

# Cheltenham Borough Council

Cabinet – 11 October 2016

## Budget strategy and process 2017/18

|                                       |  |
|---------------------------------------|--|
| <b>Accountable member</b>             | <b>Cabinet Member for Finance, Councillor Rowena Hay</b>   |
| <b>Accountable officer</b>            | <b>Section 151 Officer, Paul Jones</b>   |
| <b>Accountable scrutiny committee</b> | <b>Budget Scrutiny working group</b>   |
| <b>Ward(s) affected</b>               | <b>All</b>   |
| <b>Key Decision</b>                   | <b>Yes</b>   |
| <b>Executive summary</b>              | <b>The purpose of this report is to propose a broad strategy and outline a process for setting the budget and council tax for 2017/18. It outlines a number of principles that need to be established at this stage to enable budget preparation to commence.</b>  |
| <b>1. Recommendations</b>             | <b>That Cabinet:</b><br><br><b>1. Approves the budget setting timetable at Appendix 2.</b><br><br><b>2. Approves the budget strategy and MTFS outlined in section 5 and Appendix 3.</b><br><br><b>3. Approves the reserve realignments outlined in section 8 and the level of reserves projected at Appendix 4.</b><br><br><b>4. Notes the expected cut in government baseline funding of £677k for 2017/18, the estimated funding gap of £1.721m and the large amount of work done so far to close this gap.</b><br><br><b>5. Authorises the Section 151 Officer to submit a Four Year Efficiency Plan to the DCLG using the approved MTFS as the basis for that submission as outlined in section 6.</b><br><br><b>6. Notes the intention for this Council to remain in the Gloucestershire Business Rates Pool in 2017/18 as outlined in section 7.</b><br><br><b>7. Requests the Section 151 Officer and the Cabinet Member for Finance to consider suggestions from the Budget Scrutiny Working Group in preparing the interim budget proposals for 2017/18 as outlined in section 9.</b> |

|  |  |
|--|--|
| <b>Financial implications</b>  | <p>This report sets out the budgetary process for 2017/18 and the general financial parameters under which the budget will be prepared.</p> <p><b>Contact officer: Paul Jones, paul.jones@cheltenham.gov.uk, 01242 775154</b></p>  |
| <b>Legal implications</b>  | <p>None specifically arising from the report recommendations. The budget setting process is governed by the Budget and Policy Framework Rules (contained in the Council Constitution) and the process recommended in this report is designed to meet the requirements of those Rules.</p> <p><b>Contact officer: Peter Lewis, peter.lewis@tewkesbury.gov.uk, 01684 272012</b></p>  |
| <b>HR implications (including learning and organisational development)</b> | <p>There are no HR implications arising from the content of the report at this stage. As part of ongoing dialogue with the two recognised trade unions consultation on the budget position will take place.</p> <p><b>Contact officer: Julie McCarthy, julie.mccarthy@tewkesbury.gov.uk, 01242 264355</b></p>  |
| <b>Key risks</b>   | <p>The Council, as part of its work on corporate governance, has a corporate risk management strategy and corporate risk register, which highlights key risks to the organisation in achieving business objectives. The high level risks will need to be addressed as part of the budget process and may require additional resources or the re-direction of existing resources to mitigate unacceptable levels of risk. These risks are regularly reviewed by the Corporate Governance Group and Cabinet and the Overview and Scrutiny Committee have the option to scrutinise any aspect of the risk register.</p> <p>See risk assessment at Appendix 1.</p> |
| <b>Corporate and community plan Implications</b>                           | <p>The annual budget aims to deliver the outcomes defined by the Council's corporate business plan and resourcing should be aligned to the delivery of corporate plan priorities.</p>  |
| <b>Environmental and climate change implications</b>                       | <p>None arising from this report</p>   |

## 1. Background

- 1.1 The responsibility for preparing the budget in line with the Council's policy framework, taking proper account of technical and professional advice and presenting proposals to Council for approval, lies with the Cabinet.
- 1.2 It is customary for the Cabinet Member for Finance, at this time of year, to present a report on the budget process. Accordingly, this report aims to outline a process designed to arrive at an acceptable budget.

## 2. Budget / business planning timetable

- 2.1 The budget and policy framework requires that the Council publish a timetable setting out the key dates in the budget setting process. A draft budget timetable, attached for approval at Appendix

2, sets out the sequence of events leading up to the setting of the budget and council tax level for 2017/18.

