

Medium Term Financial Strategy

2021/22 to 2024/25



CHEL TENHAM
BOROUGH COUNCIL

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Foreward

- 1.1 - Unique challenges require a unique response. Covid-19 has tested Cheltenham's communities, economy and way of life in a way that has not been seen since the Second World War. Our Borough has lost loved ones, business has been disrupted and we have all had to re-learn a new existence that tries to retain our human connections while being apart. We have been humbled by the dedicated and caring values shown by all to support and shield those who need help and we are proud to witness the strength and resilience of our town in the face of this challenge.
- 1.2 - Overcoming Covid-19 involves more than finding a medical cure, we must also focus on how we can rebuild our economy and communities to be stronger than before. In Cheltenham, we remain just as committed to making our Borough the Cyber Capital of the UK and helping our town, county and region thrive. Nevertheless, the challenge of this global pandemic requires a response that is more innovative and ambitious than we might have thought previously possible.
- 1.3 - Local Government needs to work alongside Central Government to avert the need for a further 10 years of austerity and create a bold vision to rebuild after Covid-19. In Cheltenham, we firmly believe we have the people, skills and local solutions to deliver a recovery that will not just repair the damage but it will offer the opportunity for renewal, improvement and strong, sustainable communities. Locally driven investment in projects, spaces and places will allow us to deliver tailored responses to our challenges and opportunities and allow us to play our part in a collective national effort to rebuild. It is therefore essential that the Council is financially sustainable and in a position to lead that recovery.
- 1.4 - In the last 10 years, the Council's core funding from the Government has been cut by £6.8 million, whilst at the same time experiencing significant cost pressures and increasing demand. For the majority of that period there was a mandate from Government to restrict council tax increases, placing further pressure on the Council's ability to sustainably provide services through more innovative and commercial ventures that cross subsidise services.
- 1.5 - The Council has an excellent track record in delivering pioneering solutions to the budget pressures faced. Over the same 10 year period, the Council has delivered savings and additional income in excess of £9.6m broken down as £2.916m from staff reorganisation and service reviews; £3.378m through the creation of innovative shared services with other local authorities and the creation of alternative delivery models such as Ubico and the Cheltenham Trust; and £3.669m from additional income generation and effective asset management.
- 1.6 - 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.
- 1.7 - 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.

- 1.8 - 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”.
- 1.9 - 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 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.
- 1.10 - In June 2019, the national MJ achievement awards recognised Cheltenham Borough Council for its efforts in making significant local investments and long-term financial plans to ensure continuity of frontline services and public realm investment. This approach has helped the council manage the impact following the loss of £6.8m funding since 2010 and led to the Council’s success in winning the 2019 award for Best Commercial Council: <https://awards.themj.co.uk/library/media/pdfs/CBCMJaward2019BestCommercialCounciloriginal-compressed.pdf>
- 1.11 - Heather Jameson, The MJ’s editor, said: “Congratulations to Cheltenham BC for being named as Best Commercial Council. Our judges had a difficult task, selecting the best authority, never an easy decision when there are so many strong contenders, but Cheltenham stood out for its approach that covered the whole council. ‘Well done to everyone at Cheltenham BC. This is a massive achievement and they should be proud of their innovative approach to saving local taxpayers’ money.” In September 2019, the Council’s commercial approach to supporting its medium term financial strategy was further validated with the Council winning the APSE award for Best Commercial Council and Entrepreneurship Initiative; <https://www.apse.org.uk/apse/index.cfm/news/articles/2019/announcing-the-apse-service-awards-finalists-2019/>
- 1.12 - 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; linking our Place and Commercial Strategies to ‘Invest in Cheltenham, for the benefit of Cheltenham’. This has seen a place focused investment approach offering long term investment, income through rents as well as other social and financial benefits.



“Local Government needs to work alongside Central Government to avert the need for a further 10 years of austerity and create a bold vision to rebuild after Covid-19.”

Councillor Steve Jordan, Cabinet Member for Finance and Assets

Introduction

The council's corporate plan 2019-2023 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 £180m 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 supports all other financial strategies, plans, policies and decisions.

