

# Medium Term Financial Strategy

2019/20 to 2022/23



CHELTENHAM  
BOROUGH COUNCIL

Follow our progress:  
[www.cheltenham.gov.uk](http://www.cheltenham.gov.uk)



# Introduction

The council's corporate plan 2019-2022 sets out 5 key priorities for the council:

- We will work toward making Cheltenham the Cyber Capital of the UK; a national first, which will deliver investment in homes, jobs, infrastructure and enable the Council to deliver inclusive growth for our communities.
- Deliver a number of Town Centre and wider public enhancements that will continue the revitalisation the town ensuring its longer-term viability as a retail and cultural destination.
- Deliver enhancements to our environmental services and develop the way we commission these services.
- We will be seeking new opportunities to bring in additional resources e.g. introduction of Cheltenham lottery as well as leveraging more value from our assets and commissioned providers to deliver our £100m housing investment plan.
- Improve the way services and information are accessed by residents and businesses by maximising new technology opportunities and different ways of working the outcome of which will contribute towards our financial self-sufficiency.

The MTFS is the council's key financial planning document for the General Fund budget and as such sets out and considers the financial implications of the council's priorities and factors in financial pressures, including reducing government funding. The diagram below shows how the MTFS is the overarching framework which support all other financial strategies, plans, policies and decisions.

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

The council's external auditor, Grant Thornton, undertakes a Value for Money review each year which assesses the council's finances against National Audit Office (NAO) guidance. This guidance states, that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place. The guidance identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people." This is supported by three sub-criteria; informed decision making, sustainable resources deployment and working with partners and other third partners.

In order to achieve an unqualified value for money conclusion, the external auditor will focus their findings based on the council having robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future which is demonstrated by the MTFs. Grant Thornton's audit findings for 2017/18 including value for money assessment can be found at:

**[cheltenham.gov.uk/audit-report](https://cheltenham.gov.uk/audit-report)**

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

The vision for the services that has emerged through the P&ED transformation programme is services that:

- are financially sustainable
- have a commercial mind-set
- foster creativity and innovation
- have a strong customer and community ethos
- which are flexible and drive out as much as efficiency as possible.

The objectives of the services are to be:

- Customer focussed - with services delivered in a way that is convenient for the customer and in a way that meets their changing needs through maximising advancements in technology;
- Supportive to economic growth - through freeing up resources to focus on corporate priorities and improved data to enable more informed decision making;
- Efficient - with joint up services provided at minimal cost and underpinned by clear data;
- An organisation - that is placed to best support the Council in achieving its aims and objectives and to meet the opportunities and challenges ahead;
- Investing in our people - invest in our people to create culture that consistently supports and encourages:
- Commercial thinking
- Innovation
- Continuous improvement through new ways of working.

# Our Current Business Model

2019/20 - Gross Expenditure

## **£21 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

## **£14 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

## **£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 during a period of prolonged public spending austerity and the following areas are considered and discussed:

## ***Section 2***

***NATIONAL AND LOCAL FINANCIAL RISKS***

## ***Section 3***

***CURRENT FINANCIAL BUDGET GAP***

## ***Section 4***

***RESERVES STRATEGY***

## ***Section 5***

***SAVINGS STRATEGY***

# 2. *National and Local Financial Risks*

## **INTRODUCTION**

2.1 - The Council is operating in a challenging and uncertain economic environment. As the Government continues to negotiate the country's exit from the European Union, the financial impact of Brexit on the country and on local government is unknown, but potentially significant in terms of legislation, inflation, interest rates and economic growth.

**“The Council is operating in a challenging and uncertain economic environment.”**

2.2 - The impact on the UK economy may affect aspirations for the Government's deficit reduction programme, despite the notion that the Government has stated that austerity is over, and therefore the amount of funding available to local government. The political situation is also complicated by the general election held in June 2017 that saw the Government's parliamentary majority eroded.

2.3 - Economic growth in the UK slowed in the three months to November 2018, expanding at its weakest pace in six months. The economy grew by 0.3% during the period, less than the 0.4% in the three months to October 2018. Inflation is also marginally higher than the Government benchmark of 2%, with inflation in December 2018 measured at 2.1% (Consumer Price Index). The unemployment rate however is at an all-time low of 4.0% as at Quarter 2 2018.

