

Cheltenham Borough Council

Cabinet – 24th February 2017

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General Fund Revenue and Capital – Revised Budget 2016/17, and Final Budget Proposals 2017/18

Accountable member	Cabinet Member for Finance, Councillor Rowena Hay
Accountable officer	Section 151 Officer, Paul Jones
Accountable scrutiny committee	Overview and Scrutiny Committee and Budget Scrutiny Working Group
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report summarises the revised budget for 2016/17 and the Cabinet's final budget proposals and pay policy statement for 2017/18.
Recommendations	<p>Cabinet / Council</p> <ol style="list-style-type: none">1. Note the revised budget for 2016/17 and approve the recommendation of the Section 151 Officer to transfer the identified saving of £110,737 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 £197.12 for the year 2017/18 (an increase of 2.60% or £5.00 a year for a Band D property), as detailed in paragraphs 4.37 to 4.42.4. Approve the growth proposals, including one off initiatives at Appendix 4.5. Approve the savings / additional income totalling £1,408,700 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. Award temporary business rates relief for local newspapers for up to two years from April 2017, as set out in paras 4.30 to 4.33, subject to full reimbursement from the Government and the award of such relief is delegated to the Revenues Manager.8. Note that the Council will remain in the Gloucestershire

business rates pool for 2017/18 (para 4.26).

- 9. Approve an above inflationary increase in cremation fee (estimated to generate additional income of £373,550) with a corresponding contribution to the budget strategy (support) reserve, as detailed in paragraphs 6.10 to 6.13.**
- 10. Approve the Pay Policy Statement for 2017/18, including the continued payment of a living wage supplement at Appendix 9.**
- 11. Approve a level of supplementary estimate of £100,000 for 2017/18 as outlined in Section 14.**

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 for district councils in 2017/18 is the greater of 2% or £5 on a Band D property. 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 16th December 2016. Dialogue with the two recognised trade unions will continue throughout the coming year to ensure that any 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 (excerpt from appendix 5)	Potential community and equality impacts and any mitigating actions
1. Regulatory & Environmental Services Transformation	
b) Review of fees & charges and income generation opportunities	None identified
2. Rolling Approach to Commissioned Services	
a) Review of Internal Audit and Corporate Fraud Unit	Ensuring that our human resource processes used to enable any staff restructuring are compliant with equality legislation
b1) Hire of depot for TBC co-mingling contract	None identified
b2) Net increase in charges to Housing Revenue Account / CBH from One Legal	None identified
d) Increase Green Waste by £4 and increase Discount to £3	None identified: There will be a negligible impact of £1 on household budgets if households renew early
e) Procurement savings - reduction in insurance premiums	None identified
4. Economic Growth / Investment	
d) Business Rates additional target through pooling	None identified

f) Increase in car parking revenue based on volume growth	None identified: the additional income will be achieved through increased usage of car parks rather than by an increase in fees
5. Service Cuts	
a) Review and decrease the cost of services / activities	None identified
b) Property Services - reduction in cost of service	None identified
c) Commissioning - reduction in cost of service	The savings target for 2017-18 will be delivered from vacant posts in the community engagement team. Support for organisations representing a range of diverse communities will remain in place.
d) Corporate Overheads - reduction in costs	None identified
6. Use of Reserves	
a) Use of one-off payment holiday on VRP	None identified
b) MRP saving through change in methodology	None identified
* Use of Budget Strategy (Support) Reserve	None identified
* B/Fwd deficit funded by Budget Strategy (Support) Reserve in previous year	None identified
Previously Delivered Savings Targets	
L&C Review - trust savings	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

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 2017. The consultation took place between the period 14th December 2016 to 13th January 2017 and this report sets out the final proposals for 2017/18.
- 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, more than 50% of the Council's Government funding comes directly from Business Rates and, as a consequence, has the potential to vary either upwards or downwards during the year. This is a key strand of the Government policy to localise financing of local authorities and brings the potential for increased risks or increased rewards.
- 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 consulted on these and other additional responsibilities in 2016 and this Council made a formal response to that consultation.
- 1.4** The New Homes Bonus (NHB) 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 NHB to support the Council's spending requirement, although recognises that announcements in late December 2016, regarding changes to how NHB is calculated, will lead to significant further reductions in Government funding to this Council.

