

# Medium Term Financial Strategy

2022/23 to 2026/27



CHELTENHAM  
BOROUGH COUNCIL

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# Introduction

The Council's corporate plan 2023-2027 sets out five key priorities:



## Key Priority 1

Enhance Cheltenham's reputation as the cyber capital of the UK



## Key Priority 2

Working with residents, communities and businesses to help make Cheltenham net zero by 2030



## Key Priority 3

Increasing the number of affordable homes through our £180m housing investment plan



## Key Priority 4

Ensuring residents, communities and businesses benefit from Cheltenham's future growth and prosperity



## Key Priority 5

Being a more modern, efficient and financially-sustainable council

The Medium Term Financial Strategy ("MTFS") is the Council's key financial planning document for the General Fund budget. It sets out how the Council's priorities will be funded over the MTFS period and the financial pressures and risks which need to be mitigated in order to successfully deliver this. The diagram below shows how the MTFS is the overarching framework which supports all other financial strategies, plans, policies and decisions.

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

The Council have faced unprecedented financial challenges over the last two years in providing the resources and support to manage the response to the Covid-19 pandemic and then rising costs and challenges faced by the cost of living crisis. This is in addition to the ten years of austerity and year on year cuts to the Council's Government funding.

With inflation at a 40 year high and not expected to fall back to pre-pandemic levels for another two years and eight consecutive rises in interest rates since the 2022/23 interim budget proposal was approved by Cabinet in December 2021, these continue to be some of the most challenging times for Local Authorities.

This Council was one of, if not the first council to publish a Recovery Strategy in 2020 in the middle of a global pandemic. That early publication and consultation enabled the Council to clearly signal recovery aims and objectives. The economy was, and continues to be in an extremely difficult position nationally and responding dynamically was seen as the best way to support the rest of the town to recover.

This MTFS is underpinned by the Council's corporate priorities and the belief that Cheltenham should be a place in which everyone can thrive. Specifically, the six key principles guiding our approach to investing and financial planning for recovery include:



Help all our communities to benefit and prosper from our strong local economy



Work together with everyone in our networks to improve our borough and support our residents to be healthy, our communities to be strong and our businesses to thrive



Be commercially minded to keep costs down and our council financially stable, so we always provide value for money to the taxpayer



Use data and research to drive improvement, listening carefully to our residents, communities and businesses to underpin informed decisions



Ensure the climate emergency agenda is at the forefront and integral to all our decision-making



Be risk aware, rather than a risk averse

The Housing Revenue Account (HRA) is excluded from the MTFS, as a separate budget and Business Plan is produced for the HRA to cover its planning processes and the implications and arrangements for funding the objectives in the business plan.

# Our Current Business Model

2023/24 - Gross Expenditure

**£23.3 Million**

DIRECTLY PROVIDED

Community Welfare & Safety  
Economic Development  
Regeneration & Tourism Planning  
Housing Enabling  
Revenues & Benefits  
Asset Management  
Elections & Democratic processes  
Bereavement Services  
Car Parking  
Strategy & Communications  
Support Services

**£13.2 Million**

PROVIDED BY CONTRACTORS JOINTLY OWNED BY CBC

Waste & Recycling  
Parks & Grass verges Street Cleaning Public Conveniences  
Leisure & Culture Housing Options  
Finance & Procurement  
Human Resources & Payroll  
ICT & Telecommunications  
Internal Audit & Fraud  
Car Parking  
Strategy & Communications  
Support Services

**£1.1 Million**

SHARED WORKING

Legal Services  
Building Control

**£0.2 Million**

JOINT WORKING

Joint Core Strategy  
Development Task Force  
Strategic Planning

# Contents

The purpose of this document is to produce a robust and thoughtful MTFS which captures the growing needs and continuing aspirations of the Council after a period of prolonged public spending austerity, a COVID-19 pandemic and a cost of living emergency. The following areas are considered and discussed:

**Section 2 NATIONAL AND LOCAL FINANCIAL RISKS**

**Section 3 OUR MEDIUM TERM BUDGET STRATEGY**

**Section 4 OUR RESERVES STRATEGY**

**Section 5 OUR SAVINGS STRATEGY**



# 2. National and Local Financial Risk

## Introduction

The Council have faced unprecedented financial challenges over the last two years in providing the resources and support to manage the response to the Covid-19 pandemic and then rising costs and challenges faced by the cost of living crisis. This is in addition to the ten years of austerity and year on year cuts to the Council's Government funding.

