

MEDIUM TERM FINANCIAL STRATEGY 2009/10 TO 2014/15

1. Introduction

- 1.1 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document. It sets out, and considers the financial implications of the Council's, objectives and priorities. The aim of the MTFS is to ensure a stable and sustainable financial position that will allow the Council to achieve its vision, aims and ambitions over the next 5 years.
- 1.2 The Council is committed to maximising the use of scarce resources and directing resources towards its priorities whilst keeping council tax at an affordable level. The MTFS is reviewed regularly and reported to Members during the budget process and at budget setting annually.
- 1.3 The Council has, for many years, incorporated a national requirement for the identification of efficiencies (Gershon savings) within its corporate planning and decision-making processes in line with Government targets.
- 1.4 The identification of efficiencies and other savings (including increases in fees and charges) has enabled the Council to reallocate available resources to achieve the introduction of new or enhanced services (e.g. concessionary fares and new recycling initiatives).
- 1.5 The purpose of this document is to formulate a financial strategy which will guide the management of the Council's finances during a period of very tight external financial constraint. The strategy considers the factors and influences on the Council's resources.
- 1.6 This year's review is overshadowed by the national economic climate. The Council faces a major challenge in managing the impact of the recession on budgets and services, including the impact of falling interest rates coupled with tight government grant settlements. Most of the issues had already been anticipated but not to the extent now being experienced.
- 1.7 The strategy covers the period 2009/10 - 2014/15 and sets out the resource issues and principles that shape the budget; identifies current issues and considers potential developments / related issues that are likely to provide the basis for future revenue and capital budgets.
- 1.8 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 The Council's vision as set out in Cheltenham's Sustainable Community Strategy as the basis of its framework forms the basis for modeling the MTFS:

'We want Cheltenham to deliver a sustainable quality of life, where people, families, their communities and businesses thrive; and in a way which cherishes our cultural and natural heritage, reduces our impact on climate change and does not compromise the quality of life of present and future generations.'

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2.2 Applying this twenty year vision, Cheltenham Borough Council has developed an overarching message designed to inspire employees and members to contribute effectively towards ensuring that the borough of Cheltenham remains successful, to set the ethos and culture of the Council and to focus all officers and members efforts on a common goal. Our overarching message is:

“Working together to create a great future for Cheltenham”

<p><i>Working together</i> We will work as one team, share information, effort and culture, build proactive relationships and work with others outside the Council for the benefit of the community.</p>	<p><i>To create</i> We will think ahead and be ambitious for our future, challenge the status quo and improve our service delivery, productivity and working environment.</p>	<p><i>A great future</i> We will understand where we are going, and why, and the part we each play. We will be accountable for what we do; encourage everyone to use their skills and contribute; and to provide opportunities to learn and grow. We will be results driven, achieve what we promise and strive to deliver excellent services.</p>	<p><i>For Cheltenham</i> We will put the people who visit, live and work in Cheltenham at the centre of all we do. We will listen to them all to understand their needs and develop our services around those needs.</p>
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2.3 Cheltenham Borough Council will work to ensure efficient and effective service delivery for the people who live in, work in and visit Cheltenham and will work with its partners to create a great future for Cheltenham and the nine community aims guide both ours and our partners’ approach. The community aims are underpinned by our work programme for 2009/10, which is in the form of longer-term ambitions, and their related performance measures.

The nine community aims are:

- Promoting community safety
- Promoting sustainable living
- Promoting a strong and sustainable economy
- Building healthy communities and supporting older people
- Building stronger communities and supporting housing choice
- A focus on children and young people
- Investing in environmental quality
- Investing in travel and transport
- Investing in arts and culture

Along with the nine community aims, we have an aim to focus our internal work:

- Being an excellent, efficient and sustainable Council

2.4 The role of the MTFS is to support the delivery of the Council’s vision, aims and ambitions. 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.

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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

	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £
Net Cost of Services brought forward from previous year (assuming a balanced budget has been set)		16,460,953	16,752,873	17,013,753	17,280,755	17,554,039
Increased costs of existing services						
General Inflation		150,000	200,000	200,000	200,000	200,000
Employee related expenditure		538,400	498,300	513,100	527,500	544,700
Pension costs - 2004 Revaluation		50,000	50,000	50,000		
Pension costs - 2007 Revaluation		100,000	65,500			
Pension costs - 2010 Revaluation			278,500	278,500	278,500	
Landfill Tax		45,000				
Loss of CBH fleet		7,500				
Maintenance of watercourses, streams and ditches				30,000		
Links to Business Plan						
2006/07 PAT 4a – Expansion of Lifeline		(6,000)				
2009/10 PAT OD5 – Working Flexibly		4,000	(1,000)			
Income						
Fees and Charges		(341,900)	(321,800)	(329,800)	(338,100)	(346,500)
Investment Income						
Reserves						
Property repairs & renewals fund		100,000	125,000	200,000	200,000	200,000
RCCO		100,000	75,000			
Projected Net Cost of Service	16,460,953	17,277,153	17,756,373	17,962,853	18,147,355	18,148,339
Government Grants	(8,774,984)	(8,818,859)	(8,862,953)	(8,907,268)	(8,951,804)	(8,996,563)
Collection Fund surplus	(33,500)	(33,500)	(33,500)	(33,500)	(33,500)	(33,500)
Council Tax (assumes 2.5% increase)	(7,652,469)	(7,900,514)	(8,117,300)	(8,339,987)	(8,568,735)	(8,803,707)
Projected Funding Gap	-	524,280	742,620	682,098	593,316	314,568
Cumulative Funding Gap		524,280	1,266,900	1,948,998	2,542,314	2,856,882
Funding Gap Projections:						
Council Tax (assumes 3.5% increase)		447,202	660,539	594,771	500,487	215,972
Cumulative Funding Gap		447,202	1,107,741	1,702,512	2,202,999	2,418,971
Council Tax (assumes 5.0% increase)		331,584	534,521	457,645	351,505	54,339
Cumulative Funding Gap		331,584	866,105	1,323,750	1,675,255	1,729,594

