

Cheltenham Borough Council

Cabinet – 19 December 2023

General Fund Revenue and Capital – Interim Budget

Proposals 2024/25 for Consultation

Accountable member:

Cllr Peter Jeffries, Cabinet Member for Finance & Assets

Accountable officer:

Gemma Bell, Director of Finance & Assets (Deputy s151 Officer)

Accountable scrutiny committee:

Budget Scrutiny Working Group

Ward(s) affected:

All

Key/Significant Decision:

No

Executive summary:

This report sets out the Cabinet's interim budget proposals for 2024/25 for consultation. The assumptions within the interim budget proposals are based on estimates of what is likely to be contained within the Local Government Provisional Finance Settlement 2024/25 which is yet to be published at the reporting date. Following publication of this report, if there is any additional information or documentation required to support the consultation, this will be made publically available.

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

With inflation still higher than the Government's target and interest rates running at their highest since 2008, the forecast for 2024/25 continues to be some of the most challenging times for Local Authorities.

Section 114 (1) of the Local Government Finance Act 1988 places a duty on the Section 151 Officer to inform the authority where they believe that the authority's expenditure is likely to exceed available resources. A Section 114 Notice normally results in an immediate and severe curtailment of activity to the provision of non-statutory services.

News from Councils across the country tell of local authorities who are continuing to struggle to balance the books and warn of the possibility of issuing section 114 notices without further financial support from Central Government. In many cases this has already happened.

The financial strategies implemented by this Council since November 2020 to refresh the commercial strategy, review asset management and invest in growth have so far meant the Council have not needed to pursue this course of action. However, after requiring £2.6m of general balances to support the budget in 2022/23 it has recently been reported that the 2023/24 budget is forecast to be overspent once again. Actions are being implemented by the Cabinet, Leadership team and service managers to bring the core pressures down as much as possible by the end of the year.

Even with this action, general balances are forecast to fall below £1m at the end of 2023/24. This is the lowest levels the Council have ever experienced. In order to start to strengthen our reserves position again, another challenging savings strategy has been proposed in order to balance the 2024/25 budget. Work has been ongoing through 2023/24 to work through proposals and take key decisions to deliver both in year and through the medium term. Although this is a positive direction of travel, work needs to continue to ensure key projects deliver on proposed savings.

The proposals presented in this report aim to utilise our assets, skills and infrastructure to continue the enabling of inclusive and environmentally sustainable growth in the Borough whilst providing a mechanism to ensure the Council has the revenue resources to continue to provide services and resources to our residents. The council's ambition to make Cheltenham the cyber capital of the UK also continues to be critical to ensuring that the council achieves financial sustainability.

The recommendations within this report aim to ensure a balanced budget is delivered in 2024/25, that revenue resources are transferred to reserves to provide a cushion to combat longer term uncertainty and that appropriate resources continue to be directed towards our key priorities.

Recommendations:

1. Approve the interim budget proposals for consultation including a proposed council tax for the services provided by Cheltenham Borough Council. The proposed Council tax for 2024/25 represents an increase of 2.99% a year for a Band D property, subject to conclusion of the consultation on the Local Government Provisional Finance Settlement.
2. Note the schedule of target savings and income generation at Appendix 3.
3. Approve the growth proposals at Appendix 4.
4. Approve the proposed capital programme at Appendix 6, as outlined in Section 13.
5. Delegate authority to the Executive Director Finance, Assets and Regeneration, in consultation with the Cabinet Member for Finance and Assets, to determine and approve any additional material that may be needed to support the presentation of the interim budget proposals for public consultation.

6. Seek consultation responses by 26 January 2024.

1. Implications

1.1. Financial implications

As detailed in the report.

Signed off by: Gemma Bell, Director of Finance & Assets (Deputy s151 officer)

1.2. Legal implications

Under the Constitution Cabinet has responsibility for the preparation and consultation on the Council's budget. The final budget will be subject to consideration and approval by Full Council in February.

The Council must set a budget in accordance with provisions of the Local Government Finance Act 1992. The Council has a statutory responsibility to set and approve a balanced budget each year. Section 25 of the Local Government Act 2003 require that the Council, in setting its budget, must have regard to the report of its Section 151 Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of its proposed financial reserves.

Signed off by: One Legal, legalservices@onelegal.org.uk, Tel no: 01684 272012

1.3. HR implications

Relationships with the two recognised trade unions continue to remain very positive. The Leadership Team and the HR team will continue to work closely with TU colleagues in order to ensure that any potential impact on employees as a result of realisation of budget savings are kept to a minimum.

Signed off by: Ann Wolstencroft, Head of Performance, Projects and Risk,
ann.wolstencroft@cheltenham.gov.uk

1.4. Environmental and climate change implications

The interim budget proposals for 2024/25, in particular in relation to energy use, are in line with our Climate Emergency Action Plan. A reduction in energy consumption spawns a reduction in overall greenhouse gas emissions, and therefore aligns with our Climate Emergency Action Plan. The investment in the capital programme will expedite our progress towards becoming a net zero Council.

