1. INTRODUCTION

1.1 The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document for the General Fund budget. It sets out and considers the financial implications of the council's objectives and priorities and factors in financial pressures, including reducing government funding. The aim of the MTFS is to ensure a stable and sustainable financial position that will allow the council to achieve its vision, aims and ambitions over the next 5 years (2015/16 – 2019/20).

1.2 The council is committed to maximising the use of scarce resources and directing resources towards its priorities whilst keeping council tax at an affordable level. The MTFS is reviewed regularly during the budget process and reported to members at the budget setting annually.

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

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

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

2. LINKS TO OTHER COUNCIL PLANS

2.1 Forest of Dean District Council's Annual Report 2014/15 and Corporate Plan 2015 to 2019 sets out what the Council is hoping to achieve over the next five years and what actions are planned to be taken in the first year (2015/16) to support these longer-term plans.

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

The council's vision and priorities

2.3 Our vision for the district is to make the Forest of Dean a great place to live, work and stay and our mission is to meet customers' needs in a cost effective way. In order for the council to be clearer about its priorities the objectives that underpin them must reflect the reality of community needs and provide a framework for community outcomes.

2.4 The corporate plan sets out the following three community priorities:

- Promoting thriving communities;
- Encourage a thriving economy; and
- Protect and improve our environment.

2.5 These are supported by a cross-cutting priority of:

- Ensuring we provide value for money services that effectively meet the needs of our customers.

The council's objectives

2.6 The objectives are critical in that they describe the improvements we will make to improve the well-being of the whole population of the Forest of Dean. By putting these objectives centre-stage in our plan, 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 objectives we will be able to deliver by ourselves, but for many others we will have to work in partnership with other organisations.

2.8 The proposed set of objectives the Council should be focusing on is detailed below:

PRIORITIES	**Priority 1** **Provide value for money services**	**Priority 2** **Promote thriving communities**	**Priority 3** **Encourage a thriving economy**	**Priority 4** **Protect and improve our environment**

OBJECTIVES				
	1.1 - Being clear about our direction and priorities to **make best use of our resources**	2.1 - Enabling the provision of **homes** to meet local needs	3.1 – Working with local businesses to create and sustain **good quality local jobs**	4.1 - **Increasing recycling, encouraging composting** and **reducing waste**
	1.2 - **Putting our customers first** to improve access to our services and improve customer satisfaction	2.2 - Ensuring **planning policy** meets community needs and protects and enhances the character of the district	3.2 - Working with partners to attract investment to **support the local economy**	4.2 – Helping to mitigate and adapt to the impacts of **climate change** on our local communities
	1.3 - **Investing in our staff and councillors** to meet the changing needs of our community		3.3 - **Supporting tourism** by promoting the Forest of Dean as a place to visit	

2.9 The role of the MTFS is to support the delivery of the Council's priorities and objectives. A key delivery driver for this to be achieved is through joint plans with partners and stakeholders alike which are detailed in section 6 below.

3. FINANCIAL PROJECTIONS – REVENUE RESOURCE REQUIREMENTS

3.1 The key aim of the MTFS is to develop a series of financial projections to determine the longer term financial implications, in order to deliver the aims set out in the Council's corporate 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 'close' the funding gap for each financial year.

