

The purpose of this report is to fulfil the legal requirement under Section 25 of the 2003 Local Government Act 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 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.

In making this report I have considered the risks arising from it, outlined in the table below, and the councils mitigating actions in arriving at my conclusions which, in summary are:

- Supplies and Services and staffing budgets are sufficient to maintain services as planned.
- Budgeting assumptions for treasury management activity reflect the impact of sustained low interest rates and the outcome for the Icelandic banks.
- Approach to budgeting for income is prudent in the current economic climate and given the position with North Place and Portland Street car parks.
- Given the modelling projections, the approach taken to using more of the New Homes bonus receipts to support the base revenue budget is prudent.
- The medium term financial planning assumptions, including potential future cuts in government support beyond the election, are prudent.
- The continued development and revision of the budget strategy for closing the projected budget gap, including progressing the work on 2020 vision programme, is providing a planned and measured approach to meeting future financial challenges.
- The development of the Asset Management Plan and Capital strategy including the review of planned maintenance programming / funding and approach to decision making in view of the sale of North Place and Portland street car parks, which support delivering council corporate objectives and help close the MTFs, will be an important decision for the council.
- The level of reserves, including the General Reserve, is satisfactory.

**Overall conclusion**

***“My overall view is that the budget is a sound response to continuing challenging financial circumstances which maintains services as far as possible by delivering them through alternate delivery mechanisms, maximises efficiencies and responds to anticipated future financial challenges”.***

**In line with statutory duties, Members are asked to consider the advice provided in this report, based upon my assessment of the robustness of the overall budget and estimates in the medium term financial projections.**

**Mark Sheldon (Section 151 Officer)**

Area of risk	Council's approach	Potential Risks	Mitigation	Section 151 Officer assessment
<p><b>1. Robustness of the estimates</b></p> <p><b>Inflation – do supplies and services budgets allow sufficient for inflation?</b></p>	<p>1.1 Contract inflation has been allowed for at the appropriate contractual rate e.g. utilities budgets reflect negotiated rates.</p> <p>1.2 In line with previous practice, general inflation has not been provided for unless the relevant professional officer has indicated that there are inflationary pressures.</p>	<p>Whilst this creates natural efficiency savings it could lead to insufficient budget to maintain services levels.</p>	<p>Policy reviewed annually as part of the budget setting process to ensure sufficient budget e.g. 2015/16 growth proposal for additional telephony cost.</p>	<p><b>I am of the opinion that service managers have sufficient budgets to fund supplies and services expenditure in order to maintain existing service levels.</b></p>
<p><b>Employee costs i.e. pay / turnover targets / pension costs – are budgets sufficient?</b></p>	<p>1.3 Employee budgets for 2014/15 and 2015/16 allow the pay award of 2.2% wef 01/01/15 plus incremental progression for staff below the top of their grade.</p> <p>1.4 The net cost of service assumes an employee turnover saving of around 3% of gross pay budget which equates to an estimated annual saving of c£350,000. This has now been allocated across service budgets for budget holders to manage which should improve vacancy and savings target management.</p> <p>1.5 The medium term financial projections allow for pay awards for 2% from 2016/17.</p> <p>1.6 The budget for 2015/16 provides for the increase in pension contribution rates in line with the 2013 triennial revaluation of £406k and the MTFS allows for further annual increases of £406k in contribution rates based on the actuaries view about</p>	<p>Given the impact of the recession and commissioning of services, there may be less staff turnover may be reduced or more difficult to realise.</p> <p>Given inflationary pressure and prolonged period of pay freeze there may be upward pressure on pay above 1%</p> <p>Future uncertainty in the economy / fund performance and lack of clarity over the full impact of pension changes</p>	<p>Based on previous years' experience this has been achieved but will be monitored. The expectation of partner organisations is being clarified.</p> <p>Review MTFS projections regularly and feed into BtG group / SLT.</p> <p>Budgeting assumptions follow actuarial advice. Additional work is being undertaken to model the impact of commissioning</p>	<p><b>I am satisfied that the Council has sufficient budgetary provision for employee related costs in 2015/16 and is planning for potential future increases in pay and pension fund costs in the MTFS based on the most up to date information available.</b></p>