Signed off by: Maizy McCann, Climate Emergency Officer,
maizy.mccann@cheltenham.gov.uk

1.5. Property/asset implications

As detailed in the report and appendices, specifically the capital programme in Appendix 6 and the planned maintenance programme in Appendix 7.

Signed off by: Gemma Bell, Director of Finance & Assets (Deputy s151 officer)

1.6. Corporate policy framework implications

The actions outlined in this budget proposal to implement savings and grow our commercial income will help ensure that the council can continue to deliver its corporate objectives as set out in the 2023-27 Corporate Plan. It also means we will be well placed to deliver the priorities in this new Corporate Plan which was presented to Council for approval in February 2023.

Signed off by: Ann Wolstencroft, Head of Performance, Projects and Risk,
ann.wolstencroft@cheltenham.gov.uk

2. Promoting equality and reducing discrimination

An equality impact assessment will be presented with the final budget proposals following the consultation period ending on 26 January 2024.

3. Performance management – monitoring and review

The scale of future budget savings will require significant work to deliver them within the agreed timescales and there is a danger that this could divert management time from the delivery of services to the delivery of savings. There are regular progress meetings to monitor the delivery of savings and this will need to be matched with performance against the corporate strategy action plan to ensure that resources are used to best effect and prioritised. It is intended that this will be evidenced further in the publication of the Medium Term Financial Strategy in February 2024.

The delivery of the savings work streams included in the interim budget proposals, if approved by full Council will be monitored by the Budget Scrutiny Working Group and reported quarterly to the Cabinet.

4. Background

4.1. In accordance with the Council's Budget and Policy Framework Rules, which are part of the Council's constitution, the Cabinet is required to prepare interim budget proposals for the financial year ahead and consult on its proposals for no less than four weeks prior to finalising recommendations for the Council to consider in February 2024. This report sets out the interim proposals for 2024/25.

4.2. 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 extremely difficult.

- 4.3. There is a strong focus from Central Government to us local tax generation to fund Local Authority services. This change has also driven our commercial strategy, the objective of which is for this Council to become financially self-sufficient as direct revenue funding from Government has reduced by over £8m since 2010.
- 4.4. At the time this report is published, the Local Government Provisional Finance Settlement has not yet been received from the Department for Levelling Up, Housing and Communities (DLUHC). The draft budget proposals include an estimation of the Provisional Finance Settlement for Cheltenham. Any significant changes to these estimates as a result of the Provisional Settlement or as an outcome of Government consultation will be clearly outlined in the final budget proposals.

5. Settlement Funding Assessment

- 5.1. The funding of the 2024/25 interim budget proposal is based on our estimate of what will be included for Cheltenham in the Local Government Provisional Finance Settlement for 2024/25, which is expected to be released by DLUHC by 22 December 2023. Like the settlement for 2023/24, this is only expected to provide certainty over funding for one year only.
- 5.2. The key estimates we have made as to what will be included in the Local Government Provisional Finance Settlement for Cheltenham in 2024/25 are:
 - The referendum threshold for increasing the “Core” Band D Council Tax borough council precept to remain at 2.99%, subject to further lobbying through the period of consultation.
 - A reduction in the Services Grant introduced in 2023/24 from £114,920 in 2023/24 to £95,520 in 2024/25.
 - Business rates pooling will be available in 2024/25 and 2025/26 with an expected reset from 2026/27.
 - A final payment of £31,640 of New Homes Bonus, a small reduction in what was previously expected.
 - The one off 3% Funding Guarantee payment which was introduced in 2023/24 will increase from £817,477 to £984k in 2024/25.
- 5.3. These key estimates are based on the best information available to the Council from the Autumn Statement 2023, CIPFA updates and the Pixel Financial Models at the publication date of this report. Once the Local Government Finance Settlement is received, we will factor confirmed estimates and assumptions into the final budget proposals for February 2024 Council meeting.

6. The economic context for setting the 2023/24 budget

- 6.1. The 2024/25 draft budget proposal has been set based on a set of assumptions about the economic outlook for the next 18 months. Inflation currently sits at 4.6%, the lowest level it has reached since the 2022/23 draft budget was presented in December 2021, after reaching its highest level in nearly 40 years in 2022/23. This had a huge impact on our costs, in particular oil and gas, which led to a £800k increase in our base budget for energy. Although the current forecast is a much more positive position than was

forecast in February 2023, any rate of inflation still means that our core costs will rise when compared to what we currently pay and is still higher than the uplift we are able to apply to Council Tax or that is applied to our Government funding.