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

4. Key Assumptions**General**

- 4.1 The net cost of services has been estimated by using the 'approved' 2009/10 base budget (subject to Council approval on 13th February 2009) as the base for future projections through to 2014/15.
- 4.2 General Inflation on supplies and services, energy costs, and non-domestic rates has been projected based on previous detailed information. The utility contracts are fixed price until October 2011 and will therefore not be subject to an increase in 2010/11.
- 4.3 Major contracts and agreements are rolled forward based on the specified inflation indices in the contract or agreement.

Employee related costs

- 4.4 Employee budgets include a cost of pay award allowance of 2.5% to reflect the current economic climate. An allowance has also been included for incremental progression where appropriate. The net cost of service assumes an employee turnover saving of 3% of gross pay budget.
- 4.5 The Council is part of the Gloucestershire Pensions Fund, which is administered by the County Council. The rate of contribution paid to the fund by participating employers is set following a triennial revaluation of the Fund by the appointed actuary.
- 4.6 The most recent triennial revaluation of the Fund was based on the position as at 31st March 2007, the results of which were formally published on 31st March 2008. The valuation found that the Fund's objective of holding sufficient assets to meet the estimated current cost of providing members' past service benefits was not met at the valuation date.
- 4.7 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 75.3% (compared with 68.4% in 2004), with a shortfall of £34.6m. The fund actuary is aiming for this deficit to be recovered over a 20 year period, giving a target contribution rate for the Council (for this three-year valuation period) of 25.0%. This consists of:
- a 14.65% future service rate which should cover the liabilities scheme members build up in the future, plus
 - a 10.35% past service deficit contribution to cover the shortfall in the fund.
- 4.8 In order to smooth out the impact on taxpayers for the increase in contributions, an earmarked reserve is used to phase in these increases.

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- 4.9 The Council receives an annual report which projects the pension fund position forward taking into account changes in both member profile and performance of the fund. The report, which provided a position to August 2008, suggested that due to the significant fall in the stock markets and the expectation of increasing inflation, the funding level has dropped from an estimated 75.3% at 20th March 2008 to 60.4% at 28th August 2008. For the purposes of financial projections the Council has been informally advised to base future projections of potential increases in contributions to 2% per annum over a 3 year period from 1st April 2011 i.e. 6% overall.

Landfill Tax

- 4.10 Central Government has applied a cost escalator for landfill tax which increases the cost of commercial waste disposal by £8 per tonne, year on year until 2010/11.

Cheltenham Borough Homes (CBH)

- 4.11 The cost of residual overheads following the final withdrawal by CBH from utilising the fleet management and maintenance services of Cheltenham Borough Council has been factored into the projections for 2010/11.
- 4.12 Service Level Agreements between the Council and CBH are normally calculated based on the impact of inflation allowances on providing the services. Given the current economic climate and the pending review of Support Services, no increases have been allowed for.

Flood Resilience

- 4.13 The Council was successful in applying for a one-off grant to deal with restoration work following the July 2007 floods. At the interim budget stage, the Cabinet decided that £90,000 of the grant should be earmarked for the maintenance of watercourses, streams and ditches over a three-year period. This funding will need to be built into the base budget from 2012/13.

Fees and Charges

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

Treasury Management

- 4.15 Investment income from cash investments falls over the MTFs period. This trend was acknowledged in the previous MTFs and is largely due to cash balances (i.e. ear-marked reserves) being consumed, essentially to finance the Council's capital programme and property maintenance. 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.

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- 4.16 Current projections (as detailed in the amended 20 year Maintenance Programme) indicate a requirement to fund property maintenance of circa £1,400,000 per annum from revenue contributions which will be achieved in 2014/15. This is explained in greater detail within the Capital Strategy at Appendix K.
- 4.17 Current projections have indicated a requirement to fund a capital programme of £700,000 per annum from revenue contributions which will be achieved in 2011/12. This is explained in greater detail within the Capital Strategy at Appendix K.

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 2010/11 as part of the Comprehensive Spending Review 2007 (CSR07), future settlements may impact on effective longer-term financial planning and sustainability. 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 increase by 0.5% per annum for the period of the next spending review (CSR10).
- 4.19 However, as a result of the significant support given by the Government to the banks and the economy, the settlement may result in a significant tightening of public sector support. At this stage, it is difficult to determine the implications of such a statement.

Council Tax

- 4.20 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.
- 4.21 The taxbase represents the total number of chargeable properties in the borough, expressed as band D. The net budget requirement is divided by the taxbase to calculate the level of council tax for band D each year. The Council's taxbase is estimated to increase by 100 each year for the purposes of the MTFS. This is a lesser increase than in recent years and reflects the slowdown in the housing market and the reduction in the number of new properties being built.

Funding Gap

- 4.22 The projected funding gap assuming a 2.5% increase in council tax presents a significant challenge for the Council. The latest projections indicate that the gap of £2.8m is higher than has been faced in recent years, the primary reason being the current economic downturn. Conversely, an economic recovery would help to close the gap.

