Cheltenham Borough Council

Cabinet – 16th December 2014

General Fund Revenue and Capital - Interim Budget Proposals 2015/16 for Consultation

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 sets out the Cabinet's interim budget proposals for 2015/16 for consultation. The budget projections have been prepared before the December settlement announcement which is not expected until week commencing 15th December 2014.**
Recommendations	**1. Approve the interim budget proposals for consultation including a proposed council tax for the services provided by Cheltenham Borough Council of £187.12 for the year 2015/16 (a 0% increase based on 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 Director of Corporate Resources, 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, including responses to potential wider investment priorities, by 26th January 2015.** **6. Note that the Council will remain in the Gloucestershire business rates pool for 2015/16 (para 2.7)**

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)	In the spirit of building on our positive employee relations environment, the recognised trade unions received a budget briefing at the Joint Consultative Committee on 23rd October 2014. Dialogue with the recognised trade unions will continue in order to ensure that the potential impact on employees is kept to a minimum and in doing so help to avoid the need for any compulsory redundancies. 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 2015. This report sets out the interim proposals for 2015/16.

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 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.

2. Finance and significant changes to Local Government Finance

2.1 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.

2.2 On 5th February 2014, the Local Government Minister announced the illustrative local government settlement for 2015/16 which equated to a further grant reduction in cash terms of £0.835 million or 15.3%.

2.3 This means that since 2009/10, the Council's core funding from the Government has been cut by some £5 million, from £8.8 million to £3.8 million (this excludes council tax support funding which transferred into the settlement funding assessment in 2013/14).

2.4 On 3rd December 2014, the Chancellor will make his Autumn Statement. This key announcement will provide an update on the current state of public finances and the latest economic forecasts from the Office of Budget Responsibility. In recent years the Chancellor has announced changes that either reduce or alter local government funding amounts. Any significant changes, though they are not reflected in this report, will be presented at the Cabinet meeting on 16th December 2014.

Business Rate Retention and Pooling

2.5 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 Council's 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.

2.6 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.

2.7 The Gloucestershire Chief Finance Officers have monitored the financial performance of the Business Rates Pool during 2013/14 and the first six months of 2014/15. As previously reported, the performance of the Pool exceeded expectations in 2013/14, and at the time of writing this report, the performance of the Pool is still expected to generate an overall surplus for 2014/15. However, the final 2014/15 position will not be known until the summer of 2015 when the final out-turn position is declared for each Gloucestershire billing authority. The Chief Finance Officers are satisfied that the Pool remains viable in its current form and that sustainable surpluses from the Pool will contribute towards the savings targets identified in future years.

New Homes Bonus (NHB)

2.8 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 £1,467 for each new property for six years (based on national average for band D property – i.e. £8,800 per dwelling over six years), plus a bonus of £350 for each affordable home (worth £2,100 over six years).

2.9 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 will reduce significantly over the coming years to compensate for the NHB payments.

2.10 The value of NHB to the Council in 2015/16 has been estimated at £1,539,200 and the final value will be confirmed within the final budget proposals presented to Council in February 2015.

Parish Council Support Grant

2.11 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, 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.

2.12 For 2013/14 and 2014/15, 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, once again it is not proposed to pass on any reductions in 2015/16.

Council Tax

2.13 The Localism Act 2011 introduced a power to the Secretary of State for Communities and Local Government to issue principles that define what should be considered as an excessive council tax increase and to set limits. Any council that wishes to raise its council tax above the limit will have to hold a referendum, the result of which will be binding. The proposed limit for the last two financial years has been set at 2%.

2.14 For the past four years the Council has frozen its council tax precept at £187.12 a year for a Band D taxpayer. In other words, no increase has been imposed since 2010. Maintaining this council tax freeze has not been easy, bearing in mind the pressures on our finances that we have endured in the meantime. However, in proposing this course of action, the Cabinet has borne in mind the difficult economic and financial climate that many of our residents face.

2.15 The continuation of the council tax freeze in 2015/16 will avoid adding to the financial burden of residents, many of whom are still facing difficult financial circumstances. Currently the Government is offering councils roughly half the cost of freezing council tax in 2015/16 (estimated to be £74,000), when compared with increasing council tax by 2%. Furthermore, 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.

Collection Fund

2.16 At this point in time, it is estimated that the Council's share of the Collection Fund surplus for 2014/15 is £50,000. 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 2015.

3. The Cabinet's general approach to the 2015/16 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 2015/16, approved at a meeting on 14th October 2014, included an estimate of £0.902m for the 2015/16 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 15.3% cut in government support

3.3 The final assessment of the budget gap for 2015/16, based on the detailed budget preparation undertaken over recent months and the assumed financial settlement is £1.036m which takes into account the following variations:

- A further year's freeze in council tax in 2015/16
- A further year's freeze in car parking charges

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

- Do everything possible to protect frontline services without the need to increase 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:

- 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 1.2% for 2015/16 over and above the 2014/15 base.
- Increased income budgets assuming an average increase in fees and charges of 2.0%, 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 and Lifeline charges. The costs have been shown as growth within the interim budget proposals.
- Taken the decision last October to increase green waste charges by £1 to £38 per annum from

5. February 2015. Those residents taking advantage of the discount for prompt renewal will benefit from an ‘early bird’ discount and pay just £36.

- 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 all through the year. 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 2015/16, which are the result of this work, are detailed in Appendix 4, split into:

- Decisions already made by Council totalling £424,300.

- Proposals yet to be agreed by Council which are not built into the base budget, totalling £612,000. They comprise £262,000 of efficiency savings and additional income and an additional contribution from New Homes Bonus (NHB) of £350,000 to support the base budget.

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3.7 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.