- 6.2. The Bank of England base rate increase is also one of the most significant pressures our budget has seen. When this paper was presented to Cabinet last year the base rate was 3.5%, the highest since 2008. It was assumed based on treasury advice that this would increase to 4.25% in 2023/24. This forecast came to fruition in April 2023 and has increased three times since. The base rate is currently 5.25% and is expected to stay at this level throughout 2024/25.
- 6.3. These economic factors place unprecedented pressures on our budget at a time when we are already facing uncertainty around our funding and the longer term resilience of our balances and reserves. 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.
- 6.4. The starting point for setting the 2024/25 budget is the projected budget gap from the September 2023 monitoring report and taking account the additional pressures expected through 2023/24 and 2024/25 including increases in Ubico contract costs, the pay award in 2023/24 and the significant increase in the Bank of England base rate.
- 6.5. As with the last two years, closing the budget gap 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 Leadership Team.
- 6.6. The proposals within these budget papers aim to utilise our assets, skills and infrastructure to shape and improve public services and continue inclusive and environmentally sustainable economic growth in the Borough whilst providing a mechanism to ensure the Council has the revenue resources to continue to deliver services in the present economic climate.

7. The Cabinet's Budget Strategy for 2024/25

- 7.1. As outlined in the Executive Summary of this report, the Council have taken decisive action since the outbreak of the global pandemic in 2020 to safeguard the financial sustainability of the Local Authority. This followed the introduction of the commercial strategy in 2015 which underpinned the actions taken to generate income streams to offset the reduction in Government revenue funding and support the general fund.
- 7.2. In the previous two budget proposals, there has been continued commitment to the Council's corporate priorities; to inclusive and sustainable growth in the town, to the goal of supporting the Council and the town to be net carbon zero by 2030, to becoming the Cyber capital of the UK, to delivering more housing across the borough and to our No Child Left Behind initiative. The success of this approach has been reflected in the responses to the Resident's Satisfaction Survey in October 2022 where 80% of respondents agreed that Cheltenham has a positive future.
- 7.3. In February 2023, the Council approved a revised Corporate Plan for 2023-27 which included further detail of how the Council proposed to deliver of their ambitions in these core priority areas.
- 7.4. This interim budget proposal for 2024/25 is aligned to these priorities and the ambitions

for growth, investment and sustainability originally outlined in the Recovery Strategy. The Cabinet acknowledge that decisive action is needed to ensure resources are balanced to deliver on these commitments, particularly in light of the economic challenges which are forecast to continue into the medium term.

- 7.5. The strategy outlined below aims to balance sustainable and green growth and investment with the financial sustainability of the Council. However in order to deliver these ambitions a challenging savings strategy is also required, despite the savings already delivered in 2023/24. Appendix 3 outlines the savings, efficiencies and additional income which will be generated in order to balance the budget and ensure funding is available to support the core activities in the Corporate Plan.

Cyber Capital of the UK

- 7.6. The Council have taken significant steps forward in our ambition to be the cyber capital of the UK over the past twelve months. Following the completion of the procurement to find a development partner to realise its flagship ambition to make Cheltenham the Cyber Capital of the UK, HBD were appointed in 2021/22. The major developments team have been established in the base budget and a number of new officers have been recruited to ensure the Council have the skills and expertise to deliver the ambitious development and construction projects planned for the town.
- 7.7. Even more significantly for the Council's direct development of the site, in September 2023 Council approved the Development Funding Agreement which plays a fundamental role in securing the delivery of two critical buildings; the National Cyber Innovation Centre and Mobility Hub. This agreement creates a framework which allows funding to be provided from a range of sources within an envelope of up to £95m.
- 7.8. Following this decision, the Council were notified in November 2023 that they have been provisionally awarded £20m from the Government's Levelling Up fund to support the delivery of the National Cyber Innovation Centre.
- 7.9. In the current climate, the Innovation Centre and Mobility Hub have a vital role to play in the delivery of the Golden Valley vision. They will provide business rate contributions to the council which will support the Medium Term Financial Strategy, protect tax payers' money in the long term, and play a vital role in building a stronger local economy with opportunities that will benefit the entire town.
- 7.10. This progress demonstrates a national commitment to the ambitions that the Council began work to make a reality following the purchase of the West Cheltenham land in 2019. Throughout 2023/24 the Council have also continued its work to deliver the MX which will provide an arts and office space in the Minster Quarter of the town, due to open in early 2024.
- 7.11. The council's ambition is for it to bring together high growth companies in the cyber tech, digital and creative sectors on the one part and academia and the wider community on the other to create the ideal platform for organic growth and collaboration in advance of the Cyber Innovation Centre delivery.

A net zero Council and borough

- 7.12. CBC's ambition to be net carbon zero by 2030 is a credible and commendable plan and in 2021/22 the Council invested in the creation of a permanent central team to monitor and manage the carbon reduction programme for the Borough as a whole.