This section of the MTFS outlines the wider economic context in which this MTFS has been set as well as the national and local risks which have been considered in its development.

## Wider Economic Context

The 2023/24 budget has been set based on a set off assumptions about the economic outlook for the next 18 months. Inflation currently sits at 11.1%, the highest level in nearly 40 years, with expectations that this will not decrease to pre pandemic levels for another two years. To put the past twelve months into context, in the 2022/23 budget inflation was at 4.2% which was the highest it had been for 40 years at that time and this has only increased since that date.

Interest rates have increased eight times since the same budget was presented - from a Bank of England base rate of 0.1% twelve months ago, this is expected to rise to 4.25% in 2023/24.

Although the 1.25% increase in National Insurance contributions employers pay introduced by the Government in April 2022 was removed by November, other costs of delivering our services have significantly surpassed any financial saving generated from this.

The most significant inflationary cost increase is the rising price of oil and gas. In December 2021 we were paying approximately 15-20p per kWh for electricity and 5-10p per kWh for gas. During 2023/24, before the Government's announcement on the energy price cap we were paying 56p for electricity and 16p for gas. This has significantly increased the running cost of our buildings, both operational and those open to the public to deliver our core services.

These economic factors place unprecedented pressures on our MTFS at a time when we are already facing uncertainty around our funding and the long-term impact of the pandemic on our financial position. Not only do we need to ensure there is sufficient capacity to meet these direct costs for the Council, but we also need to meet the increased costs of our partnership contracts to maintain the sustainable delivery of key services.

## National Risk Factors

### Uncertainty about future funding

The Local Government Settlement for 2023/24 received in December 2022 provided only a one year Settlement with no guarantee that the same levels of funding would remain in 2024/25 and a review of funding formulas expected from 2025/26 onwards. This means the period of uncertainty about Local Government funding continues making long term financial planning extremely difficult.

The Council no longer receives Revenue Support Grant funding from the Government and have to rely on income generated in the Borough to fund services. The objective of the National Fair Funding Review (FFR) which was expected to conclude in 2022/23 but has now been deferred until 2025/26 at the earliest is to review the underlying needs formula and distribution methodology used for assessing need and allocating funding to Local Government. The formula has not been reviewed since 2013 and will be closely linked with the principles in the Government's Levelling up White Paper published in February 2022.

The Department for Levelling Up, Communities and Housing are looking for a formula based model with common cost drivers such as population, accessibility and remoteness with the principles of being simple, transparent, contemporary, sustainable, robust and stable.

The intention is for each local authority to be set a new baseline funding allocation based on an assessment of relative needs and taking into account their relative resources. The timeline for its introduction is 1 April 2025 and the Government have committed to putting in place transitional arrangements to 'smooth' the impact, referred to as 'damping'.

In assessing relative resources, the Government is working on the principles that there will be no redistribution of council tax or fees and charges between authorities and they do not intend to reward or penalise authorities for exercising local discretion. The Government therefore intends to use a notional council tax level rather than the actual council tax level, which will determine whether a council's share of total need is higher than its share of taxbase.

The impact on our current MTFS is that from 2024/25 onwards we have been prudent in our assumptions on the funding available. The funding set out in the 2023/24 Settlement is guaranteed for one year only and there is no certainty over how long the Service Grant and 3% Funding Guarantee would continue and at what level for Cheltenham. We have assumed that no new additional funding will be available from 2024/25 to replace the current levels.

## National Risk Factors (continued)

### Business rates retention

Business Rate income generated under the Retained Business Rates funding mechanism is an important income stream, but is complex and potentially volatile. The Retained Business Rates scheme places considerable financial risk on the Council in terms of fluctuating business rates and funding the costs of business rate appeals, which directly affect the income that the Council can recognise.

Alongside the FFR, the Government is planning to consult on how the new scheme post 2025 can continue to reward and incentivise growth, whilst mitigating the risk of appeals and longer term impact of Covid-19 and the cost of living emergency.

Under the current system roughly £13bn per year of business rates income is kept by Central Government to fund local authority services. This is referred to as the “Central share” and is redistributed to councils in the form of Revenue Support Grant (RSG) and other grants. In future, if this sum is retained by local authorities, new burdens of a broadly similar value will be passed across to local government. As a result local government will not initially have more funding; over the longer term this will depend on whether business rates grow faster or slower than local authority service demands and costs, and to add further complication will depend on where the revised business rates baseline is set for the council from 2025/26.

