

Cheltenham Borough Council

Cabinet – 9th February 2016

Council – 12th February 2016

General Fund Revenue and Capital – Revised Budget 2015/16, and Final Budget Proposals 2016/17

Accountable member	Cabinet Member for Finance, Councillor John Rawson
Accountable officer	Section 151 Officer, Paul Jones
Accountable scrutiny committee	Overview and Scrutiny Committee
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report summarises the revised budget for 2015/16 and the Cabinet's final budget proposals and pay policy statement for 2016/17.
Recommendations	<p>Cabinet / Council</p> <ol style="list-style-type: none">1. Note the revised budget for 2015/16 and approve the recommendation of the Section 151 Officer to transfer the identified saving of £307,900 to the budget strategy (support) reserve as detailed in Section 3.1.2. 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 £190.84 for the year 2016/17 (an increase of 1.99% or £3.72 a year for a Band D property).4. Approve the growth proposals, including one off initiatives at Appendix 4.5. Approve the savings / additional income totalling £780,700 and the budget strategy at Appendix 5.6. Approve the use of reserves and general balances and note the projected level of reserves, as detailed at Appendix 6.7. Approve the proposal to abolish charges in council car parks after 6pm as detailed in Section 8.8. Approve a 1% increase in all Member allowances, in line with the proposed increase in staff pay, as detailed in Section 9.9. Approve the local council tax support scheme for 2016/17 as outlined in Section 11, which remains unchanged from 2015/16

other than the annual uprating for non-dependant deductions.

10. Approve the proposed capital programme at Appendix 7, as outlined in Section 13.

11. Approve the Pay Policy Statement for 2016/17, including the continued payment of a living wage supplement at Appendix 9.

12. Approve a level of supplementary estimate of £100,000 for 2016/17 as outlined in Section 18.

13. Note that the Council will remain in the Gloucestershire business rates pool for 2016/17 (para 4.15).

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	The budget setting process must follow the Council's Budget and Policy Framework Rules. Section 38 of the Localism Act 2011 requires local authorities to produce Pay Policy Statements. The Act also contains requirements for local authorities to hold a referendum where council tax is proposed above a specific level - which is 2% for district councils in 2016/17. Section 25 of the 2003 Local Government Act requires the Authority's Section 151 Officer to comment on the robustness of the estimates and the adequacy of reserves. Contact officer: Peter Lewis E-mail: peter.lewis@tewkesbury.gov.uk Tel no: 01684 272012

HR implications (including learning and organisational development)	<p>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 17th December 2015. 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.</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>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. Equality impact assessments will also be carried out for each service that is proposed to be shared with the 2020 partnership as part of the business cases being considered by Cabinet.
Savings from the reducing management fee paid to the Cheltenham Trust	The equality and community impacts of the work to establish the Cheltenham Trust 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 monitored through quarterly review meetings.
Savings from changing the way we manage waste	None identified
Savings from rationalising our property portfolio	Any more detailed proposals for changing the way we manage our property assets will be subject to specific equality impact

	assessments
Savings from the way we lease vehicles	None identified
Additional income from advertising and sponsorship	None identified
Additional income from the purchase of Delta Place	None identified at this stage. The plans to move the council's operations into Delta Place will be subject to detailed consultation with a range of customer groups to ensure that the building is accessible as possible.
Proposed changes to the funding of the Countywide Home Improvement Agency	Reduced funding could impact discretionary services (Support For Choice) provided by the County Council to elderly residents in Cheltenham, but there is little evidence to show how past funding by CBC has contributed to outcomes in this area and any impact would therefore be minimal. Applicants for Disabled Facilities Grants forming part of this group have always been advised in this respect by CBC officers as part of the grant process. The council remains committed to giving advice to elderly, vulnerable and disabled persons who contact the Council for housing related support.