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 2017/18 has been based on sound assumptions and that the Council has adequate reserves to fund operations in 2017/18. The full assessment is attached at Appendix 2.

3. 2016/17 Budget Monitoring to December 2016

- 3.1 The budget monitoring report to the end of December 2016, also considered by Cabinet on 7th February 2017, identified a net underspend against the budget of £110,737 to the end of December 2016. 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 2017/18 and future year's budget proposals in accordance with the Medium Term Financial Strategy.

4. Settlement Funding Assessment

- 4.1 On 8th 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.
- 4.2 In addition to the detailed proposals for 2016/17, illustrative figures were also provided for each financial year up to 2019/20 although they did not take into account the full implications of changes to the New Homes Bonus or implications of the move to 100% business rate retention.
- 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 Local authorities were invited to submit an application for a multi-year settlement which guaranteed minimum levels of Revenue Support Grant, Transitional Grant and Rural Services Delivery Grant. 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.

- 4.5** The Cabinet decided in October 2016, to submit an application for a multi-year settlement, which was supported by a 4 year efficiency plan. On 16th November 2016, the Council received formal confirmation from the Minister for Local Government that it had been accepted for a multi-year settlement. It should be noted that in applying for a multi-year settlement the Council is guaranteeing a minimum settlement allocation, not a fixed allocation.
- 4.6** Between 2009/10 and 2016/17 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).
- 4.7** 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 with further reductions through to 2019/20.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	2.110	1.273	0.544	0.102	-
Baseline Funding (Cheltenham's target level of retained Business Rates)	2.579	2.600	2.652	2.730	2.426
Settlement Funding Assessment	4.689	3.873	3.196	2.832	2.426
Actual cash (decrease) over previous year	(0.762)	(0.816)	(0.677)	(0.364)	(0.406)
% cash cut	(14.0%)	(17.4%)	(17.5%)	(11.4%)	(14.3%)

- 4.8** 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.
- 4.9** Given the above it appears that this Council has been adversely affected by the four year 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.
- 4.10** 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.
- 4.11** The proposed levels of government funding per dwelling in 2017/18 across the Gloucestershire Districts are set out in the table below. Cheltenham will receive c. £93 per dwelling whereas the average across Gloucestershire is c. £123, a difference of c. £30 per dwelling. If Cheltenham were to receive the average amount for Gloucestershire, this would equate to an additional £1.647m in government funding in 2017/18.

	RSG+BR baseline £ millions	NHB £ millions	Rural Services Delivery Grant £ millions	Transition Grant £ millions	Total £ millions	No. dwellings at Sept. 2016	Total £/dwelling
Cheltenham	3.2	1.8	-	0.1	5.1	54,905	93
Cotswold	2.1	3.2	0.5	-	5.8	41,964	138
Tewkesbury	2.2	3.2	-	-	5.4	39,527	137
Forest of Dean	3.1	1.9	0.1	-	5.1	37,826	135
Stroud	2.7	2.7	-	0.1	5.5	52,278	105
Gloucester	4.6	2.7	-	-	7.3	56,410	129

New Homes Bonus (NHB)