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5. Strategy for 'bridging' the projected funding gap

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

5.3 Asset Management

- 5.3.1 A target of £50,000 per annum has been identified through asset management savings. External support has been commissioned to produce an Asset Management Plan which will provide a strategic view in respect of the long term aspirations for the Council's property portfolio, supporting the priorities identified in the Council's Business Plan. This may identify specific areas where additional value could be achieved from the property portfolio.
- 5.3.2 Property rental income, based on current projections from the portfolio, equates to a return which is lower than the average market rent. Rent reviews over the next five years could potentially generate additional income to ensure asset maximisation.
- 5.3.3 A review of the asset base could identify potential property disposals which will both raise capital resources (capital receipts) and reduce the incidental costs of holding properties (e.g. on-going maintenance costs, business rates, etc). Any capital receipts generated from the disposal of assets could be ring-fenced to generate investment income or used to fund high priority capital schemes. Similarly, vacant properties are being reviewed to identify alternative uses that might better support the Council's business plan objectives and generate an income. It is worth noting however, that it has proved difficult to release savings from property rationalisation in the current economic climate.
- 5.3.4 In the past, the Council has benefited from rating revaluation appeals with the Valuation Office regarding a number of its properties. A review of business rates payable for existing properties will need to be undertaken to ensure the 2005 Valuation Office list is correct. An assessment of business rates payable on car parks should be undertaken in the first instance, given the significant decrease in car parking sales since 2002/03. Any successful appeals could lead to a reduction in the ongoing business rates payable each year in addition to a lump sum for any overpayment since the original proposed rateable value was first used.
- 5.3.5 Energy markets continue to be very volatile although the Council has mitigated this risk somewhat by fixing its contracts for both gas and electricity until October 2011. As part of the Council's commitment to carbon reduction, an audit of the Council's current energy use should be regularly undertaken to identify the scope for savings. For example it is estimated that the replacement of existing 35w bulbs with 1w LED's in the town's Christmas lights will save £100,000 over 20 years (£5,000 per annum) based on a pilot undertaken in 2008.

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5.4 Service Reviews

- 5.4.1 A target of £100,000 per annum has been identified through service reviews which will aim to review areas considered to be high/significant cost, or where there is a perceived performance variance.
- 5.4.2 Given the need to find on-going savings, it is important to have a clear understanding of how cost and quality compares for all services. Therefore the Chief Finance Officer will be working with the Senior Leadership Team (SLT) to determine a framework for Assistant Directors and Service Managers to measure cost and quality for all services, involving Members where relevant. This work will provide a more structured approach to establishing where the Council may wish to find savings for future budget rounds.
- 5.4.3 The Council currently subscribes to CIPFA's Statistical Information Service (SIS), a tool which can be used to crudely compare the Council's services with other local authorities. This tool will enable officers to identify specific areas (e.g. fees and charges) which differ significantly to other local authorities.
- 5.4.4 These service reviews will also be used to identify the potential for above inflation increases on the Council's current range of fees and charges and help to identify new sources for charging. Officers will need to examine the Council's commercial activities to ensure that it is maximising opportunities and to ensure its pricing policy will generate the greatest return.
- 5.4.5 The Council's five year agreement for Insurance comes to an end in March 2010. The outcome of the tendering exercise for its renewal is uncertain at present as it will be dependent on a number of factors including claims history, risk management, level of excess, and the present state of the insurance market. However, as part of the service reviews, officers will work with its insurance brokers to obtain the best quotes whilst ensuring the Council is adequately covered.
- 5.4.6 Any savings generated from the insurance tender (which may involve a 'standstill' premium thus generating an efficiency saving) will be heavily linked to the procurement work-stream.

5.5 Procurement

- 5.5.1 A target saving of £100,000 has been identified through procurement for the financial years 2010/11 and 2011/12.
- 5.5.2 The service has been heavily committed to a variety of major projects over the year to put in place contracts for the supply of goods and services. These can be 'called off' as required over the long term, thus getting maximum leverage from the market and reducing the need for repeated small procurement exercises. The most recent example is a contract for the provision of corporate printing and related services. Work is continuing with Property Services to place a contract for planned preventative maintenance for electrical and mechanical services at 51 Council owned buildings.

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5.5.3 There is a current project being undertaken for the provision of personal protective equipment in partnership with neighbouring authorities – continuing a theme of collaborative working that started three years ago. The office stationery contract is due for renewal for all nine authorities originally involved of which Cheltenham Borough Council is once again the lead authority.

5.5.4 The savings achieved from procurement activity in 2008/09 are shown in Table 2 and the procurement work plan on which the target of £80,000 for 2009/10 is based, is shown in Table 3:

Table 2: 2008/09 Procurement Activity

Contract Detail	Savings Achieved	Projected Savings	Predicted Savings over 5 years
	2008/09 £	2009/10 £	£
Doggy Bags		1,500	6,000
Corporate Rail Travel	1,000	1,000	5,000
Agency Labour	20,000	20,000	100,000
Skip Hire – Dog Waste		5,500	22,000
Single Advice Contract	90,000	90,000	450,000
Projected Savings	111,000	118,000	583,000

Table 3: 2009/10 Procurement Work Plan

Contract Detail	Current Annual Spend	Projected Saving Achievable	Projected Annual Saving	Expected Month of Completion	Projected Base Budget Saving 2009/10	Projected Base Budget Saving 2010/11
	£	%	£		£	£
Corporate Printing	137,949	10.00	13,794	April 2009	13,794	-
Personal Protective Equipment	55,240	10.00	5,524	September 2009	2,762	2,762
Planned Preventative Maintenance	225,000	10.00	22,500	April 2009	22,500	-
Reactive Property Maintenance	200,000	10.00	20,000	April 2009	20,000	-
CCTV Maintenance	17,300	5.00	865	April 2009	865	-
Advertising (public notices, jobs, etc.)	213,312	15.00	31,997	August 2009	18,665	13,332
Fire Prevention	12,101	5.00	605	June 2009	454	151
Cleaning Products	23,409	10.00	2,340	October 2009	975	1,365
Security Systems / Protection	39,621	10.00	3,962	May 2009	3,301	661
Supply of Chemicals	15,471	5.00	773	July 2009	516	257
Projected Savings			102,360		83,832	18,528

5.5.5 The corporate procurement service has generated cashable savings in the year 2008/09 amounting to £111,000. However these savings are accounted for under the individual service budget heads. Taking into account the corporate procurement activity since the service started the cumulative reduction in overall budget is £304,900 from 2006/07 base.

