Medium Term Financial Strategy

2024/25 – 2028/29

CHELTENHAM
BOROUGH COUNCIL

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Introduction

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

Key Priority 1
Enhance Cheltenham's reputation as the cyber capital of the UK

Key Priority 2
Working with residents, communities and businesses to help make Cheltenham net zero by 2030

Key Priority 3
Increasing the number of affordable homes through our £180m housing investment plan

Key Priority 4
Ensuring residents, communities and businesses benefit from Cheltenham's future growth and prosperity

Key Priority 5
Being a more modern, efficient and financially-sustainable council

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

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

The 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.

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

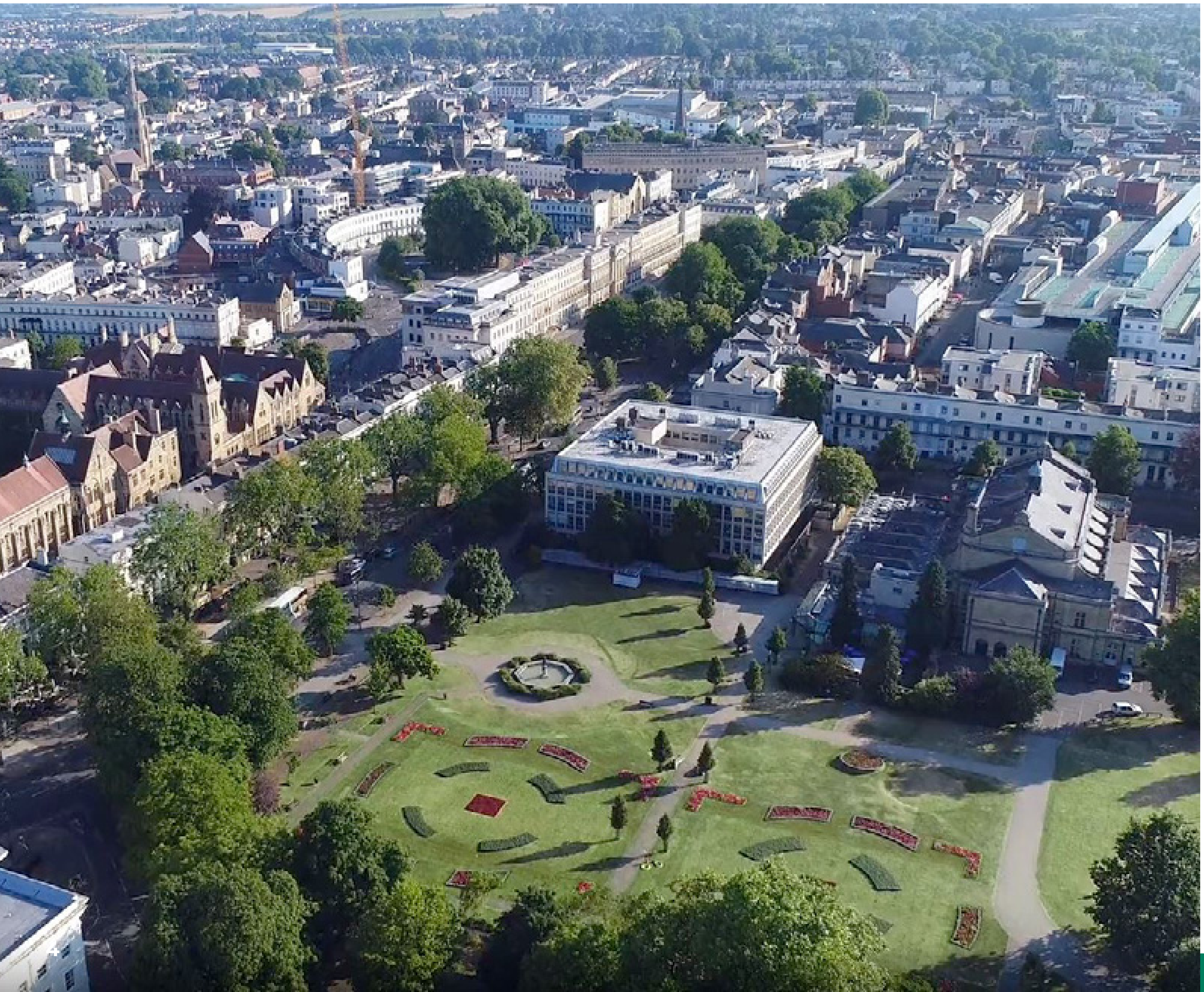
This MTFS is underpinned by the Council's corporate priorities and the belief that Cheltenham should be a place in which everyone can thrive. Specifically, the six key principles guiding our approach to investing and financial planning for recovery include:

- Help all our communities to benefit and prosper from our strong local economy
- Work together with everyone in our networks to improve our borough and support our residents to be healthy, our communities to be strong and our businesses to thrive
- Be commercially minded to keep costs down and our council financially stable, so we always provide value for money to the taxpayer
- Use data and research to drive improvement, listening carefully to our residents, communities and businesses to underpin informed decisions
- Ensure the climate emergency agenda is at the forefront and integral to all our decision-making
- Be risk aware, rather than a risk averse

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

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 and a cost of living emergency. The following areas are considered and discussed:



2. National and Local Financial Risk

Introduction

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

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.

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.

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Wider Economic Context

The 2024/25 draft budget proposal has been set based on a set off 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 the highest level in nearly 40 years in 2022/23. Although the current forecast is a much more positive position than was forecast in February 2023, any rate of inflation still means that the Council's core costs will rise when compared to what is currently paid and is still higher than the uplift to Council Tax or that is applied to the Council's Government funding.

The most significant inflationary cost increase the Council have experienced over the last two years is the rising price of oil and gas. In December 2021 average costs were 15-20p per kWh for electricity and 5-10p per kWh for gas. During 2023/24, before the Government's announcement on the energy price cap this rose to 56p for electricity and 16p for gas. This has significantly increased the running cost of the Council's buildings, both operational and those open to the public to deliver our core services. Although costs are starting to reduce and controls have been put in place to broker energy at low market points, focus remains on reducing consumption to work towards net zero by 2030.

The Bank of England base rate increase is also one of the most significant pressures the Council's budget has ever seen. When the draft budget for 2023/24 was prepared 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 there is ongoing uncertainty about how long it will remain at this level.

These economic factors place unprecedented pressures on the Council's budget at a time when there is already uncertainty around long term funding and the resilience of balances and reserves.

National Risk Factors

Uncertainty about future funding

The Local Government Settlement for 2024/25 received in December 2023 provides only a one year Settlement with no guarantee that the same levels of funding will remain in 2025/26 and a review of funding formulas expected from 2026/27 onwards. This means the period of uncertainty about Local Government funding continues making long term financial planning extremely difficult. This is compounded by the guarantee of a General Election in 2024 creating uncertainty over the approach to local Government funding in 2025/26 onwards.

The National Fair Funding Review (FFR) was expected to conclude in 2022/23 but has now been deferred until 2025/26 at the earliest although due to elections this is assumed to be 2026/27 in the modelling. The objective of the FFR 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 is expected to be closely linked with the principles in the Government's Levelling up White Paper published in February 2022.

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

The intention has been 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 currently 1 April 2025 and the Government have committed to putting in place transitional arrangements to 'smooth' the impact, referred to as 'damping'. However, as outlined above due to the requirement for an election in 2024 it is assumed that there will be no changes to funding formula until 2026/27 at the earliest.

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 had therefore intended 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 2026/27 onwards we have been prudent in our assumptions on the funding available. The funding set out in the 2024/25 Settlement is guaranteed for one year only and there is no certainty over how long the Service Grant and 4% Funding Guarantee would continue and at what level for Cheltenham. We have assumed that no new additional funding will be available from 2026/27 to replace the current levels.

National Risk Factors (continued)

Business rates retention

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

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

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

The council's business rates baseline is £2.841m and due to retained growth, £5.523m is forecast to be generated and support the base budget in 2024/25. It is proposed that the new baseline will be set taking into consideration retained business rates income and this will be compared to the reassessed needs of the Borough resulting in either a top-up or tariff to manage the difference between the two. Clearly the future of Business Rates has been thrown into question as a result of the devastating impact on the retail, leisure and hospitality sector from the pandemic and as businesses struggle through the current economic challenges.

Growth will be calculated as business rates income in excess of the revised baseline and will continue to be shared with the upper tier authority; the split of which is yet to be determined and forms part of the current Government thinking on Business Rates Retention. The Medium Term projections include growth in our baseline business rates funding in 2027/28 from the Council's investment in the Innovation Centre and Mobility Hub in the West Cheltenham development.

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

Council tax

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

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

The gross tax base is forecast to increase by 0.28% in 2024/25 against the target increase of 0.8% in the previous 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. In the medium term forecast for 2024/25 there is an assumed growth of 0.5% in the tax base per annum, slower than forecast growth before the pandemic.

