

Cheltenham Borough Council

Cabinet – 11th February 2014

Council – 14th February 2014

General Fund Revenue and Capital – Revised Budget 2013/14, and Final Budget Proposals 2014/15

Accountable member	Cabinet Member for Finance, Councillor John Rawson
Accountable officer	Director of Corporate Resources (Section 151 Officer), Mark Sheldon
Accountable scrutiny committee	Overview and Scrutiny Committee
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report summarises the revised budget for 2013/14 and the Cabinet's final budget proposals and pay policy statement for 2014/15.
Recommendations	<p>Cabinet / Council</p> <ol style="list-style-type: none">1. Note the revised budget for 2013/14 with a projected budget saving of £444.6k and approve the proposals for its use as detailed in Section 3.2.2. Consider the budget assessment by the Section 151 Officer at Appendix 2 in agreeing the following recommendations.3. Approve the final budget proposals including a proposed council tax for the services provided by Cheltenham Borough Council of £187.12 for the year 2014/15 (a 0% increase based on a Band D property).4. Approve the growth proposals, including one off initiatives at Appendix 4.5. Approve the savings / additional income and the budget strategy at Appendix 5.6. Approve the proposed capital programme at Appendix 7, as outlined in Section 9, including the additional underwriting of £360,000 to support the Art Gallery and Museum redevelopment scheme (separate report to council).7. Approve the proposed Property Maintenance programme at Appendix 8, as outlined in Section 10.8. Approve the reserve realignments outlined in section 8 and the level of reserves projected at Appendix 6.

9. **Approve the Pay Policy Statement for 2014/15 at Appendix 9.**
10. **Approve a level of supplementary estimate of £100,000 for 2014/15 as outlined in Section 14.**
11. **Note that the Council will remain in the Gloucestershire business rates pool for 2014/15 (para 4.12).**
12. **Approve no change to the Local Council Tax support scheme in 2014/15 (para 4.18).**

Financial implications	<p>As contained in the report and appendices.</p> <p>Contact officer: Paul Jones.</p> <p>E-mail: paul.jones@cheltenham.gov.uk</p> <p>Tel no: 01242 775154</p>
Legal implications	<p>The budget setting process must follow the Council's Budget and Policy Framework Rules.</p> <p>The Local Government Act 2012 introduced a radical change to the local government finance system. The key changes introduced by the Act were:</p> <ul style="list-style-type: none"> • implementation of the Business Rates Retention Scheme; • replacement of the existing Council Tax Benefit system with local Council Tax Support; • implementation of changes to council tax rules to provide some local flexibility on the council tax local authorities can charge on empty properties. <p>All of the above changes came into effect for the 2013/14 financial year.</p> <p>Section 38 of the Localism Act 2011 requires local authorities to produce Pay Policy Statements.</p> <p>The Localism Act 2011 also contains requirements for local authorities to hold a referendum where council tax is proposed above a specific 2% increase.</p> <p>Contact officer: Peter Lewis</p> <p>E-mail: peter.lewis@tewkesbury.gov.uk</p> <p>Tel no: 01684 272012</p>

HR implications (including learning and organisational development)	<p>In the spirit of building on our positive employee relations environment, the recognised trade unions have received budget briefings at the Joint Consultative Committee on 24th October 2013 and 23rd January 2014. Dialogue with the recognised trade unions will continue in order to ensure that the potential impact on employees is kept to a minimum. The Council's policies on managing change and consultation will be followed.</p> <p>Going forward, it is important that capacity is carefully monitored and managed in respect of any reductions in staffing and reduced income streams.</p> <p>This report meets the requirements of the Localism Act and identifies pay comparison measures set out in the Hutton report to ensure clarity in senior pay in the public sector.</p> <p>Contact officer: Julie McCarthy</p> <p>E-mail: julie.mccarthy@cheltenham.gov.uk</p> <p>Tel no: 01242 264355</p>
Key risks	As outlined in Appendix 1
Corporate and community plan Implications	The aim of the 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 final budget contains a number of proposals for improving the local environment, as set out in this report.

The Council takes its statutory duties to promote equality of opportunity seriously. The 2010 Equality Act sets out that we must have due regard to the need to advance equality of opportunity between people who share a protected characteristic and those who do not. The groups that share a protected characteristic include those defined by age, ethnicity, disability, religion or belief and sexual orientation.