Category	Overall	Revenue	Capital	Treasury Mgmt	Risk Mgmt
Strategies	Medium Term Financial Strategy				
	Commercial Strategy	Investment Strategy	Capital Strategy	Treasury Mgmt (TM) Strategy	Risk Mgmt
	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 Mgmt Plan	Treasury Policy Statements	Risk Register
Governance	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				
Decision Making	Cabinet/Council				

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 we have for our services is that they:

- 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

2021/22 - Gross Expenditure

£23.4 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

£12.1 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



Executive Summary

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 and the impacts of Covid-19 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. The impact on the UK from Covid-19, lockdown measures, the rollout of vaccines, as well as the new trading arrangements with the European Union (EU), will continue to be a major factor for 2021/22. The financial impact of Covid-19 and 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 spending programme, despite the notion that the Government has stated that austerity is over. Therefore the amount of funding available to local government from 2022/23 is still uncertain.

2.3 - UK Consumer Price Inflation (CPI) for November 2020 registered 0.3% year on year, down from 0.7% in the previous month. Core inflation, which excludes the more volatile components, fell to 1.1% from 1.5%. The most recent labour market data for the three months to October 2020 showed the unemployment rate rose to 4.9% while the employment rate fell to 75.2%. Both measures are expected to deteriorate further due to the ongoing impact of Covid-19 on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the Bank of England (BoE) forecasting unemployment will peak at 7.75% in Q2 2021. In October, the headline 3-month average annual growth rate for wages were 2.7% for total pay and 2.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up by 1.9% while regular pay was up 2.1%.

2.4 - Gross domestic product (GDP) growth rebounded by 16.0% in Q3 2020 having fallen by -18.8% in the second quarter 2020, with the annual rate rising to -8.6% from -20.8%. All sectors rose quarter-on-quarter, with dramatic gains in construction (41.2%), followed by services and production (both 14.7%). Monthly GDP estimates have shown the economic recovery slowing and remains well below its pre-pandemic peak. Looking ahead, the BoE’s November MPR forecasts economic growth will rise in 2021 with GDP reaching 11% in Q4 2021, 3.1% in Q4 2022 and 1.6% in Q4 2023

2.5 - The Bank of England (BoE) maintained Bank Rate at 0.10% in December 2020 and the Quantitative Easing programme at £895 billion having extended it by £150 billion in the previous month. The Monetary Policy Committee (MPC) voted unanimously for both, but no mention was made of the potential future use of negative interest rates. In the

2.6 - November Monetary Policy Report (MPR) forecasts, the Bank expected the UK economy to shrink -2% in Q4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Q1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast. By the time of the December MPC announcement, a Covid-19 vaccine was approved for use, which the Bank noted would reduce some of the downside risks to the economic outlook outlined in the November MPR.

2.7 - 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 will influence the spending strategy of the Government and the balance of funding available to local government.

The MTFS for 2021/22 to 2024/25 recognises the anticipated significant changes to the national funding system through the business rates reset and fair funding review, 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

2.8 - The Council no longer receives Revenue Support Grant funding from the Government and will have to rely on income generated in the Borough to fund services. 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.

2.9 - 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 has been put back a further year to 2022 and the government are committed to putting in place transitional arrangements to 'smooth' the impact, referred to as 'damping'.

"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."

2.10 - 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.

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 planning to consult on how the new scheme post 2022 can continue to reward and incentivise growth, whilst mitigating the risk of appeals and longer term impact of Covid-19. 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 2022/23.
- 2.13 - The council's MHCLG set business rates baseline is £2.841m whilst, as a result of 'retained' economic growth, £3.742m is now forecast to be generated and support the base budget in 2021/22. It was proposed that the new baseline will be set taking into consideration business rates income retained in 2019/20 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 Covid-19.
- 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.
- 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 - New Homes Bonus (NHB) will continue for another year but the government very clearly intends to phase it out by 2023/24. For now, there is no change in the operation of the scheme in 2021/22: the scheme works in the same way and applies the same threshold baseline of 0.4% housing growth under which no New Homes Bonus grant is paid.
- 2.18 - The major change in NHB is that the new amounts earned in 2021/22 will only attract an NHB reward for one year (2021/22) alongside the committed rewards paid in respect of years 2018/19 and 2019/20. In the following year (2022/23), NHB will only cover the reward for year 2019/20. NHB will effectively end by 2023/24. The government is making very clear that it wants to replace NHB, and replace it with something that is more “targeted”. Any replacement is unlikely to distribute as much funding as the NHB currently does, or to be distributed in the same way.

