Medium Term Financial Strategy

2022/23 to 2024/25

CHELTENHAM
BOROUGH COUNCIL

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1. Introduction

The Council's corporate plan 2019-2022 sets out five key priorities:

- Making Cheltenham the Cyber Capital of the UK: 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.
- Continuing the revitalisation and improvement of our town centre and public spaces: delivering a number of wider public enhancements that will ensure the long-term viability of Cheltenham as a retail and cultural destination.
- Achieving a cleaner and greener sustainable environment in the town: delivering enhancements to our environmental services in response to the Council's commitment to the town and our authority becoming net carbon zero by 2030.
- Increasing the supply of housing and investing to build resilient communities: seeking new opportunities to bring in additional resources and leveraging more value from our assets to deliver our £180m housing investment plan.
- Delivering services to meet the needs of our communities: improving the way services and information are accessed by residents and businesses using new technology opportunities and different ways of working.

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

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Covid-19 has tested Cheltenham's communities and economy over the last twelve months. The Council have recognised that rebuilding the strength of our town will require innovation, ambition and a bold vision.

Our Council was one of, if not the first Council to publish a Recovery Strategy in 2020 which outlined a Local New Deal for Cheltenham. That early publication and consultation enabled the Council to clearly signal recovery aims and objectives. The economy was, and continues to be in a difficult position nationally and responding dynamically will be key to supporting the rest of the town to recover.

The Recovery Strategy is informed by existing corporate plans so aligns with the Council's established vision of place and longer term priorities. That the Council was able to take the Corporate Plan and adapt it to respond to the Covid-19 crisis shows organisational flexibility and the ability to re-orientate focus and resources in light of emerging situations.

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

- ensuring our decision making and investment takes into account the ambition for making Cheltenham Carbon Neutral by 2030;
- achieving inclusive growth so all our communities can benefit and prosper from investments made in the borough;
- continuing to be commercially focused where needed to support the financial self-sufficiency of the Council; and
- providing strategic co-ordination across Cheltenham's agencies, partnerships and networks to drive social and economic recovery.

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

Our Current Business Model

2022/23 - Gross Expenditure

£23.3 Million
DIRECTLY PROVIDED

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

£13.2 Million
PROVIDED BY CONTRACTORS JOINTLY OWNED BY CBC

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

£1.1 Million
SHARED WORKING

Legal Services
Building Control

£0.2 Million
JOINT WORKING

Joint Core Strategy
Development Task Force
Strategic Planning

Contents

The purpose of this document is to produce a robust and thoughtful MTFS which captures the growing needs and continuing aspirations of the Council after a period of prolonged public spending austerity as we continue on the journey of recovery from COVID-19 pandemic.

The following areas are considered and discussed:

2. National and Local Financial Risks

INTRODUCTION

The Council have faced unprecedented financial challenges over the last 18 months in providing the resources and support to manage the response to the Covid-19 pandemic. This is in addition to the ten years of austerity and year on year cuts to the Council's Government funding. The national restrictions which have been in place, across the country or locally here in Cheltenham, have created a huge amount of financial uncertainty. With the emergence of the Omicron variant, the uncertainty continues to financially impact Local Authority's across the country.

"The Council have faced unprecedented financial challenges over the last 18 months"

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

WIDER ECONOMY CONTEXT

As the economy leaves the worst effects of the pandemic behind, there is still significant uncertainty about the long term impact on growth, investment and inflation. The 2022/23 MTFS has been set based on a set off assumptions about the economic outlook for the next 18 months.

Inflation stands at 5.1% in January 2022, up from 4.2% in December 2021. This is the highest level in nearly 40 years. It is expected to remain elevated in 2022, and to peak at around 6.5% in April as the new regulated price cap on households' gas prices takes effect. As energy prices gradually stabilise and supply chains recover, the speed of the increase is expected to slow and approach the Bank of England's 2% target by the start of April 2023.

The Consumer Price Index also rose by 4.8% in the 12 months to December 2021, up from 4.6% in the 12 months to November which adds to the fiscal challenges facing households, businesses and public bodies.

