CHELTENHAM
BOROUGH COUNCIL

Agenda Supplement

I am now able to enclose, for consideration at the next meeting of the Cabinet on Tuesday, 13th December, 2016, the following reports that were unavailable when the agenda was printed.

8.		**GENERAL FUND REVENUE AND CAPITAL- INTERIM BUDGET PROPOSALS 2017/18 FOR CONSULTATION** Report of the Cabinet Member Finance Please note Appendix 6 is to follow	(Pages 3 - 26)
9.		**HOUSING REVENUE ACCOUNT REVENUE AND CAPITAL-REVISED BUDGET 2016/17 AND INTERIM BUDGET PROPOSALS 2017/18 FOR CONSULTATION** Report of the Cabinet Member Finance	(Pages 27 - 42)

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Cheltenham Borough Council

Cabinet – 13th December 2016

General Fund Revenue and Capital - Interim Budget Proposals 2017/18 for Consultation

Accountable member	**Cabinet Member for Finance, Councillor Rowena Hay**
Accountable officer	**Paul Jones, Section 151 Officer**
Accountable scrutiny committee	**Overview and Scrutiny Committee and Budget Scrutiny Working Group**
Ward(s) affected	**All**
Key Decision	**Yes**
Executive summary	**This report sets out the Cabinet's interim budget proposals for 2017/18 for consultation. The budget projections have been prepared before the local government finance settlement consultation has been released which is not expected until week commencing 12th December 2016.**
Recommendations	**1. Approve the interim budget proposals for consultation including a proposed council tax for the services provided by Cheltenham Borough Council of £197.12 for the year 2017/18 (an increase of 2.60% or £5.00 a year for a Band D property).** **2. Approve the growth proposals, including one off initiatives at Appendix 3, for consultation.** **3. Approve the proposed capital programme at Appendix 6, as outlined in Section 7.** **4. Delegate authority to the Section 151 Officer, in consultation with the Cabinet Member for Finance, to determine and approve any additional material that may be needed to support the presentation of the interim budget proposals for consultation.** **5. Seek consultation responses by 13th January 2017.**

Financial implications	As contained in the report and appendices. **Contact officer: Paul Jones.** **E-mail:** paul.jones@cheltenham.gov.uk **Tel no: 01242 775154**

Legal implications	This report proposes an interim budget for consultation purposes and there are no specific legal implications at this stage. **Contact officer: Peter Lewis** **E-mail: peter.lewis@tewkesbury.gov.uk** **Tel no: 01684 272012**
HR implications (including learning and organisational development)	Building on our positive employee relations and our partnership working with the two recognised trade unions, TU representatives will receive a budget briefing at the Joint Liaison Forum on 16th December 2016. Dialogue with the recognised trade unions will continue in order to ensure that the any potential impact on employees, as a result of realisation of budget savings are kept to a minimum. It is the Council's aim to avoid the need for compulsory redundancies wherever possible and the Council's policies on managing change and consultation will be followed. The Council's policies on managing change and consultation will be followed. Going forward, it is important that capacity is carefully monitored and managed in respect of any reductions in staffing and reduced income streams. **Contact officer: Julie McCarthy** **E-mail: julie.mccarthy@cheltenham.gov.uk** **Tel no: 01242 264355**
Key risks	As outlined in Appendix 1
Corporate and community plan Implications	The aim of the interim budget proposals is to direct resources towards the key priorities identified in the Council's Corporate Business Plan whilst recognising the reduction in Government funding.
Environmental and climate change implications	The draft budget contains a number of proposals for improving the local environment, as set out in this report.

1. Background

1.1 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 2017. This report sets out the interim proposals for 2017/18.

1.2 The Local Government Finance Settlement for 2013/14 marked the introduction of the new local government resource regime with a significant change in the way local authorities are financed. Under the new regime, more than 50% of the Council's Government funding comes directly from Business Rates and, as a consequence, has the potential to vary either upwards or downwards during the year. This is a key strand of the Government policy to localise financing of local authorities and brings the potential for increased risks or increased rewards.

1.3 The Spending Review 2015 confirmed that by the end of this Parliament, local government will retain 100 per cent of business rate revenues to fund local services although the system of top-ups and tariffs which redistributes revenues between local authorities will be retained. In return, local government will be required to take on additional responsibilities which may include the funding of public health and the administration of Housing Benefit for pensioners. The Government consulted on these and other additional responsibilities in 2016 and this Council made a formal response to that consultation.

2. The national funding scenario

2.1 On 8th February 2016, the Secretary of State for Communities and Local Government announced the final local government settlement for 2016/17. The announcement included the following significant proposals to be delivered over the life of the Spending Review Period:

- Movement to 100% business rate retention;
- Permission to spend 100% of capital receipts from asset sales, to fund cost-saving reforms;
- Introduction of a social care Council Tax precept of 2% a year for those authorities with social care responsibilities;
- Flexibility for district councils to increase council tax by £5 a year;
- Increased support through the Rural Services Delivery Grant for the most sparsely populated rural areas;
- Retention of New Homes Bonus **but** with proposed changes, savings from the changes to be re-invested in authorities with social care responsibilities;
- The offer of a guaranteed 4 year budget to every council, which desires one, and which can demonstrate efficiency savings.

2.2 In addition to the detailed proposals for 2016/17, illustrative figures were also provided for each financial year up to 2019/20. The illustrative figures need to be treated cautiously as they do not include the full implications of proposed changes to the New Homes Bonus or implications of the move to 100% business rate retention. In the case of changes to the New Homes Bonus, the illustrative figures showed a reduction in New Homes Bonus in 2018/19, whereas the consultation document indicated that reductions may come into effect in 2017/18. For the purposes of the interim budget proposals, it is assumed that the scheme will remain unchanged in 2017/18.

2.3 The principles of the settlement allow authorities to spend locally what is raised locally, whilst recognising the savings already made by local government. Most noticeably, there has been a shift away from freezing council tax to using council tax to generate additional funding. Reserves are noted as being one element of an efficiency plan through a voluntary drawdown of reserves as the price for greater certainty for future settlements.

2.4 Local authorities were invited to submit an application for a multi-year settlement which guaranteed minimum levels of Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant. In terms of business rates, tariffs and top ups for 2017/18, 2018/19 and 2019/20 will not be altered for relative needs adjustment and in the final year may be subject to the implementation of 100% business rates retention.

2.5 The Cabinet decided in October 2016, to submit an application for a multi-year settlement, which was supported by a 4 year efficiency plan. On 16th November 2016, the Council received formal confirmation from the Minister for Local Government that it had been accepted for a multi-year settlement. It should be noted that in applying for a multi-year settlement the Council is guaranteeing a minimum settlement allocation, not a fixed allocation.

2.6 Between 2009/10 and 2016/17 the Council's core funding from the Government has been cut by some £5.7 million, from £8.8 million to £3.1 million (this excludes council tax support funding which transferred into the settlement funding assessment in 2013/14).

2.7 The proposed levels of government funding for this Council are set out in the table below. Overall 'core' central government funding (referred to as the Settlement Funding Assessment) is set to reduce by a further 17.5% in 2017/18 with further reductions through to 2019/20.

	2015/16 £m	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**
Revenue Support Grant	2.110	1.273	0.544	0.102	-
Baseline Funding (Cheltenham's target level of retained Business Rates)	2.579	2.600	2.652	2.730	2.426
Settlement Funding Assessment	**4.689**	**3.873**	**3.196**	**2.832**	**2.426**
Actual cash (decrease) over previous year	(0.762)	(0.816)	(677)	(364)	(406)
% cash cut	(14.0%)	(17.4%)	(17.5%)	(11.4%)	(14.3%)

Retained Business Rates

2.8 In April 2017, a new Rating List will come into effect which will impact each business rate property in the borough and, therefore, will impact upon the value of business rates collected. Under the Retained Business Rates Scheme, this volatility is expected to be smoothed by an adjustment to the "tariff" set by central government.

2.9 A significant level of risk remains due to the volume of outstanding business rates appeals which are being processed by the Valuation Office. Where appeals are successful, refunds of business rates are generally repayable back to the 2010/11 financial year, which reduces the business rates yield in the year in which the refund is made. The Council has made provision for its share of the cost of outstanding appeals in its financial statements. The level of provision will be reviewed as part of preparation of the business rates estimates for 2017/18 in January 2017.