2.4 - The state of the UK economy will influence the amount of taxation income available to the Government and also the cost of income-based benefits and social support. This in turn can influence the national deficit reduction strategy of the Government and the balance of funding available to local government.

2.5 - The MTFs for 2019/20 to 2022/23 recognises the significant changes to the national funding system as well as locally driven cost pressures and political choices. It has therefore taken a risk based approach in reviewing the financial pressures facing the council and how they should be mitigated across the medium term.

## **FUTURE BUDGET ROUNDS**

2.6 - The Council will no longer receive Revenue Support Grant funding from the Government from 2019/20 and will have to rely on income generated in the Borough to fund services. The final year of the existing four-year settlement was anticipating the introduction of a Tariff Adjustment for the first time which for Cheltenham amounted to £391,000 and had been referred to as negative Revenue Support Grant. The provisional finance settlement has removed this concept, to the benefit of Cheltenham taxpayers, but there remains a risk that this could be revisited under the fair funding review post 2020.

**“The Council will no longer receive Revenue Support Grant funding from the Government from 2019/20 and will have to rely on income generated in the Borough to fund services.”**

2.7 - The National Fair Funding Review (FFR) is reviewing the underlying needs formula and distribution methodology used for assessing need and allocating funding to Local Government as the formula has not been reviewed since 2013. The Ministry of Housing, Communities and Local Government (MHCLG) 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.

2.8 - 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 the relative resources of local authorities. The timeline for its introduction is 2020 and the government are committed to putting in place transitional arrangements to ‘smooth’ the impact.

**“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.”**

2.9 - 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.

2.10 - Whilst the bulk of fees and charges are raised at cost recovery levels for services delivered, the government are reviewing on-street and off-street car parking as it is considered that in some areas an authority's income from these fees and charges generates a surplus. As a result, there remains a risk that Cheltenham could be penalised through a relative resources adjustment in respect of its car parking revenues. This is embedded within the governments principles of the FFR that Local authorities with a lesser capacity to fund services through locally raised resources will receive a smaller reduction to their relative needs share.

## ***BUSINESS RATES RETENTION***

2.11 - 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 also consulting on how the new scheme post 2020 can continue to reward and incentivise growth, whilst mitigating the risk of appeals. The current thinking is to introduce a 'floating' tariff / top-up system which will result in a recalibration to take account of appeals.

**“Business Rate income generated under the Retained Business Rates funding mechanism is an important income stream, but is complex and potentially volatile.”**

2.12 - 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 including New Homes Bonus (NHB). 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 2020/21.

2.13 - The council's MHCLG set business rates baseline is £2.796m whilst, as a result of economic growth, £4.292m is now forecast to be generated and support the base budget in 2019/20. It is proposed that the new baseline will be set taking into consideration business rates income retained in 2018/19 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. If Cheltenham's baseline goes up then in order to retain any additional income the level of growth will need to increase.

2.14 - 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 MHCLG thinking on Business Rates Retention.



2.15 - 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 economies.

**“Moving to a 75% retained system means more risk transfers to local government”**

2.16 - In previous years, local authorities have been funded through a mixed structure of grant e.g. RSG and locally driven income e.g. council tax and business rates which provided some mitigation of risk. Moving to a 75% retained system means more risk transfers to local government and as such individual councils must assess their level of risk and make appropriate contingency plans to manage the potential costs of the changing system and furthermore the local fluctuations in business rates revenue over time.



## **NEW HOMES BONUS (NHB)**

2.17 - There have long been concerns as to the sustainability of this funding stream, and in 2017/18 the Government changed the calculation for the award of the grant. Prior to 2017/18 the grant comprised six annual tranches, reducing to five in 2017/18 and four thereafter. A baseline of 0.4% housing growth was introduced under which no New Homes Bonus grant is paid.

MHCLG recently consulted on further proposed changes to the current New Homes Bonus scheme which is intended to incentivise house building within local authority boundaries and may include an increase in the baseline target although the scheme has remained unchanged in 2019/20.

2.18 - It is likely that further changes will be implemented post 2020 although NHB is not currently included as an element of the FFR. It is this Council's belief that NHB in its current format, does not equate to the needs of the authority and the Council will continue to lobby on this front.

## **COUNCIL TAX**

2.19 - Council tax is considered an increasingly important mode of local government financing by Central Government. This is reflected in the decision to allow districts to increase council tax by £5 per annum or up to 2.99%, whichever is higher. Current projections also assume growth in the taxbase of 0.80% per annum.