**2.2** The timetable allows sufficient time to consider alternative budget proposals or amendments put forward to the budget proposed by the Cabinet.

**2.3** The following fundamental principles, established in previous budget rounds, are incorporated into the process of determination of the budget for 2017/18:

- Cabinet should make timely decisions in order to assist the officers in presenting the budget proposals to Cabinet and Council in accordance with the timetable.
- Opposition parties, whom have worked up alternative budget proposals, should be validated by GO Shared Services, in time for the initial budget meeting in February 2017.
- Members aim to set Cheltenham Borough Council's budget and council tax at the initial Council budget meeting.

### **3. The national funding scenario**

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

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

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

**3.3** 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.

**3.4** The final local government settlement for 2016/17 equated to a further grant reduction in cash terms of £0.816 million or 17.4%. The proposed settlement for 2017/18 indicates a further grant reduction in cash terms of £0.677 million or 17.5%.

**3.5** 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).

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

|   | <b>2015/16 £m</b> | <b>2016/17 £m</b> | <b>2017/18 £m</b> |
|---|-------------------|-------------------|-------------------|
| Revenue Support Grant   | 2.110             | 1.273             | 0.544             |
| Baseline Funding (Cheltenham's target level of retained Business Rates) | 2.579             | 2.600             | 2.651             |
| <b>Settlement Funding Assessment</b>                                    | <b>4.689</b>      | <b>3.873</b>      | <b>3.195</b>      |
| Actual cash (decrease) over previous year                               | (0.762)           | (0.816)           | (677)             |
| % cash cut  | (14.0%)           | (17.4%)           | (17.5%)           |

- 3.7** New mechanisms have been introduced to redirect central government funding, principally New Homes Bonus and the Retained Business Rates scheme. These changes have forced local authorities to engage much more with what is happening on the ground in their areas (e.g. with the quantity of new housing development and the number of empty homes) and how this might impact on their funding. The way the funding mechanisms have been introduced also place much greater discretion in the hands of the Chief Finance Officer, and with that comes the ability to be much more tactical in how the system is operated - especially in making provisions for potential rate retention losses.

## **4. 2017/18 and MTFs funding gap**

- 4.1** The Medium Term Financial Plan 2016 – 2020, approved by Council in February 2016, projected a funding gap for the period 2016/17 to 2019/20 of £4.1m. This was the financial gap between what the Council needs to spend to maintain existing services (including pay and price inflation) and the funding available based on illustrative figures which were provided for each financial year up to 2019/20.
- 4.2** The MTFs projections have been updated, at Appendix 3, to reflect the best estimates of the financial pressures impacting on the Council, including an updated view on business rates income and the potential funding cuts after the Autumn Statement is announced. The updated estimate of the funding gap for 2017/18 is now £1.721m and the estimated MTFs gap over the period 2017/18 – 2019/20 is £3.189m.
- 4.3** The Government expects councils to make a significant contribution to reducing the national budget deficit and the Council will continue to face significant reductions in its 'core' funding over the next few years. Future budgets will undoubtedly contain some difficult decisions and may require some sources of 'one off' finance to enable longer-term savings to be delivered through efficiency savings and cost/staffing reductions.
- 4.4** The MTFs at Appendix 3 gives a clear steer in terms of the activities we will be pursuing over the coming years in order to deliver a balanced budget.