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 1.99%, whichever is higher. Current projections post Covid-19 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.

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.

COVID-19

2.24 - The impact on council tax, business rates and the implications for the economy, particularly the key income streams for the council such as car parking, are matters that will challenge the medium term financial strategy. 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:

Table 1: Projection of Funding Gap	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Net Cost of Services brought forward from previous year (assuming a balanced budget has been set)		14,962,858	14,159,963	13,712,963	14,267,963

IN YEAR BUDGET VARIATIONS					
Increased costs of existing services					
General Inflation		119,297	70,000	70,000	70,000
Employee and Members related expenditure		378,835	207,000	207,000	207,000
Shared Services contract inflation		23,910	19,000	19,000	19,000
Publica contract inflation		18,617	35,000	35,000	35,000
Ubico contract inflation		83,373	175,000	425,000	175,000
GROWTH		272,000			
INCOME					
Green Waste			(11,000)	(11,000)	(11,000)
Cemetery & Crematorium			(35,000)	(35,000)	(35,000)
Property rentals		59,918			
Charges to other clients (TCT, CBH and Ubico)		(10,604)			
Ubico finance lease interest		6,000			
Minimum Revenue Provision and Interest Payable		(1,646,967)		600,000	841,162
RESERVES					
Net Contribution from BRR Reserve		206,300			
Net Contribution from Rent Allowances Reserve		86,426			

Table 1: Projection of Funding Gap	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
SAVINGS STRATEGY					
Place and Growth		0	(50,000)	(350,000)	(750,000)
People and Change		(150,000)	(250,000)	(150,000)	(150,000)
Finance and Assets		(250,000)	(607,000)	(255,000)	(520,000)
Projected Net Cost of Service	14,962,858	14,159,963	13,712,963	14,267,963	14,149,125
Business Rates	(4,142,751)	(3,741,711)	(2,990,000)	(3,400,000)	(3,800,000)
Damping			(1,120,000)		
New Homes Bonus	(1,252,262)	(747,091)	(230,579)		0
Collection Fund (surplus) / deficit contribution	(73,500)	23,400		(50,000)	(50,000)
Council tax income assuming council tax increases by £5 per annum from 2021/22	(9,236,375)	(9,413,999)	(9,707,280)	(10,004,061)	(10,304,342)
Covid-19 Grant		(540,136)			
Lower Tier Services Grant		(121,000)			
LCTS S31 Grant		(163,000)			
Contribution to / (from) General Balances		543,574			
Contribution to / (from) Budget Strategy support reserve	(257,970)		334,896	(813,902)	5,217
Projected Funding	(14,962,858)	(14,159,963)	(13,712,963)	(14,267,963)	(14,149,125)

3.3 - The projections above reflect a funding gap for the period 2022/23 to 2024/25 of £3.082m (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 below.



GENERAL

- 3.4 - The net costs of services have been estimated by using the approved 2020/21 base budget as the base for future projection's though to 2024/25.
- 3.5 - This has included general inflation at 2% on insurances, utilities, postage, IT maintenance agreements and 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% 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 was evident that under investment over a period of time needed to be addressed resulting in the requirement to increase the contract sum for 2019/20 significantly. However, the contract sum is now stabilised with more certainty over future increases arising from pay and price inflation.