**“Council tax is considered an increasingly important mode of local government financing by Central Government.”**

2.20 - The assumptions were made by the Government when establishing the reduction in RSG linked to the level of council tax base growth; however, locally the council will need to consider what levels of growth are likely and financially sustainable.

2.21 - Furthermore, there is a corresponding cost to increasing the tax base with additional properties and residents to service which needs to be recognised and captured at certain steps or “trigger” points e.g. refuse / recycling collections. Council tax revenue appears to be being seen nationally as a future “cash cow” and it may be possible that the current limits in increases are raised, particularly given the likelihood of further funding cuts.

## **FEES AND CHARGES**

2.22 - A significant proportion of the council's funding comes from fees and charges. This is fast becoming an ever more important funding mechanism and one which is within the council's gift to control, subject to any legislative, economic or political constraints.

**“A significant proportion of the council's funding comes from fees and charges.”**

2.23 - 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 “recession-proof” an income stream is so that appropriate levels of mitigation can be put in place under a Reserves Strategy to meet dips arising in a recession.

## **RECESSION**

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

## **RESOURCES**

2.25 - Concerns around the council's capacity and resources available to deliver multiple competing priorities has been raised and this is a key consideration for the Executive Leadership Team and Cabinet when determining their priorities and the delivery of the proposed Savings Strategy. In particular, there will be a necessity to both realign base budgets and make one-off budgetary provision to support the delivery of priority schemes being supported and delivered. This specifically relates to the delivery of major growth, public realm and infrastructure schemes which will be crucial to the delivery of the council's Savings Strategy.

2.26 - The key risk is that if resource is not deployed to allow focus on the schemes which are of financial importance to the council the proposed Savings Strategy will not be delivered within the timescales required, resulting in a less managed response to funding cuts set down by central government.



# 3. Current Financial Budget Gap

## INTRODUCTION

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

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

<b>Table 1: Projection of Funding Gap</b>	<b>2018/19</b> £	<b>2019/20</b> £	<b>2020/21</b> £	<b>2021/22</b> £	<b>2022/23</b> £
Net Cost of Services brought forward from previous year (assuming a balanced budget has been set)		15,341,662	15,087,169	14,829,669	14,526,669
<b>IN YEAR BUDGET VARIATIONS</b>					
<b>Increased costs of existing services</b>					
General Inflation		149,998	65,000	65,000	65,000
Employee and Members related expenditure		188,963	177,000	177,000	177,000
Shared Services contract inflation		25,000	19,000	19,000	19,000
Publica contract inflation		30,000	31,000	32,000	33,000
Ubico contract inflation		865,200	150,000	150,000	150,000
Contract costs - waste transfer		50,000			
Pension costs - 2016 Revaluation		401,000			
Pension costs - 2019 Revaluation			200,000	200,000	200,000
External audit fees		(14,200)			
Revenue savings from new Crematoria		(27,200)			
<b>GROWTH - ONE - OFF</b>		60,000	(60,000)		
<b>INCOME</b>					
Green Waste		(64,200)	(11,000)	(11,000)	(11,000)
Trade Waste		(12,700)			
Cemetery & Crematorium		(43,189)	(35,000)	(35,000)	(35,000)
Sponsorship (roundabouts)		(6,024)			
Charges to other clients (TCT, CBH and Ubico)		(13,000)			
Recycling income		(109,700)			
Ubico finance lease interest		(36,000)			
<b>Minimum Revenue Provision and Interest Payable</b>		(133,095)			