The Cabinet Member Finance and Chief Finance Officer have been mindful of this statutory duty in how the budget proposals have been prepared. The community and equality impacts of the various budget proposals are as follows:

Budget Proposal	Potential community and equality impacts and any mitigating actions
Organisational changes, including management and staff restructuring	Ensuring that our human resource processes used to enable staff restructuring are compliant with equality legislation
Shared services	As above, ensuring that our human resource processes, used to enable staff restructuring are compliant with equality legislation
Commissioning	The equality and community impacts of the leisure and culture commissioning review were set out in report to cabinet on 12 December 2012; the report identified that the agreed outcomes recognise the groups where participation is potentially lowest; this is being captured in the specification and contract. We will carry out an equality impact assessment as part of the revenue and benefits commissioning review
Supplies and services savings	None identified
Reductions in Everyman and Regeneration Partnership grants	None identified – budget savings were set out in the grant agreements already entered into

already agreed in previous budgets	
Cheltenham Borough Homes contribution to community development	The regeneration partnership community investment grants will be funded from the CBH Investment Pot with no changes to grant arrangements.

Background

- 1.1** In accordance with the Council's Budget and Policy Framework Rules, which is 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 2014. The consultation took place between the period 18th December 2013 to 24th January 2014 and this report sets out the final proposals for 2014/15.
- 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, around 45% 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 New Homes Bonus forms an integral part of the financing of local government and is indeed used in the Government's preferred terminology of 'Spending Power' that it utilises when the settlement is announced. The final budget proposals sets out clearly the anticipated use of New Homes Bonus to support the Council's spending requirement.

2. Budget Assessment of the Section 151 Officer

- 2.1** Under Section 25 of the 2003 Local Government Act, there is a legal requirement for the Section 151 Officer to make a report to the authority when it is considering its budget, council tax and housing rents (see separate report on HRA to Council) covering the robustness of estimates and adequacy of reserves. The Act requires councillors to have regard to the report in making decisions at the Council's budget and council tax setting meeting.
- 2.2** Rather than writing a separate report to Council, the Section 151 Officer has taken a risk based approach to his assessment which is attached at Appendix 2.

3. 2013/14 Budget Monitoring to November 2013

- 3.1** The budget monitoring report to the end of November 2013, considered by Cabinet on 14th January 2014, identified a potential projected underspend of £444.6k for the current year, 2013/14.
- 3.2** The Cabinet recommends to Council, that this projected budget saving be used to fund the following expenditure:
 - A new earmarked reserve of £200k to be set aside to support the new Cheltenham Leisure and Culture Trust should any unforeseen deficits arise in the early years of trading.
 - Additional one off funding of £150k to support the creation of the Cheltenham Leisure and Culture trust in 2014/15 that were not provided for in the 2013/14 budget.
 - The remaining underspend of £94,600 to be transferred to a newly created car parking equalisation reserve to support the potential shortfall in income due to the closure of North Place and Portland Street car parks.
- 3.3** Further details on the reasoning for creating these new 'earmarked reserves' is captured within section 8.

4. Finance Settlement and significant changes to Local Government Finance

- 4.1 Since 2009/10 the Council's core funding from the Government has been cut by some £4.2 million, from £8.8 million to £4.6 million (this excludes council tax support funding which transferred into the settlement funding assessment in 2013/14).
- 4.2 On 5th February 2014, the Local Government Minister announced the final local government settlement for 2014/15 and the illustrative settlement for 2015/16.
- 4.3 The proposed levels of central government funding for this Council are set out in the table below. Overall, 'core' central government funding (referred to as the Settlement Funding Assessment) will reduce by 12.3% in 2014/15 and 15.3% in 2015/16.

	2013/14 £m	2014/15 £m	2015/16 £m
Revenue Support Grant	3.731	2.921	2.015
Baseline Funding (Cheltenham's target level of retained Business Rates)	2.482	2.530	2.601
Settlement Funding Assessment	6.213	5.451	4.616
Actual cash (decrease) over previous year		(0.762)	(0.835)
% cash cut		(12.3%)	(15.3%)

- 4.4 The more detailed analysis of the net budget requirement for 2014/15 and the funding available is attached at Appendix 3.

Business Rate Retention and Pooling

- 4.5 The Business Rates Retention Scheme was introduced on 1st April 2013. Under the Scheme, the Council retains some of the business rates raised locally. The business rates 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.
- 4.6 In order to maximise the value of business rates retained within Gloucestershire, the Council entered into the Gloucestershire Business Rates Pool. Being a part of the Pool has the benefit of reducing the levy from 50% to 19%. Any surpluses generated by the Pool will be allocated in accordance with the governance arrangements agreed by the Gloucestershire councils.
- 4.7 The Gloucestershire Chief Finance Officers have monitored the financial performance of the business rates pool during 2013/14 and, at the time of writing this report, the performance of the pool has exceeded expectations. However, the final position will not be known until the summer when the final out-turn position is declared for each Gloucestershire billing authority.
- 4.8 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 (occasionally 2005/06) which reduces the business rates yield in the year in which the refund is made.