The council's business rates baseline is £2.841m and due to retained growth, £5.679m is forecast to be generated and support the base budget in 2023/24. It is proposed that the new baseline will be set taking into consideration retained business rates income and this will be compared to the reassessed needs of the Borough resulting in either a top-up or tariff to manage the difference between the two. Clearly the future of Business Rates has been thrown into question as a result of the devastating impact on the retail, leisure and hospitality sector from the pandemic and as businesses struggle through the current economic challenges.

Growth will be calculated as business rates income in excess of the revised baseline and will continue to be shared with the upper tier authority; the split of which is yet to be determined and forms part of the current Government thinking on Business Rates Retention.

Whilst it is proposed that levies on growth will no longer exist under the new system (the cost of which had been mitigated through the establishment of the Gloucestershire Business Rates Pool) it is likely that some form of safety net will remain in place, and as a result councils will be subject to local volatilities within its own economy.

### Council tax

Council tax is considered an increasingly important mode of local government financing by Central Government. Prior to December 2022, the Government allowed districts to increase council tax by the higher of £5 per annum or up to 1.99%.

In the Local Government Settlement for 2023/24 this was increased to a maximum of 2.99% reflecting the Government's policy statement setting out much greater reliance on local tax generation. The Council should consider these new referendum powers when setting the budget each year when there is no guarantee over future Government grant funding. Current projections for 2023/24 assume growth in the taxbase of 2% per annum.

There is a corresponding cost to increasing the tax base with additional properties and residents to service which needs to be recognised and captured at certain steps or “trigger” points e.g. refuse / recycling collections. It is not expected in the four year MTFS presented here that this trigger point will be met but this will be subject to ongoing review as the West and North West Cheltenham developments progress.

### Fees and Charges

A significant proportion of the council's funding comes from fees and charges. Aside from local tax generation, this is the most important funding mechanism and one which is within the council's gift to control, subject to any legislative, economic or political constraints.

However, as more reliance is placed on income there is increased pressure to understand current performance levels coupled with the risks and opportunities arising from each income stream whether it is new or existing. It is also important to consider how resilience each income stream is so that appropriate levels of mitigation can be put in place under a Reserves Strategy to meet dips arising when circumstances change.



## Local Risk Factors

### Changes in customer behaviour

The last two years with the pandemic and the cost of living emergency have created a huge amount of financial uncertainty nationally as well as within Cheltenham. When there is no certainty over when economic circumstances will become more stable, there continues to be an impact on customer behaviour, which in turn affects our commercial income and the town's economy.

Changes to customer behaviour and the way our services are accessed has changed with no certainty as to whether this will be permanent or temporary and what this means for how we fund and operate our services. It also means we need to continue investing in technology, in particular the digital platform to meet the changing requirements of our residents and service users.

Since its adoption in 2018 the key mechanism driving our response to funding challenges has been our commercial strategy. This has driven an innovative and enterprising mind-set and we have adapted to generate income in different ways to support our general fund budget and deliver against our Corporate Priorities.

This strategy will be refreshed in 2023, which provides an opportunity to reset our approach in line with the 2023-2027 Corporate Plan to ensure we continue to be financially sustainable whilst continuing to support economic recovery and growth and our climate change ambitions for the town.

### Resources

Concerns around the council's capacity and resources available to deliver multiple competing priorities is a key consideration for the Executive Leadership Team and Cabinet when considering the funding of the revised priorities in the 2023-27 Corporate Plan and the delivery of the proposed Savings Strategy. This will be addressed as part of the council's continued organisational review and will be implemented through 2023/24.

The objective of this review is consistent with the budget strategy approach to realign base budgets, identify opportunities to do things differently and make one-off budgetary provision to support the delivery of priority schemes being supported and delivered. This specifically relates to supporting sustainable and green economic recovery and growth in the town.

The key risk of not reviewing organisational capacity is that if resource is not deployed to allow focus on the schemes which are of financial importance to the council then the proposed Savings Strategy will not be delivered within the timescales required.