EMPLOYEE RELATED COSTS

- 3.8 - For budget modelling, a 2% increase has been assumed throughout the duration of the MTFS post 2021, although it is assumed a pay rise of 1% will be offered in 2021/22 in line with expectations across the whole Public Sector.
- 3.9 - The net cost of service assumes an employee turnover saving of £372k per annum by the Council, which equates to 5.5% 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 2019, 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 88% (compared with 65% in 2016), 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 20.0% 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 (£2.882m in 2021/22), to cover the shortfall in the Fund.
- 3.12 - An increase of 2% per annum has been assumed on members' allowances, in line with the anticipated employee annual pay award, with 1% being awarded in 2021/22. This inflation is included within staff costs and totals c. £7k per annum.

FEES AND CHARGES

- 3.13 - 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

- 3.14 - 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

- 3.15 - 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.
- 3.16 - 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”

- 3.17 - 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. This has been compounded by the impact of Covid-19. 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.

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.
- Councils are free to spend the Bonus as they choose
- 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.
- 3.21 - The Council now includes 100% of its New Homes Bonus funding within base budget equating to £0.719m in 2021/22 under the current methodology.

COUNCIL TAX

3.21 - The taxbase represents the total number of chargeable properties in the borough, expressed as band D. The net budget requirement is divided by the taxbase to calculate the level of council tax for band D each year. The Council's taxbase is forecast to increase by 0.80% each year for the purposes of modelling the MTFs and a council tax increase of £5 per annum is assumed from 2022/23.

FUNDING GAP

3.22 - Given the expectations that government grant to district councils will reduce as a result of the business rates retention reset, fair funding review and phasing out of NHB, this Council faces a significantly more challenging financial position in the early years of the MTFs. The latest projections indicate a gap of £3.082m for the period 2022/23 to 2024/25, primarily as a result of the baseline funding allocation reset proposed in 2022 whereby the growth generated from business rates since 2013/14 will be redistributed based on need under the fair funding review.

3.23 - To enable time to deliver such a significant savings target over the period to 2024/25, 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 through the impact of Covid-19 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 2022/23. 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 £0.474m from the Budget Strategy Support Reserve or General Balances.

BUSINESS RATES RETENTION RESERVE (BRRR)

- 4.6 - 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.
- 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 identified within general balances specifically to cover fluctuations arising from pooling arrangements. 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 post Covid-19.
- 4.8 - 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

- 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 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.

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 arising predominately from Covid-19. 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.
- 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 and driving sustainable economic growth– 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, regeneration and investment, and relies heavily on collective ownership and oversight. The Council has an ambition to become more commercial 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.
- “The budget strategy looks inwards at service transformation and modernisation”
- 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”.
- 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 2021/22 to 2024/25. 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 an important destination and a “place where everyone thrives”.
- 5.10 - One of the strengths of the Cheltenham economy is its diversity; it has a great number of different sized businesses across a wide range of sectors, with a notable concentration of cyber and digital businesses. Mixed with its rich cultural offer of historic buildings, world renowned festivals, parks and open spaces it is able to draw investment, talent and visitors, building on its strong community foundations. 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.

“Cheltenham is uniquely placed to grow.”

- 5.11 - Cheltenham is uniquely placed to continue its economic growth. 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. A recent economic study undertaken highlighted that Cheltenham has the UK’s largest concentration of cyber-tech business outside of London, seeing jobs growth of 48% in this sector over the last 5 years. Cheltenham continues to develop its attraction and depth of offer as a destination, a place to do business and a place of innovation and excellence.

PLACE AND GROWTH *(continued)*

- 5.12 - The Golden Valley Development is a 200 hectare site adjacent to GCHQ in West Cheltenham. This will be the home of Cyber Central UK, the capital of cyber innovation, bringing together the brightest minds business, government and academia; spearheading the UK's mission to be a science superpower and global leader in cyber security.

Cyber-tech 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.