New Homes Bonus (NHB)

2.10 The Government introduced the NHB as a cash incentive scheme to reward councils for new home completions and for bringing empty homes back into use. This provides match funding of £1,485 for each new property for six years (based on national average for band D property – i.e. £8,910 per dwelling over six years), plus a bonus of £350 for each affordable home (worth £2,100 over six years).

2.11 Funding is not ring-fenced and is designed to allow the 'benefits of growth to be returned to communities'. Funding is split 80:20 between district and county authorities, although it is now recognised that the funding from this scheme comes from top sliced Revenue Support Grant (RSG), which has reduced significantly over the years to compensate for the NHB payments.

2.12 In the case of changes to the New Homes Bonus, the illustrative figures showed a reduction in New Homes Bonus in 2018/19, whereas the consultation document indicated that reductions would come into effect in 2017/18. The interim budget proposals assume the changes will take effect from 2018/19 as this will potentially link in with the changes proposed for 100% business rates retention. There is a risk, however, that the final settlement may result in some changes to the NHB scheme in 2017/18 as pressure grows for additional funds to be redirected towards social care provision.

2.13 The amount of NHB used to fund the base budget was capped at £1.75 million in 2016/17, with the excess Bonus (c. £0.400 million) contributing to the Council's New Initiatives Fund, deferred REST savings, the Community Pride scheme and other one-off supported growth schemes. The interim budget proposals for 2017/18 maintain the capped amount of £1.75 million.

2.14 For 2018/19 onwards, it is assumed that NHB of c. £1.9 million will be payable. This value reflects: the scale of housing development expected in the Borough; that Bonus will be awarded for 4 years rather than the current 6 years; and provides for the introduction of some further changes to the scheme which could reduce the value of Bonus payable to the Council. Once details of the changes to the NHB scheme are announced, further modelling will be carried out to estimate the value of the bonus to the Council. The final value of NHB will be confirmed in the final budget proposals presented to Council in February 2017.

Parish Council Support Grant

2.15 The Local Council Tax Support (LCTS) scheme operates in a similar way to discounts, such as for empty properties or single person occupiers. Rather than being accounted for as a benefit cash payment, the council tax base is reduced. Whilst this has no impact for the individual council tax payer, a lower council tax base reduces the tax yield to this Council, Gloucestershire County Council, Police and Crime Commissioner for Gloucestershire and parish councils. To offset this impact, the Government paid a cash grant to all local authorities. The element of grant attributable to town and parish councils is paid to the billing authority (i.e. this Council). It is for each billing authority to agree with its parish councils any mechanism for paying over a share of the overall grant paid to the billing authority.

2.16 For 2013/14 through to 2016/17, the value of grant awarded to the 5 parish councils for LCTS was £10,269. Funding for Local Council Tax Support was "rolled" in to the Revenue Support Grant and the Retained Business Rates Baseline Funding Position. As Government funding reduces, the Council is under increasing pressure to reduce the funding available for Local Council Tax Support available to the parish councils. However, in order to give parish councils a degree of financial stability and give them the assurance they need to set their own precepts, once again it is not proposed to pass on any reductions in 2017/18, although it is likely reductions will commence in 2018/19.

Council Tax

2.17 For the period 2010 to 2015 the Council had frozen its council tax at £187.12 a year for a Band D taxpayer. In taking this course of action, the Cabinet had borne in mind the difficult economic and financial climate that many of our residents were facing. However, during the period of the freeze our own financial position as a Council has deteriorated sharply. Our core Government funding has been cut drastically, with further large cuts to come. In addition, inflation has continued to affect many areas of the Council's costs, which resulted in council tax being increased by £5 in 2016/17 to £192.12 for a Band D taxpayer.

2.18 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. The referendum threshold for council tax increases is proposed at 2 per cent for all local authorities, as in 2016/17. However, shire districts will be allowed increases of up to and including £5, or up to 2 per cent, whichever is higher

2.19 Consumer price inflation is not a particularly useful guide to what is happening to the Council's costs. The most significant cost to this Council is in respect of its employee related costs – and in this area of expenditure, some very considerable cost increases are on the way. Pay awards are assumed to be in the region of 1% per annum and employer pension contributions are increasing by c. £400k cumulatively per annum.

2.20 With this in mind, 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.

2.21 The uncertainty surrounding the future of New Homes Bonus, which represents a significant proportion of our income, and the actual final local government settlement which is not likely to be announced until January 2017, could place a number of our discretionary services at risk.

2.22 Therefore, at this stage the Cabinet is proposing a 2.60% increase in council tax in 2017/18; an increase of £5.00 for the year for a Band D property.

Collection Fund

2.23 At this point in time, it is estimated that the Council's share of the Collection Fund surplus for 2017/18 is £128,000. Collection fund surpluses arise from higher than anticipated rates of collection of the council tax collection rates and the Council's actual share will be confirmed within the final budget proposals presented to Council in February 2017.

3. The Cabinet's general approach to the 2017/18 budget

3.1 In the current exceptionally difficult national funding situation, the Cabinet's overriding financial strategy has been, and is, to drive down the Council's costs. The Cabinet's aim is to hold down council tax as far as possible, while also protecting frontline services.

3.2 The Cabinet's budget strategy for 2017/18, approved at a meeting on 11th October 2016, included an estimate of £1.721m for the 2017/18 budget gap i.e. the financial gap between what the Council needs to spend to maintain services (including pay and price inflation) and the funding available assuming a 17.5% cut in government support.

3.3 The final assessment of the budget gap for 2017/18, based on the detailed budget preparation undertaken over recent months and the assumed financial settlement is £1.929m which takes into account the following variations:

- Additional council tax through increased taxbase £24k
- Reduction in recycling income £141k
- Supported growth proposals in 2016/17 £30k
- Additional staff related costs including pensions and apprentice levy £61k

3.4 The key aims in developing the approach to the budget were to:

- Do everything possible to protect frontline services with a modest increase in council tax

- Identify savings that can be achieved through reorganisation of service delivery or raising additional income rather than through service cuts

3.5 In preparing the interim budget proposals, the Cabinet and officers have considered the following:

- Prepared a budget projection under a general philosophy of no growth in services unless there is a statutory requirement or a compelling business case for an 'invest to save' scheme. The full list of proposals for growth, including one off initiatives, is included in Appendix 3.

- Provided for inflation for contractual, statutory, and health and safety purposes at an appropriate inflation rate where proven.

- Budgeted for pay inflation at 1% for 2017/18.

- Budgeted for an increase in Members allowances of 1% for 2017/18.

- Budgeted for superannuation increases in accordance with the triennial review 2016 which were in line with those forecast in October 2016 for the financial years 2017/18 and 2018/19.

- In April 2017, the Apprenticeship Levy will be introduced at 0.5% of the pay bill. The aim of the levy is to encourage growth in the number of Apprenticeships available nationally. The Council will be able to use some of the Levy to off-set apprentice training costs. The cost to the Council is estimated to be £10,000 per annum and has been built into the base budget.

- Increased income budgets for the Cemetery and Crematoria and Green Waste assuming an average increase in fees and charges of 2.0%.There is a further proposal to increase Green Waste charges to £42 per annum with a £3 early discount being offered to all customers who renew their subscription early.

- All other fees and charges, including car park charges, are subject to annual review by the REST management team. A target of £50k per annum has been established as part of the savings strategy approved to deliver a balanced budget.

- Assessed the impact of prevailing interest rates on the investment portfolio, the implications of which have been considered by the Treasury Management Panel.

3.6 As in previous years, the budget for the coming year is the result of a great deal of activity and hard work by officers and members throughout the year. The Cabinet has worked with the Executive Board to develop a longer term strategy for closing the funding gap and this is monitored regularly. The Cabinet's interim budget proposals for closing the budget gap in 2017/18, which are the result of this work, are detailed in Appendix 4, split into:

- Decisions already made by Cabinet/Council totalling £150,500 in savings or additional income.

- Proposals yet to be agreed by Council which are not built into the base budget, totalling £1,187,300. They comprise £787,300 of efficiency savings and additional income and an one-off voluntary repayment holiday on Delta Place of £400,000 to support the base budget.

3.7 The Bridging the Gap programme and the commissioning process have helped the Council to move towards a robust four-year strategy for closing the funding gap. The work done on leisure and culture services, shared services with partner councils, management restructuring and the accommodation strategy, as well as a number of smaller pieces of work, give the Council the opportunity to think ahead over a period of several years, rather than planning its budgets a year at a time.

