Table 1)	**734,946**	**477,929**	**524,864**	**234,190**	**128,171**
Identified Work-streams					
Service Reviews	(18,300)	(10,500)	(4,300)		
Asset Management	(10,000)	(5,000)	(5,000)		
Shared Services	(269,700)				
Commissioning	(93,000)				
Other Major Projects	(50,000)				
Projected Residual Funding Gap	**293,946**	**462,429**	**515,564**	**234,190**	**128,171**
Cumulative Projected Residual Funding Gap	**293,946**	**756,375**	**1,271,939**	**1,506,129**	**1,634,300**

5.14 It should be noted that the current MTFS does not assume any recovery in the current economic climate and therefore, the view could be taken that the current MTFS predicts the worst case scenario.

5.15 The council is seeing the impact of the economic downturn on many services. As the economic crisis has deepened, the council has witnessed a more significant reduction in income levels for many of its service areas resulting in the need to revise income estimates further downwards. The income from development control, property rentals, land charges and car parking has declined to unprecedented levels. In addition, the Bank of England base rate cut to 0.5% has resulted in a significant reduction in the base budget for investment interest.

5.16 Recovery within the economy over the course of the current MTFS would obviously assist in closing the projected funding gap although some costs (e.g. pay awards) may also increase.

6. Financial projections – Capital resource requirements

6.1 The council's capital strategy is geared towards ensuring the maximisation of resources available to the council.

6.2 The council has budgeted to make a revenue contribution to capital outlay (RCCO) Capital Reserve of £700,000 per annum and this is now embedded within the base budget. This reserve funds part of the capital programme which generally consists of 3 areas of expenditure (i) replacement of play equipment (ii) replacement of CCTV equipment and (iii) mandatory costs of disabled facilities grant, totalling £500,000. Assuming additional one off schemes of circa £200,000, the council has an approximate capital programme to be funded from RCCO of £700,000 annually.

6.3 The remainder of the capital programme is funded from other sources e.g. specific grants. In order to progress new capital schemes not already identified within the MTFS, the council will need to prioritise the use of available resources detailed in the Capital Strategy e.g. potential receipts from the sale of Midwinter site and North Place / Portland Street car parks, consider the of other assets or prudential borrowing.

7. Financial projections - reserves

7.1 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.

7.2 As part of the annual budget setting process and in reviewing the MTFS, the council needs to consider the establishment and maintenance of reserves. These can be held for three main purposes:

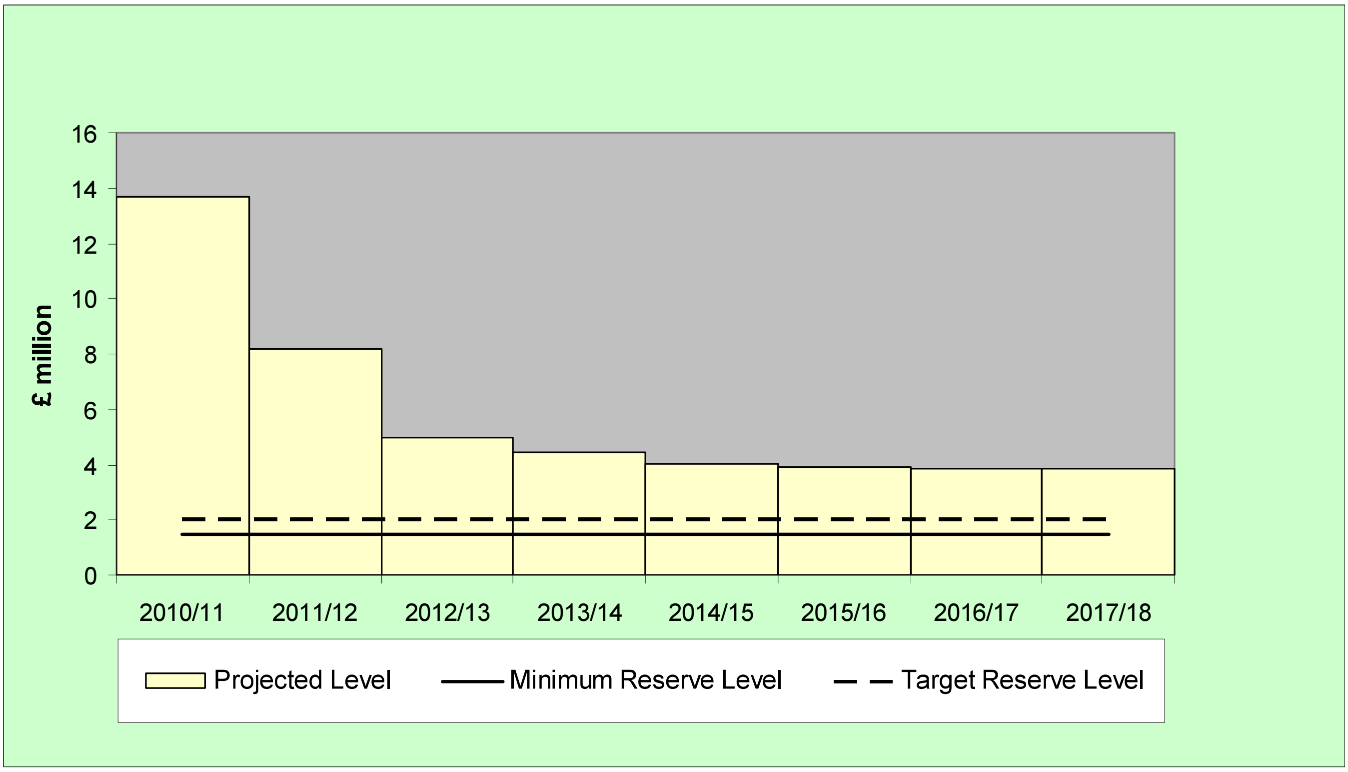
- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
- a means of building up funds (earmarked reserves) to meet known or predicted requirements.