## 2. Projected Budget Gap

The MTSF develops a series of financial projections to determine the longer term financial implications, in order to deliver the Council's priorities. As in previous years, the approach is to use the current financial year as a base position, inflate this to the price base of the budget year, and add unavoidable spending pressures and the implications of immediate priorities and previous decisions. This is then measured against the projection of available funding to determine affordability which determines the funding gap. The package of measures required to equalise the two calculations forms the "Savings Strategy" identified in section 5.

Closing a gap of this size is a huge challenge for the Council, but the challenge is being met by a proactive approach to reviewing the prioritisation of our resources and identifying budget efficiencies, carried out by the Cabinet and the Executive Leadership Team. This work has already made significant progress towards bridging the gap, having identified at this early stage potential efficiency savings which are moving into a delivery phase.

The projection of the funding gap is shown in Table 1 below:

| Table 1: Projection of Funding Gap  | 2022/23 £          | 2023/24 £         | 2024/25 £         | 2025/26 £          | 2026/27 £         |
|---|--------------------|-------------------|-------------------|--------------------|-------------------|
| Net Cost of Services brought forward from previous year (assuming a balanced budget has been set) |                    | 15,838,227        | 17,026,259        | 17,407,420         | 16,786,293        |
| <b>IN YEAR BUDGET VARIATIONS</b>  |                    |                   |                   |                    |                   |
| General Inflation   | 492,839            | 125,000           | 70,000            | 70,000             |                   |
| Energy costs  | (200,000)          | (250,000)         | (150,000)         | (100,000)          |                   |
| Employee and Members related expenditure  | 557,958            | 312,000           | 312,000           | 312,000            |                   |
| Shared Services contract inflation  | 103,604            | 19,250            | 19,250            | 19,250             |                   |
| Publica contract inflation  | 33,363             | 35,000            | 35,000            | 35,000             |                   |
| Ubico contract inflation  | 1,062,400          | 300,000           | 300,000           | 300,000            |                   |
| <b>RE-PROFILING OF BASE BUDGET</b>  | <b>301,208</b>     |                   | <b>(43,050)</b>   |                    |                   |
| <b>UNACHIEVED SAVINGS</b>   | <b>697,000</b>     |                   |                   |                    |                   |
| <b>INCOME</b>   |                    |                   |                   |                    |                   |
| Other operational buildings   |                    |                   |                   |                    |                   |
| Fees and Charges  | (867,510)          | (125,000)         | (125,000)         | (125,000)          |                   |
| Other inflationary uplifts on re-charges to partners  | (116,550)          | (50,000)          | (50,000)          | (50,000)           |                   |
| Interest Payable and Receivable   | 310,113            |                   | (150,000)         | (150,000)          |                   |
| Minimum Revenue Provision   | 113,606            | 914,911           | (139,327)         | 29,749             |                   |
| <b>SAVINGS STRATEGY</b>   | <b>(1,300,000)</b> | <b>(900,000)</b>  | <b>(700,000)</b>  | <b>(1,300,000)</b> |                   |
| <b>Projected Net Cost of Service</b>  | <b>15,838,227</b>  | <b>17,026,259</b> | <b>17,407,420</b> | <b>16,786,293</b>  | <b>15,827,292</b> |

| Table 1: Projection of Funding Gap  | 2022/23 £           | 2023/24 £           | 2024/25 £           | 2025/26 £           | 2026/27 £           |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>RESERVES</b>   |                     |                     |                     |                     |                     |
| Net Contribution from BRR Reserve   | (5,932,560 )        | 273,820             |                     |                     |                     |
| Increase/(decrease) in net contribution to other reserves                         | (587,633)           | 48,292              | 4,950               | (108,950)           | (102,000)           |
| <b>FUNDING</b>  |                     |                     |                     |                     |                     |
| Business Rates  | (519,033)           | (1,497,620)         | (6,000,000)         | (4,196,000)         | (4,258,000)         |
| Damping   |                     |                     |                     |                     | (1,215,000)         |
| NNDR S31 Grants   | (4,038,464)         | (4,181,908)         |                     |                     |                     |
| National Non-Domestic Rate - 2020/21 surplus / deficit                            | 361,769             | 542,146             |                     |                     |                     |
| National Non-Domestic Rate - 2021/22 surplus / deficit                            | 5,937,118           | (967,084)           |                     |                     |                     |
| National Non-Domestic Rate - 2022/23 surplus / deficit                            |                     | (318,368)           |                     |                     |                     |
| New Homes Bonus   | (637,846)           | (31,640)            | (100,000)           |                     |                     |
| Collection Fund (surplus) / deficit contribution                                  | (58,500)            | (33,760)            |                     |                     |                     |
| Council tax income assuming council tax increases by 2.99% per annum from 2023/24 | (9,730,405)         | (10,073,545)        | (10,478,477)        | (10,899,852)        | (11,338,050)        |
| Service Grant   | (195,881)           | (138,740)           | (148,000)           |                     |                     |
| Lower Tier Services Grant   | (129,988)           |                     |                     |                     |                     |
| 3% Funding Guarantee  |                     | (817,477)           | (500,000)           |                     |                     |
| LCTS S31 Grant  |                     |                     |                     |                     |                     |
| Contribution from VRP   |                     |                     | (300,000)           | (500,000)           |                     |
| Contribution to / (from) General Balances   | (300,836)           | 331,384             | 39,107              | 83,509              | 758                 |
| Contribution to / (from) Budget Strategy support reserve                          | (5,968)             | (161,757)           | 75,000              | 50,000              | (130,000)           |
| <b>Projected Funding</b>  | <b>(15,838,227)</b> | <b>(17,026,257)</b> | <b>(17,407,420)</b> | <b>(16,786,293)</b> | <b>(15,827,292)</b> |