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	<p>the longer term position of Cheltenham's pension fund. In addition, the council is making one off contributions and move towards fixed annual contributions to support the pension deficit reduction and mitigate against the cash flow position in the long term.</p>	<p>and local commissioning may increase pension fund deficits.</p>	<p>decisions on the pension fund and saving assumptions are being reviewed (part of 2020 vision work).</p>	
<p><b>Treasury Management – are budgeting assumptions prudent and the approach to treasury management risk tolerable?</b></p>	<p>1.7 Despite historic significant investment returns, the treasury management budgets are based on sustained low interest rates and no increase is factored into the MTFs.</p> <p>1.8 The budget assumes allows for a level of 'write off' of assumed loss of Icelandic bank deposits following the Icelandic supreme court decision confirming priority status for local authorities.</p> <p>1.9 The Council adheres to the CIPFA Code of Practice for Treasury Management 2011 and updates its Policy and Strategy statements annually. The Annual Investment Strategy, which sets the treasury management parameters within which Officers operate, is regularly reviewed on the advice of external advisors and annually approved by the Treasury Management Panel / Council.</p>	<p>Fluctuating interest rates / investment income could impact on the net cost of services.</p> <p>Actual distributed receipts may be subject to exchange rates and opportunities for recovery which may arise ahead of the estimated timeline.</p> <p>Given the uncertainty in the economy and financial institutions, there may be a risk to future deposits.</p>	<p>The Council has reduced it's reliance on investment interest to support the net budget and in turn reduced the risk and impact of the volatility of interest rates on the budget.</p> <p>Adjust future residual capitalisation write off to reflect actual receipts.</p> <p>The Investment Strategy is reviewed annually to ensure security of public money. Following the banking crisis, treasury advisors, Capita, continue to advise the Council and TMP on</p>	<p><b>I am satisfied that, given the prevailing low interest rates, the budgeting assumptions for investment interest and projected returns for the remaining Icelandic banks are reasonable; the treasury policy is in accordance with external advice and that treasury related decisions (as measured by these indicators) are in accordance with the prudential code.</b></p>

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	<p>The 2015/16 policy, supported by the TM panel.</p> <p>1.10 In line with the code, prudential indicators which measure the financial impact of treasury and borrowing decisions are included in the Annual Investment Strategy.</p>	<p>Borrowing limits could be exceeded</p>	<p>policy.</p> <p>Prudential indicators are monitored and reported to TMP/ council</p>	
<p><b>Income, Charging and Demand - are estimates at realistic and sustainable levels?</b></p>	<p>1.11 The Council provides a number of demand led services e.g. car parking, building control charges. Targets for the Town hall, leisure@ etc. are now within the Cheltenham Trust management fee. The estimates for 2015/16 have been prepared on the advice of officers who have taken a professional view on income levels, based on their opinion about the local economic conditions.</p> <p>The redevelopment of North Place / Portland Street would have delivered a car park on North Place with a guaranteed future income stream to the council of £350k per annum.</p> <p>1.12 No assumptions have been made in the medium term financial projections in respect of improving income levels, although it assumes inflationary increases of 2% in fees and charges unless there has been a policy decision to freeze charges in response to market conditions.</p>	<p>Existing income levels may not be sustainable.</p> <p>Inflationary increases may not be achievable in the current climate.</p>	<p>Building control, parking and lifeline charges have not been subject to an inflationary increase in 2015/16 in response to market conditions. Regular monitoring / reporting to Cabinet on significant variances in income.</p> <p>A reserve of £350k is available to mitigate against the stalling of the redevelopment and this will be re-visited at the financial year end.</p> <p>Keep MTFS assumptions under review and feed into BtG programme.</p> <p>Changes to fees and charges are not restricted to annual</p>	<p><b>Overall, I am satisfied that the estimates for income are based upon reasonable assumptions which take into account the prevailing economic conditions, mitigate against potential future shortfalls in income and that effective monitoring arrangements are in place.</b></p>

