

Medium Term Financial Strategy

2025/26 – 2029/30



CHEL TENHAM
BOROUGH COUNCIL

cheltenham.gov.uk



Introduction

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



Key Priority 1

Making Cheltenham 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 has faced unprecedented financial challenges over the last few years. The Council, like many residents and businesses across our town, diverted significant resources, and lost significant income, in responding to the COVID-19 pandemic. It then faced a new crisis, one of rising costs of service delivery and the tough challenge of trying to support the growing number of people in our town hit by the cost-of-living crisis. This is in addition to almost a decade of year-on-year cuts to the Council's Government funding.

Despite no real increase in government funding, the Council is being asked to do more, for less – both by central government itself and because of them, through our profound moral duty to step up and fill gaps in government provision. From schemes to support some of the most vulnerable people in our town, to our ambitious work mapping out a net zero future for Cheltenham, the Council goes above and beyond its minimum legal duties, day in day out, without regret, but at a significant financial cost.

This strategy and the budget proposals referenced in this report, set out a roadmap for recovery and revitalisation – not just for the Council's finances, but for the services it delivers and the residents it supports.

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 30 year 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:

Section 2 NATIONAL AND LOCAL FINANCIAL RISKS

Section 3 OUR MEDIUM TERM BUDGET STRATEGY

Section 4 OUR RESERVES STRATEGY

Section 5 OUR SAVINGS STRATEGY



2. National and Local Financial Risk

Introduction

The Council has faced unprecedented financial challenges over the last few years. The Council, like many residents and businesses across our town, diverted significant resources, and lost significant income, in responding to the COVID-19 pandemic. It then faced a new crisis, one of rising costs of service delivery and the tough challenge of trying to support the growing number of people in our town hit by the cost-of-living crisis. This is in addition to almost a decade of year-on-year cuts to the Council's Government funding.

The 2025/26 budget sets out for the first time since 2020, a roadmap for recovery and revitalisation – not just for the Council's finances, but for the services it delivers and the residents it supports. This comes at a time when the Council need to be ready to respond to the Government's expected Local Government Fair funding review in 2026/27 which is also likely to include a business rates reset. This creates a new uncertainty around future funding levels in addition to the changes in Local Government re-organisation.

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

Wider Economic Context

The 2025/26 draft budget proposal has been set based on a set off assumptions about the economic outlook for the next 18 months. Inflation currently sits close to 2%, the lowest level it has reached since the 2021/22 draft budget was presented in December 2020, after reaching its the highest level of 11% in 2023. Although the current forecast is a much more positive position than was forecast in February 2024, 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 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 2024/25 was prepared the base rate was 5.25%, the highest since 2008. This was much higher than treasury advice had indicated and it has taken much longer to decrease. The news in February 2025 that the Bank of England has cut the base rate to 4.5% is welcomed. Our budget, based on intelligence from the market assumes another two rate cuts within the 2025/26 financial year with longer term forecasts expected to settle at 3.75%.

Although inflation and interest rates are now at much more sustainable levels than in recent years, Government gilt rates on which public sector borrowing rates are based as well as UK economic growth projections are still challenging. With significant increases in employer National Insurance costs from April 2025 within our budget not being fully covered by Government funding and a lack of clarity about how much additional cost will be passed to the Council through supply chains, we are continuing to operate in a volatile environment.

These economic factors still place uncertainty over the Council's financial position at a time of unprecedented change in the Local Government sector.

National Risk Factors

Uncertainty about future funding

The Local Government Settlement for 2025/26 received in December 2024 provides only a one year Settlement with no guarantee that the same levels of funding will remain in 2026/27. In addition to this the new Government have formally begun a consultation on the Fair Funding Review (FFR) of the sector. This means the period of uncertainty about Local Government funding continues making long term financial planning extremely difficult in 2025/26.

The National Fair Funding Review (FFR) was expected to conclude in 2022/23 under the previous Government but is now expected to be implemented from 2026/27. 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 Devolution White Paper published in December 2024.