The projections above reflect a funding gap for the period 2023/24 to 2026/27 of £5.13m (i.e. the financial gap between what the Council needs to spend to maintain existing services and the funding available excluding the use of the Budget Strategy Support Reserve and contribution from Voluntary Revenue Provision). This is an increase of £1.588m when compared to the four year projection in 2022/23 and reflects the increased inflationary costs we have had to incorporate as permanent base budget increases after 2023/24. The key assumptions for the preparation of these projections are explained below.

The net costs of services have been estimated by using the approved 2022/23 base budget as the base for future projection's though to 2026/27.

## Inflation

Inflation has historically been included in the MTFS at 2% on insurances, utilities, postage, IT maintenance agreements and non-domestic rates. However a different approach has been taken in 2023/24 when inflation has peaked at 10.1% in the 12 months to September 2022. The financial projections included in the MTFS include inflation for these costs at 10.1% for year one, decreasing gradually down to 3% in year two and 2% in year three and four. Where information is available, major contracts and agreements are rolled forward based on the specified inflation indices in the contract or agreement.

The costs incurred in the general fund and re-charged to partner organisations have also been subject to the same inflationary increases.

## Contract costs

A number of services are delivered by or for the Council through service or shared service contracts. Where the cost of these contracts have been increased in 2023/24, this is to reflect inflation and wage increases. These are much larger than previous budgets to reflect the increase in the pay awards in 2022/23 resulting from the increase in inflation.

A review of the staffing budgets in a number of shared services also identified that the budgeted pay increase for 2022/23 was less than the national pay award. This means an additional contract cost to the Council in year one of this MTFS to cover any back dated uplift above that originally budgeted.

In addition, the cost of the council's environmental services contract provided by Ubico has also been subject to a 15.5% increase in 2023/24. This is to cover pay increases, increased fuel costs, the triannual revaluation of the pension fund in 2022/23 and other inflationary pressures.

## Employee related costs

For budget modelling, a 4% pay increase has been assumed in 2023/24 and a 2% increase throughout the duration of the MTFS post 2023 with a further 1% contingency included to bring the budget in line with expectations across the whole Public Sector. The same increase has been applied to Members allowances to ensure they fall in line with the anticipated employee annual pay award.

The increase of 1.25% in the employer's contribution to National Insurance on 1 April 2022 was included in the 2022/23 MTFS but has been removed since the Government's reversal of the policy in November 2022.

The Council is part of the Gloucestershire Pensions Fund, which is administered by Gloucestershire County Council. The rate of contribution paid to the fund by participating employers is set following a triennial revaluation of the Fund by the appointed actuary. The triennial revaluation of the Fund based on the position as at 31 March 2022, found that the Fund's objective of holding sufficient assets to meet the estimated current cost of providing members' past service benefits had been met at the valuation date.

This is the result of a strategy undertaken to make large lump sum payments to cover the shortfall in secondary pension contributions to recover the deficit. The primary contributions will continue to be reviewed over the MTFS period to make sure the future cost of existing member's service benefits continue to be covered.

## Fees and charges

In previous years, a general assumption for a 2% increase in non-statutory fees and charges has been factored in. In 2021/22 the council opted for a fundamental year on year review of fees and charges.