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

Table 1: Projection of Funding Gap	**2015/16** **£**	**2016/17** **£**	**2017/18** **£**	**2018/19** **£**	**2019/20** **£**
Net Cost of Services brought forward from previous year (assuming a balanced budget has been set)		11,087,960	11,102,300	10,833,416	10,679,265
Increased costs of existing services					
General Inflation		9,510	9,680	9,900	10,020
Employee related expenditure		45,510	45,880	46,330	46,790
Increase in NI contributions		136,000			
Contractual inflation		101,030	103,640	106,360	109,140
Pension costs - 2013 Revaluation		194,000	194,000	194,000	194,000
Living Wage cost					4,000
Leisure contract		40,000			
Reduction in Housing Benefit Subsidy Grant		37,750			
Drainage Board Levy		310	310	310	310
Savings built into base					
Parish Council Tax Support Funding		(11,300)			
Community Engagement/Housing Apprentice - fixed term post ending		(4,760)			
Income					
Fees and Charges inflation		(19,390)	(19,560)	(19,770)	(19,980)
Recyclate income reduction		120,000			
Reserves					
Business Rates Retention Reserve (one-off)		(170,162)			
Projected Net Cost of Service	**11,087,960**	**11,566,458**	**11,436,250**	**11,170,546**	**11,023,545**
Government Grant support (RSG)	(1,875,430)	(1,508,000)	(1,186,000)	(875,000)	(578,000)
NNDR	(2,204,870)	(2,830,287)	(2,858,590)	(2,887,175)	(2,916,047)
NNDR S31 Grants	(597,400)				
National Non-Domestic Rate - 2013/14 surplus	(201,140)				
National Non-Domestic Rate - 2014/15 surplus	(27,550)				
New Homes Bonus	(1,523,570)	(2,050,000)	(2,100,000)	(2,100,000)	(2,100,000)
Council Tax Freeze	(49,900)				
Collection Fund surplus	(227,000)	(200,000)	(50,000)	(50,000)	(50,000)
Council Tax (assumes 2.00% increase per annum from 2017/18)	(4,381,100)	(4,514,014)	(4,638,826)	(4,767,090)	(4,898,900)
Projected Funding Gap	**0**	**464,157**	**602,834**	**491,281**	**480,598**
Cumulative Funding Gap		**464,157**	**1,066,991**	**1,558,272**	**2,038,870**

3.4 The MTFS projections above reflect that the funding gap for the period 2016/17 to 2019/20 is **£2.039m** (i.e. the financial gap between what the Council needs to spend to maintain existing services and the funding available). The key assumptions for the preparation of these projections are explained below.

General

3.5 The net cost of services has been estimated by using the approved 2015/16 base budget (approved by Council on 26th February 2015) as the base for future projections through to 2019/20.

3.6 General inflation on utilities, supplies, services, and non-domestic rates has been projected based on previous detailed information.

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

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

Employee related costs

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

3.10 The net cost of service assumes an employee turnover saving of £92k per annum by the Council, which equates to approximately 2% of base salary budget. This has been allocated across service areas according to headcount and gives managers clear cash targets within which they have to manage.

3.11 The Council is part of the Gloucestershire Pensions Fund, which is administered by the County Council. The rate of contribution paid to the fund by participating employers is set following a triennial revaluation of the Fund by the appointed actuary. The triennial revaluation of the Fund based on the position as at 31st March 2013, found that the Fund's objective of holding sufficient assets to meet the estimated current cost of providing members' past service benefits was not met at the valuation date.

3.12 Contribution rates are calculated on an individual basis for each participating employer. For the Council's element of the fund, the funding level was assessed at 61% (compared with 64% in 2010), with a shortfall of £23.9m. 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 14.30% future service rate which should cover the liabilities scheme member's will build up in the future, plus
- an annual lump sum past service deficit contribution (£1.382m in 2015/16), to cover the shortfall in the fund. The Council needs to make cumulative provision for growth in contributions to the Pension Fund of £194,000 for each of the next four years. This is largely due to the value of gilts determining the value of future liabilities to the pension scheme, increased costs associated with increasing life expectancy rates and predicted returns on pension fund assets.

3.13 The creation of the single tier state pension, and the end of contracting out of the second state pension, will negatively impact on employers providing defined benefit pension schemes (such as the Local Government Pensions Scheme). Currently, providing that such pension schemes meet statutory requirements, employers pay a reduced National Insurance (NI) contribution - the reduction is 3.4%. The introduction of the single tier pension will have the effect of increasing an employer's NI contributions by the amount of the current reduction - 3.4%. Provision of £136,000 for increased employer NI contributions with effect from 2016/17 has been included within the MTFS.