- 7.13. On 21 February 2022 the Council approved a Climate Change Emergency Action Plan which outlined in further detail their commitment to taking a leading role, as well as playing its part in working with individuals, communities, businesses and other partners to achieve this ambitious goal.
- 7.14. The Council also approved a £10m Green Investment Fund to provide capital investment for schemes, projects and building improvements which would contribute to the net zero carbon goal. In 2022/23 funding for the first project was approved and work will be completed in 2023/24 to upgrade the building management systems at all the Council's main buildings to reduce energy usage. In 2023/24 and continuing into 2024/25, a number of other capital projects have been initiated to deliver the activities on the plan.
- 7.15. In 2023/24, a capital budget of £75k was included for the delivery of EV charging points on our land and car parks. Work has progressed in 2023/24 with five sites being identified to be leased to a third party to deliver and manage the required infrastructure. Subject to consultation on the Car Parking Order it is expected that the first charging points will be operational by Summer 2024. This will also deliver additional rental income for the Council in line with our commercial strategy.
- 7.16. The Council successfully bid for funding through the UK Shared Prosperity Fund in 2022/23 and the projects included the delivery of a fixed power supply in Imperial and Montpellier Gardens. A project manager has been appointed to advise on the design and specification for the supplies and are currently working with National Grid to understand the capacity of the grid to support events such as the ice rink and Cheltenham Festivals.
- 7.17. The appointment of an Interim Director of Climate Change in October 2023 makes the next stage of the Council's journey to carbon net zero. Strategies are being reviewed for wider energy management and future investment requirements in our buildings to reduce their carbon footprint. Many of these can be delivered through the existing planned maintenance programme but others will require more innovative thinking. To support this, the climate change team budget has been protected as part of the savings and reserves strategy to ensure work can continue on this key priority.

Inclusive and Sustainable Economic Growth and Development

- 7.18. Despite the financial uncertainty caused by the pandemic and the cost of living crisis, over the last two years, the Council has continued to demonstrate its commitment to make Cheltenham a place where everyone can thrive. The Council's investments to drive sustainable growth and investment in the town:
- An investment of £87k into the upgrade of the public space around Clarence Fountain to improve facilities, seating and planting.
 - A £3.3m investment in retail units on the High Street for development and regeneration. The seed funding of which was built into the 2023/24 base budget.
 - Funding to refurbish Montpellier Gardens toilets to include a Changing Places facility and greater parity between male and female toilets.
 - A contribution of £250k to the refurbishment of the Wilson Art Gallery and Museum which has now re-opened with new galleries and a café facilities.
 - The re-design of the Minster Gardens to connect the high street to the MX and Wilson Art Gallery.
- 7.19. These investments provide a once in a generation opportunity to revitalise the town centre, increase footfall to businesses on the high street and support sustainable economic growth in Cheltenham. The impact of investments like this are reflected in the results of our 2022

Residents Satisfaction survey where 87% of respondents were satisfied with the town centre as a place to visit during the day.

- 7.20. The Council's Asset Management Strategy was approved in February 2022 and work has been underway since then to review the strategic alignment of our £500m property portfolio to the Council's Corporate Priorities. A number of sites have already been brought forward for disposal where the benefits of retention are not aligned to the Council's focus. These disposals generate capital receipts which are being re-invested by the Council on key projects whilst also providing opportunities for new housing and development in the town.
- 7.21. The 2024/25 draft budget proposal includes two new growth bids which support the sustainable and inclusive growth and development of the town. The first is an additional contribution of £123k for a new approach to planning and place shaping for the town. Cheltenham Borough Council, Gloucester City Council and Tewkesbury Borough Council, have joined together to progress a fresh approach to plan-making for our area in the form of the Cheltenham, Gloucester and Tewkesbury Strategic and Local Plan (CGTSLP). It will draw together four core elements (formerly the Gloucester, Cheltenham & Tewkesbury Joint Core Strategy - JCS, and the local plans for each of those areas) under a single examination setting out a long-term vision for where developments should and shouldn't happen.
- 7.22. The Cheltenham Trust currently deliver leisure and culture services on behalf of the Council. The Trust is responsible for running Leisure at Cheltenham, the Prince of Wales Stadium and some of Cheltenham's most iconic cultural venues – Cheltenham Town Hall, The Wilson and Pittville Pump Room. In September 2023 the Cabinet took the decision to extend the current management agreement for up to five years from 1 October 2024 when it will need to be fully re-tendered in line with our Procurement Regulations. The one-off growth item of £35k included in the budget will allow work to understand the options available to the Council in order that leisure and culture services can be re-tendered to maximise both opportunity and value for money for the residents of Cheltenham.
- 7.23. The economic uncertainty we currently face will continue to challenge us as a town and a Council into the medium term. Our recovery strategy and subsequent budget proposals have focused on the revitalising and reshaping the economy and ensuring that future growth benefits all our communities. The Council aims to encourage collaboration across sectors to ensure that culture, hospitality and creativity is interweaved into our economic recovery plans particularly in enhancing our cyber investment plans, supporting the creative revitalisation of the town centre, and the imaginative use of our open spaces.