The Bank of England unexpectedly raised interest rates in December 2021, for the first time in three years amid growing concerns over inflation, despite the rapid spread of the coronavirus Omicron variant. The Monetary Policy Committee (MPC) voted by a majority of eight to one to raise rates from the historic low of 0.1% to 0.25%, judging that pressure on households from surging living costs outweighed the risks to the economy from the new variant. This has been followed by an additional 0.25% increase in February 2022 as energy prices continue to rise. This represents a shift towards a significantly tighter monetary policy stance when considering the implications these rises will also have for the divestment of assets accumulated under quantitative easting.

From April 2022, the rate of National Insurance contributions employers pay will increase by 1.25%, which also adds additional pressure to payroll costs.

"Wider economic factors place unprecedented pressures on our budget at a time when we are already facing uncertainty"

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

NATIONAL RISK FACTORS

Uncertainty about future funding

The Local Government Settlement for 2022/23 received in December 2021 was expected to cover a three year period which would have provided more certainty to inform more strategic financial planning. However, the Government has provided only a one year Settlement with clear indication that funding formulas for 2023/24 and beyond will be reviewed.

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

"The Council no longer receives Revenue Support Grant funding from the Government"

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

The intention is for each local authority to be set a new baseline funding allocation based on an assessment of relative needs and taking into account their relative resources. The timeline for its introduction is 1 April 2023 and the Government have committed to putting in place transitional arrangements to 'smooth' the impact, referred to as 'damping'.

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

The impact on our current MTFS is that from 2023/24 onwards we have been prudent in our assumptions on the funding available. It was confirmed in the 2021/22 Settlement that this would be the final year of the New Homes Bonus, the Lower Tier Services Grant and the one-off Services Grant provided to support recovery from the pandemic. We have assumed that no new additional funding will be available from 2023/24 to replace the current levels.

NATIONAL RISK FACTORS (continued)

Business Rates Retention

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

Alongside the FFR, the Government is planning to consult on how the new scheme post 2023 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.

"The Government is planning to consult on how the new scheme post 2023 can continue to reward and incentivise growth"

Under the current system roughly £13bn per year of business rates income is kept by Central Government to fund local authority services. This is referred to as the "Central share" and is redistributed to councils in the form of Revenue Support Grant (RSG) and other grants. In future, if this sum is retained by local authorities, new burdens of a broadly similar value will be passed across to local government. As a result local government will not initially have more funding; over the longer term this will depend on whether business rates grow faster or slower than local authority service demands and costs, and to add further complication will depend on where the revised business rates baseline is set for the council from 2023/24.

"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."

The council's business rates baseline is £2.841m whilst, as a result of 'retained' economic growth, £4.249m is now forecast to be generated and support the base budget in 2022/23. It is proposed that the new baseline will be set taking into consideration retained business rates income and this will be compared to the reassessed needs of the Borough resulting in either a top-up or tariff to manage the difference between the two. Clearly the future of Business Rates has been thrown into question as a result of the devastating impact on the retail, leisure and hospitality sector from Covid-19.

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

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

Council Tax

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

The assumptions were made by the Government when establishing the reduction in Revenue Support Grant 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.

"The council will need to consider what levels of growth are likely and financially sustainable."

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. It is not expected in the four year MTFS presented here that this trigger point will be met but this will be subject to ongoing review as the West and North West Cheltenham developments progress.

Fees and Charges

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

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

Local Risk Factors

Changes in customer behaviour

The national restrictions which have been in place, across the country or locally here in Cheltenham, have created a huge amount of financial uncertainty. With the emergence of the Omicron variant, the uncertainty continues to impact customer behaviour which may have further financial impact on our commercial income and on the town's economy.

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

"We need to continue investing in technology"

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

Recovery from the pandemic and re-opening of the town has meant the contribution of some of these initiatives are providing to the general fund may now be permanently lower than we had assumed in previous budgets. The most significant variance from budget we are seeing is from income generated from off-street car parking which is much lower than previous years as commuters move towards more of a hybrid working from home model.