- 4.9** In the Autumn Statement, there was recognition of the problem being faced by local authorities in terms of forecasting business rate yields over the medium term, due to the level of uncertainty surrounding business rate appeals. A commitment has therefore been made that the backlog of valuation appeals will be cleared by Valuation Office by July 2015.
- 4.10** The Autumn Statement included an extension to the Small Business Rate Relief from 50% to 100% for a further year as well as introducing a new £1,000 discount for small business with a rateable value below £50,000. The cost of these reliefs to the Council will be met fully by the Government through section 31 grants.
- 4.11** One of the key documents in the budget setting process is the estimate of business rates yield which is reported in the National Non Domestic Rates return (NNDR1) which is submitted to the Department for Communities and Local Government. The NNDR1 return was submitted to the Department of Communities and Local Government (DCLG) by the deadline of 31st January 2014 and the budget is based on the figures within that return.
- 4.12** The Chief Finance Officers have reviewed the viability of the Pool for 2014/15 and are recommending that the Pool continues in its current form. However, the viability of the Pool can only be determined once all of the estimated business rates returns have been completed by all of the participating authorities (i.e. all Gloucestershire district councils). A decision to dissolve the Pool would have been statutorily required by 15th January 2014 (i.e. before the final guidance notes and returns were available from central government). Given the Government's statement that local authorities will be fully compensated for the impacts of the announcements in the Autumn Statement, the Chief Finance Officers took a pragmatic view to continue with the Pool in 2014/15, in line with the recommendation made to Leaders and Chief Executives in the autumn.
- 4.13** The budget for 2014/15 includes the following key data from the business rates estimates for 2014/15 (NNDR1):
- Business Rates retained from Business Rates Retention (NNDR1 estimate) £21,606,794;
 - Individual Authority Business Rate Baseline (DCLG) £21,257,062;
 - Tariff to the Government £18,726,467;
 - Government Baseline Funding Level for this Council £2,530,595;
 - Safety Net Threshold £2,340,800;
 - Estimated business rates in excess of Baseline Funding Level £349,732;
 - Estimated levy to the Government £174,866;
 - Estimated retained business rate growth £174,866 (making total rates income £2,705,461);
 - Retained 'Section 31' grants after levy £624,293
 - Total including 'Section 31' grants £3,329,754
 - Additional 'income' above baseline funding £799,159
- 4.14** The move to local business rates retention appears to be a positive one, but local authorities have faced a series of obstacles in trying to make it a success. The Government's desire is to make sure that the system is fair and that there is a balance between incentives and managing risks, although it is nearly a year since business rates retention was introduced and the rules are still changing. Local authorities have been inundated with various regulation updates but we are still struggling to get access to critical information, such as the likely outcome of appeals against business rates.
- 4.15** Given the volatility surrounding business rates and the risk of a deficit in future years (due to the number of appeals still outstanding), the Cabinet is minded not to assume that all this additional income should be built into baseline funding. Section 8 proposes to set aside some of this additional income into earmarked reserves

Localised Council Tax Support (LCTS)

- 4.16** The Council was required to establish a local scheme for Local Support for Council Tax to come into effect from 1st April 2013, replacing the national Council Tax Benefit Scheme. For 2013/14, the Council adopted the existing national scheme as its local scheme. The cost of the local scheme was, therefore, expected to be broadly in line with the costs of the previous Council Tax Benefit Scheme. The Government cut its funding for the Council Tax Support Scheme by 10% with effect from 2013/14. The Council absorbed this cut in funding for 2013/14, with a view to reviewing the scheme for 2014/15.
- 4.17** 2013/14 was the first year the Government did not fully fund the scheme. Locally, the councils in Gloucestershire agreed not to make any changes to the scheme but, in line with other councils in the county, agreed changes to the council tax empty property exemptions and second homes discounts to help offset the approximate 10% shortfall in funding. Indications are that the additional revenue generated has offset the fall in funding for LCTS.
- 4.18** Following consideration by the Section 151 officers across the county, it was recommended that no changes would be made to the scheme for 2014/15 in order to avoid the potential for a significant number of claimants receiving small bills which may be difficult to recover. On 17th September 2013 Cabinet resolved that the Local Council Tax Support scheme (LCTS) remain unchanged for 2014/15, other than the annual uprating of premiums, allowances and non-dependant deductions and that a short public consultation should take place on the Council's website. The Council consulted on this basis but there was, not surprisingly, no response to this consultation. Consequently it is proposed to keep the LCTS scheme unchanged for 2014/15.