<b>Table 1: Projection of Funding Gap</b>	<b>2018/19</b> £	<b>2019/20</b> £	<b>2020/21</b> £	<b>2021/22</b> £	<b>2022/23</b> £
<b>RESERVES</b>					
Net Contribution from BRR Reserve		112,254			
<b>SAVINGS STRATEGY</b>					
Place and Growth		(850,000)	(350,000)	(450,000)	(550,000)
People and Change		(179,000)	(193,500)	(200,000)	
Finance and Assets		(648,600)	(250,000)	(250,000)	(800,000)
<b>Projected Net Cost of Service</b>	<b>15,341,662</b>	<b>15,087,169</b>	<b>14,829,669</b>	<b>14,526,669</b>	<b>13,774,669</b>
Government Grant support (RSG)	0	0	0	0	0
Business Rates	(3,303,474)	(2,195,963)	(3,000,000)	(3,400,000)	(3,800,000)
Business Rates pooling surplus contribution	0	(550,000)			
Business Rates S31 Grants	(1,474,787)	(1,651,218)			
Business Rates - 2016/17 (surplus) / deficit	235,484				
Business Rates - 2017/18 (surplus) / deficit	510,227	(73,117)			
Business Rates - 2018/19 (surplus) / deficit		178,287			
New Homes Bonus	(1,754,530)	(1,468,797)	(900,000)	(700,000)	(200,000)
Parish Council Tax Support Funding	5,169				
Collection Fund surplus contribution	(172,000)	(110,500)	(50,000)	(50,000)	(50,000)
Business Rates Retention Levy surplus	0	(42,893)	0	0	0
Council tax income assuming council tax increases by £5 per annum from 2017/18	(8,474,693)	(8,916,886)	(9,258,867)	(9,613,326)	(9,980,705)
Contribution to / (from) Budget Strategy support reserve	(913,058)	(256,082)	(1,620,802)	(763,343)	256,036
<b>Projected Funding</b>	<b>(15,341,662)</b>	<b>(15,087,169)</b>	<b>(14,829,669)</b>	<b>(14,526,669)</b>	<b>(13,774,669)</b>

3.3 - The projections above reflect a funding gap for the period 2020/21 to 2022/23 of £2.787m (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). The key assumptions for the preparation of these projections are explained on the next page.

# GENERAL

- 3.4 - The net costs of services have been estimated by using the approved 2018/19 base budget as the base for future projection's though to 2022/23.
- 3.5 - This has included general inflation at 2% on insurances, utilities, postage, IT maintenance agreements and 3% for non-domestic rates. Where information is available, major contracts and agreements are rolled forward based on the specified inflation indices in the contract or agreement. Historically, annual premises repairs and maintenance budgets have not been inflated which has resulted in increased pressure to be able to maintain and run the council's buildings within budget each year as prices continue to rise. To address this, inflation at 2% has been included in each of the years within the MTFS.
- 3.6 - An inflationary increase of 2.5% on shared service contracts has been included to take account of the increase in staff costs incurred in employing councils which will be recharged to the council.
- 3.7 - Following a review of the council's environmental services provided by Ubico, it is evident that under investment over a period of time now needs to be addressed resulting in the requirement to increase the contract sum for 2019/20 significantly. However, in order to offset this increase, savings of £200k are necessary within the MTFS. These savings will be found by a review of the services provided by Ubico identifying operational and process efficiencies. Following a public consultation exercise, service provision such as the recycling service, household recycling centre at Swindon Road, the recycling bring banks around the borough and further reducing the cost of collection for residual waste, will be determined. Opportunities to explore ways in which income can be increased to offset the need for savings will be maximised.



## EMPLOYEE RELATED COSTS

3.8 - On 5th December 2017, the National Employers made a final pay offer covering the period April 2018 to March 2020. The offer comprised a flat rate increase of 2% for the next two financial years with some bottom-loading on the lower pay points in order to continue to close the gap with the National Living Wage (NLW). For budget modelling, a 2% increase has been assumed throughout the duration of the MTFS post 2020.

**“For budget modelling, a 2% increase has been assumed throughout the duration of the MTFS post 2020.”**

3.9 - The net cost of service assumes an employee turnover saving of £372k per annum by the Council, which equates to 5.52% of base salary budget. This is allocated across service areas according to headcount and gives managers clear cash targets within which they have to manage.

3.10 - The Council is part of the Gloucestershire Pensions Fund, which is administered by Gloucestershire County Council. The rate of contribution paid to the fund by participating employers is set following a triennial revaluation of the Fund by the appointed actuary. The triennial revaluation of the Fund based on the position as at 31st March 2016, 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.

3.11 - 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 65% (compared with 60% in 2013), with a shortfall of £38.998m. The fund actuary is aiming for this deficit to be recovered over a 17 year period, giving the following target contribution rates for the Council for this three-year valuation period:

- a 18.3% future service rate which should cover the liabilities scheme members will build up in the future, plus
- an annual lump sum past service deficit contribution (£3.536m in 2018/19), to cover the shortfall in the Fund. Under the existing strategy the council is projected to move to a positive cash-flow position by 2019/20. This works on the assumption, as built into the MTFS, that the council pays a cumulative increase of £401k per annum reducing to £200k per annum in 2020/21 when the council moves to a positive cash-flow position.