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 five year MTFS presented here that this trigger point will be met but this will be subject to ongoing review as the West and North West Cheltenham developments progress.

Fees and Charges

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

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

Local Risk Factors

Changes in customer behaviour

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

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

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

This strategy will be refreshed in 2024, which provides an opportunity to reset our approach in line with the 2023-2027 Corporate Plan to ensure we continue to be financially sustainable whilst continuing to support economic recovery and growth and our climate change ambitions for the town.

Resources

Concerns around the council's capacity and resources available to deliver multiple competing priorities is a key consideration for the Executive Leadership Team and Cabinet when considering the funding of the revised priorities in the 2023-27 Corporate Plan and the delivery of the proposed Savings Strategy. This will continue to be addressed as part of the council's continued organisational review including the transition of housing services back in-house which will be implemented through 2024/25.

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

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

2. Projected Budget Gap

The 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 in 2024/25 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	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £	2028/29 £
Net Cost of Services brought forward from previous year (assuming a balanced budget has been set)	17,927,404	19,290,334	16,888,775	17,152,298	16,298,897	15,863,666
IN YEAR BUDGET VARIATIONS						
Increased costs of existing services						
General Inflation	623,076	(84,352)	70,000	70,000	70,000	70,000
Energy costs	272,694	(250,400)	(150,000)	(100,000)	(100,000)	
Employee and Members related expenditure	249,667	421,160	412,000	412,000	412,000	412,000
Shared Services contract inflation		52,591	39,250	39,250	39,250	39,250
Publica contract inflation	12,521	40,950	20,000			
Ubico contract	(278,120)	846,675	700,000	500,000	500,000	500,000
RE-PROFILING OF BASE BUDGET						
In Year Salary Underspend	(799,160)	799,160				
Re-basing expenditure budgets to reflect changes in operational activity	306,597	(218,757)	(120,000)	84,000		
Carry Forward Budget reversal		(931,147)				
INCOME						
Other operational buildings	95,592	(18,073)				
Fees and Charges	681,463	(921,885)	(230,400)	(137,400)	(230,400)	(137,400)
Other inflationary uplifts on re-charges to partners	(272,995)	144,006	(36,000)	(36,000)	(36,000)	(36,000)
Interest Payable and Receivable	515,373	(322,487)	(175,000)	(215,000)	(117,000)	
Minimum Revenue Provision & VRP	(43,778)	1,099,000	(139,327)	29,749	26,919	
Pension Costs			(267,000)	(1,200,000)		
SAVINGS STRATEGY		(2,741,000)	(300,000)	(50,000)		
Growth Item's		158,000	(35,000)			
Flexible use of Capital Receipts (See Appendix 10)		(475,000)	475,000			
Growth in Council Tax Base from Development Activity				(250,000)	(400,000)	(200,000)
Growth in Business Rates from Innovation Centre and Mobility Hub					(600,000)	
Projected Net Cost of Service before reserves	19,290,334	16,888,775	17,152,298	16,298,897	15,863,666	16,511,516
RESERVES						
Contribution to / (from) Budget Strategy support reserve	(161,757)		50,000	(59,452)		
Contribution to / (from) Business Rates Retention Reserve	358,609	(300,000)				
Net contribution to/(from) earmarkets reserves	(1,405,628)	111,473	308,000	300,000	200,000	200,000
Contribution from VRP						
Contribution to / (from) General Balances	(368,531)	629,942	108,968	(42,680)	43,855	(119,762)
FUNDING						
Business Rates	(1,792,362)	(1,538,665)	(6,000,000)	(4,200,000)	(4,420,000)	(4,500,000)
Damping				(1,000,000)		
NNDR S31 Grants	(4,045,605)	(4,459,746)				
National Non-Domestic Rate - Net surplus' / deficit's	(743,306)	474,425				
Council Tax Collection Fund (surplus) / deficit contribution	(32,989)	8,042				
Council tax income assuming council tax increases by 2.99% per annum from 2023/24	(10,073,547)	(10,404,442)	(10,769,267)	(11,146,766)	(11,537,522)	(11,941,755)
New Homes Bonus	(31,640)	(88,876)				
Green Plant Business Rates Exemption Compensation	(61,182)					
Revenue Support Grant		(149,895)	(150,000)	(150,000)	(150,000)	(150,000)
2022/23 Service Grant	(114,920)	(19,839)				
3%/4% Funding Guarantee	(817,477)	(1,151,195)	(700,000)			
Projected Reserves & Funding	(19,290,335)	(16,888,776)	(17,152,299)	(16,298,898)	(15,863,667)	(16,511,517)