7.3 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. Also, the reserve used to finance the capital programme and property maintenance will reach the levels required to fund existing commitments within this MTFS

7.4 The proposed net budget requirement for 2012/13 is £13,715,920, which includes a net transfer to reserves of £252,045. When taking into account the proposals to support one-off growth in 2012/13 and revenue contributions used to fund the capital programme, the level of reserves held by the council is projected to be £4,954,076 by 31st March 2013.

7.5 The projected position for General Fund reserves to 2017/18 is shown below in Table 4:

Table 4: General Fund Reserves Projection 2010/11 to 2017/18



7.6 In view of the current economic climate, the Section 151 Officer has maintained that General Reserves should be maintained in the range of £1.5m to £2m.

7.6.1 A review of the adequacy of the level of reserves remains a key element of the Section 151 Officers annual review of the budget.

8. Working in partnership

8.1 Partnerships form the basis of an increasing range of the council's services and extend from joint activities within a loose working arrangement to complex and formally structured vehicles for service delivery.

8.2 The council welcomes the opportunity to work with partner organisations to deliver our proposed outcomes as this adds value for the taxpayers of Cheltenham but will always seek to ensure that the:

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

8.3 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 environments;
- We are working in partnership with Gloucestershire County Council and other partners to coordinate the Cheltenham Local Development Taskforce project that will result in significant investment into the borough to secure its longer-term economic success;
- 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 and Forest 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 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.

9. Areas of uncertainty associated with the MTFS

9.1 The review has also highlighted a significant number of areas where the impact on revenue spending cannot be quantified with sufficient accuracy, at this point in the process. The 'uncertainties' associated with the MTFS include the following:

VAT on car parks

9.2 The Isle of Wight (I.O.W.) local authority, along with three others, successfully argued at a VAT Tribunal, that they should not have to charge VAT on off-street car parking. Total claims have been lodged, including 2010/11, totalling £12,618,336. Cheltenham Borough Council will continue to account for VAT on off-street car parking but will also continue lodging claims with HMRC for repayment, in order to protect its position.

Compound interest claim

9.3 The 'Sempra Metals' case was brought before the High Court to determine whether taxpayers should be entitled to compound interest on overpaid VAT. The High Court agreed this in principal but allowed the six year time limit under the Limitation Act to stand meaning their claim falls out of time. However, the time limit point has been appealed to the Court of Appeal.

9.4 Following the High Court's decision, the council, under advisement, pursued a compound interest claim in the High Court. This followed claims being pursued by other local authorities, including Bristol City Council. A further case for compound interest was put forward by 'Littlewoods'. In January 2012, the ECJ released the opinion of the Advocate General ("AG") on the case which although not binding on the ECJ tends to be followed in the majority of cases.