## **5. Cabinet Budget Strategy**

- 5.1** 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. Our aim is to hold down council tax as far as possible, now and in the longer term, while also protecting frontline services from cuts – an immensely challenging task in the present climate.
- 5.2** The key mechanism for carrying out this strategy is the Bridging the Gap (BtG) programme, which seeks to bring service costs in line with available funding. To date, this programme has been very successful in managing funding gaps, with over £11.3m generated from BtG work streams including service reviews, shared services, increased income generation and assets management initiatives. This achievement has made it possible to date, to adopt a more strategic approach to identifying savings rather than relying on 'salami-slicing' of budgets.
- 5.3** The MTFS indicates broadly how the Council may close the projected funding gap over the period 2017/18 to 2019/20. It includes savings targets rather than necessarily specific worked up projections of cost savings and includes the accommodation strategy (based on the purchase of Delta Place); sharing management and staffing costs; asset rationalisation including the Depot site; future waste initiatives and savings targets for commissioning reviews.
- 5.4** The Cabinet recognises the very substantial savings that are needed and are mindful that there is likely to be impacts on existing services which may result in a cut or reduction to some of the Council's discretionary spend.
- 5.5** The Cabinet believes the longer term approach to finding efficiencies to close the funding gap is fundamentally through economic growth and investment. With this in mind, the Cabinet will bring a paper through to Full Council for approving a substantial sum for the purchase of a property investment portfolio in December 2016. In addition, resources will be geared towards supporting and delivering the growth agenda including major developments in North West and West Cheltenham.
- 5.6** The starting point for constructing the 2017/18 budget has been a projected MTFS funding gap of £1.721m which assumes a further year's freeze on parking charges.
- 5.7** Closing a gap of this size is a huge challenge for the Council, but the challenge is being met by a proactive approach to identifying budget savings, carried out by the Cabinet and the Executive Management Team. This work has already made significant progress towards bridging the gap, having identified at this early stage potential savings and additional income of £909k, leaving £812k to find, assuming a £5 council tax increase.
- 5.8** It is therefore the Cabinet's intention to meet the shortfall in funding in 2017/18 from the budget strategy (support) earmarked reserve in order to deliver a balanced budget. This will give the Council more time to deliver its long-term strategy for delivering the substantial savings required.
- 5.9** The detailed schedule of target savings is discussed in greater detail within the MTFS at Appendix 3. They include further savings from organisational change; savings resulting from the establishment of the Cheltenham Trust to manage leisure and culture services; and savings through the rationalisation of two of the Council's major assets; namely the Municipal Offices and the Depot. They also include a target for the Executive Management Team to develop, in conjunction with Cabinet, the strategy for delivering further income through this Council's aspiration for further improved economic performance as detailed above.
- 5.10** One of the major issues which the Cabinet and Council will need to consider in formulating the 2017/18 budget is what use it makes of New Homes Bonus (NHB) money to support the budget. £1.750m is already included within the base budget. Assuming the scheme remains unchanged in 2017/18 the current forecast for NHB is £2.350m. It is proposed that of the remaining £600k forecast to be available, £300k will be transferred to the New Initiatives earmarked reserve and £300k will be transferred to the budget strategy (support) earmarked reserve.

- 5.11** Clearly work remains to be done towards building a robust base budget for 2017/18 and this may result in the funding gap increasing. In addition, the Government's final financial settlement may be worse than currently indicated. It is therefore important that the work of identifying budget savings should continue up to the publication of the draft budget proposals and beyond.

### **Council tax**

- 5.12** For the period 2010 to 2015 the Council had frozen its council tax at £187.12 a year for a Band D taxpayer. In taking this course of action, the Cabinet had borne in mind the difficult economic and financial climate that many of our residents were facing. However, during the period of the freeze our own financial position as a Council has deteriorated sharply. Our core Government funding has been cut drastically, with further large cuts to come. In addition, inflation has continued to affect many areas of the Council's costs.
- 5.13** Government legislation, through the Localism Act, requires councils proposing excessive rises in council tax to hold a local referendum allowing the public to veto the rise. The referendum threshold for council tax increases is proposed at 2 per cent for all local authorities, as in 2016/17. However, shire districts will be allowed increases of up to and including £5, or up to 2 per cent, whichever is higher.

### **Service growth**

- 5.14** The Cabinet's initial approach is that, given the difficult financial situation, there should be no growth in services except where there is a statutory requirement or a compelling business case for an 'invest to save' scheme.
- 5.15** Members will need to base decision-making, particularly requests for additional resources, upon the priorities in the Council's business plan. The Budget Scrutiny Working Group and the Overview and Scrutiny Committee will be invited to review and feedback to the Cabinet their priorities for relevant bids received. These priorities will be considered by the Cabinet in pulling together the consultation budget.