The current inflationary pressures facing the council and the delivery of our services means that in 2023/24 our fees and charges will be subject to an inflationary uplift subject to legislative requirements and following review of competitive pricing structures.

There will also be a full consultation on the car parking charges with the same objective of creating more competitive pricing structures.

## Retained business rates

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

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 15.32%. Any surpluses generated by the Pool are allocated in accordance with the governance arrangements agreed by the Gloucestershire councils.

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. These factors make it difficult to predict the level of income the Council can retain in the future.



## Council tax

The taxbase represents the total number of chargeable properties in the borough, expressed as band D. The net budget requirement is divided by the taxbase to calculate the level of council tax for band D each year. The council's taxbase is forecast to increase by 2% each year for the purposes of modelling the MTFS and a council tax increase of 2.99 per annum is assumed from 2023/24.

## Other Government funding sources

In 2016/17, the government offered a guaranteed four year budget to every Council, which could demonstrate efficiency savings and 2019/20 represented the final year of the four year offer. The principles of that settlement allowed authorities to spend locally what is raised locally, whilst recognising the savings already made by local government. Since then, only one year settlements have been provided to Local Authorities which has made long term financial planning very difficult.

The Government funding included in the MTFS for 2023/24 includes the following:

- A New Homes Bonus payment of £31,640. This will be the final New Homes Bonus funding available to the council in its current form.
- The referendum threshold for increasing the “Core” Band D Council Tax borough council precept to be increased from the higher of 1.99% or £5 to 2.99%.
- No further continuation of the Lower Tier Services Grant for which we received £129,988 in 2022/23.
- A reduction in the Services Grant introduced in 2022/23 from £195,881 last year to £114,920 in 2023/24.
- A one off 3% Funding Guarantee payment of £817,477 expected for 2023/24 only.



# 4. Reserves Strategy

## Introduction

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

In July 2020 the Council approved £250k from the reported underspend against the 2020/21 budget to Green and Sustainable Economic Recovery. This funding supported the delivery of an Ice Rink in Imperial Gardens and the re-development of the Clarence Fountain area of the town centre to provide greater green space for residents and visitors to use. Likewise, in July 2021 a proposal was approved to allocate £60k of underspend to support the Cheltenham Food network who provide a vital resource for those in the community struggling with the cost of living emergency. Both these examples demonstrate how the Council have continued to react and support the priorities of the town, even when facing difficult financial challenges itself.

However recognising the impact and uncertainty of the economic outlook on the Council's short to medium term finances requires an alternative approach to secure the continued delivery of our services. This approach enhances the Council's reserves to ensure it is able to meet any unforeseen costs in the future and mitigate known risks and forecast cost pressures, particularly those arising from changes in the way local government is financed post 2023/24.

## Budget Strategy Support Reserve (BSSR)

As part of the 2016/17 budget setting process, the Budget Strategy Support Reserve (BSSR) was established to provide greater resilience and time for the Council to embed its savings strategy and allow for slippage in savings delivery.

The BSSR will need to be suitably resourced to not only mitigate any delay in the delivery of savings but also be robust enough to support any reported slippage during the MTFS period and to ensure there is sufficient resources available to fund new or unforeseen costs. At 31 March 2023 it is forecast that the balance of the BSSR will be £171k which reduces in 2023/24. In the following two years contributions will be made to the reserve to build a balance which can be used to cover some of the impact of the re-basing of Business Rates in 2026/27.

## Budget Rates Retention Reserve (BRRR)

The potential move to 75% locally driven funding following the introduction of 75% Business Rates Retention will build in an increased risk of volatility in the Council's financial planning. This needs to be appropriately managed and understood by the organisation as full reliance will be placed on the performance of the local economy with a drop in business rates income having the potential to force service re-prioritisation.

The BRRR should aim to be maintained to a target of £250k to allow for the potential reduction in income arising from the risks as identified. The Council is already mitigating fluctuations in income levels arising from changes in the local economy and the impact of business rates re-assessment are still not fully understood.

Any Collection Fund and Pool surpluses over and above those assumed in the Savings Strategy are earmarked for the BRRR to ensure a base level of reserve is in place in advance of the implementation of 75% Business Rates Retention.

## General Balances

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

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.