Savings, Efficiencies and Additional Income

- 7.24. The 2023/24 Medium Term Financial Strategy included an estimated budget gap for 2024/25 of £1.2m. In assessing the financial impact of the last twelve months, this budget gap has grown to £2.687m. This additional pressure of £1.487m is driven predominantly by both Ubico contract costs and the staff pay award both exceeding the forecast by £300k, an additional interest rate cost of £200k not foreseen in February 2023 and £350k of savings not being achieved in the current year.
- 7.25. In line with the agreed approach on general balances and reserves, additional provision has also been made in the 2024/25 budget to strengthen these. All of these factors have increased the budget gap and subsequently the levels of savings and efficiencies we are required to make.
- 7.26. The proposals outlined in Appendix 3 have been grouped into four categories:

- Debt management - using our available capital receipts to repay the principal of debt owed and reduce our reliance on temporary borrowing which is more sensitive to changes in the Bank of England base rate;
- Implementation of our commercial strategy – to generate additional income from our assets and investments;
- Continued work on the existing savings proposals to realign our resources with the Council's Corporate Priorities and deliver on savings proposals already approved by the Cabinet. This builds on work undertaken in 2023/24 to review all areas of discretionary spend in addition to the decision taken to bring housing services back in-house; and
- Review of our environmental services – as our largest single area of spend, we cannot deliver the efficiencies required to balance the 2024/25 budget without reviewing how the services are currently delivered. This includes costs directly incurred by the Council, the scope of services delivered through the Ubico contract and income generated from garden waste. The Council are committed to ensuring that all residents have access to recycling services but the rising cost of providing receptacles means delivery charges also need to be considered.

8. Retained Business Rates

- 8.1. In October 2012, Council approved the principle of Cheltenham joining the Gloucestershire Business Rates Pool, subject to a thorough assessment of risks and rewards and agreement of satisfactory governance arrangements.
- 8.2. Continuation within the pool was delegated to the Section 151 Officer and Chief Executive and this is reviewed on an annual basis.
- 8.3. The Gloucestershire Business Rates Pool was set up in 2013/14 to maximise the business rate income retained within the County and to support economic growth within the area of the Local Enterprise Partnership.
- 8.4. The anticipated level of business rates due to this Council in 2024/25 is above our target level of funding and in line with the Government requirements of the Pool; we will still be required to pay a levy on the amount we raise above this level.
- 8.5. The impact of the cost of living crisis on our town is being monitored closely by the Leadership team and has been supported by our partners at the Cheltenham BID and the wider business network. It is particularly important to understand the impact of the Valuation Office Agency revaluation of business rated premises in 2022 on the retained business rates, appeals and any projected future growth which would benefit both the Council and the Pool.
- 8.6. The Local Government Finance Policy Statement states that revaluation is intended to be fiscally neutral at both the national and local level. However, the specific impact on the general fund budgets will not be fully quantifiable until any valuations are confirmed and any appeals are made. This also includes the business rates the Council itself is liable for across the property portfolio.
- 8.7. Taking the above into account, it is the opinion of the Section 151 Officer that this Council will benefit from remaining in the pool in 2024/25 as it will result in a reduction in the levy payment due to Government, which will be distributed in accordance with the

governance arrangements.

9. Council Tax

- 9.1. Government legislation, through the Localism Act, requires councils proposing excessive rises in council tax to hold a local referendum allowing the public to veto the rise. Until the release of the 2023/24 Provisional Finance Settlement, the referendum threshold for council tax increases was 2 per cent for all local authorities. District Councils have been allowed increases of up to and including £5, or up to 1.99 per cent, whichever is higher.
- 9.2. With increased pressures caused by the pandemic and the recent increase in inflation and other operational costs, it continues to be difficult to deliver current levels of services when government support does not cover all additional costs we expect to incur.
- 9.3. In response to this, the Provisional Finance Settlement for 2023/24 increased the referendum threshold for District Councils to up to 3 per cent. This clearly demonstrated the mandate from central government for the reliance of council tax to fund our local services.
- 9.4. The gross tax base is forecast to increase by 0.23% in 2024/25 against the target increase of 0.8% in the Medium Term Financial Strategy which means at the 2023/24 threshold we have a shortfall on the level of Council Tax expected to be collected to fund core services.
- 9.5. The Cabinet has had to consider what level of increase in council tax is sustainable, without creating an increased risk of service cuts and/or larger tax increases in the future. There has also been consideration of the affordability of an increase to residents where the results of the Residents Survey from 2022 found that 97% of respondents would support an increase in Council Tax that was below or in line with inflation.
- 9.6. The uncertainty surrounding the timing of the fair funding review, business rates and the increasing pressure on costs continues to place significant reliance on council tax as our main source of income.
- 9.7. Therefore, at this stage the Cabinet is proposing a 2.99% increase in council tax in 2024/25, subject to any further information on changes being received in the Final Settlement.