3.12 - The Chief Finance Officer requested analysis from the actuary to explore the cash flow benefit to the council in making the required secondary sum payments to the Local Government Pension Scheme (LGPS) as a pre-payment for future year liability i.e. pay some of the liability up front which impacts on cash flow but does not represent an additional budgetary commitment. Previously monthly contributions were paid to the pension fund, however, a prepayment of £7.473 million was made in January 2018, generating a base budget saving of £275k over the final two years of the three year actuarial cycle.

3.13 - An increase of 2% per annum has been assumed on members’ allowances, in line with the anticipated employee annual pay award. This inflation is included within staff costs and totals c. £7k per annum.

## FEES AND CHARGES

3.14 - In previous years, a general assumption for a 2% increase in non-statutory fees and charges has been factored in. However, this has resulted in an increasing necessity to freeze prices within certain service areas that would be detrimentally impacted as a result either through local pressures or as a result of national legislative requirements.

### **The MTFS no longer assumes a 2% inflationary increase**

3.15 - Rather than continue with this approach, the MTFS no longer assumes a 2% inflationary increase but instead has opted for a fundamental year on year review of fees and charges to ensure they consider the costs of service provision, legislative requirements and competitive pricing structures.

## RETAINED BUSINESS RATES

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

3.17 - 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”**

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



## **NEW HOMES BONUS (NHB)**

3.19 - 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 now provides match funding of £1,671 for each new property for four years (based on national average for band D property – i.e. £6,684 per dwelling over four years), plus a bonus of £350 for each affordable home (worth £2,100 over six years).

3.20 - Councils are free to spend the Bonus as they choose, including on front-line services and keeping council tax low. Funding is split 80:20 between district and county authorities.

**Councils are free to spend the Bonus as they choose**

3.21 - The Council now includes 100% of its New Homes Bonus funding within base budget equating to £1.468m in 2019/20 under the current methodology.

## **COUNCIL TAX**

3.22 - 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 2019/20 which has been calculated based on data held.

3.23 - The taxbase represents the total number of chargeable properties in the borough, expressed as band D. The net budget requirement is divided by the taxbase to calculate the level of council tax for band D each year. The Council's taxbase is forecast to increase by 0.80% each year for the purposes of modelling the MTFS and a council tax increase of 2.99% per annum is assumed from 2019/20.

## **FUNDING GAP**

3.24 - Given the expectations on councils to make a significant contribution to reducing the national budget deficit, this Council faces a significantly more challenging financial position in the early years of the MTFS. The latest projections indicate a gap of £2.787m for the period 2020/23 to 2022/23, primarily as a result of the baseline funding allocation reset proposed in 2020 whereby the growth generated from business rates since 2013/14 will be redistributed based on need under the fair funding review.

3.25 - To enable time to deliver such a significant savings target over the period to 2022/23, to mitigate the financial risks captured in section 3 and to smooth out fluctuations in income levels a robust Reserves Strategy is required to supplement and support the Savings Strategy.

**“A robust Reserves Strategy is required to supplement and support the Savings Strategy.”**

# 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.”**

- 4.1 - The council is aspirational and horizon scanning in the approach it takes to delivering its services, and supporting those it works with in partnership to ensure Cheltenham is a vibrant and desirable place to live, work and invest. As a result, when funding has become available either through budget underspends or one-off funding, a strategy of utilising opportunities for improving and investing in the town has been followed.
- 4.2 - However, recognising the change in the council's short to medium term finances has required an alternative approach to be taken over the next few financial years with a focus on delivering services within approved budgets and enhancing the council's reserves to ensure it is able to meet any unforeseen costs in the future and also mitigate known risks and forecast cost pressures, particularly those arising from changes in the way local government is financed post 2019/20. This was also reflected in the recent peer review whereby they recommended we review inherent financial risks and build levels of reserves to withstand future uncertainty.

## **BUDGET STRATEGY SUPPORT RESERVE (BSSR)**

- 4.3 - As part of the 2016/17 budget setting process, the Budget Strategy Support Reserve (BSSR) was established to provide greater resilience and time for the council to embed its savings strategy and allow for slippage in savings delivery.
- 4.4 - 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.
- 4.5 - The Savings Strategy detailed in Section 6, identifies a need to fund £2.128m from the Budget Strategy Support Reserve in addition to the £256k used to support the 2019/20 budget, a total need of £2.384m.