3.14 From April 2016, a new National Living Wage of £7.20 an hour for those aged 25 and over will be introduced. This will rise to over £9 an hour by 2020. The majority of the Council's staff are already paid above the Living Wage, however for the 19 employees who will remain under £9 per hour by 2020, the cost of £4,000 has been included from 2019/20 to allow for this increase.

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

Fees and charges

3.16 A general assumption for a 2.0% increase in non-statutory fees and charges (excluding car parking and green waste charges) has been factored in. However, reviews of all charges are required annually by Service/Group Managers.

Waste & Recycling

3.17 Since April 2015 recycling prices have been negatively impacted by global events such as a fall in the price of crude oil and the troubles of the Chinese economy. Consequently, the Council is currently experiencing a significant drop in net recyclate income with current estimates indicating this to be in the region of £120,000 and this has been taken account of within the MTFS.

3.18 The MTFS further assumes that the Council will not be able to inflate waste and recycling income budgets due to the high volatility in market conditions.

Revenue Support Grant (RSG)

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

3.20 The 2015 Spending Review required each unprotected government department, including DCLG, to produce savings plans of 25% and 40%. Whilst the outcome of the Spending Review won't be known until 25th November 2015, previous iterations of the MTFS assumed cuts of 29.4% over the period to 2018/19. However, it is more than likely that the cut facing this Council will be more severe than this and as such cuts of 31% across the period of the MTFS to 2019/20 have been assumed.

3.21 Should the cuts falling on the Council be ultimately deeper than anticipated, the projected funding gap will worsen by £250k (assuming cuts of 40% compared to 31% across the MTFS).

Retained Business Rates

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

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

3.24 There is a high level of volatility in the business rates system, mainly due to the level and impact of appeals lodged against rateable values but also due to the natural turnover of businesses, properties being left empty or demolished and the increasing trend for commercial properties to be converted into domestic dwellings. Changes to the value of businesses can have a significant impact upon the business rates collected. These factors make it difficult to predict the level of income the Council can retain in the future. Previously, for modelling purposes growth of 2% against the baseline has been predicted. Additional work is now being undertaken to gather intelligence available about any growth or decline in the business rate property base and forecast the level of business rates income over the next 3 years. There is still a degree of uncertainty as forecasting is based on high level information and it is not until the Valuation Office Agency visits a completed building that a final rateable value is known. The estimated timing for new, redeveloped or demolished premises may also be incorrect.

New Homes Bonus (NHB)

3.25 The government introduced the NHB as a cash incentive scheme to reward councils for new home completions and for bringing empty homes back into use. This provides match funding of £1,467 for each new property for six years (based on national average for band D property – i.e. £8,800 per dwelling over six years), plus a bonus of £350 for each affordable home (worth £2,100 over six years).

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

3.27 The above modelling assumes that all grant received from NHB will be used to support the base budget and the assumptions behind the projections are that a sustainable level of growth year on year equates to an additional 300 properties per annum, of which 100 are assumed to be classified as affordable. This reflects the Government’s view that the NHB is part of local authorities’ income stream, and not simply a “nice to have” extra.

Council Tax

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

3.29 In 2016/17 it is proposed to increase the collection rate target from 98.0% to 98.5%. In 2013/14 and 2014/15, the ‘in-year’ collection rate has exceeded 98.3%; it is therefore deemed prudent to increase the collection rate target to 98.5% as the Council will be able to collect any arrears in subsequent years.

3.30 The taxbase represents the total number of chargeable properties in the district, expressed as band D. The net budget requirement is divided by the taxbase to calculate the level of council tax for band D each year. The Council’s taxbase is forecast to increase by 0.75% each year for the purposes of modelling the MTFS.

3.31 The Bank of England’s Monetary Policy Committee (MPC) report in August 2015 projects an increase in inflation by the beginning of 2016. The MPC judges that it is currently appropriate to set policy so that it is likely that inflation will return to its 2% target within 2 years. A council tax increase of 2% is therefore assumed from 2017/18, in line with the projected consumer price index rate of inflation (CPI).