## **6. Multi-year settlements and efficiency plans**

- 6.1** As part of the Government's finance settlement it was announced on 17<sup>th</sup> December 2015 the opportunity to achieve greater certainty and confidence from a 4-year budget, with the intention this would strengthen and support council's financial management.
- 6.2** The settlement consultation process showed support for this approach but raised a number of queries about what the offer includes and the requirements to accept this offer. Appendix 5 to this report gives the details provided by the DCLG of what the offer includes and the process required to accept the offer.
- 6.3** In summary, the multi-year settlement includes: Revenue Support Grant; Transitional Grant; and Rural Services Delivery Grant allocations. In terms of business rates, tariffs and top ups for 2017/18, 2018/19 and 2019/20 will not be altered for relative needs adjustment and in the final year **may** be subject to the implementation of 100% business rates retention.
- 6.4** The Government is committed to local government retaining 100% of its business rates by the end of this Parliament, which would give control of £13 billion tax they collect. However, these reforms need to be fiscally neutral and local government will take on extra responsibilities and functions. These additional responsibilities will be subject to discussion papers from DCLG and the Local Government Association for future debate.
- 6.5** In order to apply for the multi-year settlement the Council would need to send an email or letter to

the DCLG by 14<sup>th</sup> October 2016 and include a link to a published efficiency plan. Informal guidance to local authorities from CIPFA and the LGA is as follows:

- The submission is likely to be based on or drawn from the medium-term financial strategy or something similar. It is not intended that authorities spend a lot of time producing a document specifically for this purpose.
- It is suggested that the efficiency plan should be 2-4 pages, although this may be determined by what existing documents are being applied. Other documents such as a Corporate Plan can be referenced in the submission but do not need to be explained in detail.
- The efficiency plan should cover the four year period 2016/17 to 2019/20. It should provide a narrative about how the authority is addressing its financial position over this period, how it is planning to balance its budget, where it will find savings / efficiencies, and how it will use its reserves.
- It should provide information about current transformation projects, and savings and efficiency plans.
- Risks and uncertainties should be highlighted e.g. funding and spending pressures, as well as action the authority would take to respond to them such as reserves, contingencies and further savings.
- The plan should outline key partnerships and collaboration, including any devolution arrangements, but this should focus on where they impact on the authority's finances e.g. sharing costs, generating additional income.
- There are no specific sign off requirements and it does not necessarily require formal approval by Members. It is suggested that the Chief finance officer (Section 151 Officer) will approve it.

**6.6** The informal guidance and the information that should be shown regarding the Council's financial position and plans for efficiency savings over a four year period immediately points towards the Council's current Medium Term Financial Strategy. This was approved by Cabinet in October 2015 and was updated for Council on 12<sup>th</sup> February 2016 to incorporate the settlement figures for Revenue Support Grant and Transitional Grant for 2016/17 to 2019/20 in line with the multi-year settlement and also included efficiency savings over this period linked to the 2020 Vision programme.

**6.7** Given that the strategy has now deviated from the position agreed in February 2016, it is proposed that the Section 151 Officer submits a Four Year Efficiency Plan utilising the approved MTFS attached at Appendix 3 as a basis for this council's submission.

## **7. Gloucestershire Business Rates Pool**

**7.1** In October 2012, Council approved the principle of Cheltenham joining the Gloucestershire Business Rates Pool, subject to a thorough assessment of risks and rewards and agreement of satisfactory governance arrangements.

**7.2** Continuation within the pool was delegated to the Section 151 Officer and Head of Paid Service and this is reviewed on an annual basis.

**7.3** 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.

**7.4** 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, as reported to Cabinet and Council in July 2015.

- 7.5** In 2015/16 the Pool was back in surplus generating £877,948, and is on schedule to deliver substantially more in 2016/17.
- 7.6** The MTFS at Appendix 3 assumed a one-off drop in business rates income in 2016/17 with income levels recovering as development 'goes live' across 2017/18 and 2018/19. Despite this, the anticipated level of business rates due to this Council in 2016/17 is still above the baseline funding target (Cheltenham's target level of retained Business Rates) which will result in Cheltenham still being liable to a 'levy'.
- 7.7** Taking the above into account, it is the opinion of the Section 151 Officer that this Council will benefit from remaining in the pool in 2017/18 as it will result in a reduction in the levy payment due to Government, which will be distributed in accordance with the governance arrangements.