9.5 The AG considered two EU law principles when looking at UK statute (which currently awards interest only on a simple basis). She concluded that awarding only simple interest did not breach the EU law principle of effectiveness, and said that it was for the national court to make a separate reference to the ECJ if it considered that there might be a breach of the principle of equivalence of treatment (i.e. that reclaims based on domestic law were treated more favourably than reclaims based on EU law).

9.6 If the ECJ follows this Opinion, it will mean that taxpayers are highly unlikely to receive any compound interest, i.e. any additional payment of interest beyond whatever simple interest they have already received. This Opinion is perhaps unsurprising in the context of the economic climate across the European Union, but it appears to take an unusual approach on a number of points of law. Therefore it remains possible (but no more than that) that the ECJ could take a different view.

9.7 It therefore appears unlikely at present that the council will be successful in its claim of upwards of £583k, although this position will be continually monitored.

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

9.8 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.

Trade refuse VAT claim

9.9 HMRC decided during Spring 2011 that local authority run trade waste services were outside the scope of VAT. It came to the conclusion that the running of such a service by a local authority was operated under Article 13 (1) of European Directive 2006/112. HMRC state that the requirement under Section 45(1) of the Environmental Protection Act 1990, which places a duty on waste collection authorities to collect waste from commercial premises if requested by the by the occupier of the premises, falls within this article.

9.10 Consequently, local authorities have been advised to submit claims for overpaid VAT on their trade waste income back to January 2008, which is the time frame within which claims can be made of HMRC.

9.11 CBC have instructed their VAT advisors, LAVAT, to work with them on this claim, and will be robustly presenting a case to HMRC demonstrating that the service has been run at a "net cost" to the council and it will therefore not be 'unjustly enriched' by being repaid VAT.

New Homes Bonus

9.12 The government introduced the New homes bonus 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 Council Tax for six years (based on national average for Band D property – i.e. £8,600 per dwelling over six years), plus a bonus of £350 for each affordable home (worth £2,100 over six years).

9.13 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.

9.14 The government has made this a permanent feature of the local government finance system with an extra £450 million available nationally over the first two years, with additional costs being met from the redistribution of formula grant.

9.15 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, dependent on both the rate of housing delivery locally and how this compares with delivery in other authorities across England. However, housing projections are notoriously difficult to predict accurately over the longer term and will need to be assessed prudently in making any assumptions about likely resource availability.

Off-Street parking income

9.16 Income from off-street parking continues to fall for a number of reasons, including the downturn in the economy and changing shopping habits. The 2012/13 budget has been reduced by a further £100,000 to take account of this continued and sustained decline in income levels. It is not anticipated that this position will improve in the near future given the economic climate, and as a result inflationary increases have not been applied to car parking charges for 2012/13.

Proposals for Business Rate retention

9.17 Currently the Council collects £48m of business rates in Cheltenham which it pays into a central government pool and receives back some £4.7 million from the pool.

9.18 From April 2013 the government is proposing to allow authorities to retain a fixed percentage of any growth in business rates over and above inflation (RPI), as a means of encouraging authorities to promote development in their areas. In two tier areas as in Cheltenham any growth will be shared with the county council on an 80:20 basis with 80% going to the district council. This means the more an authority 'grows' its business rates, the more income it will retain.

9.19 However if business rates in an area grow by less than inflation or reduce as a result of the closure of businesses, some of the lost income will have to be borne by the local authorities for that area. There will be a 'safety net' to support authorities whose business rates drop by more than a set percentage, however the level at which this will operate is not yet known.

9.20 Any growth or reduction in business rates will be measured against each authority's position at 1 April 2013, which will be set through a system 'tariffs' (payments to) or 'top-ups' (receipts from) the government, reflecting the uneven distribution across the country of business rates due.

9.21 The changes, as with the proposals for changes in council tax benefit (see below), represent a major change in the way risk is shared with the government. When rates are pooled nationally (as now) the risk of a reduction in the amount collected during the year is borne nationally by the central pool. Under the proposals, although authorities get the benefit of any growth from 1 April 2013, they also bear the risk of reduced growth from that date, up to the safety net level.

9.22 Under the proposals the rate at which business rates are levied will continue to be set by the government. During the consultation period the council argued for this rate to be set by local authorities, as a means of mitigating the risk of reduced income, or as a minimum for there to be a safety net to protect authorities against large reductions in rates.