The Ministry for Housing, Communities and Local Government are looking for a formula based model with common cost drivers such as population, deprivation indexes and demand for services 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 2026 and the Government have committed to putting in place transitional arrangements to 'smooth' the impact, referred to as 'damping'.

In assessing relative resources, the Government has not indicated that any funding is out of scope. This could therefore also include reviewing levels and distribution of council tax and how Local Authorities set fees, charges and generate income from their asset base. This means there is significant uncertainty on almost every area of funding for our budget.

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 2025/26 Settlement is guaranteed for one year only and there is no certainty over whether these will 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, with the exception of the employer national insurance contribution increase which is expected to continue.

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 currently consulting on how a new scheme post 2026 can continue to reward and incentivise growth, whilst ensuring rates are distributed more equitably at national level.

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. The remaining sum is retained within the County and in 2025/26 this is expected to mean £6.118m is available for this Council to invest in our services.

A review of the current business rates model is expected to increase the amount that is kept by Central Government and decrease the amount retained locally but at present the specific changes are unknown. We have used the Pixel Financial Management model in the MTFS which estimates our share of business rates to reduce to £4.196m in 2026/27. Transitional relief in the form of ‘damping’ payments are expected to be made available but again these are only estimates at this stage.

It is expected that the new baseline for the rates retained locally will be set taking into consideration the reassessed needs of the Borough. Any new growth in income 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 above our future baseline business rates funding in 2027/28 from the Council’s investment in the Innovation Centre and Mobility Hub in the West Cheltenham development which will be due post implementation of any changes.

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.

National Risk Factors (continued)

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. This has been extended again by the new Government for 2025/26. 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 1.54% in 2025/26 against the target increase of 0.8% in the Medium Term Financial Strategy. This is a significant increase from the 0.23% forecast for 2024/25 which was included in the budget for the previous year. This growth is mainly driven by the decision taken by Council on 23 February 2024 to adopt the 100% premium for second home properties from 1 April 2025.

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.

Resources

Concerns around the council's capacity and resources available to deliver multiple competing priorities is a key consideration for the 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 2025/26.

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.

Although the savings required in 2025/26 are significantly less than the £2.741m target in 2024/25, there are still huge challenges that need to met by taking a proactive approach to reviewing the prioritisation of our resources and identifying budget efficiencies. 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	2024/25 £	2025/26 £	2026/27 £	2027/28 £	2028/29 £	2029/30 £
Net Cost of Services brought forward from previous year (assuming a balanced budget has been set)	17,396,857	19,040,676	18,209,935	17,433,785	16,329,635	16,841,485
IN YEAR BUDGET VARIATIONS						
Increased costs of existing services						
General Inflation		150,801	150,000	150,000	150,000	150,000
Energy costs						
Employee and Members related expenditure		454,693	412,000	412,000	412,000	412,000
Shared Services contract inflation		31,876	39,250	39,250	39,250	39,250
Publica contract inflation		48,750	25,000			
Ubico contract		935,563	700,000	500,000	500,000	500,000
RE-PROFILING OF BASE BUDGET						
In Year Salary Underspend						
Re-basing expenditure budgets to reflect changes in operational activity	1,420,169	(361,568)	260,000	(176,000)	144,000	(144,000)
Carry Forward Budget reversal		(508,081)				
INCOME						
Other operational buildings		259,118				
Fees and Charges		(373,521)	(51,400)	(201,400)	(51,400)	(51,400)
Other inflationary uplifts on re-charges to partners		(243,566)	(50,000)	(50,000)	(50,000)	(50,000)
Interest Payable and Receivable	570,828	(442,552)	(215,000)	(117,000)	(117,000)	
Minimum Revenue Provision & VRP	(327,178)	202,099	24,000	21,000	26,919	
Pension Costs		(267,000)	(1,995,000)	(182,000)	(182,000)	