3.8 In determining the budget strategy in October 2015, the Section 151 Officer recommended the creation of a specific earmarked reserve: a 'budget strategy (support) reserve', to provide greater resilience. This reserve secures the Council against short-term challenges which we know we will encounter in the coming years. One of these financial challenges is a drop in business rates income estimated due to redevelopment, with income levels recovering as development goes 'live' in 2017/18 and 2018/19. Another is the delay in securing car park income of £350k a year from the North Place development. These short-term challenges require a short-term response and it is therefore the Cabinet's intention to meet the projected shortfall in funding of £865k in 2017/18 from the budget strategy (support) reserve rather than by cuts in services or increases in charges which would have a long-term impact.

4. Treasury Management

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

4.2 Investment interest rates have reduced and will probably remain very low in the medium term until there is more economic certainty following Brexit. Returns from traditional fixed term cash deposits are minimal so growth will need to be from alternative investment sources such as investment in property assets.

4.3 Whilst the reduction in interest rates in August 2016 has resulted in a shortfall in investment interest, this has been offset by a reduction in temporary borrowing costs and reducing the interest payable to the Housing Revenue Account (HRA). With this in mind, for 2017/18 interest and investment income activity is assumed to remain broadly consistent with that now projected for 2016/17.

5. Reserves

5.1 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 presented to Council in February 2017. A projection of the level of reserves to be held at 31st March 2017 and 31st March 2018 respectively is detailed in Appendix 5.

5.2 The Cabinet is proactive in strengthening reserves when appropriate and necessary through the use of underspends and one-off income. 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.

6. Capital Programme

6.1 The interim capital programme for the period 2016/17 to 2019/20 is set out at Appendix 6.

6.2 The strategy for the use of its capital resources is led by our corporate priorities. The existing programme includes sums for infrastructure investment to be funded from the Civic Pride reserve and capital receipts and the construction of new homes through Cheltenham Borough Homes. It also includes the allocations agreed by the Council in April 2015 to facilitate the redevelopment to the Town Hall and the Crematorium, the redevelopment of the Shopfitters site, a new play facility at Pittville Park and an earmarked contribution to public realm works at Boots Corner.

6.3 In addition, subject to Full Council approval on 12th December 2016, the interim capital programme sets aside an allocation of £10m for enhancing its property portfolio with the aims of delivering economic growth and regeneration.

7. Property Maintenance Programme

7.1 The interim budget proposals include the 2017/18 property maintenance programme, which has been reviewed by the Asset Management Working Group, and the budget includes a revenue contribution of £600k to planned maintenance as detailed in Appendix 7.

8. Reasons for recommendations

8.1 As outlined in the report.

9. Alternative options considered

9.1 The Cabinet has considered many alternatives in arriving at the interim budget proposals. Opposition groups will be able to suggest alternative budget proposals for consideration by Council in February 2017.

10. Consultation and feedback

10.1 The formal budget consultation on the detailed interim budget proposals will be over the period **14th December 2016 to 13th January 2017.** 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 Business Plan and Community Plan and how they can be financed. The Overview and Scrutiny Committee will be invited to review the interim budget proposals in the meeting scheduled for January 2017 and any comments will be fed back to the Cabinet.

10.2 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 consider their full implications and to be built into the budget.

10.3 All comments relating to the initial budget proposals should be returned to the Section 151 Officer by the end of the consultation period for consideration by the Cabinet in preparing their final budget proposals. Consultation questionnaires will be available in key locations and for completion on line via the council's website. Comments can be e-mailed to **moneymatters@cheltenham.gov.uk**.

10.4 It is important that any political group wishing to make alternative budget proposals should discuss them, in confidence, with the Section 151 Officer (preferably channelled through one Group representative) to ensure that the purpose, output and source of funding of any proposed change is captured.

10.5 Given the financial pressures and the potentially very difficult decisions which will have to be made, it is very 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.

11. Performance management – monitoring and review

11.1 The scale of 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 delivery of services to 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.

11.2 The delivery of the savings workstreams included in the interim budget proposals, if approved by full Council will be monitored by the Budget Scutiny Working Group.

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Appendices	1. Risk Assessment 2. Summary net budget requirement 3. Growth 4. Savings / additional income 5. Projection of reserves 6. Capital programme 7. Programmed Maintenance programme
Background information	1. Budget Strategy and Process 2017/18 report to Cabinet 11th October 2016.

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	**Risk description**	**Risk Owner**	**Date raised**	**I**	**L**	**Score**	**Control**	**Action**	**Deadline**	**Responsible Officer**	**Transferred to risk register**
CR3	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	01/09/2010	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. This includes a target for cuts to services / activities amongst other work streams to deliver a balanced budget across the MTFS.	Ongoing	Chief Finance Officer	01/09/2010
CR105	If the Budget Deficit (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 Chief Finance Officer in the council’s Medium Term Financial Strategy	Chief Finance Officer	01/04/2016	4	3	12	Reduce	The MTFS is clear about the need to bolster reserves and identifies a required reserves strategy for managing this issue. In preparing the budget for 2017/18 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.	Ongoing	Chief Finance Officer	
CR107	If the government’s technical consultation	Chief Finance	01/04/2016	5	3	15	Reduce	The response to the government’s	Ongoing	Chief Finance Officer	

	New Homes Bonus – Sharpening the Incentive leads to a reduction for the payment period from 6 to 4 years then this could have an estimated negative financial impact of between £1.5m and £1.8m, impact on the planning process affecting the ability to approve new developments in a timely manner and impact on the council's ability to deliver core frontline services.	Officer						consultation has been submitted and the MTFS assumes a use of NHB that could be supported with 4 years rather than 6 years of NHB provided new development proceeds in line with forecasts.			
	If funding streams including New Homes Bonus, Business Rates and Revenue Support grant do not meet expectations or are reduced further then the budget gap may increase above current projections.	Chief Finance Officer	28/09/12	4	4	16	Reduce	Both NHB and Business Rates are subject to government consultations – both of which have been responded to by the council. MTFS projections are based on current intelligence and the risks around both income streams are articulated within the main body of the MTFS. Section 151 Officer will update Cabinet with latest information during the budget process and continue to take a prudent view of income levels used in budget projections.	Ongoing	Chief Finance Officer	

1.02	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 ability to grow the business rates in the town then the MTFS budget gap may increase.	Chief Finance Officer	14/09/12	4	3	12	Accept & Monitor	The Council joined the Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by the Council. The Gloucestershire S151 Officers continue to monitor business rates income projections and the performance and membership of the pool. Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.	Ongoing	Chief Finance Officer	
1.03	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.	Chief Finance Officer	15/12/10	3	3	9	Reduce	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 income generation will be prioritised to mitigate the risk of income fluctuations.	Ongoing	Chief Finance Officer	

1.04	If when developing a longer term strategy to meet the MTFS, the Council does not make the public aware of its financial position and clearly articulates why it is making changes to service delivery then there may be confusion as to what services are being provided and customer satisfaction may decrease.	Director of Resources	15/12/10	3	3	9	R	As part of the delivery of the BtG / commissioning programmes a clear communication strategy is in place. In adopting a commissioning culture the council is basing decisions on customer outcomes which should address satisfaction levels.	Ongoing	Communications team to support the BTG programme	
1.05	If the Council does not carefully manage the commissioning of services then it may not have the flexibility to make additional savings in the MTFS and a greater burden of savings may fall on the retained organisation	Head of Paid Service	15/12/10	3	3	9	Reduce	Contracts, SLAs and other shared service agreements will need to be drafted and negotiated to ensure that there is sufficient flexibility with regards to budget requirements	Ongoing	Chief Finance Officer	
1.07	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.	Chief Finance Officer	13/12/10	4	4	16	Reduce	Work with GOSS and county wide CFO's to monitor changes to local government financing regime including responding to government consultation on changes to New Homes Bonus and Business Rates.	Ongoing	Chief Finance Officer	