- 4.12** 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 provided match funding of £1,485 for each new property for six years (based on national average for band D property – i.e. £8,910 per dwelling over six years), plus a bonus of £350 for each affordable home (worth £2,100 over six years).
- 4.13** 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 reduced significantly over the years to compensate for the NHB payments.
- 4.14** The Government proposed to make changes to the New Homes Bonus and published a consultation document “New Homes Bonus: Sharpening the Incentive”. The deadline for responses was 10th March 2016 and Officers submitted a response in consultation with the Leader of the Council.
- 4.15** The Consultation document was 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 sought views on the options to change three aspects of the New Homes Bonus.
- Reducing costs by moving payment of the bonus from 6 years to 4 years;
 - Introducing a baseline target of 0.25% to remove “deadweight”, which will focus local authorities demonstrating a stronger than average commitment to growth, and reflects a percentage of housing that would have been built anyway.
 - Reform of the bonus to reflect local authorities’ performance on housing growth, linking payment of grant to production of the Local Plan, and reducing payments for housing built on appeal.
- 4.16** In the case of changes to the New Homes Bonus, the illustrative figures for future funding allocations showed a reduction in New Homes Bonus in 2018/19, whereas the consultation document indicated that reductions could come into effect in 2017/18. The interim budget proposals assumed the changes would take effect from 2018/19 as it was perceived that this would link in with the changes proposed for 100% business rates retention. A risk was highlighted, however, that the final settlement may result in some changes to the NHB scheme in 2017/18 as pressure grows for additional funds to be redirected towards social care provision.
- 4.17** The Government has announced the allocation of NHB Grant for 2017/18. For this Council, NHB Grant will decrease by £380,611 from £2,152,161 to £1,771,550. The grant recognises net

growth in the Council Tax base of 387 properties between October 2015 and October 2016 and the development of 12 affordable housing units, but as a result of a revised baseline target of **0.4%** of housing growth, this Council will only be rewarded for 163 additional properties. In addition, the payment of the bonus has reduced from 6 years to 5 years, with a further proposed reduction to 4 years from 2018/19.

- 4.18** The District Council sector is extremely disappointed that the outcome of the consultation that took place in March 2016 was only announced on 15th December 2016. The extent of the changes to New Homes Bonus and the variation in the provisional settlement figures compared with those released last year are devastating in the context of a four year settlement agreement which was supposed to give Council's more certainty and clarity over future income streams.
- 4.19** For 2018/19 onwards, it was assumed that NHB of c. £1.8 million would be payable. This value reflected: the scale of housing development expected in the Borough; that the Bonus would be awarded for 4 years rather than the current 6 years; and provided for the introduction of a 0.25% baseline target. Despite over 80% of respondents objecting to a baseline target being introduced, the Government not only proposes to introduce it, but increase it to 0.4%. Cheltenham is penalised on this methodology compared to many shire districts as it has a 'higher' starting point in terms of the number and value of existing properties and therefore has to deliver significantly more homes above the baseline to achieve similar levels of NHB compared to a rural authority starting with fewer, lower value properties, despite having considerably less development land, as recognised within the Joint Core Strategy.
- 4.20** The actual impact of these changes for Cheltenham, based on the illustrative figures for future funding allocations released last year, equate to a reduction in funding of c. £580k in 2017/18; c. £435k in 2018/19 and c. £650k in 2019/20.
- 4.21** The reduction in New Homes Bonus has had a significant impact on Spending Power for Cheltenham and some other district authorities and representation has been made to the Government, for them to consider some form of transitional grant arrangements.

Business Rates

- 4.22** In April 2017, a new Rating List will come into effect which will impact each business rate property in the borough and, therefore, will impact upon the value of business rates collected. Under the Retained Business Rates Scheme, this volatility is to be smoothed by an adjustment to the "tariff" set by central government.
- 4.23** A significant level of risk remains due to the volume of outstanding business rates appeals which are being processed by the Valuation Office. Where appeals are successful, refunds of business rates are generally repayable back to the 2010/11 financial year, which reduces the business rates yield in the year in which the refund is made. The Council has made provision for its share of the cost of outstanding appeals in its financial statements. The level of provision has been reviewed as part of the preparation of the business rates estimates for 2017/18.
- 4.24** 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.
- 4.25** Modelling of the potential business rates income for 2017/18 indicates that the Council is significantly 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'.
- 4.26** Taking the above into account, it has been agreed that this Council would 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. For 2017/18, the Gloucestershire pool includes Gloucestershire County Council and all of the District/Borough

Councils with the exception of Tewkesbury Borough Council.