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 2016. The consultation took place between the period 16th December 2015 to 20th January 2016 and this report sets out the final proposals for 2016/17.
- 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, in 2016/17 more than 67% of the Council's overall core Government funding (referred to as the Settlement Funding Assessment), comes directly from Business Rates and, as a consequence, has the potential to vary either upwards or downwards during the year. By 2019/20 this will rise to 100% as the Government proposes to completely phase out the Revenue Support Grant (RSG). This is a key strand of the Government policy to localise financing of local authorities and brings the potential for increased risks or increased rewards.
- 1.3** The Spending Review 2015 confirmed that by the end of this Parliament, local government will retain 100 per cent of business rate revenues to fund local services although the system of top-ups and tariffs which redistributes revenues between local authorities will be retained. In return, local government will be required to take on additional responsibilities which may include the funding of public health and the administration of Housing Benefit for pensioners. The Government propose to consult on these and other additional responsibilities in 2016.
- 1.4** 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 The Section 151 Officer is satisfied that the proposed budget for 2016/17 has been based on sound assumptions and that the Council has adequate reserves to fund operations in 2016/17. The full assessment is attached at Appendix 2.

3. 2015/16 Budget Monitoring to December 2015

- 3.1 The budget monitoring report to the end of December 2015, also considered by Cabinet on 9th February 2016, identified a net underspend against the budget of £307,900 to the end of December 2015. It is therefore the recommendation of the Section 151 Officer that this saving is transferred to the budget strategy (support) reserve to help support the 2016/17 and future year's budget proposals in accordance with the Medium Term Financial Strategy.

4. Settlement Funding Assessment

- 4.1 On 17th December 2015, the Secretary of State for Communities and Local Government announced the provisional local government settlement for 2016/17. The announcement included the following significant proposals to be delivered over the life of the Spending Review Period:
- Movement to 100% business rate retention;
 - Permission to spend 100% of capital receipts from asset sales, to fund cost-saving reforms;
 - Introduction of a social care Council Tax precept of 2% a year for those authorities with social care responsibilities;
 - Flexibility for the lowest cost district councils to increase council tax by £5 a year;
 - Increased support through the Rural Services Delivery Grant for the most sparsely populated rural areas;
 - Retention of New Homes Bonus **but** with proposed changes, savings from the changes to be re-invested in authorities with social care responsibilities;
 - The offer of a guaranteed 4 year budget to every council, which desires one, and which can demonstrate efficiency savings.
- 4.2 In addition to the detailed proposals for 2016/17, illustrative figures have also been provided for each financial year up to 2019/20. The illustrative figures need to be treated cautiously as they do not include the full implications of proposed changes to the New Homes Bonus or implications of the move to 100% business rate retention. In the case of changes to the New Homes Bonus, the illustrative figures showed a reduction in New Homes Bonus in 2018/19, whereas the consultation document indicated that reductions may come into effect in 2017/18.
- 4.3 The principles of the settlement allow authorities to spend locally what is raised locally, whilst recognising the savings already made by local government. Most noticeably, there has been a shift away from freezing council tax to using council tax to generate additional funding. Reserves are noted as being one element of an efficiency plan through a voluntary drawdown of reserves as the price for greater certainty for future settlements.
- 4.4 The provisional local government settlement for 2016/17 equates to a further grant reduction in

cash terms of £0.816 million or 17.4%. The final settlement for 2016/17 is due to be announced on the week commencing 8th February 2016 and will be tabled as part of the 2016/17 final budget proposals.

- 4.5** This means that since 2009/10, the Council’s core funding from the Government has been cut by some £5.7 million, from £8.8 million to £3.1 million (this excludes council tax support funding which transferred into the settlement funding assessment in 2013/14).
- 4.6** Given the above it appears that this Council has been adversely affected by this settlement as greater weighting is placed on the council tax base. In addition, as a wholly urban authority with tightly drawn boundaries, Cheltenham has much less capacity for increasing the number of homes, and therefore benefitting from New Homes Bonus (NHB), compared to rural areas.
- 4.7** Allocations have been determined by equal percentage cuts in “settlement core funding” which is the sum of Revenue Support Grant (RSG), business rates targets and for the first time council tax. Therefore, as Cheltenham funds a higher proportion of its net budget requirement from council tax, it is set to receive a higher reduction in government funding.
- 4.8** Cheltenham will see its government funded spending power per head of population reduce from £54.37 in 2015/16 to £31.79 in 2019/20, a 41.5% reduction. The average government funded spending power per head of population for shire district urban authorities in 2019/20 is projected to be £39.76, a significant difference of nearly £8 per head of population. If Cheltenham were to receive the average amount for a shire district urban authority, this would equate to an additional £940,000 in government funding in 2019/20.
- 4.9** The proposal to include council tax in the settlement core funding assessment would appear unjust as council tax has always been assessed as the source of funding used for meeting the difference between the amount a local authority wishes to spend and the amount it receives from other sources such as government grants. The council tax charge for Cheltenham residents has been the subject of debate for more than three decades and has been determined by successive Councils based on the need to fund the services its residents need and wish to enjoy.
- 4.10** The proposed levels of Government funding for this Council are set out in the table below which also shows recent reductions in funding. Overall, core Government funding (referred to as the Settlement Funding Assessment) will reduce by 17.4% in 2016/17.