Funding gap

3.32 Given the expectations on Council's to make a significant contribution to reducing the national budget deficit, this Council faces a significantly more challenging financial position in the early years of the MTFS. The latest projections indicate a gap of **£2.039m** for the period of the MTFS (2016/17 to 2019/20).

4. STRATEGY FOR 'CLOSING' THE PROJECTED FUNDING GAP

4.1 The Section 151 Officer and Corporate Leadership Team (CLT) have identified a number of work-streams which form the longer term strategy for 'closing the projected funding gap' which are detailed below:

Organisational changes and service reviews

4.2 The Council is keen to ensure that services are of the highest quality and lowest cost. Service reviews, which involve benchmarking, have been used to support many business cases in the past. This approach will continue throughout the life of the MTFS to continually seek new and improved ways of working.

4.3 Officers have also reviewed the current base budget and identified a number of structural changes to help support the funding gap in the early years.

Shared services

4.4 There has been major progress in the establishment of shared service arrangements with some significant achievements being made. The Council has established a shared ICT service with Cheltenham Borough Council with the Forest of Dean District Council acting as lead employing authority.

4.5 Additionally, we launched a new revenues and benefits partnership with Gloucester City Council in conjunction with Civica.

4.6 The programme for a shared Enterprise Resource Planning (ERP) system which replaced individual payroll, HR, finance and procurement systems with 3 other councils (Cotswold District Council, Cheltenham Borough Council and West Oxfordshire District Council) has acted as a catalyst for potential future shared working. This system became the platform for a full shared service, referred to as GO Shared Services (GOSS), which has reduced the cost of 'back office' functions and management structures. All three of the above initiatives have ensured that jobs are maintained in the Forest of Dean area whilst maintaining the delivery of local services for less money.

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

4.8 The major efficiency savings from this programme would be gained by closer partnership working and sharing services, achieving reductions in management and operational costs whilst retaining local democracy and local decision making. Current estimates suggest that the programme could deliver £766k of efficiency savings for Forest of Dean DC across the period covered by the MTFS, thus making a significant contribution to closing the medium term funding gap.

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

4.10 Establishment of a local authority-owned company model may allow the development of staff terms and conditions which are modern, fit for purpose, and designed to attract new employees whilst retaining existing valued staff. The gradual move away from the LGPS (by using a stakeholder pension scheme for *new* employees) may enable pension costs to be manageable and avoid the hikes in annual contributions experienced under the LGPS, and therefore, contribute additional savings by 2019/20, estimated at £1m across the partnership and £167k specifically to this Council.

4.11 To summarise:

- The move to alternative models has allowed the core organisation to shrink down, delivering senior management savings.
- There is now a collaborative approach across the existing partnership with much sharing of information, reports and approaches to issues.

Commissioning

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

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

4.14 The MTFS assumes savings targets from commissioning following the recent reviews / decisions for our leisure and waste services. Freedom Leisure became our service delivery partner, managing the council's five leisure centres from 1st October 2015. Work on the waste services contracts is progressing well. There is an expectation, from within the Corporate Leadership Team and the Cabinet, that this approach will deliver savings over the period of the MTFS.

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

Income

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

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

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

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

4.20 Government policy continues to promote economic growth and reward local authorities who are successful in this objective through the business rates retention scheme and via New Homes Bonus. The 'regeneration' of our towns is therefore, crucial to shaping the Council's response to the need for economic growth in that it embraces the land use and infrastructure planning functions which are crucial to unlocking growth potential by facilitating the growth in existing and new business. Targets are therefore set through growth in the business rate yield and through remaining in the Gloucestershire Business Rates Pool.

4.21 The Joint Waste Team (JWT) and officers from this Council are currently reviewing the best fit waste and recycling service design option taking into account the results of the recent consultation with residents to divert more waste from landfill and increase recycling at the best possible price acknowledging the financial pressures that the Council is under. Early indications suggest that a target of £250k through the sale of increased recyclate materials is prudent at this stage.