5.5.6 The Council has also benefited to a high degree from improved specifications and contract conditions. Over the past year the involvement of the procurement service in the reinstatement of leisure@cheltenham has ensured consistency in contract terms and conditions and assured best value for money in the provision of services and equipment.

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5.5.7 The introduction of electronic procurement has achieved greater efficiency in procurement procedures. Electronic reverse auctions have contributed significantly to the achievement of the cashable savings above. In addition the use of the Delta electronic tendering on-line service has streamlined procurement procedures to the benefit of both the Council and its suppliers.

5.5.8 The procurement service will continue to work with CBH in 2009/10 with the major emphasis on maximising cashable savings from the implementation of maintenance frameworks and call-off contracts.

5.6 Service Improvement through 'Systems Thinking'

5.6.1 A target of £100,000 in 2010/11 and £50,000 in 2011/12 has been identified through service improvement. The Council has adopted a strategy for improving service delivery by:

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

5.6.2 This approach has introduced 'systems thinking' business transformation methodologies. The principal aim of the work must be to focus on streamlining systems and processes to deliver what the customer demands in the most effective way. However, it is clear that this focus on the customer will also deliver business efficiencies that can make a significant contribution to bridging the Council's funding gap. This approach has proven to be very effective at other local authorities.

5.6.3 After a successful training programme the initial interventions are in the trade waste and development control services. Other interventions will commence shortly to include service improvements in tourism service, community services and the purchase-to-pay processes.

5.7 Shared Services

5.7.1 A target of £100,000 per annum has been identified through shared services.

5.7.2 Many of the Council's aspirations for saving money from sharing services with other authorities is still 'work in progress' and an independent review of options has been commissioned. This review is developing a sourcing strategy for support service functions and will be based within an overall commissioning framework for service provision. In developing its sourcing strategy the Council will identify, evaluate and implement the most effective delivery models for securing strategic objectives. The timetable for delivery of this strategy will depend on the outcome of the review and the preferred options but it is anticipated that by June 2009 the Council will be in a position to determine the agreed approach.

5.7.3 The Council is also exploring opportunities to share internal audit services with other neighbouring Councils, not only as a way of saving money but to build in service resilience. The Council is currently providing press and public relations support to Tewkesbury Borough Council and also has recently

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entered into a shared arrangement for management of the strategic land use teams. Other opportunities are being explored with neighbouring Councils, such as shared depot facilities and building control.

5.8 Other Major Projects

- 5.8.1 A target of £50,000 per annum has been identified through other identified projects. The rationalisation of the Depot site in Swindon Lane and potential relocation of the Tourist Information Centre to the Art Gallery & Museum are already being reviewed.
- 5.8.2 'Invest to save' initiatives will be encouraged to ensure long-term efficiencies in service delivery and value for money are delivered. These initiatives may well require some up-front capital investment, the criteria for which are outlined in the capital strategy.
- 5.8.3 The Bridging the Gap (BtG) Officer Group, supported by the Cabinet Member for Finance and Culture, has proved a useful vehicle for achieving savings to bridge the funding gap identified in the previous financial year and will continue to meet regularly to ensure work-streams are on target and new projects are identified. However, there remains a residual funding gap still to be addressed.

5.9 The Residual Funding Gap

- 5.9.1 Taking into account that the identified work-streams are delivered throughout the period covered by this MTFs, the projected residual funding gap (assuming a 2.5% increase in council tax annually) is shown below in Table 4.

Table 4: Projection of Residual Funding Gap

	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £
Projected Funding Gap @ 2.5% Council Tax (Table 1)	524,280	742,620	682,098	593,316	314,568
Identified Work-streams					
Asset Management	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Service Reviews	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Procurement	(100,000)	(100,000)			
Service Improvement	(100,000)	(50,000)			
Shared Services	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Other Major Projects	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Projected Residual Funding Gap	24,280	292,620	382,098	293,316	14,568
Cumulative Projected Residual Funding Gap	24,280	316,900	698,998	992,314	1,006,882

- 5.9.2 It should be noted that the current MTFs does not assume any recovery in the current economic climate and therefore, the view could be taken that the current MTFs predicts the worst case scenario.
- 5.9.3 The unprecedented events of the last few months have presented a major challenge for Councils. 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

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of its service areas resulting in the need to revise income estimates further downwards. The income from development control, property rentals, land charges and recycling has declined to unprecedented levels resulting in reductions in income projections totalling £412,500 being factored into the proposed 2009/10 budget.

- 5.9.4 In addition, the Bank of England base rate cut to 1.5% has resulted in a reduction in the base budget for investment interest.
- 5.9.5 Recovery within the economy over the course of the current MTFs would obviously assist in closing the projected funding gap although some costs (e.g. pay awards) may also increase.
- 5.9.6 For the purpose of modelling different planning scenarios (i.e. best case scenario) Table 5 assumes that the economy recovers by 2011/12 with the recovery of income levels to 2007/08 levels and investment income obtaining a return of at least 5%.