	2014/15	2015/16	2016/17
	£ 000	£ 000	£ 000
Revenue Support Grant	2,921	2,110	1,273
Baseline Funding (Cheltenham’s target level of retained business rates)	2,530	2,579	2,600
Settlement Funding Assessment	5,451	4,689	3,873
Actual cash (decrease) over previous year		(0.762)	(0.816)
% reduction in funding		14.0%	17.4%

Business Rate Retention and Pooling

- 4.11** The Gloucestershire Business Rates Pool was set up in 2013/14 to maximise the business rate income retained within the County and to support economic growth within the area of the Local Enterprise Partnership. In the first year of operation the Pool reported a surplus of £774,862.
- 4.12** In 2014/15, the pool suffered a significant loss due to the impact of backdated appeals on rateable values and, in particular, the successful backdated appeal by Virgin Media, the largest valued business in Tewkesbury. The final pool position for 2014/15 published a deficit of £2.3m following a safety net payment to Tewkesbury of £3.9m.
- 4.13** The on-going issue with Virgin Media relates to their request for a single listing. They are currently listed with 68 different councils. Following meetings with the DCLG and the LGA, it was made clear that this will not be resolved quickly. Further information is needed from Virgin Media in order for the Valuation Office to consider the matter and due to the size, complexity and potential impact for many councils and the DCLG, it is unlikely to be resolved this financial year. However, there is a small risk that the Virgin Media issue may be fast tracked and resolved this financial year which would have a serious impact on the Gloucestershire business rates pool.
- 4.14** The Chief Finance Officers agreed to look at the composition of the pool and determine whether the amount of business rates retained in Gloucestershire could be maximised by having fewer members in the pool and lowering the levy rate. Modelling of the potential business rates income in 2016/17 indicates that the Council is still above the baseline funding target (Cheltenham's target level of retained Business Rates) which will result in the Council still being liable to a 'levy'.
- 4.15** Taking the above into account, it was agreed that this Council would benefit from remaining in the pool in 2016/17 as it will result in a reduction in the levy payment due to Government, which will be distributed in accordance with the governance arrangements. For 2016/17, the Gloucestershire pool has been reconstituted to include Gloucestershire County Council and all of the District/Borough Councils with the exception of Tewkesbury Borough Council.
- 4.16** 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 2016 and the budget is based on the figures in that return. The table below incorporates figures from the NNDR1 return and it is pleasing to report that the estimated net surplus from retained business rates against the baseline funding position is £769,153. However, due to temporary retail closures arising from town centre redevelopments, the Virgin Media issue and the large reductions made by the Valuation Office (VO) in the rateable values of purpose-built doctors' surgeries and health/medical centres (which are backdated several years), deficit adjustments need to be made from previous years to the value of £1,029,503.
- 4.17** It is therefore appropriate and necessary to support the 2016/17 budget proposals with a contribution from the BRR reserve which has been built up over the last two financial years to deal with these issues.

	2016/17 £
Estimate of retained business rates per NNDR1	22,335,990
Tariff to government	(19,238,881)
Grant to compensate for government decisions (e.g. Small business rate relief and Localism Act reliefs)	530,574

Estimated levy payable to government after pool adjustment	(258,640)
Net retained business rates	3,369,043
Less Baseline Funding (Cheltenham BC Target level of retained business rates)	(2,599,890)
Net surplus on business rates in 2016/17 against baseline funding	769,153
Deficit adjustment in respect of 2014/15 (one-off)	(220,026)
Deficit adjustment in respect of 2015/16 (one-off estimated)	(809,477)
Additional one-off adjustments in respect of previous years surpluses from retained business rates	(1,029,503)
Net retained business rates (after one-off deficit adjustments)	2,339,540

- 4.18** The move to local business rates retention would appear 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 three years since business rates retention was introduced and the rules are still changing.
- 4.19** 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. Large appeals and RV reductions from other public sector organisations are undermining local government's ability to make business rates retention a success.