This strategy provides an opportunity to reset our income budgets against our Corporate Priorities and prepare an MTFS which ensures we continue to be financially sustainable whilst continuing to support economic recovery and growth and our climate change ambitions for the town.

Resources

Concerns around the council's capacity and resources available to deliver multiple competing priorities has been reviewed in 2021/22 and this is a key consideration for the Executive Leadership Team and Cabinet when considering the funding of the corporate priorities and the delivery of the proposed Savings Strategy. This will be addressed as part of the council's organisational review which will be implemented through 2022/23.

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

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

3. Projected Budget Gap

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

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

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

Table 1: Projection of Funding Gap	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £
Net Cost of Services brought forward from previous year (assuming a balanced budget has been set)		353,122	9,833,619	15,163,125	14,824,375
IN YEAR BUDGET VARIATIONS					
Increased costs of existing services					
General Inflation		330,000	140,000	70,000	70,000
Employee and Members related expenditure		411,000	312,000	312,000	312,000
Shared Services contract inflation		87,133	19,250	19,250	19,250
Publica contract inflation		50,102	35,000	35,000	35,000
Ubico contract inflation		326,090	450,000	200,000	200,000
RE-PROFILING OF BASE BUDGET					
Reduction in income budgets to reflect post pandemic changes		522,661			
Re-basing expenditure budgets to reflect post pandemic changes		169,159	(515,500)		
Unachieved savings in 2021/22		200,000			
INCOME					
Green Waste		(100,000)	(25,000)	(25,000)	(25,000)
Fees and Charges		(153,883)	(75,000)	(75,000)	(75,000)
Other inflationary uplifts on re-charges to partners		(53,600)	(50,000)	(50,000)	(50,000)
CBH Contribution to Climate Change		(25,000)			
Cessation of COVID-19 funding		540,136			
Interest Payable and Receivable		118,878			
Minimum Revenue Provision			1,208,528		
Reserves					
Net Contribution from BRR Reserve		8,501,584	5,168,874		
Increase/(decrease) in net contribution to other reserves		63,237	(888,646)		
SAVINGS STRATEGY		**(1,507,000)**	**(450,000)**	**(825,000)**	**(750,000)**

Table 1: Projection of Funding Gap	2021/22 £	2022/23 £	2023/24 £	2024/25 £	2025/26 £
Projected Net Cost of Service	**353,122**	**9,833,619**	**15,163,125**	**14,824,375**	**14,560,625**
Business Rates	(2,608,539)	(457,416)	(3,639,000)	(3,697,000)	(3,754,000)
Damping			(860,000)		
NNDR S31 Grants	(1,417,489)	(3,889,118)			
National Non-Domestic Rate - 2019/20 surplus / deficit	128,170				
National Non-Domestic Rate - 2020/21 surplus / deficit	13,966,426	361,769			
National Non-Domestic Rate - 2021/22 surplus / deficit		4,903,766			
New Homes Bonus	(747,091)	(637,846)			
Collection Fund (surplus) / deficit contribution	23,400	(58,500)	(9,000)	(25,000)	(25,000)
Council tax income assuming council tax increases by £5 per annum from 2021/22	(9,413,999)	(9,730,405)	(10,027,702)	(10,328,499)	(10,632,796)
2022/23 Service Grant		(195,881)			
Lower Tier Services Grant	(121,000)	(129,988)			
LCTS S31 Grant	(163,000)				
Contribution from VRP			(402,423)	(273,876)	(48,829)
Contribution to / (from) Budget Strategy support reserve			(225,000)	(500,000)	(100,000)
Projected Funding	**(353,122)**	**(9,833,619)**	**(15,163,125)**	**(14,824,375)**	**(14,560,625)**

The projections above reflect a funding gap for the period 2023/24 to 2025/26 of £3.532m (i.e. the financial gap between what the Council needs to spend to maintain existing services and the funding available excluding the use of the Budget Strategy Support Reserve and contribution from Voluntary Revenue Provision). The key assumptions for the preparation of these projections are explained below.