## **8. Reserves**

- 8.1** The Section 151 Officer has a statutory obligation under the Local Government Act 2003 to report on the adequacy of the Council's reserves to Cabinet and Full Council, at the time the Council considers its budget for the coming year.
- 8.2** Earmarked reserves can be maintained as a means of building up funds to meet known or predicted requirements. Financial rule B11.4 states that the Section 151 Officer has delegated authority to approve in year transfers to and from earmarked reserves to support the activities of the council.
- 8.3** The Executive Board has reviewed all of the earmarked reserves held at 1<sup>st</sup> April 2016 and determined which reserves and levels are still required. As a result of this work a number of realignments are recommended for Cabinet to consider in order to increase the level held in the budget strategy (support) earmarked reserve by £309,463.
- 8.4** A projection of the level of reserves to be held at 31<sup>st</sup> March 2017, and the proposed reserve realignments are detailed in Appendix 4.
- 8.5** In addition, the Section 151 Officer has undertaken a calculation of the optimum level to be held in respect of general balances. This level is based upon a risk assessment of the budget and is detailed within Appendix 3, Annex 1.

## **9. Budget Scrutiny Working Group**

- 9.1** The cross party Budget Scrutiny Working Group will continue to support the budget process by:
- Considering options for closing the funding gap i.e. proposals for charging or reduction in expenditure
  - Reviewing the work programme for commissioning and options being considered
  - Developing members' scrutiny skills and understanding of financial matters
  - Developing the approach to budget consultation.
- 9.2** This strategy report will be considered by this Group on 12<sup>th</sup> October 2016 and both the Cabinet Member for Finance and the Section 151 Officer are keen that this Group should play a significant part in developing and supporting the budget process.

## **10. Budget Setting Process 2017/18 – key stages**



**10.1** In approaching the budget setting process for 2017/18, the Cabinet will endeavour to adhere to some well-established principles designed to deliver budget proposals in a timely manner following proper process, including:

- Early and clear direction input from Cabinet and Senior Leadership Team.
- Ensuring that Financial Services (GOSS) maintain a strong role in moderating the process.
- Section 151 Officer to lead and advise on strategic budget issues.
- Agreeing Cheltenham Borough Homes (CBH) management fee and Housing Revenue Account (HRA) budget as early as possible.
- Maintaining good communications between Head of Paid Service, Senior Leadership Team, Council Leader, Cabinet Member for Finance and Section 151 Officer over budget progress / issues.
- Ensuring consultation with all stakeholders and ensure that employees are aware.
- Including the Overview and Scrutiny Committee and the Budget Scrutiny Working Group in the budget process.

**10.2** The proposed key stages in the process for setting the budget for 2017/18 are summarised in the timetable at Appendix 2 and are detailed below. The timing of events may change as the process develops.

#### **Publication of budget timetable**

**10.3** The Cabinet will publicise a budget timetable by including this in its Forward Plan and via other media.

#### **Budget preparation**

**10.4** Between October and November 2016, the Cabinet Member for Finance and officers will work with the Cabinet towards the creation of 'interim budget' proposals which will make the following assumptions:

- The projection will be for a standstill budget, prepared under a general philosophy of no growth in levels of service. Inflation for contractual and health and safety purposes will only be allowed where proven at the appropriate inflation rate.
- The Chancellor has previously announced that public sector pay increases will be capped at 1%, and whilst pay awards in local government are covered by collective bargaining between employers and trade unions and is not subject to direct control from central government, it is not unreasonable to assume that the local government employers will mirror what happens in the rest of the public sector. Following a meeting of local government representatives, trade unions accepted the proposal made by the Local Government Association's National Employers group for a 1% increase for most staff in 2016/17 and 2017/18. As part of the deal, lowest paid staff will receive higher increases to reflect the new National Living Wage.
- The current MTFs only assumes inflation on fees and charges at an average rate of 2% annually over the 3 year period for green waste, burial and cremation fees. These increases will be assumed in the preparation of the standstill budget and any deviation from this will form part of the interim budget proposals.
- The vast majority of fees and charges are generated within the Regulatory and Environmental Services Division and a target of £50,000 per annum is set within the strategy for more targeted reviews of income generation, as opposed to a blanket increase across the board to reflect market forces.
- The impact of prevailing interest rates on the investment portfolio will be assessed in preparing

the budget. The Treasury Management Panel will consider the position in respect of treasury management activity during the budget setting cycle.