New Homes Bonus (NHB)

- 4.20** 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 £1,484 for each new property for six years (based on national average for band D property – i.e. £8,900 per dwelling over six years), plus a bonus of £350 for each affordable home (worth £2,100 over six years).
- 4.21** Funding is not ring-fenced and is designed to allow the benefits of growth to be returned to communities. Funding is split 80:20 between district and county authorities, although it is now recognised that the funding from this scheme comes from top sliced Revenue Support Grant (RSG), which has been reduced significantly to compensate for the NHB payments.
- 4.22** The Government has announced the allocation of NHB Grant for 2016/17. For this Council, NHB Grant will increase by £546,476 from £1,605,685 to £2,152,161. The grant recognises net growth in the Council Tax base of 444 properties between October 2014 and October 2015 and the development of 40 affordable housing units
- 4.23** The Government is proposing to make changes to the New Homes Bonus and has published a consultation document "New Homes Bonus: Sharpening the Incentive". The Consultation document has been prepared in the context of the outcome of the 2015 Spending Review. This confirmed the intention to move to full retention of business rates by 2020 and a preferred option for savings of at least £800 million in New Homes Bonus, to be used to fund social care. The consultation seeks views on the options to change two aspects of the New Homes Bonus.
- Reducing costs by moving payment of the bonus from 6 years to 4 years;
 - Reform of the bonus to reflect local authorities' performance on housing growth, linking payment of grant to production of the Local Plan, reducing payments for housing built on appeal and/or only making payments for delivery above a baseline.

- 4.24** The deadline for responses is 10th March 2016 and Officers are preparing a response in consultation with the Leader of the Council.

Parish Council Support Grant

- 4.25** 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.

For 2013/14 through to 2015/16, 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 2016/17.

Council Tax

- 4.26** The Localism Act 2011 introduced a power for 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 has to hold a referendum, the result of which will be binding. The proposed limit for 2016/17 has been announced at 2%.
- 4.27** For the past five years the Council has frozen its council tax precept at £187.12 a year for a Band D taxpayer, which was first set in 2010. In freezing its share of council tax for this unprecedented length of time, 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. Our core Government funding has been cut by more than 65%, with further large cuts to come. In addition, inflation and pension deficits have continued to affect many areas of the Council’s costs.
- 4.28** Since the borough share of council tax was last increased, CPI inflation has been of the order of 13%. We are currently going through a period of extremely low inflation, with CPI inflation being 0.0% in September 2015, well below the Monetary Policy Committee’s (MPC) 2% target. However, this is likely to be relatively short-lived, with inflation projected to rise as past falls in energy prices begin to drop out of the annual comparison. The MPC judges that it is currently appropriate to set policy based on a likelihood that inflation will return to the 2% target within two years.
- 4.29** However, consumer price inflation is not a particularly useful guide to what is happening to the Council’s costs. The most significant cost to this Council is in respect of its employee related costs – and in this area of expenditure, some very considerable cost increases are on the way. Pay awards are assumed to be in the region of 1% per annum, employer pension contributions are increasing by £406k cumulatively per annum, and employer national insurance contributions will increase by 3.4% as a result of the creation of the single tier state pension and the end of contracting out of the second state pension.

- 4.30** With this in mind, the Cabinet has had to consider whether a further freeze in council tax is sustainable, or whether it will act against the interests of local residents by creating an increased risk of service cuts and/or larger tax increases in the future.
- 4.31** The uncertainty surrounding the future of New Homes Bonus, which represents a significant proportion of our income, and the actual final local government settlement which is not likely to be announced until February 2016, could place a number of our discretionary services at risk.
- 4.32** Therefore, the Cabinet is proposing a 1.99% increase in council tax in 2016/17; an increase of £3.72 for the year for a Band D property.

Collection Fund

- 4.33** In accordance with the Local Authorities Funds (England) Regulations 1992, the Council has to declare a surplus or deficit on the collection fund by 15th January and notify major preceptors accordingly. This Council's share of the collection fund surplus for 2015/16 is £163,800 which will be credited to the General Fund in 2016/17. Collection fund surpluses arise from higher than anticipated rates of collection of the council tax collection rates.

