

Cheltenham Borough Council

Cabinet – 13th February 2018

Council – 19th February 2018

General Fund Revenue and Capital – Revised Budget 2017/18, and Final Budget Proposals 2018/19

Accountable member	Cabinet Member for Finance, Councillor Rowena Hay
Accountable officer	Chief Finance 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 2017/18 and the Cabinet's final budget proposals and pay policy statement for 2018/19.
Recommendations	<p>Cabinet / Council</p> <ol style="list-style-type: none">1. Approve the revised budget for 2017/18.2. 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 £203.01 for the year 2018/19 (an increase of 2.99% or £5.89 a year for a Band D property), as detailed in paragraphs 4.26 to 4.30.4. Approve the growth proposals, including one off initiatives at Appendix 4.5. Approve the savings / additional income totalling £716,500 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. Note that Gloucestershire was successful in becoming a 100% Business Rate Retention pilot in 2018/19 and propose that the additional revenue generated be earmarked for economic growth initiatives specific to Cheltenham (paragraphs 4.19 to 4.20).8. Approve the extension of grants to Cheltenham Performing Arts (£20,000) and the Holst Birthplace Trust (£7,500) for a further 3 years, as detailed in paragraph 5.12.

9. **Approve the deferral of the 2017/18 Cheltenham Trust management fee saving to 2019/20 and 2021/22 and provide for a contingency within the working balance of £150,000 for the Trust to drawdown (paragraphs 5.13 to 5.18).**
10. **Approve the Pay Policy Statement for 2018/19, including the continued payment of a living wage supplement at Appendix 9.**
11. **Approve a level of supplementary estimate of £100,000 for 2018/19 as outlined in Section 13.**

Financial implications	<p>As contained in the report and appendices.</p> <p>Contact officer: Paul Jones, Chief Finance Officer.</p> <p>E-mail: paul.jones@cheltenham.gov.uk</p> <p>Tel no: 01242 775154</p>
Legal implications	<p>The budget setting process must follow the Council's Budget and Policy Framework Rules.</p> <p>Members are not generally regarded as having a personal or prejudicial interest in the setting of the council budget and council tax. However, any member who is in arrears of council tax needs to give careful consideration to the provisions of section 106 of the Local Government Finance Act 1992. This states that if any arrears remain unpaid for at least two months then the member must disclose this at the beginning of the meeting, which is to consider the council tax calculation and shall not vote on the matter. It is a criminal offence to disregard this requirement. Any member likely to be in such a position should seek advice as quickly as possible from the Monitoring Officer.</p> <p>There is a legal requirement under the Local Government Finance Act 1992, sections 31A and 42A to set a balanced budget. The budget proposals includes budgets for expenditure and income and uses reserves to fund one off expenditure, fund future expenditure or phase in the impact of increased expenditure in accordance with the Medium Term Financial Strategy.</p> <p>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 specific levels and this has been taken in to account in recommending a 2.99% increase as set out in the report.</p> <p>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.</p> <p>Contact officer: Peter Lewis</p> <p>E-mail: peter.lewis@tewkesbury.gov.uk</p> <p>Tel no: 01684 272012</p>

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 6th December 2017. 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 (Publica Group Limited)</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. Place and Economic Development	
Transformation of Regulatory and Environmental Services delivery	Ensuring that our human resource processes used to enable any staff restructuring are compliant with equality legislation.
Review of fees & charges and income generation opportunities	None identified at this stage; the individual proposals for revising fees and charges will be subject to separate equality impact assessments to ensure that particular groups are not disadvantaged.
2. Organisational Change	
Revenues and Benefits restructure	Ensuring that our human resource processes used to enable any staff restructuring are compliant with equality legislation.
3. Finance and Assets	
Business Rates additional target through pooling	None identified although in 2018/19 this will be managed through the 100% Pilot for Business Rates retention.
Treasury Management activity	None identified.
LGPS up-front payment discount	None identified.
Additional Depot rent - Ubico	None identified.

Commercial rationalisation of existing assets and investment portfolio income generation	None identified at this stage; the detailed proposals for the use of our assets will be subject to separate equality impact assessments to ensure that particular groups are not disadvantaged.
4. Use of Reserves	
Use of Budget Strategy (Support) Reserve	None identified
Previously Delivered Savings Targets	
L&C Review - trust savings deferral	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 2018. The consultation took place between the period 14th December 2017 to 19th January 2018 and this report sets out the final proposals for 2018/19.
- 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 65% 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** In December 2017 the Cabinet proposed a net budget requirement for consultation totalling £13.619m and was based on a 2.54% (£5 for Band D property) Council Tax increase.
- 1.4** Since the draft budget proposals were published, additional pressures have been identified which have been captured within the growth proposals in Appendix 4.
- 1.5** In addition, the revised contract fee for 2018/19 from Ubico has increased by a further c. £137k to reflect the national pay award for local government which is higher than anticipated, additional insurance premiums and an increase in finance lease payments in respect of the new waste and recycling vehicles.
- 1.6** The original proposed fee from Ubico provided for a 2% pay award across all service areas. However, based on the latest national pay negotiations, the revised fee recognises that in 2018/19, all staff on SCPs 6-19 inclusive would see their pay increase by between 3.7% and 9.1%. A significant proportion of the Ubico workforce fall within this pay bracket, and as such, will be entitled to a pay award in excess of 2%.
- 1.7** Following the Cabinet meeting held on 12th December 2017 the provisional financial settlement was announced on 19th December 2017. The most significant changes proposed in the settlement were:
- The announcement that Gloucestershire has been accepted as a 100% Business Rates Retention (BRR) pilot in 2018/19;
 - No changes in the way that the New Homes Bonus (NHB) is calculated and the baseline target will remain at 0.4%. This equates to an additional £67,530 NHB in 2018/19;