4.27 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 2017 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 £869,270. However, due to temporary retail closures arising from town centre redevelopments, 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 £444,424.

4.28 It is therefore appropriate and necessary to support the 2017/18 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.

	2017/18 £
Estimate of retained business rates per NNDR1	21,470,254
Tariff to government	(17,818,354)
Grant to compensate for government decisions (e.g. Small business rate relief and Localism Act reliefs)	676,296
Estimated levy payable to government after pool adjustment	(805,394)
Net retained business rates	3,522,802
Less Baseline Funding (Cheltenham BC Target level of retained business rates)	(2,653,532)
Net surplus on business rates in 2017/18 against baseline funding	869,270
Deficit adjustment in respect of 2015/16 (one-off)	(303,960)
Deficit adjustment in respect of 2016/17 (one-off estimated)	(140,464)
Additional one-off adjustments in respect of previous years deficits from retained business rates	(444,424)
Net retained business rates (after one-off deficit adjustments)	3,078,378

4.29 The move to local business rates retention still appears to be a positive one, but local authorities have faced a series of obstacles in trying to make it a success. The Government's desire is to make sure that the system is fair and that there is a balance between incentives and managing risks, although it is nearly four years since business rates retention was introduced and the rules are still changing.

4.30 One example of these rule changes is that the Government is introducing a temporary £1,500 business rates discount for office space occupied by local newspapers in England for two years from 1st April 2017. One £1,500 discount will be available per local newspaper title and per property, up to state aid limits to help local newspapers adapt to technological changes within the industry.

4.31 As this is only temporary there is no change to legislation. The Government expects billing authorities to use their discretionary rate relief powers contained in Section 47 of the Local

Government Finance Act 1988 and will fully reimburse the Council for the local share of the cost of this relief.

- 4.32** The relief is to be specifically for local newspapers and will not be available to magazines. To qualify, the property must be wholly or mainly used as office space for journalists and reporters.
- 4.33** The relief will be granted in accordance with the detailed criteria set out in guidance provided by DCLG. It is calculated on a daily basis and will only be available for financial years 2017/18 and 2018/19. A written application form will be required with information to show that the qualifying criteria have been met.
- 4.34** 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.

Parish Council Support Grant

- 4.35** 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, Police and Crime Commissioner for Gloucestershire and Parish Councils. To offset this impact, the Government paid 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 parish councils any mechanism for paying over a share of the overall grant paid to the billing authority.
- 4.36** For 2013/14 through to 2016/17, the value of grant awarded to the 5 parish councils for LCTS was £10,269. Funding for Local Council Tax Support was "rolled" in to the Revenue Support Grant and the Retained Business Rates Baseline Funding Position. As Government funding reduces, the Council is under increasing pressure to reduce the funding available for Local Council Tax Support available to the 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 2017/18, although the 5 Parish Councils have been formally notified that reductions to their grant will commence in 2018/19.

Council Tax

- 4.37** 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, which resulted in council tax being increased by £5 in 2016/17 to £192.12 for a Band D taxpayer.
- 4.38** 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.
- 4.39** In December 2016 the rate of Consumer price inflation (CPI) rose to 1.6% although it is recognised that CPI is not a particularly good measure 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 and employer pension contributions are increasing by 4% (c. £400k) cumulatively per annum. 2017/18 will also see the introduction of the apprentice levy.

- 4.40 With this in mind, the Cabinet has had to consider what level of increase in council tax is sustainable, without creating an increased risk of service cuts and/or larger tax increases in the future.
- 4.41 As detailed above, the proposed changes to the New Homes Bonus, which represents a significant proportion of our income, will place a number of our discretionary services at risk.
- 4.42 Therefore, the Cabinet is proposing a 2.60% increase in council tax in 2017/18; an increase of £5.00 for the year for a Band D property.