10. Collection Fund

- 10.1. Collection fund surpluses arise when the target collection rates from Council Tax is surpassed, normally as a result of additional new build properties in the year. Surpluses and deficits are normally shared out between the Council, County and Police and Crime Commissioner in the year after they are achieved. As a district Council we are eligible for a 11.68% share of these.
- 10.2. At this point in time, it is anticipated that there will be a surplus on the collection fund in 2023/24 of around £25,000 which will be distributed in 2024/25.

11. Treasury Management

- 11.1. Appendix 2 summarises the budget estimates for interest and investment income activity. Security of capital remains the Council's main investment objective.

- 11.2. The Bank of England base rate increase is one of the most significant pressures our budget has seen over the past 18 months. When this paper was presented to Cabinet last year the base rate was 3.5%, the highest since 2008. It was assumed based on treasury advice that this would increase to 4.25% in 2023/24. This forecast came to fruition in April 2023 and has increased three times since. The base rate is currently 5.25% and is expected to stay at this level throughout 2024/25.
- 11.3. The Council are forecast to have net borrowing of £186.017m at the end of 2023/24, compared to £167.328m at 31 March 2023. This includes borrowing for both the HRA and the general fund. The increase is driven by the HRA capital programme as well as a number of large cash outflows in 2023/24 such as the upfront payment of the secondary contributions to the pension fund which required temporary borrowing, a cheaper option than the fixed rate at the time.
- 11.4. As a net borrower, the speed of the rise in interest rates has created a budget pressure for the Council during 2023/24 and into 2024/25. It is forecast that the net impact of interest rate rises will require an additional £193k of revenue funding in 2024/25 which is included in the interim budget proposals. This is more than the 2023/24 forecast which is also forecasting a net overspend of £587k. The 2023/24 forecast is based on the Bank of England rate increasing to 4.25% and remaining there for the full twelve months which was obviously surpassed early in the Summer of 2023.
- 11.5. It is our £59m of temporary borrowing that is most exposed to increase rate increases and monitoring of fixed rates continues as the decision to fix all or a proportion of this borrowing is subsequently reviewed.
- 11.6. We will continue to closely monitor the benefits of fixed vs. temporary borrowing as well as the performance of the Schroder income fund and when it is financially prudent to do so, will consider the climate implications of how we invest this money in the future.
- 11.7. We also invest to generate returns which support the costs of discretionary services such as leisure and culture. It is critical to get the right balance between social, environmental and financial factors when assessing the investments we make. Full Council noted in December 2022 that our exposure to gas and oil investments currently stood at £173k. This has reduced over the last twelve months to £120k.
- 11.8. This is part of the Schroder Income Fund and makes up 6.01% of the £2m we have invested in the fund. Given our current climate priorities, assurance was provided to Council that we are looking to take steps to ensure our investments are contributing to these goals.
- 11.9. We are committed in the longer term to divesting from oil and gas but need to balance these priorities with ensuring we are making the right financial decisions to safeguard our residents, businesses and communities.
- 11.10. There are expected to be fewer large financial commitments in 2024/25 as the MX will be completed and the lump sum of secondary contributions to the pension scheme made in 2023/24 will not be required. This means there will be more cash in the system and the requirement to take out short term temporary borrowing to cover cash outflows won't be necessary. More detail will be covered in the 2024/25 Treasury Management Strategy, which will be published in the spring.

12. Reserves

- 12.1. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer

(Section 151 Officer) to comment upon “the robustness of the estimates and the adequacy of the reserves for which the budget provides”. This review forms part of the formal budget setting report to be presented to Council in February 2024. A projection of the level of reserves to be held at 31 March 2024 and 31 March 2025 respectively is detailed in Appendix 5.

- 12.2. The level of our general balances through 2022/23 meant the £2.6m overspend against the approved budget reported to Council in July 2022 was managed within the year. However, this left our general balances of £1.4m at pre pandemic levels, at a time of significant uncertainty about the medium term economic environment.
- 12.3. The forecast against the 2023/24 budget is currently another overspend of £702k. A number of key actions are being taken and will be monitored throughout the final quarter of the year with the objective of managing this as closely as possible. The details of these were reported to Cabinet on 5 December 2023. Assuming no further negative movement in these forecasts would mean general balances could fall as low as £800k at the end of the financial year.
- 12.4. To provide context, the Section 25 report presented to Council in February 2023 advised that general balances should be maintained above £1.5m to ensure there was sufficient resilience to manage any unforeseen circumstances. At just over half this level, work needs to be undertaken to ensure the future sustainability of our general balances.
- 12.5. The Cabinet recognise the importance of continuing to strengthen reserves to provide additional financial stability to the Council in managing these pressures. It is therefore recommended that any future underspends or fortuitous windfalls are earmarked for transfer to either general balances or the budget strategy (support) reserve. Additionally, it is vital through the remainder of 2023/24 and 2024/25 that the proposed additional income and savings are delivered in line with the profile in Appendix 3.