- An assessment of the charges to be made to Cheltenham Borough Homes and the Housing Revenue Account will be incorporated in the budget proposals, including assessing the impact on the General Fund of the changes to the housing subsidy system.
- A council tax increase of 2.6% (equivalent to £5.00 a year for a Band D taxpayer) has been used for modelling purposes.
- Proposals for service growth will be included, though only for invest to save schemes.

### **Publication of initial budget proposals**

- 10.5** The Cabinet will present its initial budget proposals and publish them for consultation in line with the advertised plan. The initial budget proposals will include all general fund revenue, capital and housing revenue account estimates to meet a balanced budget, together with assumptions made on future council tax and rent levels.

### **Budget Consultation**

- 10.6** As a result of the extensive budget consultation exercise carried out in 2010, a residents' focus group was formed which has met annually since to consider budget proposals. It is the Cabinet's intention for this group to meet again this year. In addition to the formal budget consultation, some targeted consultation around specific issues may be undertaken.
- 10.7** The formal budget consultation period will be no less than four weeks and will take place during December 2016 to January 2017. The Cabinet will seek to ensure that the opportunity to have input into the budget consultation process is publicised to the widest possible audience. During the consultation period all interested parties will be welcome to provide feedback on the initial budget proposals. Groups, businesses, tenants, residents, staff and trade unions will be encouraged to comment on the initial budget proposals at this time. They will be asked to identify, as far as possible, how alternative proposals complement the Council's business plan and community plan, how they will be financed, and how they will help the Council to achieve best value. Presentations will be made to key business groups as part of the consultation process.
- 10.8** The Budget Scrutiny Working Group and Overview and Scrutiny Committee will be invited to review the interim budget proposals in the meetings scheduled for January 2017 and feed any comments back to the Cabinet.
- 10.9** 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.
- 10.10** All comments relating to the initial budget proposals should be returned to the Section 151 Officer by the end of the consultation period for consideration by the Cabinet in preparing their final budget proposals. Consultation questionnaires will be available in key locations and for completion on line via the Council's website. Comments can be e-mailed to [moneymatters@cheltenham.gov.uk](mailto:moneymatters@cheltenham.gov.uk).

### **Assessment of alternative Budget Proposals**

- 10.11** It is important that any political group wishing to make alternative budget proposals should discuss them, in confidence, with the Section 151 Officer and / or the appropriate Director / Head of Paid Service (preferably channelled through one Group representative) to ensure that the purpose, output and source of funding of any proposed change is identified.

- 10.12** Given the financial pressures and the potentially very difficult decisions which will have to be made, it is very important that there is time for members to carefully consider and evaluate any alternative budget proposals. Political groups wishing to put forward alternative proposals are not obliged to circulate them in advance of the budget-setting meeting, but in the interests of sound and lawful decision-making, it would be more effective to do so, particularly given that they may have implications for staff.

### **Final Budget Proposals and Council Approval**

- 10.13** At the end of the consultation period, the Cabinet will draw up firm budget proposals having regard to the responses received. In drawing together its budget proposals to Council the report will reflect the comments made by consultees and the Cabinet's response. The firm budget proposals will be presented to Council at the budget setting meeting for decision in February 2017.

## **11. Housing Revenue Account**

- 11.1** Draft proposals for the Housing Revenue Account will also form part of the same process for considering the General Fund revenue and capital budgets.
- 11.2** A number of significant changes in Housing policy were announced by the Government in 2015 including a four year programme of social rent reduction to March 2020. As a consequence Cheltenham Borough Homes undertook a comprehensive review of the HRA Business Plan financial forecasts to inform proposals to mitigate the impact of reduced income during that period.

The review was guided by the following minimum targets:-

- Maintaining the recommended contingent balance of £1.5m in HRA reserves;
  - Allocating sufficient resources to maintain the decent homes standard throughout the stock
  - Delivering the windows and doors replacement programme at a pace consistent with value for money;
  - Ensuring resources continue to be available to deliver the existing new build programme;
  - Ensuring the continuation of key service improvements initiated by the 3 year investment pot programme;
  - Seeking to protect existing service levels and mitigating the impact on tenants and leaseholders;
  - Retaining long term viability;
- 11.3** The 2016/17 HRA budget was based on the four year plan, which proposed efficiency targets for management and maintenance costs, a realignment of the capital programme and the use of HRA reserves above the contingency level.
- 11.4** The financial projections contained in the HRA Business Plan are currently being updated to reflect :
- Progress in achieving service efficiencies;
  - Impact of the ongoing changes in housing and welfare policy, particularly the introduction of "Pay to Stay" and the sale of high value void properties;
  - Updated need to spend on stock investment and maintenance;
  - Progress in the new build programme
- 11.5** The revised projections will be available to inform decisions on the level of management and maintenance and capital investment in 2017/18 (to include fees payable to Cheltenham Borough Homes and administrative charges from Council Divisions).