The projections above reflect a funding gap for the period 2024/25 to 2028/29 of £3.091m (i.e. the financial gap between what the Council needs to spend to maintain existing services). This is a decrease of £2.039m compared to the five year projection in 2023/24 as it is now expected that the triannual review of the Council's Local Government Pension Fund at 31 March 2025 is likely to reduce both the primary and secondary contributions required to be funded by the Council. Likewise following the submission of the outline planning permission and approval of the Development Funding Agreement conditions for the West Cheltenham development, work has also been undertaken to estimate the growth in Council Tax and Business Rates that this investment will produce for the Council.

The key assumptions for the preparation of these projections are explained below.

The net costs of services have been estimated by using the approved 2023/24 base budget as the base for future projection's though to 2028/29.

Inflation

Inflation has historically been included in the MTFS at 2% on insurances, utilities, postage, IT maintenance agreements and non-domestic rates. However, a different approach was taken in 2023/24 when inflation peaked at 11.1% in the 12 months to October 2022 and the inflationary uplift on costs was increased proportionally in 2023/24. The financial projections included in the MTFS for 2024/25 have reduced inflation back down to 4.6% in line with the September 2023 levels then decreasing gradually down to 3% in the years after. Where information is available, major contracts and agreements are rolled forward based on the specified inflation indices in the contract or agreement.

As noted in the previous section, energy costs been subject to one of the largest inflationary increases over the last two years. Work has been undertaken to broker our energy at lower rates as well as reducing usage across our portfolio, including the leisure centre. The base budget for energy has been gradually reduced over the five year period of the MTFS as these initiatives are embedded across the organisation.

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 2024/25, this is to reflect inflation and wage increases. These have been much larger than previous budgets to reflect the increase in the pay awards in 2022/23 and 2023/24 resulting from the increase in inflation.

In addition, the cost of the council's environmental services contract provided by Ubico has also been subject to a 6.3% increase in 2024/25, on top of the 15.5% in 2023/24. This is to cover pay increases, increased fuel costs and other inflationary pressures.

Employee related costs

For budget modelling, a 4% pay increase has been assumed in 2024/25 and a 2% increase throughout the duration of the MTFS post 2024 with a further 1% contingency included to bring the budget in line with expectations across the whole Public Sector. The same increase has been applied to Members allowances to ensure they fall in line with the anticipated employee annual pay award.

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

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

Interest costs

The Bank of England base rate increase is one of the most significant pressures our budget has seen over the past 18 months. Since December 2022 the base rate has increased from 3.5% to its current rate of 5.25% and there is significant uncertainty about when and how quickly this may reduce.