Parish Council Support Grant

- 4.19** The local Council Tax Support 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 yield in Council Tax to this Council, Gloucestershire County Council, Gloucestershire Police Authority and Town and Parish Councils. To offset this impact, the Government pays 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 Town and Parish Councils any mechanism for paying over a share of the overall grant paid to the billing authority.
- 4.20** For 2013/14, the value of grant awarded to the 5 Parish Councils for LCTS was £10,269. Funding for Local Council Tax Support has been "rolled" in to the Revenue Support Grant and the Retained Business Rates Baseline Funding Position. As Government funding reduces, the Council will be under pressure to reduce the funding available for Local Council Tax Support available to Town and 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, it is not proposed to pass on any reductions in 2014/15.

5. Unavoidable budget pressures

- 5.1** In addition to funding pressures from cuts to Government funding, the Council is also facing costs pressure from the triennial valuation of the Gloucestershire Local Government Pension Scheme. The Council needs to make provision for growth in contributions to the Pension Fund of £406,000 for each of the next three years. This is largely due to the value of gilts determining the value of future liabilities to the Pension Scheme, increased costs associated with increasing life expectancy rates and predicted returns on pension fund assets.
- 5.2** Workplace pensions' law has changed. Every employer now has new legal duties to help their workers in the UK save for retirement. Employers must automatically enrol certain workers into a

qualifying workplace Pension Scheme and make contributions towards it. Whilst it is difficult to accurately determine the financial impact of pensions auto-enrolment, there will be increased costs to the Council. Provision of £100,000 has been made in the budget for 2014/15.

- 5.3** The creation of the single tier state pension, and the end of contracting out of the second state pension, will negatively impact on employers providing defined benefit pension schemes (such as the Local Government Pensions Scheme). Currently, providing that such Pension Schemes meet statutory requirements, employers pay a reduced National Insurance (NI) contribution - the reduction is 3.4%. The introduction of the single tier pension will have the effect of increasing an employer's NI contributions by the amount the current reduction - 3.4%. Provision of £300,000 for increased employer NI contributions with effect from 2016/17 has been included within the MTFS.

6. The Cabinet's general approach to the 2014/15 budget

- 6.1** The Cabinet's budget strategy for 2014/15, approved at a meeting on 15th October 2013, included an estimate of £0.989m for the 2014/15 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 13.6% cut in government support.
- 6.2** The final assessment of the budget gap for 2014/15, based on the detailed budget preparation undertaken over recent months, and the assumed financial settlement, was £1.409m which takes into account the following variations:
- Freeze car parking charges £93.6k
 - Increased superannuation costs in respect of the 2013 triennial revaluation £206k
 - Council Tax freeze in 2014/15
- 6.3** For the past three years the Council has frozen its council tax precept at £187.12 a year for a Band D taxpayer. In proposing this course of action, the Cabinet has borne in mind the difficult economic and financial climate that many of our residents face. However, during the period of the freeze our own financial position as a Council has deteriorated sharply, and the Cabinet has been acutely aware of the difficulty of continuing the freeze in 2014/15.
- 6.4** The Budget Strategy and Process report, approved by Cabinet in October 2013, highlighted the specific difficulties of continuing the freeze in 2014/15. Currently the Government is offering councils roughly half the cost of freezing council tax in 2014/15, when compared with increasing council tax by 2%.
- 6.5** However, three developments have made it easier for Cabinet to recommend a council tax freeze for the fourth year running. The first is that we have succeeded in identifying sufficient savings and additional income to make it affordable in the first two years. The second is that the Government has withdrawn its proposal to top-slice our New Homes Bonus income from 2015 to fund economic development initiatives, adding to our forecast income and making a further year's freeze sustainable. The third is that the Government has now stated that the grant will be rolled into the spending review baseline and has therefore committed to the funding being available for future years.
- 6.6** The continuation of the council tax freeze in 2014/15 will avoid adding to the financial burden of residents, many of whom are still facing difficult financial circumstances. It is particularly gratifying that, under this budget, this can be achieved without cutting frontline services and without introducing above inflation increases in fees and charges.
- 6.7** The Government introduced legislation through the Localism Act to require councils proposing what it regards as an excessive rise in Council Tax to hold a local referendum allowing the public to veto the rise. Clearly as the Cabinet is minded to propose a 0% increase in council tax for

2014/15, this requirement does not arise.