## **12. Reasons for recommendations**

**12.1** The Council is required to agree a budget process and timetable.

## **13. Alternative options considered**

**13.1** The process for considering alternative budgets is set out above.

## **14. Consultation and feedback**

**14.1** The consultation process is described fully above. In view of the size of the challenge the Council faces in setting the 2017/18 budget, consultation has already commenced with trade unions.

## **15. Performance management – monitoring and review**

**15.1** The delivery of savings and additional income proposed as part of the budget will be monitored through the Bridging the Gap programme which meets monthly with the Cabinet Member for Finance.

|                               |   |
|-------------------------------|---|
| <b>Report author</b>          | <b>Contact officer: Paul Jones, paul.jones@cheltenham.gov.uk, 01242 775154</b>  |
| <b>Appendices</b>             | <ol style="list-style-type: none"><li>1. Risk Assessment</li><li>2. Budget timetable</li><li>3. Medium Term Financial Strategy (MTFS)</li><li>4. Movement on earmarked reserves and general balances</li><li>5. Conditions of the multi-year settlement</li></ol> |
| <b>Background information</b> | <ol style="list-style-type: none"><li>1. Core spending power projections 2016/17 – 2019/20</li></ol>  |

| The risk  |  |   |             | Original risk score<br>(impact x likelihood) |   |       | Managing risk |   |          |                     |                              |  |
|-----------|--|---|-------------|--|---|-------|---------------|---|----------|---------------------|------------------------------|--|
| Risk ref. | Risk description   | Risk Owner                                      | Date raised | I  | L | Score | Control       | Action  | Deadline | Responsible officer | Transferred to risk register |  |
| CR3       | If the Council is unable to come up with long term solutions which close the gap in the medium term financial strategy then it will find it increasingly difficult to prepare budgets year on year without making unplanned cuts in service provision  | Director of Corporate Resources<br>Mark Sheldon | 1/9/2010    | 5  | 4 | 20    | Reduce        | The budget strategy projection includes 'targets' for work streams to close the funding gap which aligns with the council's corporate priorities. This includes a target for cuts to services / activities amongst other work streams to deliver a balanced budget across the MTFS.   | On-going | Nina Philippidis    | 1/9/2010                     |  |
| CR105     | If the Budget Deficit (Support) Reserve is not suitably resourced insufficient reserves will be available to cover anticipated future deficits resulting in the use of General Balances which will consequently fall below the minimum required level as recommended by the Chief Finance Officer in the | S151 Officer<br>Paul Jones                      | 01/04/16    | 4  | 3 | 12    | Reduce        | The MTFS is clear about the need to bolster reserves and identifies a required reserves strategy for managing this issue. In preparing the budget for 2017/18 and in ongoing budget monitoring, consideration will continue to be given to the use of fortuitous windfalls and potential future under spends with a view to strengthening reserves whenever | Ongoing  | Nina Philippidis    |                              |  |

|       |   |                         |          |   |   |    |        |  |          |                  |  |
|-------|---|-------------------------|----------|---|---|----|--------|--|----------|------------------|--|
|       | council's Medium Term Financial Strategy  |                         |          |   |   |    |        | possible.  |          |                  |  |
| CR107 | If the government's technical consultation New Homes Bonus – Sharpening the Incentive leads to a reduction for the payment period from 6 to 4 years then this could have an estimated negative financial impact of between £1.5m and £1.8m, impact on the planning process affecting the ability to approve new developments in a timely manner and impact on the council's ability to deliver core frontline services. | S151 Officer Paul Jones | 01/04/16 | 5 | 3 | 15 | Reduce | The response to the government's consultation has been submitted and the MTFS assumes a use of NHB that could be supported with 4 years rather than 6 years of NHB provided new development proceeds in line with forecasts.   | Ongoing  | Nina Philippidis |  |
|       | If funding streams including New Homes Bonus, Business Rates and Revenue Support grant do not meet expectations or are reduced further then the budget gap may increase above current projections.  | S151 Officer Paul Jones | 28/9/12  | 4 | 4 | 16 | Reduce | Both NHB and Business Rates are subject to government consultations – both of which have been responded to by the council. MTFS projections are based on current intelligence and the risks around both income streams are articulated within the main body of the MTFS. Section 151 Officer will update | On-going | Paul Jones       |  |