The Council has, over a number of years, earmarked significant funds for specific reserves. These are reviewed twice yearly by Full Council under the guidance of the Executive Director Finance and Assets (Section 151 Officer). Over the course of this MTFS, the value of earmarked reserves will be reduced as they are used to finance planned expenditure.

This has been balanced by making planned contributions to general balances in 2023/24 to bring the total amount held to £1.5m.

## Our Savings Strategy

As detailed in the previous sections, the council has a significant funding gap to resolve as well as a number of financial risks to manage arising predominately from the current economic environment. Given the ambitious nature of the council and its desire to ensure Cheltenham is a place where residents, businesses and visitors wish to work, visit and live the savings strategy for the medium term must reflect these aspirations and not jeopardise these core priorities whilst recognising that the net cost of the council's services must reduce over time.

In the exceptionally difficult national funding situation, the Cabinet's overriding financial strategy has been, and is, to drive down the Council's net costs via a commercial mind-set. Our aim is to hold down council tax as far as possible, now and in the longer term, while also protecting frontline services from cuts and driving sustainable economic growth— an immensely challenging task in the present climate.

## An Overview of our Approach

The commercial strategy was adopted by Full Council in February 2018 with the vision “to become an enterprising and commercially focused Council which people are proud to work for and which others want to work with. We will use our assets, skills and infrastructure to shape and improve public services and enable economic growth in the Borough. We shall generate significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable”.

In the two years leading up to the COVID-19 pandemic, this strategy was extremely successful and was a key element of the Council’s drive towards financial sustainability, identifying new opportunities to generate income and commit investment to projects which provide good financial returns.

As outlined in the local risks section above, income generated from a number of these commercial initiatives post pandemic is much lower than in 2019. We recognised this impact in the recovery budget approved by Council in November 2020 produced in response to COVID-19. The worsening economic conditions has also created some challenges for other income streams that have historically performed very well.

As we move into the 2023/24 budget strategy, we have a much better understanding of the drivers behind customer behaviour, which can feed into a revision of the commercial strategy in 2023. With the economic outlook over the next two years, the challenge will be to reduce costs as well as generate more income from discretionary services.

Interest rates and energy costs are expected to stay high for at least two more years, a pressure that was not forecast in prior year medium term plans. Although work will be undertaken to reduce the temporary borrowing exposed and to reduce energy usage which will provide financial benefit in the long term, the short term challenges are still required to be managed.

It is with this in mind that the strategy to close to budget gap includes both base budget savings but also the use of the Budget Strategy Support Reserve and the release of Voluntary Revenue Provisions (VRP) which have been made against our borrowings since 2015. This then allows savings to be phased in over four years. Further information on VRP and the Reserves Strategy are included in Section 3 and 4 respectively.

The savings strategy indicates broadly how the Council may close the projected funding gap over the period 2023/24 to 2026/27. In future years, it includes targets rather than necessarily specific worked up projections of cost savings and additional income to allow the Executive team autonomy and flexibility. Engaging with stakeholders will be crucial when it comes to developing a sense of ownership in local decision-making and service delivery. Working with stakeholders will allow the council to fine tune services based on actual needs.

The funding and savings strategy to close the overall budget gap over the four years of the MTFS is outlined below:

|                     | 2023/24      | 2024/25    | 2025/26    | 2026/27      | Total                 |
|---------------------|--------------|------------|------------|--------------|-----------------------|
| Forecast Budget Gap | £1,300,000   | £1,200,000 | £1,200,000 | £1,430,000   | £5,130,000            |
| Funded by:          |              |            |            |              |                       |
| Use of VRP          | -            | (£300,000) | (£500,000) | -            | (£800,000)            |
| Base Budget Savings | (£1,300,000) | (£900,000) | (£700,000) | (£1,300,000) | (£4,200,000)          |
| BSSR                | -            | -          | -          | -            | (£130,000) (£130,000) |

## Conclusion

The Council has a record of accomplishment of strong financial management but is now facing a period of continued economic uncertainty at the same time as leading the town’s recovery from the pandemic. The Council must stay focused on the plan set out in the 2022/23 budget to ensure resilience in its financial position across the medium term as Government delays continues around changes to Local Authority funding.

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

The Cabinet believes the longer term approach to finding efficiencies to close the funding gap is fundamentally through economic growth, regeneration and investment and the efficient utilisation of our assets. This has seen a place focused investment approach offering long term investment, income through rents as well as other social and financial benefits.



## CHELTENHAM BOROUGH COUNCIL

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