6.8 In preparing the final budget proposals, the Cabinet and officers have:

- Prepared a standstill budget projection under a general philosophy of no growth in levels of service with the exception that it is a statutory requirement or there is 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 4.
- 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 2014/15.
- Increased income budgets assuming an average increase in fees and charges of 2.5%, with some exceptions. Property rents have not been inflated but are now set in line with rent projections based on property leases. The Cabinet proposes to freeze car park charges, except for councillors' parking passes which will rise by inflation, and building control charges. The costs have been shown as growth within the interim budget proposals.
- Green waste charges have been frozen since their introduction in 2011. It is proposed to increase these charges by £1 to £37 per annum which will ensure the scheme remains cost neutral to the council taxpayer. Those residents taking advantage of the discount for prompt renewal will pay just £35.
- Assessed the impact of prevailing interest rates on the investment portfolio, the implications of which have been considered by the Treasury Management Panel.

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

- Do everything possible to protect frontline services
- Identify savings that can be achieved through reorganisation of service delivery or raising additional income rather than through service cuts

6.10 Once again, there has been a great deal of activity during the course of the year to develop this longer term strategy for closing the funding gap. The Cabinet has worked with officers to develop the 'Bridging the Gap (BtG)' programme using the BtG group supported by the Senior Leadership Team. The Cabinet's interim budget proposals for closing the budget gap in 2014/15, the result of this work, are detailed in Appendix 4, split into:

- Decisions already made by Council totalling £11k.
- Proposals yet to be agreed by Council which are not built into the base budget, totalling £1,398,200. They comprise £748,200 of efficiency savings and additional income; an additional contribution from New Homes Bonus (NHB) of £450k to support the base budget; and a reduction of £200k in revenue contributions to fund capital expenditure given the Council's healthy balance in capital receipts from the sale of assets.

6.11 The Bridging the Gap programme and the commissioning process have also helped the Council to move towards a robust five-year strategy for closing the funding gap. The work done on leisure and culture services, ICT services, management restructuring and 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.

- 6.12** The Council has been actively reviewing its accommodation following changes in staffing numbers resulting from the commissioning programme. The Municipal Offices are now too big and no longer well suited to their purpose as offices. At around £700k per annum to occupy and maintain, they cannot be sustained in a period of significant reduction in government funding at the expense of frontline services. For these reasons, officers are looking at how the Council can reduce further its accommodation needs and will bring a report to Cabinet in March 2014 revising the accommodation brief which supports the ongoing search for an alternative office location.
- 6.13** This budget proposes to make fuller use of the New Homes Bonus to support the revenue budget. This reflects the Government's view that the New Homes Bonus is part of local authorities' income stream, and not simply a "nice to have" extra. However we are well aware that the New Homes Bonus may in future years be a fluctuating source of income. Accordingly we have limited the amount of New Homes Bonus income being directly taken into the revenue budget to a total of £700k, which is 64% of the total expected income in 2014/15 of £1.030m. It is proposed that the remainder should be earmarked for one off or time-limited spending or kept in reserve.
- 6.14** The proposed one off uses of New Homes Bonus income include: £50k to support the well-liked and very effective Community Pride scheme; £200k to support the Planned Maintenance Reserve; and £50k to support the Mitigation fund for Cheltenham Transport Plan.
- 6.15** The Cabinet and SLT have been anticipating the need to make significant savings and have been actively managing vacancies and staffing levels in order to minimise the impact of service reviews, systems thinking and savings initiatives.
- 6.16** Since the interim budget was published, a number of changes have been made to the budget as a result of further work, and taking into account the consultation. They are documented in the supporting appendices to the report and are summarised as follows:

Summary of changes to Interim Budget proposals 2014/15 – Revenue items	£
Additional 'baseline funding' as per final local government settlement for 2014/15 announced on 5 th February 2014	(3,249)
Estimated retained business rates growth based on NNDR1	(174,866)
Estimated retained Section 31 grants after levy based on NNDR1	(624,293)
Deferral of Revenues and Benefits service review to 2014/15	100,000
Reduced saving from Customer Services restructure	15,700
Contingency provision for Pensions' auto-enrolment	100,000
Transfer to BRR earmarked reserve to cover future deficits on NNDR collection fund	350,000
Transfer to Car Park equalisation reserve to cover temporary shortfall	255,400
Net changes in Ubico contract sum for 2014/15	(21,500)
Annual maintenance and software licence costs for Town Centre footfall cameras	1,500
Increased contribution to General Balances	1,308
Net Effect	-