Table 1: Projection of Funding Gap	2024/25 £	2025/26 £	2026/27 £	2027/28 £	2028/29 £	2029/30 £
SAVINGS STRATEGY		(1,130,000)	(300,000)	(500,000)	(250,000)	
Growth Item's		392,647				
Flexible use of Capital Receipts	(20,000)	20,000	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	19,040,676	18,209,935	17,433,785	16,329,635	16,841,485	17,697,335
RESERVES						
Contribution to/(from) Business Rates Retention Reserve	(169,612)	253,985				
Net contribution to/(from) earmarked reserves	(795,319)	685,413	942,500	514,600	270,600	414,600
Contribution from us of VRP	(971,334)	(654,341)				
Contribution to/(from) General Balances	345,960	560,803	(698,496)	451,364	268,939	(626,816)
Contribution to / (from) General Balances	(368,531)	629,942	108,968	(42,680)	43,855	(119,762)
FUNDING						
Business Rates	(1,605,311)	(2,578,842)	(4,196,000)	(4,419,000)	(4,596,000)	(4,777,000)
Damping			(1,500,000)	(1,000,000)	(500,000)	
NNDR S31 Grants	(4,513,280)	(3,810,409)				
National Non-Domestic Rate - Net surplus' / deficit's	474,425	942,332				
Council Tax Collection Fund (surplus) / deficit contribution	8,042	(98,051)				
Council tax income assuming council tax increases by 2.99% per annum from 2023/24	(10,404,442)	(10,880,964)	(11,262,384)	(11,657,194)	(12,065,619)	(12,488,714)
New Homes Bonus	(88,876)	(87,479)				
Green Plant Business Rates Exemption Compensation		(31,135)				
Revenue Support Grant	(149,895)	(190,053)				
2022/23 Service Grant	(19,839)					
3% Funding Guarantee	(1,151,195)	(756,789)				
ERP Grant		(1,345,000)	(500,000)			
National Insurance Grant		(219,405)	(219,405)	(219,405)	(219,405)	(219,405)
Projected Reserves & Funding	(19,040,676)	(18,209,935)	(17,433,785)	(16,329,635)	(16,841,485)	(17,697,335)

The projections above reflect a funding gap for the period 2024/25 to 2028/29 of £2.180m (i.e. the financial gap between what the Council needs to spend to maintain existing services). This is a decrease of £911k compared to the five year projection in 2024/25 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 2024/25 base budget as the base for future projection's though to 2029/30.

Inflation

Inflation has been included each year on core costs in the MTFS at 3% on insurances, utilities, postage, IT maintenance agreements and non-domestic rates. Where information is available, major contracts and agreements are rolled forward based on the specified inflation indices in the contract or agreement.

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 2025/26, this is to reflect inflation and wage increases with the increased national insurance contributions.

In addition, the cost of the council's environmental services contract provided by Ubico has also been subject to a 8.1% increase in 2025/26. This is to cover pay increases, increased fuel costs and other inflationary pressures.

Employee related costs

For budget modelling, a 2% pay increase has been assumed in 2025/26 and a 2% increase throughout the duration of the MTFS post 2026 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.

Fees and charges

In line with the approach taken before the significant increases in inflation, a general assumption of a 2% increase in non-statutory fees and charges has been factored into our forecast year on year, with car parking fees subject to a bi-annual consultation.



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. Between December 2022 and February 2024 the base rate increased from 3.5% to its current rate of 5.25%. It has now started to reduce, most recently decreasing to 4.5% in February 2025.

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. The budget for 2025/26 and over the medium term estimates an average base rate of 4.35%, reducing to 3.75% from 2026/27.

The expectation of significant capital receipts and cash inflows to the Council in 2025/26 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 as necessary. More detail will be covered in the 2025/26 Treasury Management Strategy, which will be published in the spring.