NET GENERAL FUND BUDGET 2017/18

GROUP Projected cost of 'standstill' level of service	2016/17 ORIGINAL £	2016/17 REVISED £	2017/18 ORIGINAL £
Head of Paid Service	6,959,747	7,347,247	7,450,000
Environmental & Regulatory Services	3,188,958	3,639,984	3,240,152
Resources Directorate	5,347,705	5,708,705	5,699,275
Programme Maintenance	0	0	600,000
Bad debt provision	25,000	25,000	20,000
	15,521,410	**16,720,936**	**17,009,427**
Capital Charges	(738,100)	(842,500)	(842,500)
Interest and Investment Income	407,500	407,500	407,500
Use of balances and reserves	(1,164,152)	(2,259,278)	(323,627)
Proposed Growth recurring - Appendix 3			30,000
Savings / Additional income identified - Appendix 4			(1,337,800)
Use of Budget Strategy Support reserve	(273,920)	(273,920)	(865,339)
NET BUDGET	**13,752,738**	**13,752,738**	**14,077,661**
Deduct:			
Revenue Support Grant	(1,272,960)	(1,272,960)	(544,030)
National Non-Domestic Rate	(2,838,470)	(2,838,470)	(3,200,400)
National Non-Domestic Rates - S31 Grants	(530,575)	(530,575)	0
National Non-Domestic Rate - 2014/15 surplus / deficit	220,026	220,026	0
National Non-Domestic Rate - 2015/16 surplus / deficit	809,477	809,477	0
Local Counci Tax Support- Transitional grant	(74,460)	(74,460)	(74,197)
New Homes Bonus	(2,151,500)	(2,151,500)	(2,050,000)
Less: Grant allocated to Parishes (council tax support)	10,269	10,269	10,269
Collection Fund Contribution	(163,800)	(163,800)	(128,000)
	(5,991,993)	**(5,991,993)**	**(5,986,358)**
NET SPEND FUNDED BY TAX	**7,760,745**	**7,760,745**	**8,091,303**
Council Tax income assuming increase of £5	**7,760,745**	**7,760,745**	**8,091,303**
Band ‘D’ Tax	£192.12	£192.12	£197.12
Increase per annum			£5.00
Increase per week			£0.10
% Rise			2.60%
Gross Collectable Tax Base	40,906.60	40,906.60	41,567.20
Collection Rate %	98.75%	98.75%	98.75%
Net tax base	40,395.30	40,395.30	41,047.60

PROPOSALS FOR GROWTH **Appendix 3**

Ref	Division	Project Name	Description				Capital Costs
				2017/18	2018/19	2019/20	2017/18
				£	£	£	£
	SUPPORTED GROWTH						
1	Commissioning	Community Pride	Community Pride 'bidding' budget for allocation in future years	30,000	30,000	30,000	
2	ICT Shared Service	IT Infrastructure and Hardware	On-going ICT infrastructure and hardware reaplacement strategy rolling programme				100,000
				30,000	**30,000**	**30,000**	**100,000**

Appendix 4

SAVINGS STRATEGY					
	2016/17	2017/18	2018/19	2019/20	Total 2017/18 to 2019/20
Total Current MTFS Funding Deficit	**1,754,619**	**1,929,220**	**972,253**	**494,526**	**3,395,999**
1. Regulatory & Environmental Services Transformation					
a) Cost of service reduction			157,500		157,500
b) Review of fees & charges and income generation opportunities		50,000	50,000	50,000	150,000
c) Transformation of service delivery				100,000	100,000
Total	**0**	**50,000**	**207,500**	**150,000**	**407,500**
2. Rolling Approach to Commissioned Services					
a) Review of Internal Audit and Corporate Fraud Unit		43,000			43,000
b) Review of current shared / commissioned services e.g. One Legal, The Cheltenham Trust, Ubico, Cheltenham Borough Homes			100,000		100,000
c) Additional waste target from new joiners	29,000		40,000		40,000
d) Increase Green Waste by £4 and increase Discount to £3		40,000			40,000
e) Procurement savings - reduction in insurance premiums		60,000			60,000
Total	**29,000**	**143,000**	**140,000**	**0**	**283,000**
3. Review of Accommodation					
a) Depot - rationalisation of site			100,000	200,000	300,000
b) Municipal offices - relocation and site regeneration	100,000			200,000	200,000
Total	**100,000**	**0**	**100,000**	**400,000**	**500,000**
4. Economic Growth / Investment					
a) Investment portfolio income generation			100,000	200,000	300,000
b) West Cheltenham - increase in business rates				25,000	25,000
c) North West Cheltenham - increase in business rates				25,000	25,000
d) Business Rates additional target through pooling		200,000	100,000	50,000	350,000
e) North Place development income				350,000	350,000
f) Increase in car parking revenue based on volume growth		200,000			200,000
Total	**0**	**400,000**	**200,000**	**650,000**	**1,250,000**
5. Service Cuts					
a) Review and decrease the cost of services / activities		16,000	200,000	200,000	416,000
b) Property Services - reduction in cost of service		25,000			25,000
c) Commissioning - reduction in cost of service		50,000	65,000		115,000
d) Corporate Overheads - reduction in costs		8,300			8,300
e) Removal of Parish Council Tax Support Funding			5,100	5,100	10,200
Total	**0**	**99,300**	**270,100**	**205,100**	**574,500**
6. Use of Reserves					
a) Use of one-off payment holiday on VRP		400,000			400,000
b) MRP saving through change in methodology		95,000			95,000
* Use of Budget Strategy (Support) Reserve	273,919	865,339	876,992		1,742,331
* B/Fwd deficit funded by Budget Strategy (Support) Reserve in previous year		(273,919)	(865,339)	(876,992)	-2,016,250
Total	**273,919**	**1,086,420**	**11,653**	**(876,992)**	**221,081**
Previously Delivered Savings Targets					
Use of NHB to support base budget	700,000				0
L&C Review - trust savings	231,500	150,500	43,000		193,500
2020 Vision - Shared Services	150,900				0
Discontinuation of partnership contribution to 'Safe at Home' contract	32,000				0
Democratic Services Unit - reduction in cost of service	10,900				0
GOSS retendering of banking arrangements	10,000				0
Review of Investment Property	10,000				0
Vehicle Operating Lease - reduction in base budget	97,300				0
Central Depot Bulking Facility	46,000				0
Advertising & Sponsorship contract	63,100				0
Total	**1,351,700**	**150,500**	**43,000**	**0**	**193,500**
Total Identified Savings/Income	**1,754,619**	**1,929,220**	**972,253**	**528,108**	**3,429,581**
Target one-off underspend to boost budget strategy reserve	(350,000)				
Shortfall / (Surplus) against MTFS Funding Gap	**(350,000)**	**0**	**0**	**(33,582)**	**(33,582)**