7. Treasury Management

- 7.1** Appendix 3 summarises the budget estimates for interest and investment income activity. Security of capital remains the Council's main investment objective. However, the budget has been prepared taking into account the following changes, agreed by the Treasury Management Panel at its meeting on 27th November 2013.
- 7.2** The Bank of England has said that interest rates will remain low through 2014/15, indicating that the Bank Rate will remain at its historic low until 2016, although current positive data on unemployment and inflation could mean an earlier increase. With this in mind, for 2014/15 interest payable will reduce by £5,000 and interest receivable will increase slightly by £100. As a result, the net impact on 2014/15 budget is an increase in net treasury income of £5,100.
- 7.3** The Council has sold its claims against the insolvent estate of Landsbanki Islands. The claims were sold through a competitive auction process on the 30th January 2014, together with a number of other councils' claims. The price at which the claims were sold was based on a reserve price set by the Council on the basis of legal advice received from Bevan Brittan, financial advice procured by the LGA and the Council's own analysis of the financial position. The proceeds of the sale, £2.038m, were paid in Pounds Sterling and those funds have already been received. The sale means that the Council has recovered 91% of the amounts that were originally deposited with Landsbanki in 2006 (£5m). The sale of our claims represents a clean break and we are now no longer a creditor of Landsbanki.
- 7.4** Of the original £11m deposited with Icelandic banks the Council has now received £9.88m and still expects further distributions in relation to monies held by the administrators dealing with Kaupthing, Singer & Friedlander and Glitnir deposits.

8. Reserves

- 8.1** Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to comment upon "the robustness of the estimates and the adequacy of the reserves for which the budget provides".
- 8.2** A number of the savings proposed arise from organisational changes and require one-off sums to cover the costs of redundancy and early retirement. In order to keep general balances within the recommended range of £1.5m - £2.0m it is proposed to fund these costs from the Pension Reserve in 2014/15.
- 8.3** An assessment of the Civic Pride Reserve projects that this reserve will be wholly consumed by 31st March 2015. Given the Council's aspiration to deliver the Cheltenham Transport Plan and its accommodation strategy, it is proposed to realign the balances held in the IBS License Reserve and Vehicle Leasing Equalisation Reserve, totalling £265k. This will give continuity to the Cheltenham Development Task Force up to the financial year ending 31st March 2017.
- 8.4** The Council currently holds 2 reserves which are used to fund capital expenditure; namely a 'housing' capital reserve and a 'general' capital reserve. Given the significant capital resources now held within the Housing Revenue Account, it is proposed that these reserves be merged into one 'general fund' capital reserve in order to give more transparency over how the Council funds its General Fund Capital Programme.
- 8.5** The Council is currently in the process of creating an independent Leisure and Cultural Trust which will deliver some of the borough's 'flagship' services from October 2014. In order to give the new Trust some assurances in its infancy, the Cabinet proposes to create an earmarked reserve to cover any potential deficits in the early years of trading. The Cabinet proposes that a reserve of £200,000 should be held by the Council and that this reserve be funded from the projected 2013/14 budget saving.

- 8.6** The Council has now disposed of its interest in North Place and Portland Street car parks in return for a significant capital receipt. Whilst this is a welcome boost to the economy, it is acknowledged that the Council will have a temporary shortfall in its net car parking revenue until the new facility is completed. In order to protect the Council from this volatility, the Cabinet proposes to create an earmark equalisation reserve to cushion the impact of fluctuating income levels. The Cabinet proposes that a reserve of £350,000 should be held (which equates to the rental income the Council will receive when the new facility is created on North Place); £94,600 to be funded from the projected 2013/14 budget saving with the remaining £255,400 to be funded from the additional income projected from retained business rates in 2014/15.
- 8.7** As detailed above, under the new regime, around 45% 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. Given the volatility of this area the Cabinet proposes to create a new earmarked reserve of £350,000 to cover any deficits that may arise in the future through additional successful appeals or empty business properties; to be funded from the additional income projected from retained business rates in 2014/15.
- 8.8** A projection of the level of reserves to be held at 31st March 2014 and 31st March 2015 respectively is detailed in Appendix 6.

9. Capital Programme

- 9.1** The proposed capital programme for the period 2013/14 to 2017/18 is at Appendix 7.
- 9.2** The programme includes provisional sums for infrastructure investment to be funded from the Civic Pride reserve and investment in new build to be delivered through Cheltenham Borough Homes. It also includes the next phase of the ICT Infrastructure Upgrade strategy, agreed by Cabinet on 11th December 2012.
- 9.3** The cremators at Cheltenham Crematorium were recently replaced together with the installation of a mercury abatement system supplied by Crawford's Equipment Europe Ltd following a tender process. During installation and commissioning of the cremators, a number of issues regarding the quality of the equipment supplied arose which were being managed in conjunction with the contractor and the Council's project team. However, in July 2013 Crawford's entered into Voluntary Liquidation and thus were no longer in a position to continue working with the Council in dealing with the issues and completing the commissioning of the equipment. Since then remedial interim repairs have been undertaken by specialist contractors to keep the cremators operational whilst work has been done to understand what is required to resolve the situation long term.
- 9.4** Two independent specialist reports were commissioned to review the equipment and installation, and to recommend any necessary works required to keep the cremators fully operational, to comply with environmental regulations and meet Health & Safety standards. The reports highlighted some emergency issues that need to be addressed.
- 9.5** This has resulted in urgent additional budgetary provision in the current financial year being required to ensure these requirements are met. Firstly, £52k is required to purchase additional items for the cremator and abatement control system; this system enables reports to be provided to regulators in line with the requirements of the council's permit to cremate.
- 9.6** Secondly, £110k is necessary to perform works to the flues and the hydraulics to the cremator doors. These works are for Health & Safety reasons to reduce the risk of fire from the existing flues and from door failure and to protect staff.
- 9.7** In the longer term, more consideration is being given to the operational issues facing the