## ***BUSINESS RATES RETENTION RESERVE (BRRR)***

- 4.6 - The 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.
- 4.7 - The BRRR should aim to be maintained to a target of £500k to allow for the potential reduction in income arising from the risks as identified. There is currently £150k in general balances specifically to cover fluctuations arising from pooling arrangements together with £400k projected to be held in the BRRR at 31st March 2020. The council is already mitigating fluctuations in income levels arising from changes in the local economy and moving forward will face even greater exposure to such volatilities under the reformed retention system.
- 4.8 - Any Collection Fund and Pool surpluses over and above those assumed in the Savings Strategy should be earmarked for the BRRR to ensure a base level of reserve is in place in advance of the implementation of 75% Business Rates Retention.

## ***GENERAL BALANCES***

- 4.9 - 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.
- 4.10 - 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.
- 4.11 - 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 Chief Finance Officer (S151 Officer). Over the course of this MTFS, the value of earmarked reserves will be reduced as they are used to finance planned expenditure.

# 5. Savings Strategy

## INTRODUCTION

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

5.2 - In the current 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 – an immensely challenging task in the present climate.

**“The Cabinet’s overriding financial strategy has been, and is, to drive down the Council’s net costs via a commercial mind-set”**

5.3 - The proposed key building blocks for the executive team structure of Place and Growth; People and Change; and Finance and Assets, together with a planned and proactive approach to the use of reserves, are the key drivers for delivering the budget strategy.

5.4 - The budget strategy looks inwards at service transformation and modernisation, outwards at economic growth and investment, and relies heavily on collective ownership and oversight. The Council has an ambition to become more commercial

**“The budget strategy looks inwards at service transformation and modernisation”**

in order to move towards a greater level of financial self-sufficiency. This will require a change at strategic level that will affect the whole organisation, taking into account the tight geography of the Borough, the pace of change desired and the high level of senior leadership buy-in required.

5.5 - The key mechanism for carrying out this strategy is the commercial strategy, which seeks to bring service costs in line with available funding and seek additional forms of funding.

5.6 - 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 by financial year 2021/22”.

5.7 - Part of our drive towards financial sustainability includes identifying new opportunities to generate income and investment in projects which provide good financial returns. Our commercial strategy aligns closely with other key strategies including place-making, economic growth, digital transformation, workforce and skills development, investment and asset management which have a combined

**“Part of our drive towards financial sustainability includes identifying new opportunities to generate income and investment in projects which provide good financial returns.”**

## **INTRODUCTION** *(continued)*

message that Cheltenham Borough Council has entered a new era of business enterprise, growth and innovation. We will work with partners who share our ambition and values and will continue to put the best interests of Cheltenham residents at the heart of everything we do.

**“Cheltenham Borough Council has entered a new era of business enterprise, growth and innovation.”**

5.8 - The budget strategy indicates broadly how the Council may close the projected funding gap over the period 2019/20 to 2022/23. In future years, it includes targets rather than necessarily specific worked up projections of cost savings and additional income to allow the Executive leads 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. Holding adequate information upon which to base the allocation of scarce resources is essential to address under-met needs.

## **PLACE AND GROWTH**

### **A “place where everyone thrives”.**

5.9 - Place and Growth – refers to “place shaping” in its widest sense – being clear on the ambitions for Cheltenham, gaining alignment and commitment from others on the scale of ambition, and having clarity of purpose, intent and delivery to make sure that Cheltenham is and continues to be a “place where everyone thrives”.

5.10 - One of the strengths of the Cheltenham economy is its diversity. With the exception of GCHQ, we are not overly dependent on one or two major employers or on the performance of a specific industrial or service sector. It is possible to influence how Cheltenham is shaped, by supporting and encouraging existing and new businesses, marketing the town’s rich cultural and dynamic offer and promote inward investment and building a strong and cohesive community. The place strategy is closely linked to the commercial strategy. Driving growth, increasing gross value added (GVA), investment into Cheltenham, encouraging businesses to thrive and improving employment opportunities; the town’s economy will grow, as should the council’s income through business rates and council tax, providing longer term financial sustainability.