Table 5: Projection of Residual Funding Gap (best case scenario)

	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £
Projected Funding Gap @ 2.5% Council Tax	524,280	742,620	600,718	593,316	314,568
Identified Work-streams					
Asset Management	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Service Benchmarking	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Procurement	(100,000)	(100,000)			
Service Improvement	(100,000)	(50,000)			
Shared Services	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Other Major Projects	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
Economic Recovery					
Recovery of Income levels		(200,000)	(200,000)		
Additional Investment income		(174,000)			
Projected Residual Funding Gap	24,280	(81,380)	100,718	293,316	14,568

N.B. This excludes the additional potential revenue income generated from the pending sale of the Regent Arcade

5.10 Developing the strategic approach to tackling the MTFs Funding Gap

- 5.10.1 The momentum of the Bridging the Gap Group needs to be maintained into the future in order to continue to monitor progress in delivering savings from the work streams already underway and to identify an approach for dealing with any shortfall in savings required to meet existing or future increases in funding gaps.
- 5.10.2 Consideration is being given to the Senior Leadership Team (SLT) taking on this role in future. This would foster a 'one team' approach to resolving, what is, a collective issue for the senior management of the Council. SLT will work with a project sponsor and programme manager to develop the corporate approach to tackling the problem.
- 5.10.3 A key strand of work will involve the Chief Finance Officer working with SLT to rollout a framework for service benchmarking to measure cost and quality for all services, based upon the work undertaken for Corporate Services. This

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work will provide a more structured approach to establishing with Members where the Council may wish to find savings in future budget rounds through further service reviews or further targeted systems thinking work.

5.10.4 Approaches to be considered may include

- Service prioritisation – establishing with Members, whether there is scope for reductions in service level or discontinuance of service provision.
- Approach to service commissioning i.e. consideration of alternative models for service delivery e.g. trusts, shared services or third party providers.
- Potential for a value for money programme of work.
- Review of the financial framework in which managers operate e.g. requirement to deliver an annual target level of efficiencies.
- Review of spend analysis to highlight any areas to focus future procurement activity.
- Review of staffing levels; approach to vacancies; staffing reviews to establish whether there is any scope to reduce the Council's most significant area of cost.
- Review of external support to external bodies including direct grant or indirect / in-kind support.

5.10.5 Developing a strategic approach will need to take account of the Council's vision; within the period of the MTFS this will include the need for an overarching response to climate change adaptation. The Borough Council will work in partnership with local authorities across Gloucestershire to develop this thinking and consider how climate change adaptation can make a positive contribution to the bullet points above.

5.10.6 This is not the full extent of the areas which may be considered since it will be for SLT to determine which approach should be taken to ensure the delivery of the savings needed.

6. Financial Projections – Capital Resource Requirements

- 6.1 The Council's capital strategy is appended to the budget setting report (Appendix K) but in general terms it 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 £525,000 in 2009/10 which is planned to increase by £100,000 in 2010/11 and £75,000 in 2011/12 within the current MTFS. 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. Within the current MTFS, this level of RCCO will be achieved by 2011/12.

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- 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 which could involve the disposal of existing assets (e.g. Regent Arcade) or prudential borrowing (e.g. to fund new build) on a scheme by scheme basis.
- 6.4 The financial consideration gained in respect of S106 developer contributions for affordable housing has dropped mainly as a result of the current housing market. Reliance on the Housing Capital Reserve to fund this element of the General Fund Capital Programme will result in a reduction of available cash balances which currently earn the Council investment income and this has been built into the MTFS revenue projections.