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	1.13 The Council operates in some highly competitive markets and fees and charges can be determined by managers following benchmarking against the competition.	Inflexibility may mean that services cannot respond to the market and loose income.	budget setting. The scheme of delegation allows for in year changes to be made.	
<b>Government support – are the assumptions prudent?</b>	<p>1.14 The estimates for 2015/16 are based on the financial settlement notified by the Department for Communities and Local Government (DCLG) in December 2014.</p> <p>1.15 The medium term financial projections assume a further grant reduction over the period of the MTFS based on LGA modelling the continual drive to reduce the national deficit beyond the election. The council tax freeze grant support is built into the base budget on the assumption that this will continue.</p> <p>1.16 The budget for 2015/16 includes assumptions for business rates based on estimates of collection / refunds, assumed government grant and levy rates. The medium term financial projections make no provision for the impact of future changes in the mechanism for operating local business rates retention but establish a reserve to mitigate against fluctuations.</p> <p>1.17 The budget assumes an increased use of New Homes Bonus (NHB) to £1.050m / yr is used to support the base revenue budget, based on NHB income receipts over the period of the MTFS as a result of additional numbers already delivered.</p>	<p>There may be government funding cuts above assumed levels</p> <p>May reduce income if no growth in business rates.</p> <p>This may not be a sustainable income stream if houses are not built or the govt reconsider future top slicing.</p>	<p>Section 151 Officer monitors relevant government policy and uses other councils to compare budgeting assumptions which may need to be reflected in future MTFS projections.</p> <p>Projections of business rates retention levels are subject to continual review. A county wide pooling arrangement has been agreed to help mitigate risk.</p> <p>Assumptions are based on a prudent view of potential levels of NHB and level of usage (65%) compared with neighbouring councils.</p>	<b>Despite the uncertainty over future government funding, I am comfortable that the council has been sufficiently prudent in budgeting for reductions in government support, including dealing with the uncertainty of business rates and New Homes Bonus receipts.</b>
<b>2. Medium Term Financial Strategy (MTFS) and strategy for 'Bridging the</b>	2.1 The 2015/16 budget includes medium terms financial projections and funding gap	Actual projections may vary from	Annual reviews of MTFS projections	<b>The council's approach to</b>

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<p><b>Gap (BtG) – are the assumptions reasonable?</b></p> <p><i><b>NB: Sound financial management requires that the Section 151 Officer and Councillors have full regard to affordability when making recommendations about the local authority's future revenue and capital programme.</b></i></p>	<p>over the next 3 years.</p> <p>2.2 The 2015/16 budget outlines the strategy for closing the funding gap which includes estimates savings / additional income from the 'BtG' programme e.g. shared services / partnerships, the Cheltenham Trust and the accommodation strategy. Many workstreams are already in progress and the budgeted saving assumptions considered to be robust and deliverable. The projections indicate that there may still be an unresolved gap of c£1.5m.</p> <p>2.3 The council has traditionally provided 'one off' funding for investment in systems or staff costs i.e. additional short-term resource, redundancy / pension costs funded from savings or the General Reserve.</p>	<p>predictions.</p> <p>Lack of forward planning for cuts could result in salami slicing of budgets. Projects may not deliver savings as planned and unplanned cuts may have to be made.</p> <p>If opportunities to avoid redundancy costs are not managed, the General Reserve may be placed under pressure.</p>	<p>approved by council.</p> <p>The 'BtG' programme monitors the financial projections / 'BtG' work streams. There are still outstanding workstreams to be included which may close the gap including potential 2020 vision savings.</p> <p>The level of the General Reserve is held at an appropriate level to provide a reasonable level of assurance.</p>	<p><b>modelling and monitoring the MTFS and planning for meeting future funding gaps outlined in the budget strategy demonstrates robust and effective planning for closing the funding gap.</b></p>
<p><b>3. Proposed level of council tax increase – is it a reasonable?</b></p> <p><i><b>NB: In setting the level of council tax, Members need to be mindful of the impact of the decision on the MTFS and future funding gaps.</b></i></p>	<p>3.1 The final budget proposals assume a council tax freeze for 2015/16 in line with the Government's aspiration. The MTFS in Feb 2014 proposed an increase of 2% which would have generated circa £160k p.a. in additional income. The decision to freeze council tax is partially funded by a government grant of £82k (1%) annually; hence the next income forgone is c£82k.</p> <p>The funding shortfall is being offset by savings / other income.</p> <p>3.2 The medium term financial projections models future council tax increases at 2%</p>	<p>The limited government support increases pressure on the funding gap in 2015/16 and over the period of the MTFS. The governments aspiration is for a council tax freeze in 2015/16</p>	<p>The proposed freeze avoids requirement for a referendum (cost c£50k) for council tax increases over government cap of 2% and is part funded on an on-going basis.</p> <p>The budget strategy includes future council</p>	<p><b>Given the support offered by the government in freezing council tax, the decision to freeze council tax is reasonable and the impact on the MTFS has been considered.</b></p>