Collection Fund

- 4.43 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 2016/17 is £128,000 which will be credited to the General Fund in 2017/18. 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 c. £400k for each of the next three years (2017/18 to 2019/20) in accordance with the results of the valuation received in early December 2016.
- 5.2 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 £261,235. Part of these reductions 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, whilst also recognising the rollout of Universal Credit (UC).
- 5.3 In April 2017, the Apprenticeship Levy will be introduced at 0.5% of the pay bill. The aim of the levy is to encourage growth in the number of Apprenticeships available nationally. It is anticipated that the Council will be able to use some of the Levy to off-set apprentice training costs.

6. The Cabinet's general approach to the 2017/18 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. The Cabinet's aim is to hold down council tax as far as possible, while also protecting frontline services.
- 6.2 The Cabinet's budget strategy for 2017/18, approved at a meeting on 11th October 2016, included an estimate of £1.721m for the 2017/18 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 17.5% cut in government support. These assumptions were used to support the interim budget proposals, and based on the detailed budget preparation undertaken in November 2016, assumed a revised budget gap of £1.929m.

- 6.3** The final assessment of the budget gap for 2017/18, based on the detailed budget preparation and the assumed financial settlement is £2.017m which takes into account the following variations:
- Business rates adjustments including planned use of BRR reserve £18k positive variation
 - Increased Ubico contract costs £81.5k adverse variation.
 - Presentation of charges to Housing Revenue Account / CBH from One Legal £24k.
- 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.
 - Identify savings and additional income that could be used to strengthen the Council's Budget Strategy (Support) reserve.
- 6.5** In preparing the 2017/18 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 2017/18.
 - Budgeted for an increase in Members allowances of 1% for 2017/18 as agreed by Full Council on 12th December 2016.
 - Budgeted for superannuation increases in accordance with the triennial review 2016 which were in line with those forecast in October 2016 for the financial years 2017/18 and 2018/19.
 - Budgeted for the Apprenticeship Levy, the cost to the Council is estimated to be £10,000 per annum and has been built into the base budget.
 - Green Waste charges will be increased to £42 per annum with a £3 early discount being offered to all customers who renew their subscription early.
 - All other fees and charges, including car park charges and crematoria fees (see below in paragraphs 6.10 to 6.13), are subject to annual review by the REST management team. A target of £50k per annum has been established as part of the savings strategy approved to deliver a balanced budget.
 - Agreed a strategy regarding the re-prioritisation of resources, cost reduction, vacancy management and income generation to deliver key work-streams identified around the place strategy. A paper is expected in summer 2017 setting out more detailed proposals.
 - 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 the Executive Board to develop a longer term strategy for closing the funding gap and this is monitored regularly. The Cabinet's final budget proposals for closing the budget gap in 2017/18, which are the result of this work, are detailed in Appendix 5, split into.

- Decisions already made by Cabinet/Council totalling £309,500 in savings or additional income.
- Proposals yet to be agreed by Council which are not built into the base budget, totalling £1,099,200. They comprise £699,200 of efficiency savings and additional income and a one-off voluntary repayment holiday on Delta Place of £400,000 to support the base budget.

- 6.7** The Bridging the Gap programme and the commissioning process had helped the Council to move towards a robust four-year strategy for closing the funding gap. The work done on leisure and culture services, shared services with partner councils, management restructuring and the accommodation strategy, as well as a number of smaller pieces of work, gave the Council the opportunity to think ahead over a period of several years, rather than planning its budgets a year at a time. However, the proposed further reductions to New Homes Bonus will require the Cabinet to reflect on its current strategy in order to deliver further savings to those anticipated when it submitted its four efficiency plan.
- 6.8** This budget proposes to make full use of the New Homes Bonus, a total of £1.750m, to support the 2017/18 revenue budget. It was anticipated that New Homes Bonus income in excess of this figure would be kept in reserve or put towards this Council's contribution to the 2020 Vision Programme as agreed in February 2015. The Council will therefore need to commit to earmarking future underspends and windfall income to achieving this outcome.
- 6.9** 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. This reserve secures the Council against short-term challenges which we know we will encounter in the coming years. One of these financial challenges is a drop in business rates income estimated due to redevelopment, with income levels recovering as development goes 'live' in late 2017/18 and 2018/19. Another is the delay in securing car park income of £350k a year from the North Place development. These short-term challenges require a short-term response and it is therefore the Cabinet's intention to meet the projected shortfall in funding of £882k in 2017/18 from the budget strategy (support) reserve rather than by cuts in services or increases in charges which would have a long-term impact.