Asset management

4.22 The Council's property portfolio includes the Council Offices in Coleford which places pressure on the council's budget and represents a 'real' cost to the tax payer.

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

4.24 Other work-streams identified for consideration are asset rationalisation whereby investments are matched to assets, which may include looking into the viability of holding an asset management investment portfolio as well as giving consideration to enable projects within the district with our partners through our access to capital resources and borrowing capability.

The residual funding gap

4.25 Taking into account that the identified work-streams are delivered throughout the period covered by this MTFS, the projected residual funding gap (assuming a 2.0% increase in council tax annually from 2017/18) is shown below in Table 2.

Table 2: BUDGET STRATEGY FOR CLOSING THE FUNDING GAP

	2016/17	2017/18	2018/19	2019/20	Total
Total Current MTFS Funding Deficit	**464,158**	**602,834**	**491,281**	**480,598**	**2,038,871**
Organisational changes					
Savings within Community Engagement Team		25,000			**25,000**
Shared Services					
2020 Vision - Shared Services	90,000	369,000	220,000	87,000	**766,000**
2020 Vision - Teckal Company				167,000	**167,000**
ICT shared service with Cheltenham - phase 1	60,000				**60,000**
Commissioning					
Leisure Savings		100,000	70,000		**170,000**
Waste contract savings target		200,000		50,000	**250,000**
SWAP Review				10,000	**10,000**
Income					
BRR additional income through pooling			50,000		**50,000**
BRR additional income through growth - e.g. 2 x additional supermarkets			100,000	100,000	**200,000**
Additional income through waste services contract		250,000			**250,000**
Asset Management					
Accommodation Strategy		20,000		80,000	**100,000**
Asset rationalisation - investments matched to assets				40,000	**40,000**
B/Fwd deficit funded by Future Deficits Reserve in previous year		**-314,158**	**0**	**-51,281**	**-365,439**
Use of Future Deficits Reserve	**314,158**		**51,281**		**365,439**
Total Savings/Income over MTFS	**464,158**	**649,842**	**491,281**	**482,719**	**2,088,000**
Shortfall / (surplus) against MTFS Funding Gap	**0**	**-47,008**	**0**	**-2,121**	**-49,129**

NB: traffic lights denote risk associated with delivery

4.26 The strategy for phasing the funding of this ‘gap’ has been to strengthen the future deficits earmarked reserve to provide greater resilience and time for the ‘new’ Council to formulate a strategy for closing the funding gap. The balance held on this reserve at 1st April 2015 was £1.042m.

4.27 As can be seen from Table 2, the draw on this reserve over the years 2016/17 to 2019/20 equates to £365.4k but this will allow time for the work-streams to deliver the necessary savings in a managed way.

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

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

5. FINANCIAL PROJECTIONS - RESERVES

5.1 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.

5.2 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.

5.3 The Council has, over a number of years, earmarked significant funds for specific reserves. These are reviewed annually by Full Council under the guidance of the Section 151 Officer. Over the course of this MTFS, the value of earmarked reserves will reduce as they are used to finance planned expenditure including the phasing out of the future deficits reserve.

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

6. WORKING IN PARTNERSHIP

6.1 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.

6.2 The Forest of Dean District Council has worked in partnership for many years with a number of external organisations to help deliver some of the non-statutory functions of Council business. These partnerships in terms of financial resource to the council, add value for the taxpayers of the Forest of Dean. Before entering into any arrangements we will always 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;
- the Council is able to fulfil the agreement for the term in which the funding exists;
- 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.