Cyber security is one of the fastest growing industries in the UK

"Cheltenham is spearheading the UK's mission to be a Science superpower and global leader in cyber"

- 5.13 - 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 that Cyber Central will have – attracting a wide range of international investors, start-ups and other businesses. It will be a great driver for regeneration and investment to the existing communities.
- 5.14 - At the end of August 2019, the council completed the purchase of 112 acres (45 ha) of strategically important land which forms part of the West Cheltenham JCS allocation. This was the most expensive land purchase ever made by CBC. It will enable the delivery of the Cyber Central vision – which was formally launched on 17th September 2019 at Hub8 in Cheltenham. In June 2019 the government announced that Cyber Central had been awarded 'Garden Communities' status; now known as the Golden Valley Garden Community.
- 5.15 - The Council's £37.5m investment into this site will enable the rapid growth of the Cyber-Tech and other innovative industries as part of a thriving integrated community, a place where people can live, work and recreate. It is a significant step forward in achieving the Council's corporate plan priority of Cheltenham becoming the UK capital of cyber. Our Housing Investment Strategy commitment to deliver on the £180m investment in Housing across the Borough will play a leading role in shaping the residential aspect, working with Homes England and Cheltenham Borough Homes to create high quality homes that offer a range of tenures with security and affordability.
- 5.16 - Another aspect of the Place Strategy is reimagining the town centre, working with key partners and our community in understanding the mix of uses that will position Cheltenham as a retail, cultural, business and leisure destination. We are in unprecedented times as the retail sector adjusts to changing customer patterns and behaviours, exacerbated by the access to retail by the Covid-19 pandemic. Our focus is on creating a liveable town centre with community at its heart, driving footfall and inward investment.

CHELSEA Jazz Festival



PEOPLE AND CHANGE

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

- Savings following the creation of The Cheltenham Trust (TCT) 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;
- Savings targets through initiatives to target climate change through efficiencies in the way we manage our land and buildings.

5.18 - The Place and Growth modernisation programme, which started in 2016, was superseded in 2019 with an organisational wide approach following a Cabinet agreed Case for Change.

5.19 - The Council wide modernisation programme has delivered cash savings towards its overall target, as set out in the MTFS, with further initiatives planned to generate additional savings over the next two years. Many opportunities for improving service delivery and operational efficiency have been identified via the Council's programme business process reviews.

5.20 - The modernisation programme is also undertaking a comprehensive review of all ICT applications to ensure they are still meeting business requirements and providing value for money. This also provides an opportunity to commit to longer-term contracts and fix prices to give the Council certainty of costs. A notable success has been the rollout of CIVICA Digital that now provides all residents and businesses a wide range of self-service options.

5.21 - The TCT moved into surplus at the end of 2019/2020 following an increased in commercial income generation activities. Despite the impact of Covid-19, the TCT has continued where it can to maximise commercial income with notable success such as the Heritage Café and the Garden Bar. The TCT has been very successful with securing external funding to help offset the impact from Covid. The Council has provided some transformation funding to the TCT to ensure they can continue to generate additional income but in a Covid sure way. The impact of Covid will mean the TCT will need to re-profile its business plan and financial forecasts.

5.22 - Following the review of the Executive Leadership Team, the organisational review has commenced and completion will ensure the Council and its resources are better aligned and connected against the Council's new operating environment and to ensure it best placed to meet the future opportunities and challenges ahead

PEOPLE AND CHANGE *(continued)*

- 5.23 - Climate change is having a major impact on our planet. On 9 July 2019, Cheltenham Borough Council declared a 'Climate Emergency' and committed to become a net zero carbon council and borough by 2030.
- 5.24 - To help the council understand the actions that will be needed to address the climate emergency a 'carbon neutral Cheltenham' report was commissioned, which was approved in October 2019. The report, 'Carbon Neutral Cheltenham: Leadership through Stewardship', sets out the baseline carbon emissions for the council and the borough and a roadmap to achieving net zero carbon by 2030.
- 5.25- The Council's Covid-19 Recovery Strategy has carbon neutrality at its heart. The Council through its #cheltenhamzero partnership will bring forward initiatives to contribute to making Cheltenham Carbon Neutral by 2030. As part of this agenda the Council is
- 5.26 - committed to green growth and major initiatives such as Cyber Central and Minister Innovation Exchange will look to ensure carbon neutrality as a key aspect of these developments.