|  |   |                            |            |   |   |    |                  |   |          |            |  |
|--|---|----------------------------|------------|---|---|----|------------------|---|----------|------------|--|
|  |   |                            |            |   |   |    |                  | Cabinet with latest information during the budget process and continue to take a prudent view of income levels used in budget projections.  |          |            |  |
|  | If income streams resulting from the introduction of the business rates retention scheme in April 2013 are impacted by the loss of major business and the constrained ability to grow the business rates in the town then the MTFS budget gap may increase. | S151 Officer<br>Paul Jones | 14/09/2012 | 4 | 3 | 12 | Accept & Monitor | <p>The council joined the Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by the council.</p> <p>The Gloucestershire S151 Officers continue to monitor business rates income projections and the performance and membership of the pool.</p> <p>Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.</p> | On-going | Paul Jones |  |
|  | By applying for a multi-year settlement the Council is guaranteeing a minimum settlement allocation, not a fixed allocation. The key risk of not applying for the multi-year settlement is that   | S151 Officer<br>Paul Jones | 12/10/2016 | 4 | 3 | 12 | Reduce           | Application for a multi-year settlement will be made by the Section 151 by 14 <sup>th</sup> October 2016.   |          | Paul Jones |  |

|      |   |                            |                        |   |   |   |        |  |         |            |  |
|------|---|----------------------------|------------------------|---|---|---|--------|--|---------|------------|--|
|      | the Council would be subject to the existing yearly process for determining the local government settlement. However, there may be fundamental changes to the underlying needs formulae or further cuts in the total funding that result in non-participants receiving noticeably less funding through changes to top-ups and tariffs |                            |                        |   |   |   |        |  |         |            |  |
| 1.03 | If the robustness of the income proposals is not sound then there is a risk that the income identified within the budget will not materialise during the course of the year.  | S151 Officer<br>Paul Jones | 15<br>December<br>2010 | 3 | 3 | 9 | Reduce | Robust forecasting is applied in preparing budget targets taking into account previous income targets, collection rates and prevailing economic conditions. Professional judgement is used in the setting / delivery of income targets. Greater focus on cost control and income generation will be prioritised to mitigate the risk of income fluctuations. | Ongoing | Paul Jones |  |



|      |  |                                       |                        |   |   |   |        |  |         |  |  |
|------|--|---------------------------------------|------------------------|---|---|---|--------|--|---------|--|--|
| 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<br>Mark Sheldon | 15<br>December<br>2010 | 3 | 3 | 9 | Reduce | As part of the delivery of the BtG / commissioning programmes a clear communication strategy is in place. In adopting a commissioning culture the council is basing decisions on customer outcomes which should address satisfaction levels. | Ongoing | Communications team to support the BTG programme |  |
| 1.05 | If the Council does not carefully manage the commissioning of services then it may not have the flexibility to make additional savings in the MTFS and a greater burden of savings may fall on the retained organisation   | Head of Paid Service<br>Pat Pratley   | 15<br>December<br>2010 | 3 | 3 | 9 | Reduce | Contracts, SLAs and other shared service agreements will need to be drafted and negotiated to ensure that there is sufficient flexibility with regards to budget requirements.   | Ongoing | Paul Jones                                       |  |

|      |   |                         |                  |   |   |    |   |  |         |                         |  |
|------|---|-------------------------|------------------|---|---|----|---|--|---------|-------------------------|--|
| 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. | S151 Officer Paul Jones | 13 December 2012 | 4 | 4 | 16 | R | Work with GOSS and county wide CFO's to monitor changes to local government financing regime including responding to government consultation on changes to New Homes Bonus and Business Rates. | Ongoing | S151 Officer Paul Jones |  |
|------|---|-------------------------|------------------|---|---|----|---|--|---------|-------------------------|--|