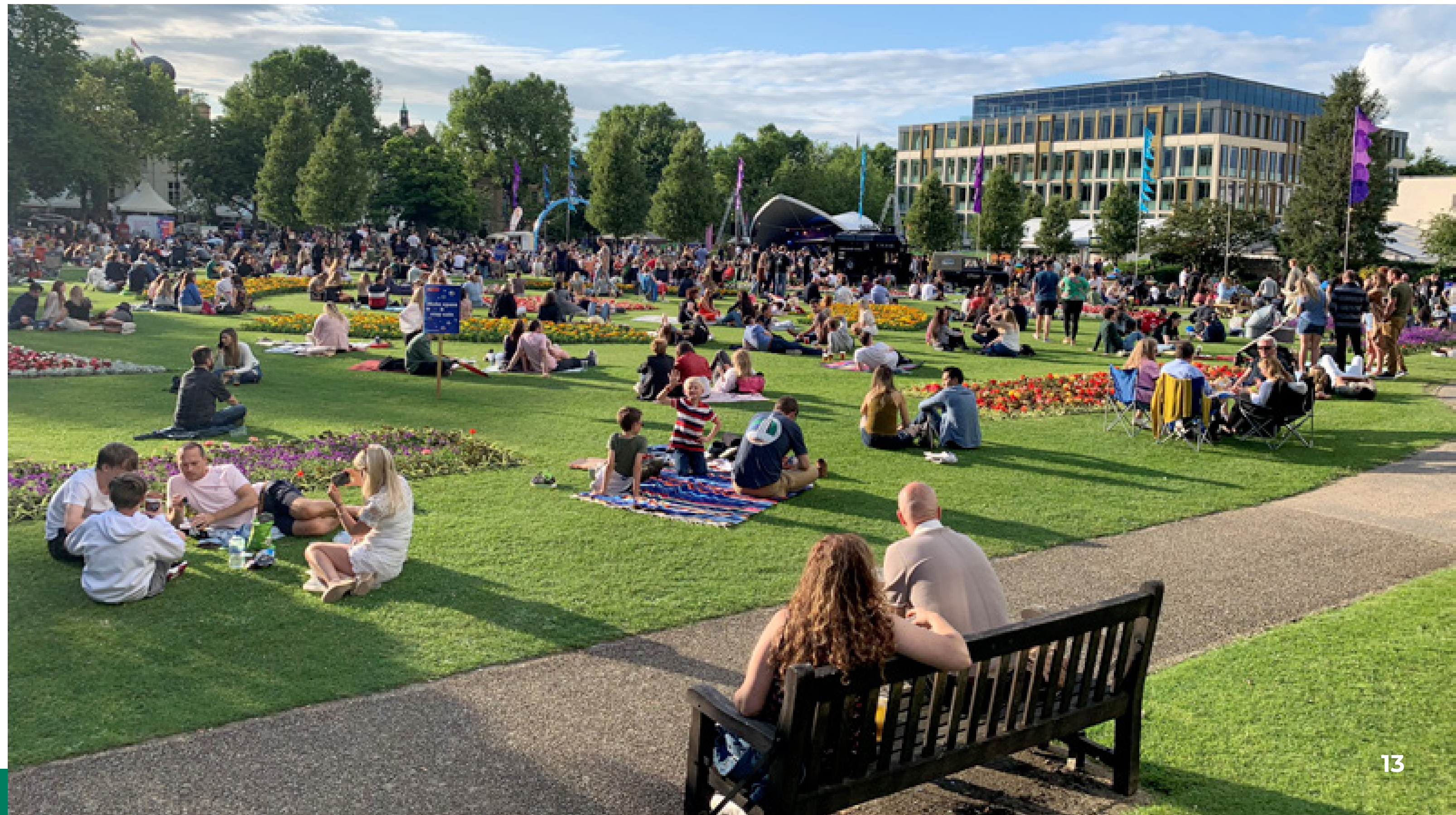
As a net borrower, the speed of the rise in interest rates has created a budget pressure for the Council during 2023/24 and into 2024/25. It is forecast that the net impact of interest rate rises will require an additional £515k of revenue funding in 2023/24, reducing in 2024/25 but still requiring £193k more funding that forecast in December 2022.

Fewer large financial commitments in 2024/25 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. The assumptions included in the MTFS are based on a reduction on the interest rates paid on our temporary borrowing from 5.3% in 2024/25 to 3% by 2027/28. More detail will be covered in the 2024/25 Treasury Management Strategy, which will be published in the spring.

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.

However, a different approach was taken in 2023/24 when inflation stood at 10.1% in the 12 months to September 2022 and the inflationary uplift on fees and charges was increased proportionally for 2023/24. The financial projections included in the MTFS for 2024/25 have reduced inflation back down to 4.6% in line with the September 2023 levels then decreasing to 2% in year two onwards, with car parking fees subject to a bi-annual consultation.



Retained business rates

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

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

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

The Medium Term projections include growth in our baseline business rates funding in 2027/28 from the Council's investment in the Innovation Centre and Mobility Hub in the West Cheltenham development.

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 0.5% each year for the purposes of modelling the MTFS and a council tax increase of 2.99 per annum is assumed since its introduction through the 2023/24 Local Government Finance Settlement.