Pension costs

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 secondary contributions are expected to significantly decrease from 1 April 2026 and primary contributions will also be reduced year on year as the future cost of existing member's service benefits will be sufficiently covered.

Flexible use of capital receipts

As part of the November 2015 Spending Review, the Government announced that it would introduce flexibility for the period of the Spending Review for local authorities to use capital receipts from the sale of assets to fund the revenue costs of service reform and transformation. The new Government in 2024 announced a further longer-term extension to 2030 to fund transformation or other projects that produce long term savings or reduce the costs of service delivery.

In 2024/25 and 2025/26, the Council have applied this flexibility to use capital receipts to fund part of the Major Developments team responsible for the delivery of the Golden Valley development which will kickstart the biggest regeneration programme seen in Cheltenham. The 2025/26 budget will be the final year in which this approach is taken which means these costs will need to be reabsorbed into the revenue budget in 2026/27.

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.

Cheltenham will not be part of the pooling arrangements for business rates in the Gloucestershire Business Rates Pool for 2025/26. This is because it is beneficial for Gloucestershire as a whole for Cheltenham not to be in the pool. Further details are documented in the decision taken by the Deputy Chief Executive on 29 October 2024.

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 Government's fair funding review is expected to significantly reduce the level of business rates we are able to retain locally. The projections included in the MTFS are based on the financial model produced by Pixel Financial Management.

Although this direct funding will reduce, the Government has confirmed that Council's will be provided with transitional relief known as 'damping' payments, reducing to zero over three years. Again, these figures have been estimated based on information from Pixel.

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.

The Government funding included in the MTFS for 2025/26 includes the following:

- No further continuation of our Minimum Funding Guarantee and instead a Funding Floor payment of £756,789, down from £781,696 in 2024/25
- A final payment of £87,479 of New Homes Bonus, a small reduction in what was received in 2024/25.
- A National Insurance Contribution Grant of £219,405 towards the increased contributions required for directly employed staff
- A new funding stream of £1.345m to fund new responsibilities under Extended Producer Responsibility for packaging.
- A Revenue Support Grant payment of £190,053

The fair funding review which is expected to be implemented from 2026/27 is likely to provide more long term certainty with a multi year settlement. However, the overall impact of the review is likely to reduce the Government funding that this Council receive, both in core grant income and the proportion of business rates we are able to retain.

The funding forecast in the MTFS is based on a financial model produced by Pixel Financial Management. We have assumed that the Extended Producer Responsibility funding will be reduced to nil by 2027/28 and the only other grant funding to be retained by the Council is the funding of the increased national insurance contributions.

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.

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 additional draws were also made in 2023/24 and 2024/25 to allow savings proposals to be brought forward in a considered way.

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 Fair Funding review concludes in 2026.

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 Deputy Chief Executive (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 as set out in the table below.

Budget Rates Retention Reserve (BRRR)

The expected Government changes to the current business rates model creates 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 a business rates reset.

Commercial income

A number of pressures have been reported in the budgets since 2022 and many of these relate to fluctuating levels of commercial income. The Council is reliant on a number of different income streams from fees and charges to balance the budget – an approach which started with the introduction of the commercial strategy in 2017. In order to provide some protection from in year fluctuations, an earmarked reserve for commercial income reserve will be established from 2026.

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 2025/26 to bring the total amount held to £1.856m.

There are however a number of key assumptions made in the 2025/26 in order to meet this level of provision. The most significant impact on the level of general balances at 31 March 2026 are the level of savings delivered and changes in the Bank of England base rate.

In the base budget for 2025/26, the Council need to deliver £1.130m of savings, efficiencies and additional income to ensure that there is funding available to replenish the general balances to post pandemic levels. Although this is lower than the 2024/25 target, it is still a challenge and 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 year have been assumed to be delivered the following year.