Cemetery and Crematorium

- 6.10** The interim budget proposals included a 2% inflationary increase on Cemetery & Crematorium fees and charges which was judged to raise £33,200 in supporting the base budget in 2017/18.
- 6.11** The approved business case for the redevelopment of a new crematorium, which is expected to commence in 2017/18, includes an additional increase in cremation fees of £168.71, generating £320,550 additional fee income to support the capital funding for the new facility.
- 6.12** The Council has also been incurring CAMEO costs (£53k per annum) relating to its environmental contribution to supporting mercury abatement through the national offsetting scheme. This cost will no longer be incurred once the new facility comes on-line and indeed, should start to generate an income. In the meantime, it is proposed that these costs are subject to an environmental charge of £26.50 added to the Cremation fee from 2017/18. The need for this charge will be reviewed once the new crematorium is operational.
- 6.13** It is therefore recommended that the additional fees and income, totalling an estimated £373,550 be included in the 2017/18 budget as one-off income. This income will be transferred to the budget strategy support reserve, pending the outcome of a further business case, currently being developed, for further investment in the Bouncer's Lane site. This includes the possibility of building a second chapel as part of the new crematorium, with the potential to release the existing chapel buildings for an alternative use.

7. Treasury Management

- 7.1 Appendix 3 summarises the budget estimates for interest and investment income activity. Security of capital remains the Council's main investment objective.
- 7.2 Investment interest rates have reduced and will probably remain very low in the medium term until there is more economic certainty following Brexit. Returns from traditional fixed term cash deposits are minimal so growth will need to be from alternative investment sources such as investment in property assets.
- 7.3 Whilst the reduction in interest rates in August 2016 has resulted in a shortfall in investment interest, this has been offset by a reduction in temporary borrowing costs and reducing the interest payable to the Housing Revenue Account (HRA). With this in mind, for 2017/18 interest and investment income activity is assumed to remain broadly consistent with that now projected for 2016/17.

8. Reserves

- 8.1 Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to comment upon "the robustness of the estimates and the adequacy of the reserves for which the budget provides". This assessment is included within Appendix 2.
- 8.2 The Cabinet is proactive in strengthening reserves when appropriate and necessary through the use of underspends and one-off income. It is therefore recommended that any future underspends or fortuitous windfalls are earmarked for transfer to either general balances or the budget strategy (support) reserve.
- 8.3 A projection of the level of reserves to be held at 31st March 2017 and 31st March 2018 respectively is detailed in Appendix 6.

9. Capital Programme

- 9.1 The proposed capital programme for the period 2016/17 to 2019/20 is at Appendix 7.
- 9.2 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 redevelopment of the Shopfitters site, a new play facility at Pittville Park and an earmarked contribution to public realm works at Boots Corner.
- 9.3 In addition, as agreed by Full Council on 12th December 2016, the capital programme sets aside an allocation of £10.2m for enhancing its property portfolio with the aims of delivering economic growth and regeneration.

10. Property Maintenance Programmes

- 10.1 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.

11. Pay Policy Statement

- 11.1 Section 38 of the Localism Act requires local authorities to produce pay policy statements which should include the authority's policy on pay dispersion. Pay dispersion is the relationship

between remuneration of Chief Officers and the remuneration of other staff.