NB: traffic lights denote risk associated with delivery

		Purpose of Reserve	31/3/16	2016/17 Movement Revenue	2016/17 Reserve Re-alignment	2016/17 Movement Capital	31/3/17	2017/18 Movement Revenue	Proposals to Support 2017/18 Budget	2017/18 Movement Capital	31/3/18
			£	£	£	£	£	£	£	£	£
	EARMARKED RESERVES										
	Other										
RES002	Pension Reserve	To fund future pension liability	-177,246				-177,246				-177,246
RES003	Economic Development & Tourism Reserve	To fund future economic and tourism studies	-154,200	50,000			-104,200				-104,200
RES005	Keep Cheltenham Tidy Reserve	Keep Cheltenham Tidy campaign - scheme contributions	-626	626			0				0
RES006	Cultural Development Reserve	To fund future arts facilities/activity	-22,361				-22,361				-22,361
RES008	House Survey Reserve	To fund cyclical housing stock condition surveys	-83,991	-5,000			-88,991	-5,000			-93,991
RES026	Social Housing Marketing Assessment (SHMA) Reserve	To fund Social Housing Marketing Assessment WORK	-41,034	-2,500			-43,534	-2,500			
RES009	Twinning Reserve	Twinning towns civic visits to Cheltenham	-11,279				-11,279				-11,279
RES010	Flood Alleviation Reserve	To fund future flood resilience work, delegated to the Flood working group for allocation	-54,227	50,000			-4,227	4,227			0
RES012	Pump Room Insurance Reserve	Insurance reserve for stolen jewellery / damaged collections	0				0				0
RES013	TIC Shop Reserve	Accumulated profits held for TIC shop improvements	0				0				0
RES014	GF Insurance Reserve	To fund risk management initiatives / excess / premium increases	-91,606				-91,606				-91,606
RES016	Joint Core Strategy Reserve	To fund Joint Core Strategy	-68,780	50,000			-18,780				-18,780
RES018	Civic Pride Reserve	To pump prime civic pride initiative / match funding	-400,288	105,100		0	-295,188	105,100			-190,088
RES020	Ubico Reserve	Replacement fund	-94,000				-94,000				-94,000
RES021	Cheltenham Leisure & Culture Trust	To cover unforseen deficits in operations within new trust	-160,600	10,000			-150,600				-150,600
RES022	Homelessness Reserve	To cover future homelessness prevention costs	-41,100				-41,100				-41,100
RES023	Transport Green Initiatives Reserve	To fund Transport Green Initiative Schemes	-33,125				-33,125				-33,125
RES024	New Initiatives reserve	To fund 2020 Vision transformation programme	-400,000	-200,000			-600,000	-300,000			-900,000
RES025	Budget Strategy (Support) Reserve	To support budget strategy	-973,147	273,920			-699,227				-699,227
			-2,807,610				**-2,475,464**				**-2,627,603**
	Repairs & Renewals Reserves										
RES201	Commuted Maintenance Reserve	Developer contributions to fund maintenance	-315,511	59,000			-256,511	59,000			-197,511
RES202	Highways Insurance Reserve	County highways - insurance excesses	0				0				0
RES203	Revs & Benefits IT Reserve	Replacement fund to cover software releases	0				0				0
RES204	I.T. Repairs & Renewals Reserve	Replacement fund	-5,236	5,236			0	-37,200			-37,200
RES206	Delta Place Reserve	maintenance fund		-100,000			-100,000	-100,000			-200,000
RES205	Property Repairs & Renewals Reserve	20 year maintenance fund	-1,495,198	760,900			-734,298	600,000			-134,298
			-1,815,946				**-1,090,810**				**-569,010**
	Equalisation Reserves										
RES101	Rent Allowances Equalisation	Cushion impact of fluctuating activity levels	0				0				0
RES102	Planning Appeals Equalisation	Funding for one off apeals cost in excess of revenue budget	-207,932				-207,932				-207,932
RES103	Licensing Fees Equalisation	Past income surpluses to cushion impact of revised legislation	0				0				0
RES104	Interest Equalisation	To cover any additional losses arising in the value of Icelandic deposits and/or to reduce the borrowing arising from the capitalisation of the losses	-299,855				-299,855				-299,855
RES105	Local Plan Equalisation	Fund cyclical cost of local plan inquiry	-107,230				-107,230				-107,230
RES106	Elections Equalisation	Fund cyclical cost of local elections	-152,100	60,000			-92,100				-92,100
RES107	Car Parking Equalisation	To fund fluctuations in income from closure of car parks	-330,000	200,000			-130,000				-130,000
RES108	Business Rates Retention Equalisation	To fund fluctuations in income from retained business rates	-1,263,916	1,123,916			-140,000				-140,000
			-2,361,032				**-977,116**				**-977,116**

		Purpose of Reserve	31/3/16	2016/17 Movement Revenue	2016/17 Reserve Re-alignment	2016/17 Movement Capital	31/3/17	2017/18 Movement Revenue	Proposals to Support 2017/18 Budget	2017/18 Movement Capital	31/3/18
			£	£	£	£	£	£	£	£	£
	Reserves for commitments										
RES301	Carry Forwards Reserve	Approved budget carry forwards	**-312,500**	312,500			**0**				**0**
	CAPITAL										
RES402	Capital Reserve - GF	To fund General Fund capital expenditure	**-182,097**	-220,500			**-402,597**				**-402,597**
	TOTAL EARMARKED RESERVES		**-7,479,185**				**-4,945,987**				**-4,576,326**
	GENERAL FUND BALANCE										
B8000 - B8240	General Balance - RR	General balance	-1,358,591				-1,358,591				-1,358,591
			-1,358,591				**-1,358,591**				**-1,358,591**
	TOTAL GENERAL FUND RESERVES AND BALANCES		**-8,837,776**	**2,533,198**	**0**	**0**	**-6,304,578**	**323,627**	**0**	**0**	**-5,934,917**
B8700 - B8716	**General Fund Capital Receipts**		**-9,211,519**				**-9,211,519**				**-9,211,519**

2017/18 Programme Maintenance - Original Budgets

Property Name	Description	Original £
All Properties (H&S)	Fire risk assessment works arising from reports	20,000
	Consequential works arising from legionella risk assessments/ inspections	12,000
	Consequential works arising from asbestos risk assessments/ inspections	10,000
	Installation of safety filming to doors and windows as regulation 14 H&SW act	3,000
	Fixed Wiring inspections/ EIC Certification	15,000
	Consequential works arising from Statutory Inspections	15,000
	Energy reduction schemes LED, controls, insulation etc	10,000
	Contingency fund for compliance/ H&S remedial work	10,000
Pittville Pump Room	Redecorations to external elevations at high level	35,000
	Remodel RWG outlet to Loggia where water staining and make good decorations	8,000
	Remedial repairs to ornate internal plasterwork to ceiling	5,000
	Rebuild retaining wall outside of kitchen	3,500
	Inestigate deflection to first floor east room	1,800
	Redecorations to reception area and floor covering renewal	5,000
	Replace CCTV camera to rear car park to capture whole area	1,200
	Redecorations to external high-level windows inc., minor repairs	25,000
Pittville Recreation Centre	Gym/Dance Studio AHU (additional to 16/17 budget as original budget inadequate)	10,000
	Replace damaged fencing to CHP external radiator	4,000
	Tree works to Hudson Street (combined with Green Space contribution)	22,000
	Cathodic protection to Basement area (ongoing structural repair works)	20,000
	Repairs to Wet changing areas floor tiling	12,000
	General redecorations	5,000
	Repairs to poolside tiling	10,000
	Main hall - Seat replacements (ongoing)	9,000
Town Hall	Renew intruder alarm heads	1,500
	Remedial repairs to cellar basement to prevent leaking	3,500
	Remedial repairs to CCTV system	2,000
	Roof repairs	20,000
All Properties (Car Parks)	Repairs to car parks pot hole and other misc repairs	10,000
Arle Nursery	Install safety filming to glazing (legislation)	10,300
	Ongoing phased replacement of irrigation pipework	6,000
	Reinstate automatic watering facility to Tunnels 2,3 &4	3,000
	Reapirs/refurbishment of Polythene covering/timber frame	2,500
Art Gallery & Museum	Improvements to fire compartmentation from FRA report	35,000
Municipal Offices	Overhaul windows - will require access equipment	25,000
	FRA upgrade to doors	16,000
	Renew reception lobby flooring	15,000
	Renew defective main roof skylights (by lift motor room)	4,000
	Provision of additional security to the basement area and fire escape stairs	3,000
Cheltenham Crematorium	Road resurfacing programme	20,000
	Repairs and decoration to Grade II Arbour houses	15,000
Honeybourne railway bridges	Remedial repairs to bird netting	6,000
Pilley Footbridge	Remedial structural repairs and re-painting	110,000
Burrows Pavilion	Replacement of non-slip floor coverings in shower areas	3,500
QE11 Playing Field	Annual removal of leachate contaminates from catch-pit and disposal	1,500
Cenotaph War Memorial	DOF Stone Cleaning	4,200
St Mary's Mission	Repainting & remedial repairs to rendering	3,500
Long Gardens	Restoration of stone base to lamp standards	8,000
Total Programme Maintenance (agreed by AMWG)		**600,000**

Cheltenham Borough Council

Cabinet – 13th December 2016

Housing Revenue Account - Revised Forecast 2016/17 and Interim Budget Proposals 2017/18 for Consultation

Accountable member	**Cabinet Member for Finance, Rowena Hay**
Accountable officer	**Section 151 Officer, Paul Jones**
Ward(s) affected	**All**
Key Decision	**Yes**
Executive summary	**This report summarises the Housing Revenue Account (HRA) revised forecast for 2016/17 and the Cabinet's interim budget proposals for 2017/18 for consultation.**
Recommendations	**1. Note the revised HRA forecast for 2016/17.** **2. Approve the interim HRA budget proposals for 2017/18 (Appendix 2) for consultation including a proposed rent decrease of 1% and changes to other rents and charges as detailed within the report.** **3. Approve the proposed HRA capital programme for 2017/18 as shown at Appendix 3.** **4. Delegate authority to the Section 151 Officer, in consultation with the Cabinet Member for Finance, to determine and approve any additional material that may be needed to support the presentation of the interim budget proposals for consultation.** **5. Seek consultation responses by 26th January 2017.**