The net costs of services have been estimated by using the approved 2021/22 base budget as the base for future projection’s though to 2025/26.

INFLATION

Inflation has historically been included in the MTFS at 2% on insurances, utilities, postage, IT maintenance agreements and non-domestic rates. However at the point in time this strategy was produced for 2022/23, inflation has increased to 5.1% in the 12 months to January 2022. The financial projections included in the MTFS include inflation for these costs at 5.1% for year one, decreasing gradually down to 2% in year three and four. Where information is available, major contracts and agreements are rolled forward based on the specified inflation indices in the contract or agreement.

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

CONTRACT COSTS

A number of services are delivered by or for the Council through service or shared service contracts. Where the cost of these contracts have been increased in 2022/23, this is to reflect inflation and wage increases. An additional contract cost has been included for One Legal to reflect the changes to the management structure and recruitment of a new Director of One Legal, a cost shared across all of the local authorities in the service.

A review of the staffing budgets in a number of shared services also identified that the budgeted pay increase for 2021/22 was less than the current indicative 1.75% national pay award. This means an additional contract cost to the Council in year one of this MTFS to cover any back dated uplift above that originally budgeted.

In addition, the cost of the council's environmental services contract provided by Ubico has been reviewed to address under investment over a period of time and the contract sum for 2019/20 onwards increased significantly. The contract sum has now stabilised but an increase is expected in 2023/24 pending the triannual revaluation of the pension fund in 2022/23.

EMPLOYEE RELATED COSTS

For budget modelling, a 2% increase has been assumed throughout the duration of the MTFS post 2022 with a further 1% contingency included to bring the budget in line with expectations across the whole Public Sector.

The increase of 1.25 % in the employer's contribution to National Insurance on 1 April 2022 will have a net cost to the Council of £75k. As no announcement has been made by the Government on how long this increase is expected to be applied, this has been built into the base budget for the full MTFS period.

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

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 (£2.418m in 2022/23), to cover the shortfall in the Fund.

An increase of 2% with a 1% contingency 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. £12k per annum.

RE-PROFILING OF OUR BUDGETS POST PANDEMIC

As outlined in Section 2 above, the pandemic has changed the financial demands on the Council as well as the mechanisms for funding our services. The approach taken since the introduction of our commercial strategy in 2018 to maximise other sources of income to fund the delivery of our services has been hugely impacted by changes in customer behaviour.

As part of the development of this strategy, all forms of income have been reviewed to understand the impact of the pandemic and longer term changes such as increased working from home, particularly on off-street car parking and the trade waste services.

Conversely, the time residents are at home has actually increased the volumes of waste being produced and collected for recycling which subsequently increases the levels of income we are able to generate by selling it to support our general fund budget. The net loss of income across the Council is expected to be £523k in 2022/23 onwards.

Likewise, a similar exercise has been undertaken on our expenditure to re-profile existing budgets and recognise that there are some areas such as the significant decrease in housing benefit subsidy where new pressures need to be included. The objective of this exercise is to fully re-set the budget to better align to the demands of Council service post pandemic.

In addition to the £523k income pressure a net pressure of £169k has been identified within expenditure, creating a total "reset" cost of £692k in the base budget.

FEES AND CHARGES

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

The current inflationary pressures facing the council and the delivery of our services means that in 2022/23 our fees and charges will be subject to an inflationary uplift subject to legislative requirements and following review of competitive pricing structures.

RETAINED BUSINESS RATES

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

In order to maximise the value of business rates retained within Gloucestershire, the Council entered into the Gloucestershire Business Rates Pool. Being a part of the Pool has the benefit of reducing the government levy from 50% to 15.32%. Any surpluses generated by the Pool are allocated in accordance with the governance arrangements agreed by the Gloucestershire councils.

There is a high level of volatility in the business rates system, mainly due to the level and impact of appeals lodged against rateable values but also due to the natural turnover of businesses, properties being left empty or demolished and the increasing trend for commercial properties to be converted into domestic dwellings. 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.