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	per annum from 2016/17 onwards.		tax projections which support closing the future funding gap.	
<p><b>4. Is the approach to financing the maintenance programme and the Asset Management Plan (AMP) sound?</b></p>	<p>4.1 The Council has £700k built into the base revenue budget to fund the annual maintenance budget of the property portfolio with a £150k funding 'top up' from additional NNDR receipts. A complete review of the Planned Maintenance Programme (PMP) is underway and an updated PMP and its funding requirements will now be included in the council's Asset Management Plan and Capital Strategy due for consideration by the council.</p> <p>4.2. The council is developing an updated Asset Management Plan and Capital strategy, including funding options. It will also address how to invest the receipt from the sale of North place receipt. The budget included options for how this might be used which was subject to public consultation.</p>	<p>There may be insufficient annual budget to fund maintenance programmes</p> <p>The receipt from the sale of North Place / Portland Street could be used in an ad hoc manner.</p>	<p>The PMP is reviewed annually by the Asset Management Working Party (AMWP).</p> <p>The Council is looking to objectively assess the various options for the use of the capital receipts against its corporate objectives in order to support this important decision.</p>	<p><b>The assumptions for financing the capital programme and the planned maintenance programme in the 2015/16 budget are reasonable.</b></p> <p><b>Looking ahead, the Council has a one off opportunity to ensure that uses the receipts to deliver the councils corporate objectives including making a contribution to the MTFs funding gap.</b></p>
<p><b>5. Are the councils Reserves at reasonable levels?</b></p> <p><b>NB: The requirement for financial reserves is acknowledged in statute. Section 32 and 43 of the Local Government Finance Act 1992 requires billing authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.</b></p>	<p>5.1 The final budget proposals include a schedule of the reserves held by the Council, stating their purpose together with actual and proposed changes between years.</p> <p>5.2 On the advice of the Section 151 Officer, the Council has previously agreed to maintain its General Reserve (GR) at approximately 10% of net operating expenditure, or a level between £1.5m and £2m. This remains my advice. 2015/16 budget proposals maintain the General</p>	<p>Reserve levels may not be sufficient.</p> <p>Pressure on GR from the need to drive out savings / funding of one off investment e.g. commissioning etc may reduce it below the tolerance</p>	<p>These are reviewed on a regular basis and in the process of finalising the budget proposals. Regular reviews of reserve levels and increase General Reserve when opportunities arise.</p>	<p><b>Overall, I am satisfied that the projected levels of reserves, including the level of the General Reserve, are adequate for the forthcoming year.</b></p>

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<p><b>Within the statutory and regulatory framework it is the responsibility of the Section 151 Officer to advise the authority on its level of reserves. Councillors, on the advice of the Section 151 Officer, should make their own judgements on such matters taking into account local circumstances. The adequacy of reserves can only be assessed at a local level and requires a considerable degree of professional judgement. The assessment needs to be made in the context of the authority's MTFs, its wider financial management, and associated risks over the lifetime of the plan. The Secretary of State has reserved powers to set a minimum level of reserves to be held by councils if required.</b></p>	<p>Reserve at c£1.6m.</p> <p>5.3 The budget proposals include the use of the car parking reserve at £350k to support the current position following the collapse of the Morrison's deal on North Place and Skanska deal on Portland street car parks.</p> <p>5.4. The council has set aside some funding to match fund the government support for the 2020 vision programme</p> <p>5.5 The Council has managed to deliver services without calling on the General Reserve.</p> <p>5.6 2015/16 projections indicate trajectory of reserve levels.</p>	<p>level.</p> <p>Potential to increase the risk of use of GR.</p> <p>The council places reliance protection provided by earmarked reserves. Opportunity cost of holding reserves.</p>	<p>Reserves reviewed regularly. Reduced number of specifically earmarked reserves over recent years.</p>	
<p><b>6. Is the budget balanced?</b></p> <p><b>There is a legal requirement under the Local Government Act 1992, section 32 and 43 to set a balanced budget</b></p>	<p>The budget proposals includes budgets for expenditure and income and uses reserves to fund one off expenditure, fund future expenditure or phase in the impact of increased expenditure per the MTFs without drawing on the General Reserve.</p>	<p>Unsustainable budget supported by the General Reserve.</p>	<p>Annual S151 Officer budget assessment</p>	<p><b>I am satisfied that the proposed budget is balanced and meets the legal requirement to set a balanced budget.</b></p>