crematorium, including the mercury abatement system. A report will be presented to members at a later date on long term options which may include replacement of the cremators, the financing of which would form part of the capital strategy and asset management plan to be considered by the Cabinet / Council.

- 9.8** Following the conclusion of the sale of North Place & Portland Street Car Parks, there is now a need to further improve the offering at Town Centre East Car Park given the anticipated increased usage. It is therefore recommended that capital budget of £140,600 already set aside for “greening” and improving the car park’s sustainability be diverted to improving the signage and decoration of the car park.
- 9.9** In line with the council decision on 22nd February 2013, the Cabinet has set aside (ring fenced) £600,000 of the unapplied capital receipts from the sale of Midwinter allotments towards funding potential future allotments. Reports will come forward in due course to allocate this sum to specific schemes.
- 9.10** The sale of North Place and Portland Street car parks has released a substantial capital receipt. A list of potential infrastructure investment projects across the town is being developed for approval by the Council, aimed at achieving our aspirations for a vibrant, beautiful and prosperous town. This could include funding for the Town Hall capital investment scheme, reported to the Cabinet in July 2013.
- 9.11** The costs for the redevelopment of the Art Gallery and Museum (The Wilson) are being finalised but have risen due to delays in the project. Whilst fundraising is still ongoing, at this stage there is a funding shortfall and the amount required to be underwritten by the Council exceeds the amount approved on 11th February 2011 by £360,000. For this reason, the Capital Programme includes a provision for the amount of the additional underwriting required, which may reduce as fundraising is achieved. A separate report to Council deals more fully with this.

10. Property Maintenance Programmes

- 10.1** The budget proposals include a revenue contribution of £700k to planned maintenance together with a £200k contribution from New Homes Bonus, which will be enough to fund a very substantial programme. The planned maintenance programme was reviewed by the Asset Management Working Group on the 5th December 2013 and their recommendations are attached at Appendix 8 for approval.

11. Pay Policy Statement

- 11.1** Section 38 of the Localism Act requires local authorities to produce pay policy statements which should include the authority’s policy on pay dispersion. Pay dispersion is the relationship between remuneration of Chief Officers and the remuneration of other staff. This requirement is incorporated within the “Draft Local Authorities (Data Transparency) Code 2013” which has recently been issued by the Secretary of State for Communities and Local Government. The Secretary of State wants to ensure that key information in the Code is published by all local authorities and that authorities do so in a timely manner. Therefore, he is proposing to make regulations under section 3 of the Local Government, Planning and Land Act 1980 to make it a legal requirement to publish data in accordance with Part 2 of the Code. The Code sets out details of information which local authorities will be required to be publish on a quarterly basis and details of information which local authorities will be required to publish on an annual basis.
- 11.2** The Pay Policy attached at Appendix 9 includes the following key requirements of the Localism Act 2011:
- policy on pay for each of the ‘in scope’ Officers;

- policy on the relationship between Chief Officers and other Officers;
- policy on other aspects of remuneration, namely recruitment, increases in remuneration, performance related pay and bonuses, termination payments, and transparency

12. Reasons for recommendations

12.1 As outlined in the report.

13. Consultation and feedback

13.1 The formal budget consultation on the detailed interim budget proposals took place over the period **18th December 2013 to 24th January 2014**. The Cabinet sought to ensure that the opportunity to have input into the budget consultation process was publicised to the widest possible audience. During the consultation period, interested parties including businesses, Parish Councils, tenants, residents, staff and trade unions were encouraged to comment on the initial budget proposals. They were 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.

13.2 The Budget Scrutiny Working Group has been meeting during the course of the year and has made a positive contribution to the budget setting process in considering various aspects of the budget leading to its publication. The group met on 7th January 2014 and made recommendations to the Overview and Scrutiny Committee on 9th January 2014 and these comments have been fed back to the Cabinet.