COUNCIL TAX

The taxbase represents the total number of chargeable properties in the borough, expressed as band D. The net budget requirement is divided by the taxbase to calculate the level of council tax for band D each year. The council's taxbase is forecast to increase by 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.

OTHER GOVERNMENT FUNDING SOURCES

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

The Government funding included in the MTFS for 2022/23 include the following:

- An additional New Homes Bonus payment (Year 12, £407,267), on top of the final "legacy" payment of £230,579. This will be the final New Homes Bonus funding available to the council in its current form.
- A continuation of the Lower Tier Services Grant (LTSG) which ensures that no authority will have a reduction in Core Spending Power in 2022/23. Cheltenham will receive £129,988 in 2022/23. Again, this will be the final year we receive funding from this grant.
- A new one-off 2022/23 Services Grant has been created to fund general responsibilities. Cheltenham will receive £195,881 in 2022/23. Government have made it clear that this is a one-off grant in 2022/23 and will not be included in the baseline that is used for transitional support (damping) in 2023/24.

Ministers will be re-starting the local government funding reforms in the spring 2022. This means that the Fair Funding Review and business rates baseline reset are both going to be under consideration again, for possible implementation in 2023/24. This increases the urgency of the re-alignment of our budgets to ensure any changes to our baseline funding for next year can be managed more effectively.

4. Reserves Strategy

INTRODUCTION

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

Most recently in July 2020 the Council approved £250k from the reported underspend against the 2020/21 budget to Green and Sustainable Economic Recovery. This funding has been used to support the delivery of an Ice Rink in Imperial Gardens and to re-develop the Clarence Fountain area of the town centre to provide greater green space for residents and visitors to use.

"In July 2020 the Council approved £250k from the reported underspend against the 2020/21 budget to Green and Sustainable Economic Recovery"

However, in recognising the impact and uncertainty of the pandemic on the Council's short to medium term finances requires an alternative approach to be taken over the next few financial years to secure the long term delivery of our services. This approach enhances the Council's reserves to ensure it is able to meet any unforeseen costs in the future and mitigate known risks and forecast cost pressures, particularly those arising from changes in the way local government is financed post 2022/23.

BUDGET STRATEGY SUPPORT RESERVE (BSSR)

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

The BSSR will need to be suitably resourced to not only mitigate any delay in the delivery of savings but also be robust enough to support any reported slippage during the MTFS period and to ensure there is sufficient resources available to fund new or unforeseen costs. At 31 March 2023 it is forecast that the balance of the BSSR will be £839k after a further contribution of £339k is made in 2022/23.

The Savings Strategy detailed in Section 5, identifies a need to fund £0.825m from the Budget Strategy Support Reserve over the MTFS period.

BUSINESS RATES RETENTION RESERVE (BRRR)

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

The BRRR should aim to be maintained to a target of £500k to allow for the potential reduction in income arising from the risks as identified. The Council is already mitigating fluctuations in income levels arising from changes in the local economy and moving forward will face even greater exposure to such volatilities under the reformed retention system post Covid-19.

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

GENERAL BALANCES

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

As part of the annual budget setting process and in reviewing the MTFS, the Council needs to consider the establishment and maintenance of reserves. These can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- A contingency to cushion the impact of unexpected events or emergencies
    - this also forms part of general reserves;
- A means of building up funds (earmarked reserves) to meet known or predicted requirements.

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

This has been balanced by making planned contributions to general balances in 2022/23 to bring the total amount held to £1.5m.

OUR SAVINGS STRATEGY

As detailed in the previous sections, the council has a significant funding gap to resolve as well as a number of financial risks to manage arising predominately from 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.

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.