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

- We have established a Gloucestershire Joint Waste Team with Gloucestershire County Council, Cheltenham Borough Council, Cotswold District Council and Tewkesbury Borough Council that manages our waste collection, recycling and street cleaning services, overseen by a Joint Waste Committee;

- We have joined and work with all Gloucestershire local authorities in a Joint Economic Growth Committee that oversees the county-wide Growth Plan and liaises with the Local Enterprise Partnership (LEP) to deliver growth across the County;

- We are working in partnership with Cinderford Regeneration Board - which includes the Forestry Commission, Gloucestershire County Council, the Homes and Communities Agency, Cinderford Town Council, GlosCol and Gloucestershire Wildlife Trust – to drive the regeneration of the Cinderford Northern Quarter;

- Following delivery of a successful Local Action Group (LAG) programme that supported more than 50 economic and environmental projects across the district, we are now working in a new LAG partnership with Tewkesbury Borough Council and other organisations having secured funding for a further programme.

- We established and now support a new Tourism Partnership with the Wye Valley and Forest of Dean Tourist Association, the Forestry Commission, Monmouthshire County Council and the Wye Valley ANOB (Area of Outstanding Natural Beauty) to strengthen and promote tourism;

- We work with Two Rivers Housing, other housing associations and with developers to deliver affordable homes in the district;

- Health delivery – Partnerships with public Health and the Clinical Commissioning group, in terms of financial resource to the Council, has enabled the setting up, development and on-going running of various pathways to include GP referral, cardiac rehabilitation, health walk scheme, respiratory rehabilitation, falls prevention and weight management. GPs and other clinicians are able to refer their patients for healthy living advice and support by referring patients to the Council health portal. This in return brings about excellent value for money and a saving to the public purse through the reduced ill health of our population.

- Gloucestershire NHS funds a Healthy Lifestyles Co-ordinator post who co-ordinates all the healthy lifestyle pathways in the district to improve the health and wellbeing of our population (2015 is the last year of this funding).

- Gloucestershire Public Health provides health inequalities funding to the district council (2015 is the last year where this will be available) to support the delivery of the healthy lifestyle classes in the community as well as provide funding for local projects promoting physical activity.

- Gloucestershire Clinical Commissioning Group (GCCG), through the Prime Minister’s challenge funding, have provided funding to the Forest of Dean District Council’s healthy lifestyles externally funded team for two full time Social referral posts for a year (this ends in November 2016).

- We offer community grants to ‘not for profit’ voluntary and community groups – both constituted and non-constituted – to support local community action and to build community capacity.

- We have service level agreements with a range of voluntary sector partners who are able to deliver cost effective services to our communities. These are Citizen Advice Bureau, Forest Voluntary Action Forum, Gloucestershire Rural Community Council, two youth cafes, Artspace and Age Concern FoD.

- Youth Activities Funding – We manage and disseminate the GCC annual grant to the Council which supports youth work across the district.

- The Police and Crime Commissioner (PCC) and the Council jointly fund a Community Safety Co-ordinator post who supports and co-ordinates the community safety partnership as well as co-ordinating a programme of community engagement activities across the district to help reduce crime or the fear of crime. This funding ends in April 2016.

- The PCC have resourced the community safety partnership, of which the Council is a member, to deliver on projects such as the purchase of eight mobile CCTVs, funding to produce a dementia board game awareness raising tool and funding to deliver an ASB youth diversionary project as well as funding to develop a junior warden scheme with Two Rivers Housing.

- Community Transport partnership funding – We work with the Forest of Dean Community Transport Partnership, through a 5 year lottery-funded programme, which aims to reduce social and physical isolation of older, vulnerable and young people living in the district, through raising awareness of local community transport providers. Part of this funding also covers community engagement management costs for the line management of the project.

7. RISK AND AREAS OF UNCERTAINTY ASSOCIATED WITH THE MTFS

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

Central Government Funding

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

7.3 On 5th October 2015, the Chancellor announced there would be 100% retention of locally raised business rates by the end of the decade but that this reform will also end the distribution of core grant from DCLG to Councils. This could potentially mean the abolition of revenue support grant and probably new homes bonus as both equate to core grant from Central Government.

7.4 Under the proposals, authorities will be able to keep all the business rates that they collect from local businesses and the uniform national business rate will be abolished, although only to allow "all" authorities the power to cut rates. The current system of top up and tariffs, which operates under the current local retention of half of rate growth, would be extended to protect authorities with lower levels of business rate income. The current "safety net", which protects local areas against big drops in revenue, will also remain in place, but the current levy on disproportionate gains will end meaning local councils.