5.11 - A new senior leadership post was created - MD for Place & Growth. The savings targets were set for the Cost of Service Reduction (£157.5k) which is scheduled for delivery in 2018/19 as approved by Cabinet. However, a transformation programme was agreed to bring a new approach to service delivery – encouraging cost effective and agile working practices as well as increasing income generation.

**“A new approach to service delivery”**

The new approach has enabled the delivery of Marketing Cheltenham (officially launched in Nov 2017), the creation of a business support team, an intern programme and the delivery of an agile working project. The programme will continue to drive the savings targets whilst delivering priorities and service improvements.

5.12 - Following the change in approach to income inflation for fees and charges within the forecast for the funding gap, a target has been introduced under the Place & Economic Development (P&ED) Transformation programme covering a review of fees and charges and income generation opportunities. This reflects that whilst it is recognised that a flat

## PLACE AND GROWTH (continued)

% inflationary increase is no longer appropriate, a review of the fees and charges made by the services within P&ED should year-on-year result in an additional base budget contribution. The £50k per annum target represents less than 1% of the P&ED 2018/19 income budgets, inclusive of car parking and excluding cemetery & crematorium which is subject to an inflationary increase. Initiatives such as the pre-application advice services, various licencing initiatives and planning performance agreements have seen a more commercial approach and a sustained growth in income.

**“Cheltenham is uniquely placed to grow.”**

5.13 - Cheltenham is uniquely placed to grow. The creation of a growth zone, as promoted in the Strategic Economic Plan (SEP), is to ensure the availability of quality employment land in proximity to the M5 motorway, attractive to businesses and with excellent connectivity throughout Gloucestershire and the rest of the UK. This will serve latent demand in the marketplace and provide space required to enable businesses to grow; particularly in the town’s margins and with the neighbouring district of Tewkesbury, which is also geographically well positioned to deliver growth development to the north-west of Cheltenham and along the M5 corridor.

5.14 - A 45 hectare site in West Cheltenham has been identified to create a Cyber Business Park, closely connected to the delivery of GCHQ’s Cyber Innovation Centre (CIC), seeking to create a cluster of cyber and associated businesses. Cyber security is one of the fastest growing industries in the UK as cyber-crime poses an ever greater threat to the UK economy and Critical National Infrastructure. The CIC will assist in supporting business to develop cyber security products and services. Some will enjoy GCHQ accreditation; others will be purely commercially based, though will need to meet basic security criteria. This model could see fast and sustained employment growth with high value jobs benefiting the wider region.

**“Cyber security is one of the fastest growing industries in the UK”**

5.15 - Initial estimates suggest that this site alone could generate significant additional business rates, of which under existing regulations, Cheltenham would retain 40%. There are obvious constraints such as planning, which will need to be considered alongside the Joint Core Strategy and furthermore the proposed changes to the Business Rates Retention Scheme mean that it is currently unclear how growth would firstly be retained by, and secondly shared between upper and lower tier authorities. It is also important to consider the wider impact and economic significance this cyber business park would have – attracting a wide range of international investors and business.

5.16 - Another aspect of the Place Strategy is strengthening the town’s cultural offer, and in particular a focus on the town centre. Working in collaboration with other partner organisations such as the BID, Marketing Cheltenham has raised the profile of Cheltenham

**“New stores and business opening”**

as a destination and the cultural centre for the Cotswolds. The investment programme for the High Street and the improvements through the Cheltenham Transport Plan have seen increased footfall, increases in cycle visits, car parking numbers and bus usage into the town centre. With new stores and business opening in Cheltenham, Cheltenham’s High Street is currently performing well. October saw John Lewis open and the more recent announcement that House of Fraser’s lease has been renewed, both represent a significant vote of confidence in the town’s retail and leisure offer.



## PEOPLE AND CHANGE

5.17 - The people and change element of the budget strategy currently has two key areas of focus over the life of the savings plan:

- Savings following the creation of The Cheltenham Trust which formed part of the original business case when the trust was created in 2014;
- Savings targets arising from transformation and modernisation of service delivery within the authority, which are in addition to the savings target to transform regulatory and environmental services.

5.18 - Whilst the Place and Economic Development (P&ED) programme, which started in 2016, is progressing the current position is that only part of the authority is undergoing a programme of modernisation and change and this now needs to be urgently addressed.

5.19 - Modernisation will bring cash savings, as set out in the MTFs, but also deliver non-cash savings, which will allow resources to be freed up to support existing, emerging and future corporate priorities.