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 has made provision for growth in contributions to the Pension Fund of £406,000 for each of the next three years (2016/17 to 2018/19). The next valuation is due to take place in March 2016 and will set the contribution rates for the period 2017/18 – 2019/20.
- 5.2** 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, provided 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 for increased employer NI contributions with effect from 2016/17 has been included within the budget proposals at a cost of £217,400.
- 5.3** Since 2013, the grant received from central government to fund the administration costs of the Housing Benefit and Local Council Tax Support services has been reduced by £235,000 of which £89,500 is proposed in 2016/17. £58,000 of this cut related to the introduction of the Single Fraud Investigation Service which saw responsibility for the investigation of housing benefit fraud pass from local government to the Department for Works and Pensions (DWP). Other reductions have been a result of the DWP passing on its departmental savings targets to local government.

6. The Cabinet's general approach to the 2016/17 budget

- 6.1** 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 whilst also protecting frontline services.
- 6.2** The Cabinet's budget strategy for 2016/17, approved at a meeting on 13th October 2015, included an estimate of £1.825m for the 2016/17 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 5.9% cut in government support. These assumptions were used to support the interim budget proposals, and based on the detailed budget preparation undertaken in

November 2015, assumed a revised budget gap of £1.833m.

6.3 The final assessment of the budget gap for 2016/17, based on the detailed budget preparation and the assumed financial settlement is £1.881m which takes into account the following variations:

- Additional cut in RSG of £506k which represents a 17.4% reduction in its Settlement Funding Assessment
- Business rates adjustments including planned use of BRR reserve £203K
- Additional income raised through an increased collection fund surplus £14k
- Additional off-street car parking income £40k
- Use of car parking equalisation reserve £200k

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

- Do everything possible to protect frontline services with a modest increase in council tax
- Identify savings that can be achieved through reorganisation of service delivery or raising additional income rather than through service cuts.

Following the provisional grant settlement in December 2015 the search for efficiency savings and additional income was intensified and the 2015/16 budget was scrutinised to identify savings and additional income that could be used to strengthen the Council's reserves.

6.5 In preparing the 2016/17 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 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 2016/17.
- Budgeted for an increase in Members allowances of 1% for 2016/17 as detailed in Section 9.
- Increased income budgets assuming an average increase in fees and charges of 2.0%, with some exceptions. The Cabinet proposes to freeze car park charges for the sixth year running and (see section 8 below) also to leave green waste charges unchanged.
- Assessed the impact of prevailing interest rates on the investment portfolio, the implications of which have been considered by the Treasury Management Panel.

6.6 As in previous years, the budget for the coming year is the result of a great deal of activity and hard work by officers and members throughout the year. The Cabinet has worked with officers to develop a longer term strategy for closing the funding gap and this is monitored regularly through the Bridging the Gap (BtG) programme. The Cabinet's final budget proposals for closing the budget gap in 2016/17, which are the result of this work, are detailed in Appendix 5.

6.7 The Bridging the Gap programme and the commissioning process have helped the Council to move towards a robust five-year strategy for closing the funding gap. The work done on leisure and culture services, shared services with our 2020 partner councils, management restructuring and the accommodation strategy, as well as a number of smaller pieces of work, give the Council the opportunity to think ahead over a period of several years, rather than planning its budgets a year at a time.

- 6.8** This budget proposes to make fuller use of the New Homes Bonus to support the revenue budget. However, in view of current uncertainties we have limited the amount of New Homes Bonus income being directly taken into the revenue budget to a total of £1.750m, which is 81% of the total expected income in 2016/17 of £2.152m. 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 as agreed in February 2015.
- 6.9** The proposed one-off uses of New Homes Bonus income include: £30k to support the well-liked and very effective Community Pride grant scheme.
- 6.10** In determining the budget strategy in October 2015, the Section 151 Officer recommended the creation of a specific earmarked reserve: a 'budget strategy (support) reserve', to provide greater resilience. The new reserve will also secure the Council against the challenges which we know we will encounter in the coming year.
- 6.11** Some of the challenges the Council faces are essentially short-term. One of these is a one-off drop in business rates income estimated at £285k in 2016/17 due to redevelopment, with income levels recovering as development goes 'live' in 2017/18 and 2018/19. Another is the delay in securing car park income of £350k a year from the North Place development, which we expect to be resolved by the end of 2016. These short-term challenges require a short-term response and it is therefore the Cabinet's intention to meet the projected shortfall in 2016/17 from the budget strategy (support) reserve rather than by cuts in services or increases in charges which would have a long-term impact.
- 6.12** In addition, the unexpectedly large reduction in revenue support grant announced in December 2015 creates a challenge for the Council which it will take time to resolve. For this reason, the final budget follows a strategy of building up reserves in order to cushion the impact of the grant reduction in 2016/17 and 2017/18, allowing time to find sustainable savings with the least possible impact on services.
- 6.13** In all it is proposed that £399,937 should be deployed from the budget strategy (support) reserve to support the 2016/17 revenue budget. The projected level of this reserve at 31st March 2016 is £0.737m and this will give the Council time to deliver its strategy for delivering substantial savings over the next 4 year period.