11.2 The Pay Policy attached at Appendix 9 includes the following key requirements of the Localism Act 2011:

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

12. Reasons for recommendations

12.1 As outlined in the report.

13. Consultation and feedback

13.1 The formal budget consultation on the detailed interim budget proposals took place over the period 14th December 2016 to 13th January 2017. The Cabinet sought to ensure that the opportunity to have input into the budget consultation process was publicised to the widest possible audience. During the consultation period, interested parties including businesses, parish councils, tenants, residents, staff and trade unions were encouraged to comment on the initial budget proposals. They were asked to identify, as far as possible, how alternative proposals complement the Council's Business Plan and Community Plan and how they can be financed.

13.2 The Budget Scrutiny Working Group has been meeting during the course of the year and has made a positive contribution to the budget setting process in considering various aspects of the budget leading to its publication. The group met on 9th January 2017 and comments have been fed back to the Cabinet.

14. Supplementary Estimates

14.1 Under financial rule B11.5, the Council can delegate authority to the Cabinet for the use of the General Reserve up to a certain limit. This is to meet unforeseen expenditure which may arise during the year for which there is no budgetary provision. It would be prudent to allow for a total budget provision of £100,000 for supplementary estimates in 2017/18 to be met from the General Reserve, the same level as in 2016/17.

15. Alternative budget proposals

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

15.2 It is also important that there is time for Members to carefully consider and evaluate any alternative budget proposals. Political groups wishing to put forward alternative proposals are not obliged to circulate them in advance of the budget-setting meeting, but in the interests of sound and lawful decision-making, it would be more effective to do so, particularly given that they may have implications for staff.

16. Final budget proposals and Council approval

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

17. Performance management – monitoring and review

- 17.1** The scale of budget savings will require significant work to deliver them within the agreed timescales and there is a danger that this could divert management time from delivery of services to delivery of savings. There are regular progress meetings to monitor the delivery of savings and this will need to be matched with performance against the corporate strategy action plan to ensure that resources are used to best effect and prioritised.
- 17.2** The delivery of the savings workstreams included in the interim budget proposals, if approved by full Council, will be monitored by the Budget Scrutiny Working Group.

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<p>Appendices</p>	<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
<p>Background information</p>	<ol style="list-style-type: none"> 1. Budget strategy and process report 2017/18 and MTFS 2016/17 to 2019/20 (Cabinet 11th October 2016) 2. Budget Monitoring Report 2016/17 position as at December 2016 (Cabinet 7^h February 2017) <p>www.gov.uk/government/consultations/the-case-for-a-business-rates-relief-for-local-newspapers</p>

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 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.	Cabinet	01/09/2010	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. As a result of the proposed changes to the New Homes Bonus the Cabinet are reviewing the strategy for closing the revised funding gap which may require larger cuts to services to those which were forecast in October 2016.	Ongoing	Chief Finance Officer	01/09/2010
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	Chief Finance Officer	01/04/2016	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,	Ongoing	Chief Finance Officer	

	the minimum required level as recommended by the Chief Finance Officer in the council's Medium Term Financial Strategy							consideration will continue to be given to the use of fortuitous windfalls and potential future under spends with a view to strengthening reserves whenever 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.	Chief Finance Officer	01/04/2016	5	4	20	Reduce	The MTFS assumed use of NHB could be supported with 4 years rather than 6 years of NHB provided new development proceeds in line with forecasts. However, the introduction of a 0.4% baseline target in addition to the reduction in years has opened up a further financial gap of c. £0.5m which the Cabinet will need a revised strategy to deliver a balanced MTFS.	Ongoing	Chief Finance Officer	
1.02	If income streams 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.	Chief Finance Officer	14/09/12	4	3	12	Accept & Monitor	The Council joined the Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by the Council. The Gloucestershire S151 Officers continue to monitor business rates income projections	Ongoing	Chief Finance Officer	

								and the performance and membership of the pool. Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.			
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.	Chief Finance Officer	15/12/10	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	Chief Finance Officer	
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	Director of Resources	15/12/10	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	

	may decrease.										
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	15/12/10	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	Chief Finance Officer	
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	13/12/10	4	4	16	Reduce	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. The assumptions regarding government support have been mitigated to a certain extent by the acceptance of a multi-year settlement agreement.	Ongoing	Chief Finance Officer	