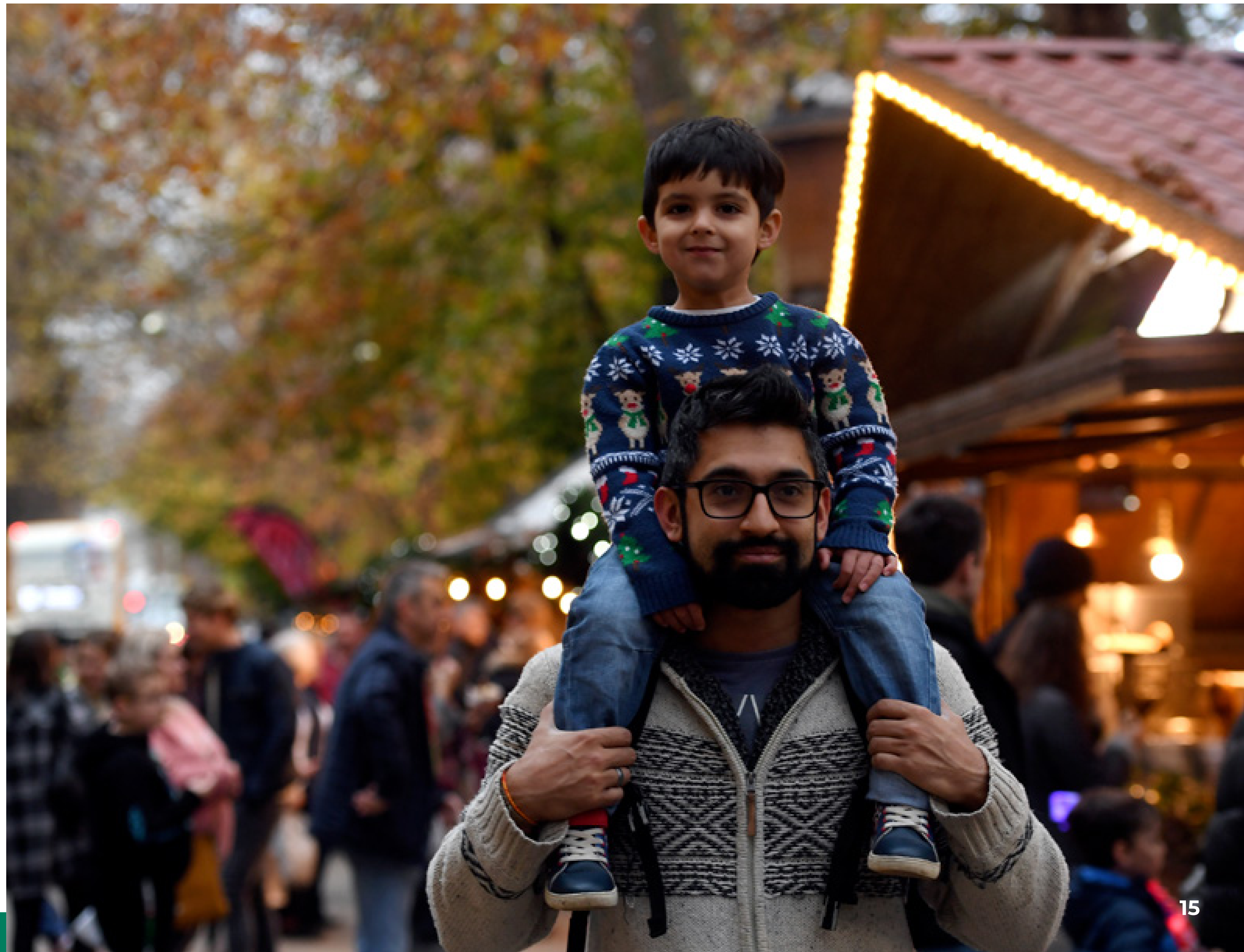
The Medium Term projections include growth in our baseline Council Tax income generation from 2026/27 as a result of the West Cheltenham and North West Cheltenham developments.

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. Likewise with the guarantee for a General Election in this budget year there is also uncertainty about funding levels in the medium term.

The Government funding included in the MTFS for 2024/25 includes the following:

- A New Homes Bonus payment of £88,876.
- No further continuation of the Lower Tier Services Grant for which we received £129,988 in 2022/23.
- A reduction in the Services Grant introduced in 2022/23 from £114,920 in 2023/24 to £19,839 in 2024/25.
- A one year 4% Funding Guarantee payment of £1,151,195 expected for 2024/25 only.



3. Reserves Strategy

Introduction

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

In July 2021 the Council approved £250k from the reported underspend against the 2020/21 budget to Green and Sustainable Economic Recovery. This funding supported the delivery of an Ice Rink in Imperial Gardens and the re-development of the Clarence Fountain area of the town centre to provide greater green space for residents and visitors to use. Likewise, in July 2022 a proposal was approved to allocate £60k of underspend to support the Cheltenham Food network who provide a vital resource for those in the community struggling with the cost of living emergency. Both these examples demonstrate how the Council have continued to react and support the priorities of the town, even when facing difficult financial challenges itself.

However recognising the impact and uncertainty of the economic outlook on the Council's short to medium term finances requires an alternative approach to secure the continued delivery of our services. The economic pressures on the Council's budget in 2022/23 required over £2.6m of reserves to be used to balance the budget and is expected that an additional draw will also be made in 2023/24.