3.8 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 £1,050,000, which is 68% of the total expected income in 2015/16 of £1.539m. It is proposed that the remainder should be earmarked for one off or time-limited spending, kept in reserve or put towards this Council’s contribution to the 2020 Vision Programme.

3.9 The proposed one-off uses of New Homes Bonus income include: £50k to support the well-liked and very effective Community Pride.

3.10 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.

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 The Bank of England remain cautious in raising the Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in the Bank Rate is expected in Quarter 2 of the 2015/16 financial year and they expect increases after that to be at a slow pace. With this in mind, for 2015/16 interest payable will increase by £13,100 and interest receivable will increase slightly by £18,600. As a result, the net impact on the 2015/16 budget is an increase in net treasury income of £5,500.

5. Longer term planning: the 2020 Vision

5.1 A separate report (2020 Vision) is being considered on the agenda for this meeting. 2020 is one of the means by which this Council could bridge the medium term funding gap which still remains, despite several years of budget savings and intensive cost-cutting.

5.2 2020 Vision represents an ambitious model for how four councils can work together more effectively, whilst each retaining their own decision-making powers, political independence and identity. Through joined-up working the aim is to create new shared staffing and management arrangements, to deliver high quality services and to generate savings potentially amounting to some £5.2 million per annum to be shared by the partner authorities.

5.3 The Government has welcomed the 2020 Vision and has made a total of £3.8 million available to the four partner councils to assist with the development costs. However, given that a number of the savings proposed in future years arise from organisational changes which may require one-off sums to cover the costs of redundancy and early retirement, there are likely to be additional costs estimated at £1.095m spread over five years. Should the Council proceed with this initiative, it is proposed to fund these costs from the New Homes Bonus and part use of the interest equalisation reserve, set aside to deal with the impact of the Icelandic banks, which is no longer required.

6. Reserves

6.1 Section 25 of the Local Government Act 2003 requires the Chief Finance 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 2014. In the meantime, a projection of the level of reserves to be held at 31st March 2015 and 31st March 2016 respectively is detailed in Appendix 5.

6.2 The Cabinet is proactive in strengthening reserves when appropriate and necessary through the use of underspends and one-off income. Should the Council proceed with the 2020 programme, it may be necessary to do this to help towards the development and other costs.

7. Capital Programme

7.1 An interim capital programme for the period 2015/16 to 2018/19 is set out at Appendix 6.

7.2 The programme includes provisional sums for infrastructure investment to be funded from the Civic Pride reserve and the construction of new homes through Cheltenham Borough Homes. It also includes the next phase of the ICT infrastructure upgrade strategy, agreed by Cabinet on 11th December 2012.

7.3 Looking more broadly at how the Council can use its capital programme to improve the town, the sale of North Place and Portland Street car parks during 2013/14 has released substantial additional capital. A list of potential infrastructure investment projects across the town has now been developed in consultation with the Budget Scrutiny Working Group, aimed at achieving our aspirations for a vibrant, beautiful and prosperous town.

7.4 The Cabinet wishes to use the opportunity afforded by the budget consultation to engage the residents of Cheltenham in the discussion of what our wider investment priorities should be. The list of potential capital projects is therefore published as Appendix 7 of this interim budget. .

8. Property Maintenance Programme

8.1 The interim budget proposals do not include the 2015/16 property maintenance programme as the detail is still being finalised. However the budget includes a revenue contribution of £700k to planned maintenance. The approach to planning for and funding of the planned maintenance programme is being reviewed in the preparation of the council's Asset Management Plan and Capital strategy which is being updated following recent condition surveys and developed to include an equipment replacement programme. The resultant planned maintenance programme will be reviewed by the Asset Management Working Group in January 2015 and the recommendations, including funding proposals, will be built into the final budget proposals in February 2015.

9. Reasons for recommendations

9.1 As outlined in the report.

10. Alternative options considered

10.1 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 2015.

11. Consultation and feedback

11.1 The formal budget consultation on the detailed interim budget proposals will be over the period **17th December 2014 to 26th January 2015.** 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 meetings scheduled for January 2015 and any comments will be fed back to the Cabinet.

11.2 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. Accordingly, if alternative budget proposals are to come forward, this should happen as early as possible.

11.3 All comments relating to the initial budget proposals should be returned to the GO Shared Services Head of Finance 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**.

12. Performance management – monitoring and review

12.1 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.

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

Report author	**Paul Jones, GO Shared Services Head of Finance** **Tel. 01242 775154;** ***e-mail address*** ***paul.jones@cheltenham.gov.uk***
Appendices	1. Risk Assessment 2. Summary net budget requirement 3. Growth 4. Savings / additional income 5. Projection of reserves 6. Capital programme 7. Potential wider investment priorities.
Background information	1. MTFS 2012/13 – 2017/18

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 council continues to deliver savings and additional income from its Bridging the Gap (BtG) programme which includes targets for commissioning projects based on approved business cases. The Cabinet are developing a budget strategy which identifies longer term savings, including those from the 2020 vision programme, for closing the MTFS funding gap.	ongoing	Director of Corporate Resources	26 January 2011
1.02	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.	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. A reserve is in place to manage to potential impact of the temporary closure of North Place car park.	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	Jane Griffiths	15 December 2010	3	3	9	R	As part of the delivery of the BtG / commissioning programmes a clear communication strategy	ongoing	Communications team to support the BTG programme	

	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.							is in place. In adopting a commissioning culture the council is basing decisions on customer 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 initiatives adopt sound project management guidelines with clear business case and risk logs to be developed. Savings / Benefit realisation plans are reviewed.	Ongoing	Deputy Chief Executive	
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	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 including post 2015 election changes and adjust future budgets for any significant variances.	Ongoing	Director of Corporate Resources	