Financial implications	As contained in the report and appendices. **Contact officer: Paul Jones.** **E-mail: paul.jones@cheltenham.gov.uk** **Tel no: 01242 775154**
Legal implications	As this report proposes an interim budget for consultation purposes, there are no specific legal implications at this stage. **Contact officer: Peter Lewis** **E-mail: peter.lewis@tewkesbury.gov.uk** **Tel no: 01684 272012**

HR implications (including learning and organisational development)	No direct HR implications arising from this report. **Contact officer: Julie McCarthy** **E-mail: julie.mccarthy@cheltenham.gov.uk** **Tel no: 01242 264355**
Key risks	As outlined in Appendix 1
Corporate and community plan Implications	The aim of the interim budget proposals is to direct resources towards the key priorities identified in the Council's Corporate Business Plan.
Environmental and climate change implications	The draft budget contains proposals for improving the local environment particularly in addressing the issue of energy reduction in Council owned dwellings

1. Introduction

The Council's Constitution requires that the Cabinet prepare an interim budget for consultation before it makes recommendations to full Council in February 2017. The Cabinet is then required to draw up its firm budget proposals having regard to the responses it has received during the consultation period, and its report to Council in February 2017 should reflect the Cabinet's response to such comments.

2. Background

2.1 The 2016/17 budget report approved by Council in February 2016 contained CBH proposals to mitigate the estimated loss of £6.7m in rent income (compared with that forecast under the previous rent policy) in the four year period from April 2016 to March 2020 following the introduction of the Government's rent reduction policy (Housing providers being required to reduce rents by 1% per annum each year within that period).

2.2 The proposals recommended a balanced approach requiring CBH management and maintenance savings of £1.7m, a re-alignment of the capital programme reducing outlay to March 2020 by £2.7m, the use of revenue reserves totalling £2.2m and other cost savings of £0.1m.

2.3 This approach would enable CBH to:-

- Maintain existing service levels
- Retain the decent homes standard throughout the stock
- Deliver the major windows and doors replacement programme
- Complete the current new build programme to March 2018
- Leave at least £1.5m reserves as a contingency.

3. Progress on housing policy changes

Significant changes in Government policy were contained in the Welfare Reform & Work Act 2016 and the Housing & Planning Act 2016. These acts established the legal framework for the policy changes but much of the detail is still to follow in regulations to be published by the Secretary of State. The current position on the implementation of the most significant changes is as follows:-

- **Rent reduction**

  Rents will again be reduced by 1% in April 2017 being the second year of the four year policy. The Government has not given any further information on rent policy from April 2020 onwards.

- **Extension of Right to Buy to Housing Associations**

  A pilot scheme with 5 housing associations offering up to 600 homes has been undertaken in the current year. An evaluation of the pilot scheme will then inform final regulations for the full scheme to be launched next year.

- **HVAS (High Value Asset Sales)**

  Local authorities will be required to sell higher value void properties to fund the cost of the RTB extension. The concept is that part of the gross proceeds will be retained by the Council to cover the attributable debt of the property and potentially provide some of the funding for a replacement, with the remainder to Government as part of an annual predetermined levy. Stock valuation and void data was requested by DCLG in December 2015 to enable them to formulate a scheme but the Housing Minister has now confirmed that implementation will be further delayed and no payment will be required from local authorities in 2017/18. There are still serious concerns about the potential scale of the levy which could pose a significant threat to future HRA business plans.

- **Pay to Stay**

  The legislation provided for households outside London earning more than £31,000 p.a. to face a rent increase of 15p for each additional £1 of income above the threshold, up to full market rent. The additional rent receivable by local authorities would be paid to Government net of administrative costs. However the Government has now decided not to proceed with a compulsory approach. Local authorities and housing associations will continue to have local discretion as to whether they wish to implement such a scheme. The Government remains committed to introducing the mandatory use of fixed term tenancies for new tenants and expects Councils to take into account the financial circumstances of a household when looking at this, and that tenancies should be targeted on those with lower incomes.

4. HRA Business Plan – Financial Projections

4.1 The financial projections in the 30 year HRA Business Plan have been updated to reflect:-

- Impact of 2015/16 final accounts.
- The revenue and capital impact of the current new build programme (overall cost £9m.), including the funding strategy approved by the Section151 officer which uses available capital receipts and revenue balances before resorting to additional borrowing within the debt cap.

- Latest stock survey information for the need to spend on the existing stock.

The plan also includes the following assumptions:-

- Consumer Price Index (CPI) at 2% per annum for rent increases post 2020.
- RTB sales at 20 per annum decreasing to 10 per annum in the longer term.

4.2 A range of scenarios have then been tested within the model to show the sensitivity to changes to rent policy post 2020, this being the single highest risk to the business plan. Initial modelling suggests:-

- Reversion back to a policy of annual rent increases 1% above CPI would deliver increasing surpluses as anticipated in the original self-financing settlement, albeit delayed by the 4 year rent reductions. Within the long term plan existing debt of £33m could still be repaid leaving unallocated reserves approaching £100m at year 30.
- Projections assuming future rent increases at the level of CPI (using 2% as the long term norm) would be insufficient to accrue any significant reserves or repay debt. Further cost efficiencies would be required to retain long term viability and existing debt would need to re-financed. This scenario is being adopted as the base position for the revised 30 year business plan model.
- An ongoing trend of rent increases below CPI would render the business plan unviable in the medium term without significant reductions to major repair expenditure and/or reduced levels of service.

5. 2016/17 Revised Forecast

5.1 The forecast at Appendix 2 shows an increase in the operating surplus for the year of £417,300 compared to the original budget. Significant variations within the 2016/17 revised forecast (>£30,000) have been identified in budget monitoring reports and are summarised below:-

Budget Heading	**Change in resources**
	£'000
Repairs & Maintenance – decrease in forecast expenditure following reduced demand in year to date and CBH cost efficiencies	300
Bad Debt Provision – lower arrears than anticipated reflect delays in implementation of welfare reform and roll out of universal credit	50
Rent Income – additional rent from new affordable rented properties completed in year	65
Other variations to expenditure/income	2
Net increase in Operating Surplus for Year	**417**

5.2 The increase in the use of revenue contributions to fund capital expenditure by a further £736,900 reflects the approved funding strategy for new build and acquisitions detailed in paragraph 4.1 above. As a consequence the balance of revenue reserves held at 31st March 2017 is now forecast to be £6,052,000.

6. 2017/18 Budget Proposal

6.1 As detailed in paragraph 2 above rents will decrease by 1% in April 2017. The rent estimates assume a 1% void rate and 20 RTB sales in the year.

6.2 Estimates of service charge income currently assume:-

- No increase for grounds maintenance.
- An increase of 1.5% for cleaning.
- Overall charges for power to communal areas are expected to increase by up to 6% following the completion of a new 3 year fixed tariff deal that commences in March 2017.

6.3 Following improvements to communal boilers and building insulation and a continuing trend of milder winters it is proposed that fuel charges for communal gas heating will be further reduced by 5% from April 2017.

6.4 Significant changes to the HRA (>£30,000) in 2017/18 as compared to the revised forecast for 2016/17 are itemised in the table below. There is a forecast reduction of £587,200 in the operating surplus to £1,407,200.

Budget Heading	**Change in resources**
	£'000
Increase in general management – includes higher insurance premiums for the stock and a contribution to the debt advice contract	(91)
Decrease in CBH management fee	59
Increase in repairs and maintenance (contingency for additional demand)	(120)
Increase in bad debt provision – anticipated impact of welfare reform	(85)
Depreciation – cost of inflation	(139)
Decrease in rents (rent reduction & net impact of stock loss offset by new build)	(211)
Net decrease in Operating Surplus for the Year	**(587)**

6.5 Revenue contributions totalling £2,831,500 will be required to fund capital expenditure in the year, reducing revenue reserves to £4,627,700 at 31st March 2018.

7. Cheltenham Borough Homes (CBH) - Fees

7.1 The draft budget includes provision for the management fees and other charges payable to CBH. The company has submitted its own detailed budget and fee proposal for 2017/18, which show a breakeven position on services provided to the Council.