13. Capital Programme

- 13.1. The interim capital programme for the period 2023/24 to 2026/27 is set out at Appendix 6.
- 13.2. The strategy for the use of the council’s capital resources is led by our corporate priorities. The existing programme includes sums for infrastructure investment to be funded from capital receipts which align to the Council’s key corporate priorities as set out in the budget strategy section above.
- 13.3. These reflect the Cabinet’s view that the Council are an enabler for economic recovery, making sustainable and financially secure investments to provide benefits for our businesses, residents and communities. This is more important than ever to support the town through a period when residents and businesses have faced rising costs as a result of inflation and interest rates.
- 13.4. During the 2024/25 financial year, other projects and schemes may come to light which require investment by the Council. These proposals will be considered by the Cabinet and approval will be requested through the relevant channels in line with the Council’s Budget and Policy Framework Rules.

14. Property Maintenance Programme

- 14.1. The interim budget proposals include the 2024/25 property maintenance

programme, which will have been reviewed by the Asset Management Working Group, and the budget includes a revenue contribution of £599k to planned maintenance, as detailed in Appendix 7.

- 14.2. The planned maintenance programme will be kept under review throughout the year, in particular there will be a focus on how we can use these existing projects to introduce more net zero measures into our buildings and across our property portfolio whilst also undertaking the detailed work to understand the larger changes which need to be made.

15. Fees and Charges

- 15.1. A significant proportion of the council's funding comes from fees and charges. Within the Council's commercial strategy this is an important funding mechanism and one which is within the Council's gift to control, subject to any legislative, economic or political constraints.
- 15.2. 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 resilient 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.
- 15.3. In previous years, a general assumption for an inflationary increase in non-statutory fees and charges has been factored in. In 2023/24, with inflation in September rising to 10.1%, the Council opted for a fundamental review of fees, charges and pricing structures for our services.
- 15.4. Within the interim budget, a full schedule of the proposed fees and charges for 2024/25 has been included at Appendix 8. Some services have applied the full inflationary increase on their fees and charges with others applying a lower uplift when market forces apply. The proposed changes are subject to the relevant steps being taken to follow legislative requirements.

16. Consultation and feedback

- 16.1. The formal budget consultation on the detailed interim budget proposals for 2024/25 will be over the period 20 December 2023 to 26 January 2024. The Cabinet will seek to ensure that the opportunity to have input into the budget consultation process is publicised to the widest possible audience. During the consultation period, interested parties including businesses, tenants, residents, staff and trade unions will be encouraged to comment on the initial budget proposals. They will be asked to identify, as far as possible, how alternative proposals complement the Council's Recovery Strategy and Corporate Plan and how they can be financed. The Budget Scrutiny Working Group and Overview and Scrutiny Committee will be invited to review the interim budget proposals in the meetings scheduled for January 2024 and any comments will be fed back to the Cabinet.

- 16.2. Whilst the Cabinet will be as flexible as possible, it is unlikely that any comments received after the consultation period can be properly assessed to allow consideration of their full implications and to enable them to be built into the budget.
- 16.3. All comments relating to the initial budget proposals should be returned to the Director of Finance and Assets (Deputy Section 151 Officer) by the end of the consultation period for consideration by the Cabinet in preparing their final budget proposals. Comments can be e-mailed to [moneymatters@cheltenham.gov.uk](mailto:money matters@cheltenham.gov.uk).
- 16.4. It is important that any political group wishing to make alternative budget proposals should discuss them, in confidence, with the Director of Finance and Assets (preferably channelled through one Group representative) to ensure that the purpose, output and source of funding of any proposed change is captured.
- 16.5. Given the financial pressures and the potentially very difficult decisions which will have to be made, it is important that there is time for members to carefully consider and evaluate any alternative budget proposals. Political groups wishing to put forward alternative proposals are not obliged to circulate them in advance of the budget-setting meeting, but in the interests of sound and lawful decision-making, it would be more effective to do so, particularly given that they may have implications for staff.