7. Longer Term Strategy

- 7.1** The Government's policy of phasing out revenue support grant and in due course allowing councils to benefit from a higher share of business rates creates a need for this Council to develop a long-term strategy which is significantly different from that followed in past years. Since 2013 the Council has had a direct financial interest in economic and business growth in the town, and will have a larger stake in it under the Government's proposals for reforming business rates.
- 7.2** In responding to this emerging reality, the Cabinet has given a high priority to spending that will support the local economy. That is why this budget proposes to reaffirm this Council's financial support for the Business Improvement District; to allocate funding to develop and start to implement the emerging Tourism Strategy; and to provide additional funding so that the Joint Core Strategy process can be completed and a framework developed for the Community Infrastructure Levy. Attention has also been paid to the need for the town to be as welcoming and attractive as we can make it; and a sum of £50,000 has been allocated to carry out an intensive clean of the town centre and a number of key out-of-centre locations.
- 7.3** The sharp reduction in Government funding which is clearly going to take place in the coming years also places more onus on the Council to generate more of its own income through its property portfolio. The acquisition of Delta Place is already delivering £100,000 a year over and

above the costs of purchase. The Shopfitters site, together with the neighbouring Synagogue Lane and Chelt Walk sites, constitute a town centre site with considerable development potential in the medium and long term. The Council needs to be vigilant for other opportunities to generate property income, both by making the best use of its existing portfolio and by looking for other strategic acquisitions.

8. Car parking charges

- 8.1 The very healthy level of car park income in the current financial year has given the Cabinet greater confidence in approaching the subject of car park charges. Despite the increased pressure on the Council's finances since the draft budget was published, the Cabinet is therefore proposing to stick to its previous proposal to freeze car parking charges at their 2010 level for a further year.
- 8.2 Members will be aware that a cabinet member working group is reviewing car parking as a whole in the town. However, the Cabinet is of the view that abolishing car park charges in council car parks after 6pm at night would be a considerable benefit to the local economy and environment and would be affordable even in the current straitened financial circumstances. It could be implemented as a stand-alone proposal without prejudicing the review as a whole. This proposal is therefore incorporated in the final budget proposals.

9. Members' Allowances

- 9.1 The Independent Remuneration Panel (IRP) carried out a 4 yearly full review of Members Allowances in 2014 as required under the regulations. At its meeting in December 2014, Council accepted the IRP recommendation to increase the Basic Allowance by 1% from April 2015. They decided that this should not be applied to SRAs which remained at their 2014/15 levels. Under the terms of the Members' Allowance scheme the chair of the IRP will be consulted each year to review the need for the panel to meet. If there are no significant issues to review, the recommendations from the IRP to Council should by default be that "all allowances should be increased by the % increase in the median gross weekly earnings for the South West published in the Annual Survey of Hours and Earnings in November".
- 9.2 The chair of the Panel confirmed by email on 13 November that as there were no significant issues for the panel to review there was no need for a meeting. Therefore by default the IRP recommendation is that the basic allowance and all SRAs should be increased by 1.5%.
- 9.3 If Council wished to apply the 1.5% to all basic allowances and SRAs as recommended by the IRP then the proposed allowances are detailed in the following table. Council will need to confirm whether they also want this percentage increase to be applied to the Mayoral allowances which do not form a part of the Members Allowances Scheme but are reviewed by the IRP on a regular basis. The table below includes a fourth column which details the allowances if Council wished to continue to freeze SRAs and apply the increase to the basic allowance only.