FINANCE AND ASSETS

- 5.27 - Finance and assets – we recognises 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.
- 5.28- The outbreak of the Covid-19 pandemic in March 2020 caused a shock within the commercial property market globally and Cheltenham was not insulated from that. In relation to the council's commercial property portfolio a number of tenants agreed rent deferment plans but overall the relationship between ourselves and our tenants has been one of engagement and understanding to difficult business conditions. Overall the portfolio continues to perform well with high occupancy, rents holding firm with our small industrial portfolio performing the best.
- 5.29 - The opportunity to lease out surplus space within the Municipal Office (MO) was of high priority and the council has been successful in leasing a large amount of space to tenants with strong covenants which in the medium term is providing a good source of income return.
- 5.30 - Current market conditions have refocussed CBC's Asset Management Strategy to its own property portfolio ensuring that current income is secured in addition to further revenue generation through its owned assets either surplus to requirements or those that could be developed
- 5.31 - 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.

5.32 - 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.

"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"

5.33 - In November 2020, the Cabinet and Council approved the Minster Innovation Exchange (MIE) project which received £3.114m of Government 'Getting Building Funding' and, coupled with Council investment of £1.057m and LEP funding of £500k, will deliver 'next generation' workspace for the young creative and cyber tech business community on an underutilised car park in the town centre. The building will provide workspace, training facilities (including a 'war room' for developing and testing cyber security systems); provide a permanent all year round presence and home for Cheltenham Festivals and include a new commercial 'state of the art' event space and café. The funding will also pay for public realm improvements to the neighbouring St Marys Minster churchyard resulting in a major regeneration scheme which will create a cultural and creative hub linked to the Wilson art gallery and museum in a run-down area of town which currently attracts significant anti-social behaviour.

5.34 - The project is an innovative collaboration with a group of local private sector entrepreneurs badged as Workshop Cheltenham (WSC) with whom the Council is creating a Limited Liability Partnership (LLP). The Council is facilitating the delivery of the project on a piece of land swapped with Gloucestershire County Council which will be let to the LLP on commercial terms. The Council's investment will also be on commercial basis and a profit sharing arrangement has been agreed between the Council and WSC which will see additional returns to the Council over the initial 10 years period of operating the MIE.

5.35 - The building will also house a tier 2 growth hub which will support business development as part of a national network of growth hub facilities. This will provide a stimulus to businesses in the local economy and is part of the Council's post Covid recovery plan.

5.36 - The MIE is seen as the catalyst for the wider Golden Valley Cyber development which aims to be the Cyber capital of the UK. MIE will provide incubator space for companies which may grow and migrate to Golden Valley and will support the development of the cyber ecosystem. MIE aims to be a key component in the drive to build drive up economic growth and help with the retention of young people and talent in the County.

5.37 - October 2019 marked the introduction of the CBC Commercial Services Board. The CSB was formulated with the support of public sector commercial development expert; David Elverson. The aim of the CSB is to manage and oversee the operational commercial activities of CBC and to make sure that income generation or cost saving initiatives are in line with CBC's commercial strategy.

5.38 - The key responsibilities of the CSB include:

- Developing and maintaining the commercial framework which is the basis for all of the council's commercial activity
- Overseeing all commercial projects/ initiatives
- Providing advice to service managers on the development of commercial opportunities
- Assisting with commercial business plan writing and financial modelling
- Ownership of the commercial projects register
- Providing analysis of the performance and impact of projects and the contribution towards efficiencies and additional income targets
- Providing recommendations and advice to Members and ELT on the approval of commercial business plans
- Highlighting any potential commercial conflicts of interest to the ELT for direction
- To implement KPI's and measure the success of commercial projects/ initiatives

5.39 - The principles of the 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

5.40 - 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

5.40 - 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.

5.41 - 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.

6.3 - 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; linking our Place and Commercial Strategies to 'Invest in Cheltenham, for the benefit of Cheltenham'. This has seen a place focused investment approach offering long term investment, income through rents as well as other social and financial benefits. The Executive leadership team's collaborative approach has enabled considerable progress.





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