5.20 - Ahead of the modernisation programme, Publica Group has been asked to expedite some quick win savings, including the re-negotiation of the Council's mobile phone contract and from other telephony improvements.

5.21 - Following the review of the Executive Leadership Team, the next stage of the organisational design will be the development of a business case and framework to enable a review of the existing organisational structure.

This will set out the approach and resources needed in assisting the Council in determining its future operating model. The outcome of this work will help ensure the Council is then best placed to meet the future opportunities and challenges ahead.

**“The outcome of this work will help ensure the Council is then best placed to meet the future opportunities and challenges ahead.”**





## FINANCE AND ASSETS

5.22 - Finance and assets – we recognise the continuing need for sound strategic financial planning in the context of uncertainty in the national local government finance landscape, and in a context where more of the authority's ongoing financial revenue will come from business rates or commercial opportunities with a potentially higher risk profile. The acquisition of 4 new commercial investment properties (Ellenborough House, Sainsbury's, Café Nero and 53-57 Rodney Road) has already resulted in us over-achieving our new revenue income target.

**“Acquisition of 4 new commercial investment properties has already resulted in us over-achieving our new revenue income target.”**

5.23- The relationship between how we develop, grow and utilise our assets such as the Municipal Offices, Swindon Road depot and our cultural assets needs to be influenced by our ambition for Place, how we use our assets strategically and in the long term to achieve the outcomes we want to see for the town and also the wider county of Gloucestershire.

Our Public Realm investment across the Town has enabled us to attract major new businesses which have a positive effect on both business rates income and the vibrancy across the Town.

**“Active asset management of the authority's asset portfolio and maximising the return from the authority's own assets to help deliver a sustainable financial plan will be increasingly important”**

5.24 - Active asset management of the authority's asset portfolio and maximising the return from the authority's own assets to help deliver a sustainable financial plan will be increasingly important and is a complex area. Decisions around the extent as to the commercial investment opportunities will heavily rely upon careful and sound strategic financial advice and support.

5.25 - The property services team are working on an energy plan to make significant efficiencies in the way we manage our buildings. In addition, they have been tasked with ensuring our land and property asset portfolio is fit for purpose, secures increased income generation, maximises capital receipts (where appropriate) and stimulates growth and investment in the Borough.

5.26- As stated earlier, the principles of the latest settlement allow authorities to spend locally what is raised locally. In order to do this it needs to grow its taxbase through growth, regeneration and reasonable tax increases. It also needs to ensure the taxbase is maximised through effective management and by using measures available, including counter fraud, reducing the number of empty premises and working effectively within the parameters of the planning process with regards to land supply.

## USE OF RESERVES

5.27 - As has been outlined in section 5, the savings strategy will take time and resource to deliver and the relative needs baseline reset exacerbates the financial position. The council must therefore draw on its reserves to provide short-term support, specifically the Budget Strategy Support Reserve (BSSR).

## **RESOURCE PRIORITISATION**

- 5.28 - The targets set in the Savings Strategy will be challenging and the level of resource and capacity required to deliver them should not be underestimated. Both budget realignment and one-off budgetary provision is likely to be needed to provide sufficient resource to deliver such an ambitious Savings Strategy. The Cabinet and Executive Leadership Team should ensure that resource is focussed to deliver the key priorities outlined in the strategy which will ensure the council's financial future and avoid budget cuts whilst ensuring that appropriate budgetary provision is made for identified funding needs.
- 5.29 - As such, if resource is not successfully prioritised and officers' time is diverted from the delivery of the Savings Strategy the challenging targets will not be delivered and the council's financial future will be detrimentally impacted. The financial risks around the changes to local government finances and the national financial climate outlined in section 2 clearly explain why the council's focus must be on delivering the Savings Strategy in the medium term which in turn may require other corporate priorities to be pushed into the longer term.



# 6. Conclusion

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

**“The council has a track record of strong financial management”**

**“To ensure financial stability and sustainability”**

6.2 - 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.





**CHELTENHAM**  
BOROUGH COUNCIL



THE WORKPLACE  
**WELLBEING**  
CHARTER



**INVESTORS**  
IN PEOPLE | Accredited  
Until 2020

**Follow our progress:**  
[www.cheltenham.gov.uk](http://www.cheltenham.gov.uk)



Space for photo credits Space for photo credits Space for photo credits  
Space for photo credits Space for photo credits  
Space for photo credits