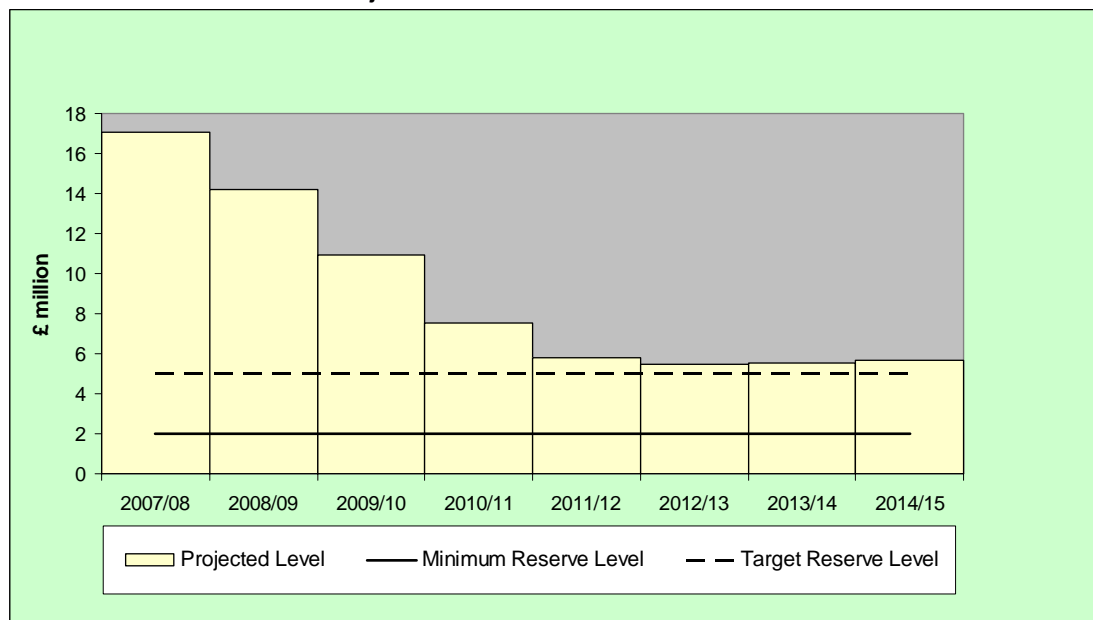
7. Financial Projections - Reserves

- 7.1 A review of earmarked reserves has resulted in an increase to the General Reserve to support the 2009/10 budget. This reserve will be held to protect the budget and existing service levels from further fluctuations in interest rates, potential implications from the Icelandic banks situation and reduction in income levels as a result of the economic downturn
- 7.2 External factors such as the flooding in 2007 and the problems experienced by the global financial markets in 2008 have highlighted the importance for authorities to maintain an appropriate level of reserves. This has prompted CIPFA's Local Authority Accounting Panel (LAAP) to issue a bulletin on local authorities' reserves and balances.
- 7.3 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 7.4 Within the existing statutory and regulatory framework, it is the responsibility of the Chief Finance Officer to advise the authority about the level of reserves that should be held and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.
- 7.5 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.

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- 7.6 In order to assess the adequacy of unallocated general reserves when setting the budget, the Chief Finance Officer should take account of the strategic, operational and financial risks facing the authority.
- 7.7 The Council has benefited from a strong economy over a number of years which has enabled it to earmark significant funds to specific reserves. These have been reviewed twice yearly by full Council under the guidance of the Chief Finance Officer.
- 7.8 Over the course of this MTFS, a number of earmarked reserves will be depleted as they are used to finance planned expenditure e.g. implementation of single status and the phasing of increasing employee pension costs.
- 7.9 It is also the case that reserves used to finance the capital programme and property maintenance will reach the levels required to fund existing commitments within this MTFS.
- 7.10 The proposed net budget requirement for 2009/10 is £16,460,953, which includes a net use of reserves of £1,322,797. When taking into account revenue contributions used to fund the capital programme in 2008/09 and 2009/10, the net reduction in the level of reserves held by the Council is projected to be £6,133,533 by 31st March 2010 (in comparison to the level of reserves held as at 31st March 2008).
- 7.11 The projected position for General Fund reserves to 2014/15 is shown below in Table 6:

Table 6: General Fund Reserves Projection 2007/08 to 2014/15



- 7.12 The Chief Finance Officer has maintained in the past that General Reserves should be maintained in the range of £1m to £1.5m. In view of the current economic climate, the risks associated with holding Icelandic investments, and the current dispute with the Council's former Managing Director, it is now

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the view that this minimum level should be raised to £2m. In order to ensure that the Council holds significant reserves to cover the purposes for holding reserves (as outlined in 7.4) a target projected reserve level of £5m has been set.

- 7.13 The projection shown in Table 6 is important as it demonstrates that the uneven impact of unavoidable cost pressures (e.g. single status, pension costs) can be handled, whilst providing temporary use of reserves to support the budget if required.
- 7.14 The graph demonstrates that the level of reserves held over the course of the MTFS is projected to be maintained at the target level of £5m.
- 7.15 Risk analysis and a determination of the adequacy of the level of reserves will remain a key element within the Chief Finance Officer's annual section 25 report, in conjunction with the final budget proposals.

8. Working in Partnership

- 8.1 Partnerships form the basis of an increasing range of the Council's services and extend from joint activities within a loose working arrangement to complex and formally structured vehicles for service delivery.
- 8.2 The Council welcomes the opportunity to work with partner organisations to deliver our nine community aims 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 Cheltenham Strategic Partnership (CSP)

- 8.3.1 CSP brings together core partners, thematic partnerships, community and voluntary sectors. The aims of the CSP are:
 - To be the partnership of partnerships for Cheltenham, providing strategic co-ordination, ensuring linkages with other plans and bodies established at the regional, sub-regional and local level and agreeing a community strategy that sets the vision and priorities for the area and gaining consensus about the way forward.
 - To develop and drive the effective delivery of the sustainable community strategy action plan through effective performance management and holding delivery partners and partnerships to account.

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8.3.2 The Council commits £15,000 pa to support the work of the partnership and to enable it to deliver commitments in the sustainable community strategy.

8.4 Promoting community safety

8.4.1 Tackling crime is consistently the highest priority for our residents and the Council invests significantly in this work. It directly employs two officers who support the work of the community safety partnership but also supports a number of other Council services that meet the aims of the partnership such as Cheltenham Safe, graffiti removal service and summer holiday playschemes.

8.4.2 This work secures additional funding which comes from area-based grant allocated through the Gloucestershire Local Area Agreement; which in 2008/09 was £25,000 for anti-social behaviour grant, £10,000 for a reducing alcohol related violence project and £14,276 revenue. The £25,000 ASB grant allows the Council to employ an ASB coordinator which in turn levers in an additional police officer who is seconded to the Council to support the ASB work.

8.5 Promoting sustainable living

8.5.1 The Council supports partnership working in the county through the Gloucestershire Waste Partnership and has adopted a county wide Joint Municipal Waste Management Strategy. It has also signed a memorandum of understanding with Tewkesbury and Cotswold district Councils to progress towards shared service delivery in waste management by April 2012. This will be achieved in a structured and incremental way with progress dependant on individual authority agreement at key milestones.

8.5.2 The Council also works in partnership with Vision 21 Gloucestershire, an independent registered charity that provides support and information about climate change and sustainable development, to promote sustainability and responsible waste management. A key feature of this partnership is the recruitment of 56 active volunteers as Community Recycling Champions who promote waste reduction, re-use and recycling within their local community.