7.2 The four year HRA plan referred to in section 2 above contained proposals for CBH management and maintenance costs which anticipated savings of £1.7m. over the period (management £0.7m plus maintenance £1m) The company is well advanced in its improvement plans and is now forecasting further management cost savings of £135,000 for the three years to March 2020.

As indicated in paragraph 5.1 above a combination of service efficiencies and lower demand is expected to reduce maintenance costs by £300,000 in the current year. Although the 2017/18 budget includes an increase of £120,000 on that forecast as a contingency for increased demand it still represents a saving of £171,000 on the projection in the four year plan. Similar savings in the following two years give a total further budget reduction to March 2020 of £755,000.

7.3 The cost of delivering the estate cleaning contract has risen by 1.5% (£5,000) which reflects the anticipated cost of the pay award and national insurance contributions.

8. CBH Plans & Progress

CBH has made substantial progress in plans to modernise and transform the housing management and maintenance services delivered to tenants. The key work streams that are driving these improvements are:-

- **Service Improvement programme –** a comprehensive review of all IT systems and associated manual processes to drive efficiency in all areas of the business. A tender for the procurement of fully integrated software has been prepared with the intent to go to market early in 2017. The plan is to complete implementation within 18 months of appointing a supplier.
- **Asset management –** CBH will be using improved data collection to assess the financial and operational impact of each unit of stock. This will inform future option appraisals when a property becomes void and guide strategic debate on the best use of HRA assets. This will be delivered as part of the above mentioned service improvement programme.
- **Reactive repairs –** Improvements in working practices and procurement and investment in mobile technology have already generated cost savings, reflected in the lower maintenance budgets detailed in paragraph 7.2 above. There is an ongoing focus to drive further efficiencies in this area.
- **Garage review –** a long term business plan which will consider future marketing, licence conditions, rent and deposits levels and investment – to be completed in 2017/18 financial year
- **Welfare reform/Universal Credit –** continuing to monitor changes, model impacts on residents and ensure we provide support as and when required.
- **Senior management review –** this has been completed with streamlined teams at both Executive and Leadership team level now in place. This will enable quicker decision making and a more focused approach to delivering continuous improvement.
- **Accommodation strategy –** a new strategy has been developed which seeks to reduce overall costs whilst also supporting more effective working practices across CBH. The aspiration is to rationalise accommodation by March 2020.
- **People strategy –** a full review of how the company looks after staff to ensure they have the skills and support to deliver the best possible service to our customers. The strategy will be written by March 2017 and its actions delivered over the subsequent 3 year period.
- **New supply –** given that resources are likely to be constrained in the medium term there is an emphasis on identifying new opportunities to increase affordable housing in the town to meet local need.

9. Capital Programme

9.1 The revised capital programme for 2016/17 reflects the completion of schemes carried forward from the previous year as previously reported to Cabinet and further variations identified during the year.

9.2 The detailed capital programme for 2017/18 and indicative programmes for the following two years are shown at Appendix 4. These reflect the investment requirements identified via stock condition surveys and the recent review of the 30 year capital programme.

9.3 The proposed funding of the capital programme, together with a statement of balances on the major repairs reserve, is shown at Appendix 3. The main sources of funding remain the major repairs reserve and contributions from the revenue account. The Government's policy to stimulate RTB has increased the availability of capital receipts. An element of those receipts, which is attributable to the debt held on each sold property, can be used for any HRA purpose and is used to finance capital expenditure on the existing stock.

9.4 Receipts from non RTB disposals and those retained through the one for one replacement agreement with the Government are held separately for investment in new affordable housing.

9.5 Appendix 4 also gives estimates of new build expenditure and funding assumptions for the period to 31st March 2020. The first new build scheme, Garage Sites 2a delivering 10 units of affordable housing, was completed this year to be followed by the Swindon Road development. Two more garage site schemes are being progressed. A proposed scheme at Whaddon Road is currently at outline design stage with a bid for HCA grant having been submitted.

9.6 The annual funding plans for new build expenditure will be determined by the Section 151 Officer ensuring maximum benefit and cost efficiency.

10. Reserves

10.1 The recommended minimum revenue balance to cover contingencies is £1.5m. This figure was determined in 2012 at the start of the self-financing regime and equates to approximately £330 per unit of stock which is very much in line with the sector norm. Key risks other than significant changes to Government policy primarily relate to property damage. The stock is insured for fire and wet perils. The three year projections forecast a reserve balance of £2,340,400 at 31st March 2020.

11. Conclusion

11.1 The potential benefits of the self-financing settlement have been significantly eroded by the change in the Government's social rent policy. It remains unclear whether the additional operating surpluses forecast in the previous 30 year business plan will be restored after 2020.

In addition, there is significant future uncertainty regarding the impact of the High Value Asset Sales Levy.

Until there is more certainty re these 2 key areas it is recommended that focus should be concentrated on the medium term, ensuring that:-

- existing stock is maintained at the decent homes standard.
- the improved level of tenant and leaseholder services is retained.
- the Council continues to assess opportunities to increase new supply.

CBH continues to work to the four year plan which will deliver these key objectives despite the significant reduction in forecast rent income. The additional savings identified by the company will strengthen the financial position of the HRA in the medium term.

A close watching brief will be maintained regarding the implementation of a number of government policies so that the impact can be modelled as soon as possible and appropriate action taken to maintain the viability and operational delivery of the HRA.

12. Consultation process

12.1 The Council is proposing to consult on these budget proposals during the period to 26th January 2017.This extended period will allow CBH to respond at their Board meeting on 25th January 2017.The results from this consultation will be fed back to the Cabinet and taken into account in the formulation of the final budget proposals.

12.2 As part of the interim consultation process the Cabinet's proposals will be included on the Council's web site, made available at the Municipal Offices, Area Offices and publicised through the local press. All interested parties will be encouraged to respond. Consultation meetings will held with both tenant and leaseholder representatives.

12.3 In preparing the consultation document it may be helpful to provide supplementary information, for instance relating to the main changes in the budget. It is therefore recommended that the Section 151 Officer and Cabinet Member for Finance be given delegated authority to approve any supplementary information for consultation.

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Appendices	1. Risk Assessment 2 HRA Operating Account 3 Major Repairs Reserve and HRA Capital Programme (summary) 4 HRA Capital Programme (detail)
Background information	1. HRA 30 year Business Plan 2. CBH Budgets and Plans 2017/18

Risk Assessment - Interim HRA budget 2016/17 Appendix 1

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1.01	If the compulsory sale of high value properties depletes significant numbers and specific types of stock, there will be a significant impact upon both stock availability and financial viability.	Tim Atkins	December 2015	4	4	16	R	Further detail is awaited from Government on the implementation of this new initiative. Potential measures to offset the impact are currently being investigated by CBH management.	Mar 2018	CBH through management agreement	
1.02	If CBH are unable to deliver savings to offset lower income as a consequence of 4 year rent reductions	Tim Atkins	December 2015	5	3	15	R	Implementation of savings plan will be closely monitored by CBH with periodic reports on progress being submitted to Council officers	Mar 2020	CBH through management agreement	
1.03	If there is a further change to the Government's social rent policy that reduces anticipated rent income	Tim Atkins	December 2015	4	3	12	R	Any additional loss of income will need to be mitigated by further savings	Mar 2020	CBH through management agreement	
1.04	If welfare reforms have a greater impact on tenants than anticipated and planned for, it may increase the level of debt or impact on vulnerable families	Tim Atkins	December 2012	3	4	12	R	The HRA budget includes specific resources to control rent arrears and support tenants through Welfare Reform/Universal Credit.	Mar 2018	CBH through management agreement	
1.05	If void rent loss is higher than estimated it will impact on assumed rent income in the HRA	Tim Atkins	December 2012	3	2	6	R	Demand for social housing remains high with significant waiting list. Quality of accommodation needs to be maintained and changes in tenancy	Mar 2018	CBH through management agreement	

								termination rates monitored			
1.06	If the demand for reactive repairs increases there may be insufficient budget to meet demand	Tim Atkins	December 2012	4	3	12	R	Maintain robust stock condition data. Major peril to the stock is fire/flood which is covered by appropriate insurance.	Mar 2018	CBH through management agreement	
1.07	If there is insufficient capacity to deliver the ambitious programme of building works then the programme may not be deliverable	Tim Atkins	December 2012	2	3	6	R	The HRA budget includes specific resources to address capital programme works	Mar 2018	CBH through management agreement	
1.08	If the capital receipts held from RTB sales under the retention agreement with DCLG are not used within 3 years of receipt they are repayable with interest to the Government	Tim Atkins	December 2013	3	2	6	R	New build programme has commenced on site, officers are monitoring spend against that required to retain receipts. Cabinet has approved an alternative strategy of acquiring property to eliminate potential repayment	Mar 2018	CBC/CBH via the Operational Working Group	