13.3 A summary of the budget consultation responses and the Cabinet's response to them in arriving at the final budget proposals, are contained in Appendix 10. A copy of the detailed responses is available in the Members' room.

14. Supplementary Estimates

14.1 Under financial rule B11.5, the Council can delegate authority to the Cabinet for the use of the General Reserve up to a certain limit. This is to meet unforeseen expenditure which may arise during the year for which there is no budgetary provision. It would be prudent to allow for a total budget provision of £100,000 for supplementary estimates in 2014/15 to be met from the General Reserve, the same level as in 2013/14.

15. Alternative budget proposals

15.1 It is important that any political group wishing to make alternative budget proposals should discuss them, in confidence, with the Section 151 Officer and / or the appropriate Strategic Director / Chief Executive (preferably channelled through one Group representative) to ensure that the purpose, output and source of funding of any proposed changes are properly identified.

15.2 It is also 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.

16. Final budget proposals and Council approval

16.1 The Cabinet has presented firm budget proposals having regard to the responses received. In reaching a decision, the Council may adopt the Cabinet's proposals, amend them, refer them back to the Cabinet for further consideration, or in principle, substitute its own proposals in their place.

- 16.2** If it accepts the recommendation of the Cabinet, without amendment, the Council may make a decision which has immediate effect. Otherwise, it may only make an in-principle decision. In either case, the decision will be made on the basis of a simple majority of votes cast at the meeting.
- 16.3** An in-principle decision will automatically become effective 5 working days from the date of the Council's decision, unless the Leader informs the Section 151 Officer in writing within 5 working days that he objects to the decision becoming effective and provides reasons why. It should be noted that a delay in approving the budget may lead to a delay in council tax billing with consequential financial implications.
- 16.4** In that case, another Council meeting will be called within 7 working days of the date of appeal when the Council will be required to re-consider its decision and the Leader's written submission. The Council may (i) approve the Cabinet's recommendation by a simple majority of votes cast at the meeting or (ii) approve a different decision which does not accord with the recommendation of the Cabinet by a majority. The decision will then become effective immediately.

17. Performance management – monitoring and review

- 17.1** 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.
- 17.2** The delivery of the savings workstreams included in the interim budget proposals, if approved by full Council, will be monitored by the BtG group.

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Appendices	<ol style="list-style-type: none"> 1. Risk Assessment 2. Section 151 Officer budget assessment 3. Summary net budget requirement 4. Growth 5. Savings / additional income 6. Projection of reserves 7. Capital programme 8. Planned Maintenance programme 9. Pay Policy Statement 10. Summary of budget consultation and Cabinet response
Background information	<ol style="list-style-type: none"> 1. MTFS 2012/13 – 2017/18 2. Budget Monitoring Report 2013/14 – position as at November 2013 (Cabinet 14th January 2014)

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 council is unable to come up with long term solutions which bridge 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.	Mark Sheldon	15 December 2010	4	4	16	R	The Cabinet have developed a budget strategy which identifies longer term savings targets for closing the MTFS funding gap including targets for commissioning projects based on approved business cases.	ongoing	Director of Corporate Resources	26 January 2011
1.02	If the robustness of the income proposals are not sound then there is a risk that the income identified within the budget will not materialise during the course of the year.	Mark Sheldon	15 December 2010	3	3	9	R	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 which are monitored throughout the year and reported through the budget monitoring reports to cabinet.	ongoing	Director of Corporate Resources	
1.03	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	Jane Griffiths	15 December 2010	3	3	9	R	As part of the delivery of the BtG / commissioning programmes there needs to be a clear communication strategy. In adopting a commissioning culture the council is basing decisions on customer	ongoing	Communications team to support the BTG programme	

	services are being provided and customer satisfaction may decrease.							outcomes which should address satisfaction levels.			
1.04	If there is a reliance on shared services delivering savings and these savings do not materialise or shared service projects do not proceed as anticipated then other savings will need to be found to meet the MTFS projections.	Pat Pratley	15 December 2010	3	3	9	R	All shared services are operated under prince 2 principles, with clear business case and risk logs are maintained for the shared service. Savings / Benefit realisation are reviewed via the BTG and corporate plan monitoring	Ongoing	Deputy Chief Executive	
1.05	If the council does not carefully manage its commissioning of services then it may not have the flexibility to make additional savings required by the MTFS in future years and a greater burden of savings may fall on the retained organisation	Mark Sheldon	15 December 2010	3	3	9	R	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	Director Commissioning	
1.06	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.	Mark Sheldon	13 December 2012	4	3	12	R	Work with GOSS and county wide CFO's to monitor changes to local government financing regime and adjust future budgets for any significant variances.	Ongoing	Director of Corporate Resources	