This means not only that there were no surpluses available to invest in the community but also places greater focus on replenishing and strengthening these reserves in the medium term. Reserves and balances are vital to ensure the Council are 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 after the general election in 2024.

Earmarked reserves

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, Assets and Regeneration (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.

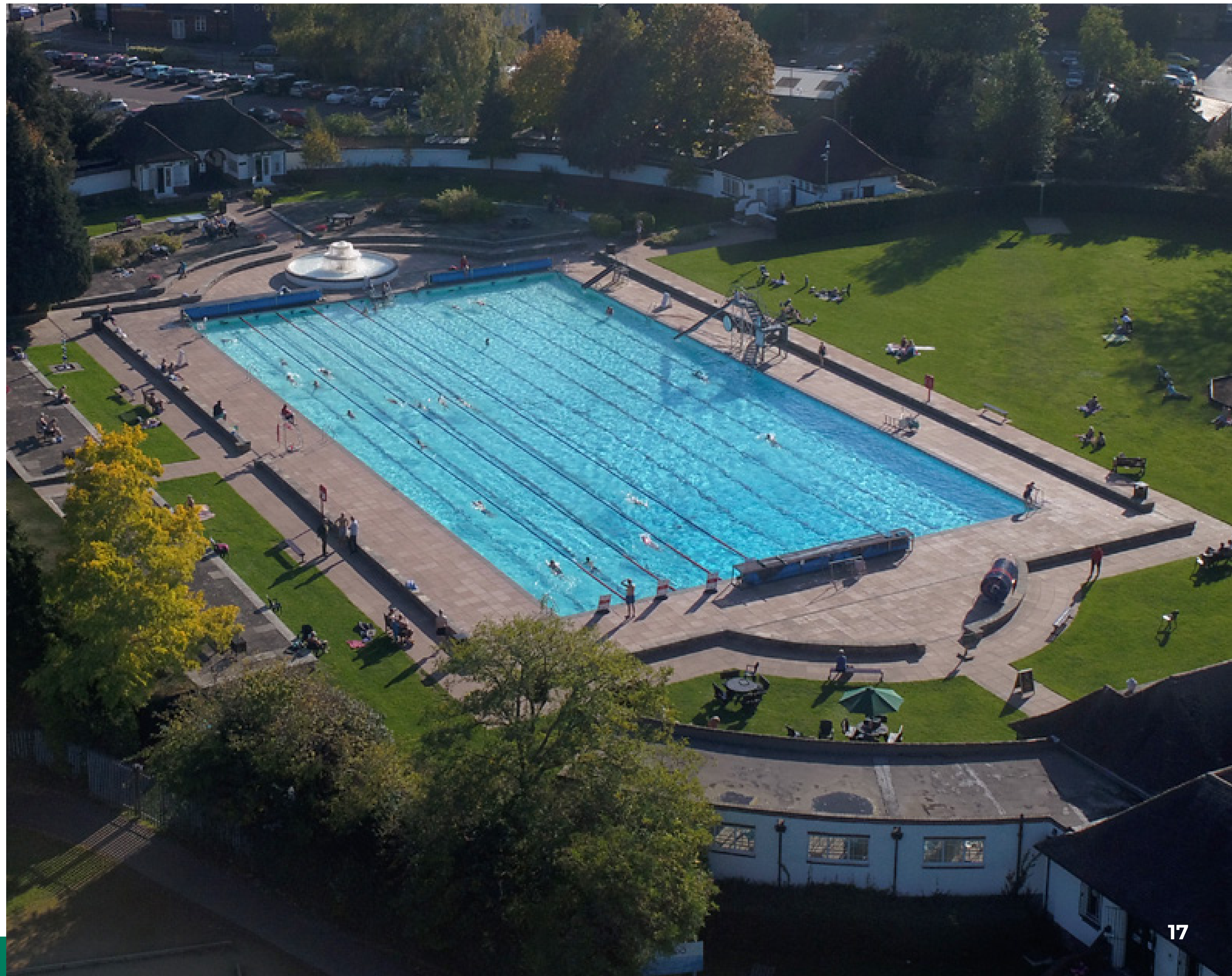
A number of these reserves, for example the property renewals and repairs reserve will need to be replenished once spend is incurred to ensure there is sufficient funds available to continue maintenance in line with the Asset Management Strategy. The five year projections allow sufficient funding is available to do this.