8.5.3 The Council contributes £5,200 pa to support the work of the Low Carbon Partnership which is focusing on reducing carbon emissions from energy and transport use and brings together partners from public, private and voluntary sectors. The Partnership has agreed a common methodology for agreeing partners' carbon footprints in order that it can establish a baseline from which to set a reduction target.

8.6 Promoting a strong and sustainable economy

8.6.1 The Council has 15 service level agreements in place with a range of partners to secure delivery of its economic development strategy worth over £240,000; significant SLA's include those with Gloucestershire First, Adult Education department of Gloucestershire County Council and Severn Wye Energy Agency.

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8.7 Building healthy communities and supporting older people

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

8.8 Building stronger communities and supporting housing choice

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

8.9 A focus on children and young people

- 8.9.1 Through working in partnership, the Council is securing better outcomes for children and young people and adding value for local taxpayers. Gloucestershire County Council allocated a sum of £20k in 2008/09 to our children and young people's partnerships to support an integrated "youth offer" which is about ensuring young people have access to services, facilities and information and support. The Council also allocated £51k to Gloucestershire Youth Services in 2008/09 to deliver additional youth activities in South Cheltenham, North Cheltenham and Hesters Way.

8.10 Investing in environmental quality

- 8.10.1 The Council has an approved strategy in the form of an Urban Design Framework that has been formally adopted as a Supplementary Planning Document for environmental, transport and public realm improvements, primarily in the town centre. This will be partially funded from the development of three Council-owned sites that are currently used for surface car parking. The authority has also approved the disposal of the Council's interests in the Regent Arcade shopping centre and adjoining multi-storey car park and proposes to commit some of the capital released from the sale of the site to help fund its Civic Pride aspirations, which could, subject to further financial appraisal, include relocation of the Municipal Offices as the anchor for a new 'Civic hub' at Portland Street.
- 8.10.2 Discussions are on-going with a number of other public sector providers and voluntary organisations, with a view to consolidating their accommodation requirements to help achieve some efficiencies - this might, for example, include bringing voluntary sector organisations together in the new 'Civic hub', thereby allowing the sale of some valuable Council-owned buildings with high maintenance costs.

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8.10.3 The Civic Pride financial modelling indicates that there may be a positive impact on the MTFS in the future through increased net revenue streams as a result of additional property rentals and reduced building costs depending upon which option is agreed. It is too early to factor in any specific options at this stage, but risks will be managed by ensuring robust appraisal of project options using net present value methodology over a thirty year period.

8.11 Investing in travel and transport

8.11.1 The Council is a member of the Gloucestershire County Council's countywide concessionary travel scheme for 2008/09. This scheme now allows for national free travel which is an expansion of the arrangements as operated during 2007/08 where free travel was limited to within Gloucestershire and certain cross boundary routes only. The cost allocations for the countywide scheme for 2009/10 onwards are controlled by the consultants (JMP) providing the administrative support for the County Council acting in its capacity as the administering authority.

8.11.2 The increase in demand for travel, and hence cost, that has been experienced over recent years has been a reflection of many issues including the transition from half-fare schemes through full-fare local schemes into a fully free national scheme as determined by Central Government. The authority is free to offer enhancements to the scheme which it currently does through its travel companion and Taxi Voucher schemes.

8.11.3 £525,000 additional funding was provided by Central Government to cover the costs of migrating from local full-fare schemes to the national full-fare scheme throughout England in 2008/09. This figure will increase in 2009/10 to £537,000 and in 2010/11 to £552,000. From 2011/12 onwards it is proposed to include the Specific Grant (SG) formula payments into the general Revenue Support Grant (RSG) payment to align with the start of the next three year settlement period.

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

8.12 Investing in arts and culture

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

8.12.2 The Council has a service level agreement with Cheltenham Festivals (CF) to provide four annual festivals of jazz, science, music and literature. The programme of festival activity includes a wide range of community and

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educational activities within Cheltenham, concentrating particularly on the most disadvantaged communities. An annual grant of £109,200 has been allocated to CF to support this provision for the three years 2008/09 to 2010/11. In addition, the Council provides annual in-kind support to CF, totalling £185,250 in 2008/09.

- 8.12.3 The Council has also allocated additional grant of £500,000 over the period 2007/08 to 2009/10 to support CF in becoming independent from the Council, delivering a viable future for CF by March 2010 and protecting and enhancing Cheltenham's cultural provision.

8.13 Infrastructure Delivery Planning

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

9. Areas of Uncertainty associated with the MTFS

- 9.1 The review has also highlighted a significant number of areas where the impact on revenue spending cannot be quantified with sufficient accuracy, at this point in the process. These have been included as 'Uncertainties associated with the MTFS' and these areas will form the basis for ongoing review through the period of the 2010/11 budget process.

VAT on Car Parks

- 9.2 The Isle of Wight (I.O.W) local authority, along with three others, successfully argued at a VAT Tribunal, that they should not have to charge VAT on off-street car parking. This was principally on the basis that this would not, despite protests by HM Revenue and Customs (HMRC), create a significant distortion of competition (a key factor in determining VAT liability).
- 9.3 The Tribunal considered the implications of these local authorities not charging VAT by looking at the effect on their pricing policies, customer usage and on potential private providers. It found that prices were set at levels to either stimulate customer numbers or discourage car use; were generally below those set by the private sector and were not an overriding factor in customers choosing where to park (they would park nearest to the facility they needed rather than choosing solely on price). It could not find any evidence of distortion of competition in respect of the local authorities represented at the Tribunal.
- 9.4 In conclusion it was unlikely that a change in VAT liability would result in either a change in price or parking policies.