AN OVERVIEW OF OUR APPROACH

The commercial strategy was adopted by Full Council in February 2018 with the vision:

> **"to become an enterprising and commercially focused Council which people are proud to work for and which others want to work with. We will use our assets, skills and infrastructure to shape and improve public services and enable economic growth in the Borough. We shall generate significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable".**

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

As outlined in the local risks section above, income generated from a number of these commercial initiatives post pandemic is much lower than in 2019. This was first recognised in the recovery budget approved by Council in November 2020 in response to the financial impact of the COVID-19 pandemic. This budget included a strategy to fund the annual repayment of our borrowings using capital receipts. This then released £1.6m of revenue funding from the general fund to meet costs and income pressures not covered by Government compensation funding.

> "Income generated from a number of these commercial initiatives post pandemic is much lower than in 2019"

As we move into the 2022/23 budget strategy, the longer term impacts on our income and costs continue to be understood and there is still a significant amount of uncertainty surrounding the implications over the full four year MTFS period.

In addition to re-basing our income and expenditure to re-align our budgets to the changes in activity we are evidencing, in 2023/24 the annual repayment of our borrowing will also need to be re-introduced into the base budget.

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

The savings strategy indicates broadly how the Council may close the projected funding gap over the period 2022/23 to 2025/26. In future years, it includes targets rather than necessarily specific worked up projections of cost savings and additional income to allow the Executive team autonomy and flexibility. Engaging with stakeholders will be crucial when it comes to developing a sense of ownership in local decision-making and service delivery. Working with stakeholders will allow the council to fine tune services based on actual needs.

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

	2022/23	2023/24	2024/25	2025/26	Total
Forecast Budget Gap	£1,507,000	£1,077,423	£1,598,876	£898,829	£5,082,128
Funded by:					
BSSR	-	(£225,000)	(£500,000)	(£100,000)	£825,000
Use of VRP	-	(£402,423)	(£273,876)	(£48,829)	£725,128
Base Budget Savings	(£1,507,000)	(£450,000)	(£825,000)	(£750,000)	£3,532,000

PLACE & GROWTH

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 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. 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.

"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"

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. In 2022, the Golden Valley campus and Innovation Centre was outlined as a priority in the Government's Cyber Strategy with Cheltenham Borough Council's leadership in this development referenced directly.

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.

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.

"At the end of August 2019, the council completed the purchase of 112 acres (45 ha) of strategically important land"

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.

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.

"We are in unprecedented times as the retail sector adjusts to changing customer patterns and behaviours"

PEOPLE & CHANGE

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; and
- An increased contribution made to the general fund by increasing the commercial focus of non-statutory services such as pest control.

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.

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. In 2022/23 the roll out of the new Digital Platform is expected to provide both financial savings whilst also improving the service provided to customers.

"The roll out of the new Digital Platform is expected to provide both financial savings whilst also improving the service provided to customers"

The Cheltenham Trust moved into surplus at the end of 2019/2020 following an increased in commercial income generation activities. The Trust has continued where it can to maximise commercial income with notable success such as the Heritage Café and the Garden Bar. The Trust is in the process of launching its revised five year business plan and will be working closely with the Council to ensure it continues to deliver value for customers as well as supporting work in our communities.

The review of our resources against the key corporate priorities and re-setting of our budgets post pandemic has also identified opportunities to adopt the principles from our commercial strategy into other services not previously reviewed. Pest control in particular has been identified as a non-statutory service where taking a different approach can increase the contribution the service makes to our general fund resources.

FINANCE & ASSETS

The impact of the pandemic and current market conditions have refocussed CBC's Asset Management Strategy. 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.

The Asset Management Strategy has been reviewed and revised and was presented to Council for approval in February 2022. The relationship between how we develop, grow and utilise our 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.

In addition to this, and in line with the Council's priority to be carbon net zero by 2030, a project is already underway to review energy provision and usage across our portfolio. The Council own a number of assets such as the Leisure Centre and the Municipal Offices which require significant amounts of energy to operate and work is ongoing to improve the oversight of both the financial and carbon impact of these.

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 and LEP funding, 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.

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'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.

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.

Conclusion

INTRODUCTION

The Council has a track record of strong financial management but is now in a period of uncertainty at the same time as leading the towns continued recovery from the pandemic. 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.

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

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

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