Budget Rates Retention Reserve (BRRR)

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

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

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



General Balances

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

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

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- A contingency to cushion the impact of unexpected events or emergencies

  – this also forms part of general reserves;
- A means of building up funds (earmarked reserves) to meet known or predicted requirements.

This has been balanced by making planned contributions to general balances in 2024/25 to bring the total amount held to £1.663m.

There are however a number of key assumptions made in the 2023/24 in order to meet this level of provision. The most significant impact on the level of general balances at 31 March 2025 are the level of savings delivered and changes in the Bank of England base rate.

In the base budget for 2024/25, the Council need to deliver £2.741m of savings, efficiencies and additional income to ensure that there is funding available to replenish the general balances to post pandemic levels. This is an extremely challenging target but vital as the Council work towards financial sustainability. The table below shows the sensitivity of the general balance levels to the savings delivered. Any savings not achieved in 2024/25 would be required to be delivered in 2025/26.

	Level of General Balances				
	2024/25 £	2025/26 £	2026/27 £	2027/28 £	20287/29 £
% of total savings delivered					
60%	(566,634)	(675,602)	(632,922)	(676,777)	(557,015)
80%	(1,114,834)	(1,223,802)	(1,181,122)	(1,224,977)	(1,105,215)
Base - 100%	(1,663,034)	(1,772,002)	(1,729,322)	(1,773,177)	(1,653,415)

Clearly, achieving anything less than 80% of the proposed savings in 2024/25 will mean our general balances remain at levels lower than the assessment in the Section 25 report accompanying this budget.

Likewise, the second most significant external factor impacting our medium term forecast is the Bank of England base rate. The current forecast assumes that the rate on our temporary borrowing remains at 5.3% for 2024/25 then steps down gradually to 3% by 2027/28. The impact of rates reducing quicker than this is an increase of between £150k and £285k in general balances by 31 March 2025. This then means the base budget needed to cover the cost of borrowing is much lower in future years, further increasing the available balances to replenish reserves.

	Level of General Balances				
	2024/25 £	2025/26 £	2026/27 £	2027/28 £	20287/29 £
Remains at 5.3% for 2024/25 and 2025/26 - reducing from 2026/27 onwards	(1,663,034)	(1,597,002)	(1,339,322)	(1,266,177)	(1,146,415)
Base - stays at 5.3% in 2024/25, then decreases	(1,663,034)	(1,772,002)	(1,729,322)	(1,773,177)	(1,653,415)
Falls to 4.5% in 2024/25, 4% in 2025/26, 3.5% in 2026/27, 3% in 2027/28	(1,839,034)	(2,059,002)	(2,022,322)	(2,065,177)	(1,944,415)
Falls to 4.25% in 2024/25, 4% in 2025/26, 3.5% in 2026/27, 3% in 2027/28	(1,883,034)	(2,092,002)	(2,044,322)	(2,076,177)	(1,944,415)
Falls to 4% in 2024/25, 4% in 2025/26, 3.5% in 2026/27, 3% in 2027/28	(1,948,920)	(2,168,774)	(2,131,980)	(2,174,721)	(2,053,845)

Our Savings Strategy

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

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

An Overview of our Approach

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

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

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

Interest rates and energy costs are expected to stay high for at least one more year and although work will be undertaken to reduce the temporary borrowing exposed and to reduce energy usage which will provide financial benefit in the long term, the short term challenges are still required to be managed.

This is evident in the front loading of the budget gap, with 88% of the total five year gap being required to be delivered in 2024/25. From 2025/26, through effective management of the pension funding and investment in West Cheltenham and other key developments in the town there is sufficient growth projected to balance the budget. This strategy is about making sure that the Council has the financial resilience up to then to develop this economic growth in Cheltenham.

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

	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Forecast Budget Gap	£2,741,000	£300,000	£50,000	-	-	£3,091,000
Funded by:						
Base Budget Savings	(£2,741,000)	(£300,000)	(£50,000)	-	-	(£3,091,000)

The core focus for delivering the significant savings and efficiencies required in 2024/25 will fall into four main areas:

- 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.

In future years, the budget proposals are 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.

Conclusion

The Council has a record of accomplishment of strong financial management but is now facing a period of continued economic uncertainty as a result of funding uncertainty and continued pressure from inflation and high interest rate. The Council must stay focused on the plan set out in the 2023/24 budget to ensure resilience in its financial position across the medium term as Government delays continues around changes to Local Authority funding.

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

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

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