17. Alternative options considered

- 17.1. This Council was one of, if not the first council to publish a Recovery Strategy in 2020 in the middle of a global pandemic. That early publication and consultation enabled the Council to clearly signal recovery aims and objectives. The economy was, and continues to be in an extremely difficult position nationally and responding dynamically was seen as the best way to support the rest of the town to recover.
- 17.2. The budget proposals for 2022/23 and 2023/24 included challenging savings targets and the Council have had to take action to meet these. Although economic conditions has made the achievement of some of these extremely difficult, sufficient work has been undertaken to allow core services to continue. This work has also positioned the Council strongly moving into 2024/25 with many options for efficiencies now fully worked up.
- 17.3. Section 114 (1) of the Local Government Finance Act 1988 places a duty on the Section 151 Officer to report certain matters to the authority. The duty of the Section 151 Officer to report where they believe that the authority's expenditure is likely to exceed available resources. The authority is prevented from entering into any agreements incurring expenditure until the Council has considered the report.
- 17.4. News from Councils across the country tell of local authorities who are continuing to struggle to balance the books and warn of the possibility of issuing section 114 notices without further financial support from Central Government. In many cases this has already happened.
- 17.5. The financial strategies implemented since November 2020 to refresh the commercial strategy, review asset management and invest in growth have so far meant the Council have not needed to pursue this course of action and have instead been able to apply continued focus to the ambitions of the 2023-2027 Corporate Plan. However,

with the challenging economic environment set to continue the Council need to renew their commitment to delivering efficiencies, savings and maximising income streams to support the ongoing delivery of services and build robust reserves as they work towards financial self-sufficiency.

18. Key risks

18.1. See Risk Assessment in Appendix 1.

Report author:

Gemma Bell, Director of Finance and Assets (Deputy s151 Officer)

Tel. 01242 264124; gemma.bell@cheltenham.gov.uk

Appendices:

1. Risk Assessment
2. Summary net budget requirement
3. Budget Savings / Additional Income
4. Growth Items
5. Projection of reserves
6. Capital programme
7. Programmed Maintenance programme
8. Provisional Fees & Charges Schedule for 2024/25

Background information:

1. 2023/24 Final Budget Proposal report to Council - 20 February 2023;
2. The Quarter two 2023/24 budget monitoring report to Cabinet – 5 December 2023;
3. The provisional local government finance settlement for 2024/25:

INSERT LINK IF RELEASED BEFORE 19 DEC

Appendix 1: Risk Assessment

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
347	If energy costs keep rising / fluctuating as per the current market then it impacts on our ability to accurately budget/forecast expenditure and may impact on our the investments we can make in projects / programmes whilst still being able to achieve our MTFS	Gemma Bell, Director of Finance and Assets	4	4	16	Reduce	This policy and the associated action plans.	Gemma Bell, Director of Finance and Assets	Ongoing
	If the Council is unable to come up with long term solutions which close the gap in the medium term financial strategy then it will find it increasingly difficult to prepare budgets year on year without making unplanned cuts in service provision.	Cabinet	5	3	15	Reduce	The budget strategy projection includes 'targets' for work streams to close the funding gap which aligns with the council's corporate priorities.	ED Finance and Assets	Ongoing

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
	If the Budget Strategy (Support) Reserve is not suitably resourced insufficient reserves will be available to cover anticipated future deficits resulting in the use of General Balances which will consequently fall below the minimum required level as recommended by the Section 151 Officer in the council's Medium Term Financial Strategy	ED Finance and Assets	5	4	20	Reduce	The MTFs is clear about the need to enhance reserves and identifies a required reserves strategy for managing this issue. In preparing the budget for 2020/21 and in ongoing budget monitoring, consideration will continue to be given to the use of fortuitous windfalls and potential future under spends with a view to strengthening reserves whenever possible.	ED Finance and Assets	Ongoing
	If income streams from the introduction of the business rates retention scheme in April 2013 are impacted by the loss of major business and the constrained	ED Finance and Assets	5	4	20	Accept & Monitor	The Council joined the Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by the Council.	ED Finance and Assets	Ongoing

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
	ability to grow the business rates in the town then the MTFS budget gap may increase.						<p>The Gloucestershire S151 Officers continue to monitor business rates income projections and the performance and membership of the pool / pilot.</p> <p>Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.</p>		
	If the robustness of the income proposals is not sound then there is a risk that the income identified within the budget will not materialise during the course of the year.	ED Finance and Assets	4	4	16	Reduce	<p>Robust forecasting is applied in preparing budget targets taking into account previous income targets, collection rates and prevailing economic conditions. Professional judgement is used in the setting / delivery of income targets. Greater focus on cost control and</p>	ED Finance and Assets	Ongoing

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							income generation will be prioritised to mitigate the risk of income fluctuations.		
	If the assumptions around government support, business rates income, impact of changes to council tax discounts prove to be incorrect, then there is likely to be increased volatility around future funding streams.	ED Finance and Assets	5	3	15	Reduce	Work with Publica and countywide CFO's to monitor changes to local government financing regime including responding to government consultation on changes Business Rates and the Fair Funding review. The assumptions regarding government support have been mitigated to a certain extent by the acceptance of a multi-year settlement agreement.	ED Finance and Assets	Ongoing