ROLE	ALLOWANCES		
	Current Allowance	Proposed 1.5% increase from April 2016	Proposed 1.5% increase from April 2016 in Basic allowance only
Basic Allowances(*40)	208,680	211,810	211,810
SRAS	106,636	108,236	106,636
Civic Allowances	7,932	8,651	7,932
Total Allowances	323,248	328,697	326,378
Total increase in allowances for 2016/17		5,449	3,130

9.4 If Council wished to apply the same 1% increase that is budgeted for staff the figures would be as follows.

ROLE	ALLOWANCES		
	Current Allowance	Proposed 1% increase from April 2016	Proposed 1% increase from April 2016 in Basic allowance only
Basic Allowances (*40)	208,680	210,767	210,767
SRAS	106,636	107,702	106,636
Civic Allowances	7,932	8,611	7,932
Total Allowances	323,248	327,080	325,335
Total increase in 2016/17		3,832	2,087

9.5 Cabinet propose that all allowances are increased by 1% in line with what is proposed for staff.

10. Treasury Management

10.1 Appendix 3 summarises the budget estimates for interest and investment income activity. Security of capital remains the Council's main investment objective.

10.2 The latest forecast from our Treasury Advisors includes a first increase in the Bank Rate in quarter 2 or 3 of 2016 although it is recognised that events outside our control could result in a delay in any Bank Rate increase. With this in mind, the budget has been framed on the assumption that the interest received in 2016/17 will be broadly consistent with that now projected for 2015/16.

11. Local Council Tax Support scheme for 2016/17

11.1 On 13th October 2014, the Council decided to keep the local scheme for working age customers unchanged for 2015/16 and 2016/17, other than the annual uprating of premiums, allowances, non-dependent deductions and any changes to the national pension scheme that need to be reflected in the local working age scheme.

11.2 For 2016/17 there are two changes outside of uprating which need to be considered for inclusion in the 2016/17 local scheme for working age customers, one of which is also a change in the national pension scheme for council tax support.

11.3 The first change is to reduce the time limit for backdating a claim from six months to one month where 'continuous good cause' has been shown for not contacting us at the correct time. This change would be to fall in line with the Housing Benefit scheme which is paid at the same time as council tax support, if someone also needs help with their rent. Between April and October this year, we had 10 council tax support cases which were backdated over one month.

11.4 The second change is the removal of the "family premium" from 1st May 2016 for new working age customers with children claiming council tax support; or for existing customers who become responsible for a child for the first time. Again this change would be to fall in line with the Housing Benefit scheme and the national pensioner scheme for Council Tax Support.

11.5 The family premium is one of a number of premiums, which are added together to make up a

family's maximum award in council tax support and if their income is above this figure, they have to make a contribution to their council tax on a sliding scale. If it were to be removed from the council tax support scheme, we would still award premiums for each child, personal allowances for the customer being a lone parent or couple, and disability premiums for those who are disabled. In addition, customers on Universal Credit, Income Support, income related Employment & Support Allowance or Income based Job Seekers Allowance would still receive maximum support.

- 11.6 However, the family premium is £17.45 per week and if this were removed from the local council tax support scheme, new customers might have to pay up to an extra £3.49 per week if their total income is above the new maximum award for their family circumstances.
- 11.7 There are conflicting considerations in deciding whether to incorporate the changes into council tax support. Up to now, the Council has prided itself on protecting the council tax support scheme from Government cuts. Clearly the removal of family premium would impact on some of the poorest people in the community. On the other hand it will complicate the administration of benefits and involve additional software costs if the removal of the family premium is not adopted, as it will result in us having to treat council tax support and Housing Benefit differently when a family makes a joint claim for both benefits.
- 11.8 On careful consideration, the Cabinet has decided not to recommend to Council that the Housing Benefit changes in respect of backdating and family premium are incorporated into the local council tax support scheme. However the council tax support scheme may need to be reviewed in a year's time when it is expected that the Government will announce further changes

12. Reserves

- 12.1 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".
- 12.2 As detailed in paragraph 1.2 above, under the new regime, around 67% 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. The budget monitoring report to December 2015 details the volatility in this area surrounding appeals and rate reductions. As a consequence the Council has been able to substantially increase the BRR reserve in 2015/16 which will be used to support the budget proposals in 2016/17 to help offset the appeals provision and one-off drop in business rates in 2016/17.
- 12.3 As detailed in the budget monitoring report to December 2015, the Council had intended to fund £337,800 of car parking income in 2015/16 from its Car Parking Equalisation Reserve which was set up to cover the shortfall in car parking income arising from the delay between North Place Car Park closing for redevelopment and the developers, Augur Buchler, returning a 300 space public car park to the Council. However, based on the current forecasts this will be reduced to allow £330k to remain in the Car Parking Equalisation Reserve which will provide a cushion for future fluctuations in car parking revenue. It is intended to use £200,000 from this reserve to support the 2016/17 budget proposals – a prudent measure to safeguard the Council's finances in the event that the increased car parking income achieved in 2015/16 is not sustained in the coming year.
- 12.4 A projection of the level of reserves to be held at 31st March 2016 and 31st March 2017 respectively is detailed in Appendix 6.