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- 9.5 In anticipation of HMRC being compelled to change the VAT liability of off-street car parking for all local authorities, from 'standard rate' to 'non-business' (i.e. no VAT chargeable), Cheltenham Borough Council, along with many other local authorities, under advisement, submitted repayment claims to HMRC requesting reimbursement of the VAT already paid on off-street car parking since 1998 (the furthest back allowed at the time).
- 9.6 Total claims lodged to that date (net of fees) amount to £4,380,490. Claims averaging circa £650,000 per annum for 2006/07, 2007/08 and the current year have yet to be submitted. Subsequent changes in the law have now allowed the Council to go back even further - to the start of VAT in April 1973. VAT advisors will commence work on these claims this month, with a view to submitting a further claim by the end of March 2009.
- 9.7 However, HMRC did not agree with the Tribunal decision and lodged an appeal to the High Court. This was heard in November 2006 and on 16th February 2007, the High Court decided to refer the case to the European Court of Justice (ECJ). The ECJ delivered its judgement on 16th September 2008 which was not favourable towards IOW. It focussed strongly on the issue of fiscal neutrality i.e. that two operators engaged in the same activity should not be treated differently in respect of levying a tax.
- 9.8 The matter has now been returned to the High Court which may refer the issue raised back to the Tribunal to reconsider.
- 9.9 This is clearly a situation which has the potential for significant revenue receipts for the Council should HMRC lose their case. However, the ECJ's opinion does diminish the likelihood of success for the plaintiff Councils.
- 9.10 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.

Retrospective VAT Claims

- 9.11 Following a House of Lords judgement in January 2008, new legislation was introduced in the March 2008 Budget by HMRC, setting out the transitional period for which claims may be made for overpaid output tax (up to 4th December 1996) and under claimed input tax (up to 1st May 1997). The transitional period for the acceptance of such claims will expire on 31st March 2009.
- 9.12 This is a significant opportunity for local authorities and Cheltenham Borough Council has enlisted VAT advisors, LAVAT, to identify areas of activity which will allow for claims for over paid output tax. This work is being done on a 'no win no fee basis' to identify, quantify and submit claims.
- 9.13 Potential areas for review are off-street car parking (as previously mentioned), excess parking charges, domestic waste, and cemetery and crematorium supplies.

MEDIUM TERM FINANCIAL STRATEGY 2009/10 TO 2014/15**Adequacy of Capital Resources and Property Repairs and Renewals Fund (Reserve)**

- 9.14 The Chief Finance Officer has raised the issue of the long term financing of both the Council's capital programme and 20 year Maintenance Programme on a number of occasions. The work to update the Asset Management Plan remains outstanding. This work should identify additional funding requirements over the coming years and may consider alternative forms of financing, including prudential borrowing.

Local Authority Business Growth Incentive (LABGI)

- 9.15 The Government is reviewing the nature of the LABGI scheme and consequently, no assumptions have been made about what the Council may receive in preparing this MTFS.

Housing and Planning Delivery Grant (HPDG)

- 9.16 Future allocations of HPDG are likely to link closely to the Council's performance in progressing the Local Development Scheme and in helping achieve the government's targets for delivering new housing. There is some concern that the economic downturn may impact on future HPDG allocations, but the Government has recognised this and the current allocation mechanism is likely to be reviewed.

Concessionary Fare Scheme

- 9.17 It is possible that the tier of Government responsible for Concessionary Fares will change with effect from 1 April 2011. This could mean that the current District and Borough responsibilities as Travel Concession Authorities may well cease. The alternative options that have been discussed for the management of the national scheme include:

- County Council's
- Regional Government
- Central Government

- 9.18 If this change in responsibilities should occur there would undoubtedly be a requirement to restructure and reallocate the funding of the scheme through the RSG and SG mechanisms. As the precise amount of past RSG allocations are uncertain this would probably result in a further Central Government redistribution calculation which may or may not impose additional financial burdens on the Authority.

Recycling

- 9.19 Providing a kerbside collection of grey kitchen cardboard will have a positive impact on the Council's recycling performance and can be achieved at nil cost. However, in the absence of a kitchen waste collection scheme the Council will not achieve its strategic or business plan recycling targets.
- 9.20 The income generated from the sale of recyclate to recycling organisations has fallen dramatically in recent months. The income budgets for 2009/10

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have been adjusted to reflect these changes. Although there are indications that prices are beginning to recover the volatility in the market price for recycle continues to fluctuate which makes estimating future trend income positions uncertain.

2012 Olympics

- 9.21 The Council is in the process of assessing the impact and opportunities arising from the 2012 Olympics in terms of adding value to existing service provision, maximising legacy i.e. making sure that clubs and facilities can cater for the enthusiasm generated by 2012; and managing the potential impact on infrastructure and services.

Icelandic Banks

- 9.22 The Council has £11m of investments with Icelandic banks which went into administration in October 2008. The Council has logged claims for recovery of the deposits with the banks administrators, but has yet to be notified of the likely recovery rates or timescales.
- 9.23 The DCLG published draft regulations in December 2008 aimed at deferring the impact of impairment until 2010/11. The Council has made a formal representation to the draft regulations and awaits the outcome of this consultation.

10. Risk associated with the MTFs

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

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- 10.6 It will continue to be necessary to review the MTFS each year and update it for latest information. In year budget monitoring is crucial to ensure that variances and trends are highlighted at the earliest opportunity.
- 10.7 As outlined, the Council holds reserves and balances to cover any unforeseen circumstances. The Council is protected to an extent against the volatility of interest rates through the re-alignment of £1,051,000 earmarked reserves to the General Reserve.

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.