7.5 Whilst the detail will be provided on 25th November 2015, we can only assume that our share of local rates retention and gains from growth will need to fill the gap created from the loss of core grant from Central Government as potentially our only sources of income from 2020 will be through council tax and business rates.

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

Pensions (LGPS)

7.7 The stabilisation process introduced for this Council following the 2010 valuation is still operating but given the increased deficit and the negative cash-flow position, the level of annual (cash) contribution increases have gone up from the 1% increase per annum over the last 3 years to a 2% increase per annum (£194k) for the 3 years beginning 1st April 2014. By operating the stabilisation process, this Council's contribution rate is still well below the true employer contribution rate that would have applied without stabilisation.

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

Table 3: Funding level 2010 64% - 2013 61%	2010 £000's	2013 £000's	Increase (Decrease) £000's	Increase (Decrease) %
Past service liabilities				
Actives	14,127	15,777	1,650	
Deferred pensioners	9,280	10,685	1,405	
Pensioners	30,053	35,132	5,079	
Total	**53,460**	**61,594**	**8,134**	
Assets	**34,243**	**37,657**	**3,414**	
Surplus / (deficit)	**(19,217)**	**(23,937)**	**(4,720)**	
Funding Level	**64%**	**61%**		**(3%)**
	Number 2010	**Number 2013**	**Increase (Decrease)**	**Increase (Decrease)**
Membership				
Actives	249	207	(42)	(16.8%)
Deferred pensioners	212	206	(6)	(2.8%)
Pensioners	316	329	13	4.1%

7.9 When reducing staff, if there were to be a recruitment freeze the modelling suggests that the number of pensioners would continue to rise long after the remaining workforce has stabilised. If the workforce was reduced by early retirement then pensioners would rise more quickly. A report by the Audit Commission in 2010 indicated that the LGPS could sustain a reduction in members of around 20% (down to 2004 staffing levels) without affecting the financial health of the LGPS. Given the reduction in active members of the LGPS for this Council for the period 2010 to 2013 equates to circa 17% you would have to question the sustainability of the scheme for this Council.

7.10 Table 4 analyses the cash-flow data for the period 1st April 2010 to 31st March 2013 and extrapolates the data through to 31st March 2020 based on the 2013 formal valuation results and decisions surrounding service provision that have already been made.

Table 4: Cash-flow data 1st April 2010 to 31st March 2018	Employer Contributions Fixed Sum £000's	Employer Contributions 14.3% £000's	Employee Contributions £000's	Benefits Paid £000's	Net Cash-flow £000's
2010/11	703	846	345	2,192	(298)
2011/12	800	739	322	2,216	(355)
2012/13	897	599	272	2,576	(808)
2013/14	994	582	259	2,605	(770)
2014/15	1,188	562	250	2,657	(657)
2015/16	1,382	573	255	2,710	(500)
2016/17	1,576	584	260	2,764	(344)
2017/18	1,770	596	265	2,820	(189)
2018/19	1,964	596	265	2,876	(51)
2019/20	2,158	596	265	2,934	85

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

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

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

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

Off-Street parking income

7.15 Income from off-street parking continues to be a sensitive issue for this Council. The level of income raised in 2014/15 was adequate to offset the costs of running the car parks but any decision to revert back to 'free' car parking within Council owned car parks will have a detrimental impact of the funding gap unless alternative solutions can be identified.

Business rates appeals

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

Cap on reserves

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

8. RISKS ASSOCIATED WITH THE MTFS

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

8.2 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.

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

8.4 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.

8.5 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.

8.6 The Council continues to review the MTFS regularly and highlight changes to the Council's Corporate Leadership Team.

9. CONCLUSION

9.1 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.

9.2 The development of this strategy for closing the budget gap is an important contribution to the on-going financial stability of the Council and the achievement of its corporate objectives.