13. Capital Programme

- 13.1 The proposed capital programme for the period 2015/16 to 2019/20 is at Appendix 7.

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

14. Property Maintenance Programmes

14.1 The budget proposals include a revenue contribution of £600k to planned maintenance, which will be enough to fund a substantial programme. The programme has been reviewed by the Asset Management Working Group and is detailed at Appendix 8.

15. Pay Policy Statement

15.1 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.

15.2 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.

16. Reasons for recommendations

16.1 As outlined in the report.

17. Consultation and feedback

17.1 The formal budget consultation on the detailed interim budget proposals took place over the period 16th December 2015 to 20th January 2016. 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.

17.2 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 5th January 2016 and comments have been fed back to the Cabinet.

17.3 The Cabinet has used the budget consultation to engage the residents of Cheltenham and the results of this consultation are contained in Appendix 10.

17.4 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.

18. Supplementary Estimates

- 18.1** 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 2016/17 to be met from the General Reserve, the same level as in 2015/16.

19. Alternative budget proposals

- 19.1** It is important that any political group wishing to make alternative budget proposals should discuss them, in confidence, with the Section 151 Officer (preferably channelled through one Group representative) to ensure that the purpose, output and source of funding of any proposed changes are properly captured.
- 19.2** 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.

20. Final budget proposals and Council approval

- 20.1** 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.
- 20.2** 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.
- 20.3** 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.
- 20.4** 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.

21. Performance management – monitoring and review

- 21.1** 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.

21.2 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. Programmed Maintenance programme 9. Pay Policy Statement 10. Summary of budget consultation and Cabinet response
Background information	<ol style="list-style-type: none"> 1. Budget strategy and process report 2016/17 and MTFS 2015/16 to 2019/20 (Cabinet 13th October 2015) 2. Budget Monitoring Report 2015/16 position as at December 2015 (Cabinet 9^h February 2016)

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible Officer	Transferred to risk register
CR3	If the Council is unable to come up with long term solutions which 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.	Cabinet	15 December 2010	5	3	15	R	The budget strategy projection includes 'targets' for work streams to close the funding gap which now includes the 2020 Vision savings and a target for the new MD of Place & Economic Development. In addition there is a further target from the Accommodation Strategy. This is monitored monthly by the Senior Leadership Team.	Ongoing	Chief Finance Officer	26 January 2011
1.01	If the Budget Deficit (Support) Reserve is not suitably resourced insufficient reserves will be available to cover anticipated future deficits resulting in the use of General Balances which will consequently fall below the minimum required level as recommended by the Chief Finance Officer in the Council's Medium Term Financial Strategy.	Cabinet	October 2015	3	3	9	Reduce	In preparing the budget for 2016/17 and in ongoing budget monitoring, consideration will be given to the use of fortuitous windfalls and potential future under spends with a view of strengthening reserves whenever possible.	June 2016	Chief Finance Officer	

								income targets. A reserve is in place to manage to potential impact of the temporary closure of North Place car park.			
1.04	If when developing a longer term strategy to meet the MTFS, the Council does not make the public aware of its financial position and clearly articulates why it is making changes to service delivery then there may be confusion as to what services are being provided and customer satisfaction may decrease.	Director of Resources	15 December 2010	3	3	9	R	As part of the delivery of the BtG / commissioning programmes a clear communication strategy is in place. In adopting a commissioning culture the council is basing decisions on customer outcomes which should address satisfaction levels.	Ongoing	Communications team to support the BTG programme	
1.05	If 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.	Deputy Chief Executive	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	Paul Jones	
1.06	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	Deputy Chief Executive	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	Paul Jones	

1.07	If the assumptions around government support, business rates income, impact of changes to council tax discounts prove to be incorrect, then there is likely to be increased volatility around future funding streams.	Chief Finance Officer	13 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	Paul Jones	
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