9.23 Also under the proposals authorities will be allowed to 'pool' their business rates with other authorities, should they wish. This would mean sharing not only any growth in rates over the pooled area but also the risk of reduced income. This may benefit areas like Cheltenham with tightly drawn boundaries and the potential for 'out-of-town' development.

9.24 Due to the lack of detail about how the scheme will work (e.g. the percentage of growth to be retained and the level at which the safety net will operate), it is very difficult to estimate the effect of the proposals on Cheltenham. It is possible that, given the potential growth from new developments in the town from 2013/14 that the council may benefit, however it will also need to bear the cost of reduced income should businesses in the town close or relocate. The council is working with councils in Gloucestershire to establish the impact of the proposals on the MTFS.

Localising support for Council Tax

9.25 Currently council tax benefit is payable to eligible tax payers based on a national scheme. The cost to the council (which is charged to the general fund) is met by a 100% subsidy from the government. In addition reduced subsidy is payable on eligible overpayments. The council currently pays out around £7.1 million in such benefits and receives £7.15 million in subsidy.

9.26 From 1 April 2013 the government is proposing to 'localise' council tax benefits. A fixed subsidy equivalent to the current subsidy reduced by 10% will be payable to local authorities, who will be required to design their own council tax benefit schemes, subject to them making adequate provision for vulnerable groups. Benefits will be offered as reductions or discounts on the council tax payable. The proposals are part of a wider set of welfare reforms, designed to increase local accountability and decision making.

9.27 Authorities may be able to design local schemes that can be funded within the reduced government subsidy. If the cost of the local scheme is less than the subsidy received then the local authorities will benefit, however if the cost is more then they have to bear the additional cost. In two tier areas the savings or additional cost will be shared between the county, district and on the basis of precepts; Cheltenham's share being around 10%.

9.28 The changes, as with the proposals for changes in business rates (see above), represent a major change in the way risk is shared with the government. At present the risk of the actual cost exceeding the budgeted subsidy is currently borne by the government, who meet the actual cost of the scheme. Under the new proposals the risk of claims exceeding the subsidy received is borne by the local authorities, who will not be able to revise schemes in the year.

9.29 It is very difficult at present to estimate the effect of the proposals on Cheltenham, as this will depend largely on the local scheme that is adopted, the mix of vulnerable and non-vulnerable claimants and changes in the local economy. As with other benefits, those relating to council tax are demand led, and the actual cost will depend on the actual number and amount of benefits awarded. However If it is assumed that a local scheme can be designed so that it can be funded by a reduced subsidy of 10%, even a 5% overspend would cost Cheltenham an additional £30,000 per annum.

9.30 During the consultation period the council argued that the timescale for implementing the changes was too tight, with the need to design, consult on and agree a local scheme by 31 January 2013. The need for a safety net was also suggested, although the government have indicated they may review grant allocations annually based on previous shares of expenditure.

Icelandic banks

9.31 The council has £9.1m of un-recovered investments with Icelandic banks which went into administration in October 2008. The council is due to recover 100% of the deposit from Glitnir before the end of 2011/12 financial year and 31% of the deposits with Landsbanki in early 2012. The MTFS assumes the receipt of these distributions followed by smaller distributions as notified by the Landsbanki Winding up Board.

10. Risk associated with the MTFS

10.1 There are inevitable risks associated with the assumptions for both revenue and capital projections. Employee turnover may vary from that assumed with both financial and service consequences. Net expenditure may be more than has been assumed, either as a consequence of additional demand, reduced income following a fall in demand e.g. further reductions in car parking; or for new responsibilities which are inadequately provided for within government grant.

10.2 On the capital side, major projects that require additional resources and rely on a level of new capital receipts may prove to be optimistic in the current economic climate.

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

10.4 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.

10.5 The prospect of business failures and a reduction in available tenants may result in rent reductions or rent free periods in order to attract new occupiers to the council's commercial property portfolio.

10.6 The Council continues to review the MTFS regularly and highlight changes to the BtG programme board and the council's Senior Leadership Team.

11. Conclusion

11.1 The council has a track record of strong financial management but is now in a period of significant volatility and uncertainty. The council needs to plan now to ensure that its strong financial position continues throughout the period covered by this MTFS and beyond.

11.2 The development of this strategy for closing the budget gap is an important and on-going issue for the council.