	Level of General Balances				
	2025/26	2026/27	2027/28	2028/29	2029/30
% of total savings delivered					
60%	(1,404,320)	(1,037,824)	(1,409,188)	(1,778,128)	(1,051,312)
80%	(1,630,320)	(1,097,824)	(1,509,188)	(1,828,128)	(1,151,312)
Base - 100%	(1,856,320)	(1,157,824)	(1,609,188)	(1,878,128)	(1,251,312)

Clearly, achieving anything less than 80% of the proposed savings in 2025/26 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 reduces to an average rate of 4.35% in 2025/26 then reduces down to 3.75% in subsequent years. The impact of rates reducing slower than this in the short term is a decrease of between £200-300k in general balances by 31 March 2030. 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				
	2025/26	2026/27	2027/28	2028/29	2029/30
Base remains at 4.5% for 2025/26 - reducing to 4% in 2026/27 and 3.75% in 2027/28	(1,683,732)	(824,583)	(1,275,947)	(1,544,887)	(918,071)
Base - 4% in 2025/26, 3.75% in remaining years	(1,856,320)	(1,157,824)	(1,609,188)	(1,878,128)	(1,251,312)
Base falls to 4% in 2025/26, 4% in 2026/27, 3.75% in 2027/28	(1,856,320)	(997,171)	(1,448,535)	(1,717,475)	(1,090,659)

Voluntary revenue provision

The Council have taken significant steps forward in our ambition to be the cyber capital of the UK and secure the future of our town over the last two years. Following the completion of the procurement to find a development partner to realise its flagship ambition, HBD were appointed in 2021/22 to deliver the key infrastructure needed in West Cheltenham. 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.

Following this decision, the Council were notified in November 2023 that they were provisionally awarded £20m from the Government's Levelling Up fund to support the delivery of the National Cyber Innovation Centre. As the project moves through the planning system, the Council need to make appropriate provision for any one off revenue costs of the operation of the Centre before full year income streams are established. Over the past ten years the Council have made voluntary overpayments on debt which total £1.625m at 31 March 2024.

The 2025/26 budget proposal introduces an alternative annual contribution of £200k to the Major Developments reserve to further support this and provide the financial resilience to operating the Innovation Centre in its first years.

This has triggered a change in approach to the strategy we have previously implemented to overpay our borrowing, which means the cumulative overpayments previously made can be reclaimed in the 2024/25 and 2025/26 financial years. This provides some resilience within general balances in order to support the changes expected in Local Government funding over the medium-term financial strategy period for 2025/26.

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.

The Council have also since delivered over £4m of base budget savings and new income streams and in the 2024/25 MTFS it was forecast that we would be financially self-sufficient and no longer reliant on Government grant income by 2028. However, announcements by the new Government that the fair funding review will not exclude any form of Local Authority funding, including local tax generation, creates uncertainty once again that needs to be planned for.

The funding and savings strategy to close the overall budget gap over the five years of the MTFS is outlined below. This includes proposed savings post 2028 and increased levels of forecast savings in 2026/27 and 2027/28.

	2025/26	2026/27	2027/28	2028/29	2029/30	Total
Forecast Budget Gap	£1,130,000	£300,000	£500,000	£250,000	-	£2,180,000
Funded by:						
Base Budget Savings	(£1,130,000)	(£300,000)	(£500,000)	(£250,000)	-	(£2,180,000)

The core focus for delivering the significant savings and efficiencies required in 2025/26 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, including the sale of Gloucestershire Airport and the Municipal Offices;
- 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 and 2024/25 to review all areas of discretionary spend in addition to the decision taken to bring housing services back in-house; and

In future years, the budget proposals are targets rather than necessarily specific worked up projections of cost savings and additional income to allow the Cabinet and Leadership 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 Local Government funding changes and economic uncertainty. The Council must stay focused on the plan set out in the 2025/26 budget to ensure resilience in its financial position and its readiness for funding announcements.

Both the Reserves and Savings Strategy should be followed in tandem, with Cabinet and the 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.





CHEL TENHAM

BOROUGH COUNCIL

cheltenham.gov.uk