HRA OPI NT

	2016/17 Original	2016/17 Forecast	2017/18 Estimate	2018/19 Projections	2019/20 Projections
	£	£	£	£	£
EXPENDITURE					
General & Special Management	2,097,900	2,076,500	2,168,000	2,161,200	2,191,800
ALMO Management Fee	5,142,000	5,142,000	5,083,000	5,107,000	5,139,000
Rents, Rates, Taxes and Other Charges	60,000	59,000	59,000	59,000	59,000
Repairs & Maintenance	4,139,000	3,838,600	3,958,800	3,994,800	4,024,100
Provision for Bad Debts	200,000	150,000	235,000	280,000	320,000
Interest Payable	1,684,700	1,684,700	1,684,700	1,684,700	1,684,700
Depreciation of Dwellings	5,423,100	5,381,500	5,511,400	5,659,000	5,819,100
Depreciation of Other Assets	151,900	174,400	183,500	192,900	197,100
Debt Management Expenses	79,800	79,800	80,000	81,600	83,200
TOTAL	**18,978,400**	**18,586,500**	**18,963,400**	**19,220,200**	**19,518,000**
INCOME					
Dwelling Rents	18,922,000	18,987,300	18,775,400	18,624,800	18,484,400
Non Dwelling Rents	422,000	422,000	423,600	428,700	433,900
Charges for Services and Facilities	835,100	824,400	857,000	873,700	890,800
Supporting People Grant	90,000	79,200	62,500	31,300	-
Feed in Tariff from PV Installations	205,100	207,200	213,400	219,800	226,400
TOTAL	**20,474,200**	**20,520,100**	**20,331,900**	**20,178,300**	**20,035,500**
NET INCOME FROM SERVICES	1,495,800	1,933,600	1,368,500	958,100	517,500
Amortised Premiums/Discounts	7,300	7,300	-	-	-
Interest Receivable	74,000	53,500	38,700	30,000	20,000
NET OPERATING SURPLUS	1,577,100	1,994,400	1,407,200	988,100	537,500
Appropriations					
Revenue Contributions to Capital	-1,246,600	-1,983,500	-2,831,500	-2,968,900	-844,000
Net Increase/(Decrease) in reserves	330,500	10,900	-1,424,300	-1,980,800	-306,500
Revenue Reserve brought forward	5,856,900	6,041,100	6,052,000	4,627,700	2,646,900
Revenue Reserve carried forward	6,187,400	6,052,000	4,627,700	2,646,900	2,340,400

Average Social Rent:-					
Decrease 1st April 2016			**-1.00%**	**-1.00%**	**-1.00%**
48 wk		**88.36**	**87.48**	**86.61**	**85.74**
52 wk		**81.56**	**80.74**	**79.95**	**79.14**
Average stock		**4,495**	**4,476**	**4,456**	**4,436**

Average Affordable Rent:-					
Decrease 1st April 2016			**-1.00%**	**-1.00%**	**-1.00%**
48 wk		**109.39**	**118.66**	**149.04**	**144.27**
52 wk		**100.97**	**109.54**	**137.57**	**133.17**
Average stock		**14**	**28**	**38**	**56**

MAJOR REPAIRS RESERVE

	2016/17 Original £	2016/17 Forecast £	2017/18 Estimate £	2018/19 Projections £	2019/20 Projections £
Balance brought forward	747,400	508,200	-	-	-
Depreciation of Dwellings	5,423,100	5,381,500	5,511,400	5,659,000	5,819,100
Depreciation of Other Assets	151,900	174,400	183,500	192,900	197,100
	6,322,400	6,064,100	5,694,900	5,851,900	6,016,200
Utilised to fund Capital Programme	-6,322,400	-6,064,100	-5,694,900	-5,851,900	-6,016,200
Balance carried forward	-	-	-	-	-

HRA CAPITAL PROGRAMME

	2016/17 Original * £	2016/17 Forecast £	2017/18 Estimate £	2018/19 Projections £	2019/20 Projections £
EXPENDITURE					
EXISTING STOCK					
Property Improvements & Major Repairs	7,759,000	7,834,800	7,758,400	7,304,800	6,129,200
Adaptions for the Disabled	400,000	400,000	400,000	400,000	400,000
Environmental Works (Tenant Selection)	10,000	15,000	10,000	10,000	10,000
Repurchase of Shared Ownership Dwellings	50,000	50,000	50,000	50,000	50,000
	8,219,000	8,299,800	8,218,400	7,764,800	6,589,200
NEW BUILD & ACQUISITIONS	-	3,312,800	2,674,000	2,375,000	1,215,000
TOTAL	8,219,000	11,612,600	10,892,400	10,139,800	7,804,200
FINANCING					
Capital Receipts	450,000	2,356,000	2,166,000	969,000	694,000
HRA Revenue Contribution	1,246,600	1,983,500	2,831,500	2,968,900	844,000
Leaseholder & Other Contributions	200,000	200,000	200,000	350,000	250,000
Major Repairs Reserve	6,322,400	6,064,100	5,694,900	5,851,900	6,016,200
New Build Reserve	-	1,009,000	-	-	-
TOTAL	8,219,000	11,612,600	10,892,400	10,139,800	7,804,200

* Original Budget only included funding strategy for existing stock

PROPERTY IMPROVEMENT & MAJOR WORKS				
Description of works	**2016/17**	**2017/18**	**2018/19**	**2019/20**
EXTERNAL IMPROVEMENTS	1,035,000	875,000	882,000	824,000
INTERNAL IMPROVEMENTS	214,600	312,000	276,000	258,000
PATHS, FENCES & WALLS	160,000	270,000	300,000	270,000
WORKS TO BUILDING FABRIC	150,000	150,000	150,000	150,000
PV INSTALLATIONS & OTHER SUSTAINABILITY MEASURES	96,000	75,000	75,000	-
RENEWAL OF HEATING SYSTEMS	747,000	758,000	758,000	758,000
MAJOR REFURBISHMENTS TO VOID PROPERTIES	537,700	495,000	450,000	450,000
WINDOWS & DOORS	3,377,000	3,200,000	2,290,000	2,025,000
ASBESTOS	92,000	140,000	140,000	140,000
SHELTERED ACCOMMODATION	73,400	30,000	30,000	30,000
NEIGHBOURHOOD WORKS	310,500	200,000	-	-
DOOR ENTRY SCHEMES	60,000	163,000	92,000	47,000
STRUCTURAL WORKS	100,000	50,000	50,000	50,000
COMMUNAL LIGHTING	173,000	90,500	148,000	62,000
FIRE PROTECTION	70,000	79,200	94,500	78,000
LIFTS	5,000	75,000	140,000	10,000
WARDEN CALL UPGRADE	-	-	500,000	-
GARAGE IMPROVEMENTS	600	25,000	25,000	25,000
COMMERCIAL PROPERTIES	26,000	-	25,000	25,000
FEE FOR MANAGING PROGRAMME	607,000	636,000	646,000	659,000
CONTINGENCY	-	134,700	233,300	268,200
TOTAL BUDGET FOR EXISTING PROPERTIES	7,834,800	7,758,400	7,304,800	6,129,200

NEW BUILD & ACQUISITIONS				
	2016/17	**2017/18**	**2018/19**	**2019/20**
COUNCIL APPROVED				
GARAGE SITES 2A	795,900	20,000	-	-
GARAGE SITES 2B	160,100	300,000	20,000	-
SWINDON ROAD	1,074,000	24,000	-	-
MARKET PURCHASE	1,036,000	-	-	-
SCHEMES SUBJECT TO TENDER & COUNCIL APPROVAL				
CURRENT ESTIMATE FOR PIPELINE SCHEMES	246,800	2,330,000	2,355,000	1,215,000
TOTAL ESTIMATE FOR NEW BUILD & ACQUISITIONS	3,312,800	2,674,000	2,375,000	1,215,000