- The flexibility to increase Council Tax by the greater of up to 3% (previously 2%) or £5 based on a Band D property which is in line with the December 2017 Consumer Prices Index (CPI);
- Permission to increase planning fees by 20% from January 2018;
- Fair Funding Review consultation on new funding methodology from 2020/21 which closes on 12th March 2018;
- Local share of Business Rates Retention to increase from 50% to 75% which will include the transfer of public health and other grants. Also recognised the 'strength of feeling' in the sector towards 'negative RSG' with a commitment to consult on the proposals which are due to be implemented in 2019/20 for this Council.

1.8 The additional pressures outlined in Appendix 4 have been funded by the additional New Homes Bonus, Business Rates and changes in the tax base / collection fund surplus with the proposal to increase Council Tax by an additional 0.45%, which will result in a revised net budget requirement of £14.429m as detailed in Appendix 3.

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 2018/19 has been based on sound assumptions and that the Council has adequate reserves to fund operations in 2018/19. The full assessment is attached at Appendix 2.

3. 2017/18 Budget Monitoring to December 2017

3.1 The budget monitoring report to the end of December 2017, also considered by Cabinet on 13th February 2018, indicates that despite a number of variances to the budget it still anticipates the delivery of services within budget in 2017/18.

4. Settlement Funding Assessment

4.1 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.

4.2 The final local government settlement for 2017/18 equated to a further grant reduction in cash terms of £0.676 million or 17.5%. The proposed settlement for 2018/19, as outlined in the 4 year multi-settlement agreement, indicates a further grant reduction in cash terms of £0.362 million or 11.3%.

4.3 Since 2009/10 the Council's core funding from the Government has been cut by some £6.4 million (72.7%), from £8.8 million to £2.4 million (this excludes council tax support funding of £812k which transferred into the settlement funding assessment in 2013/14).

4.4 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 11.3% in 2018/19.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	1.273	0.544	0.102	(0.391)
Baseline Funding (Cheltenham's target level of retained Business Rates)	2.600	2.653	2.733	2.794
Settlement Funding Assessment	3.873	3.197	2.835	2.403
Actual cash (decrease) over previous year	(0.816)	(0.676)	(0.362)	(0.432)
% cash cut	(17.4%)	(17.5%)	(11.3%)	(15.2%)

- 4.5** It should be noted, however, that in 2018/19 this Council will forego its entitlement to Revenue Support Grant in return for a greater share of business rates under the pilot scheme and this is detailed below.
- 4.6** The Government's policy of phasing out revenue support grant and in due course potentially allowing councils to benefit from a higher share of business rates creates a need for this Council to develop a long-term strategy which is significantly different from that followed in past years. Since 2013 the Council has had a direct financial interest in economic and business growth in the town, and will have a larger stake in it under the Government's proposals for reforming business rates.
- 4.7** However, by not including the Local Government Finance Bill in the Queen's Speech, the Government has given a very strong indication that it will not be proceeding with 100% business rates retention, at least not yet.
- 4.8** The provisional financial settlement, announced on 19th December 2017, suggests that the local share of Business Rates Retention will increase from 50% to 75% and will include the transfer of public health and other grants, and therefore may not require a specific Local Government Finance Bill to enable this.
- 4.9** A technical consultation paper on the funding mechanism for Local Government finance from 2020/21 (the Fair Funding Review) was launched through the provisional settlement with a closing date of 12th March 2018. Officers will work with colleagues within Gloucestershire to ensure a robust response is put forward on behalf of this Council.

Business Rates Retention (BRR)

- 4.10** 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.
- 4.11** Continuation within the pool was delegated to the Section 151 Officer and Chief Executive and this is reviewed on an annual basis.
- 4.12** The Gloucestershire Business Rates Pool was set up in 2013/14 to maximise the business rate income retained within the County and to support economic growth within the area of the Local Enterprise Partnership. In the first year of operation the Pool reported a surplus of £774,862.

- 4.13** 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.
- 4.14** In 2015/16 the Pool was back in surplus, generating £877,948, and in 2016/17 generated a further surplus of £2,138,443.
- 4.15** The anticipated level of business rates due to this Council in 2018/19, taking into account the re-developments at the Brewery, John Lewis and Jessops Avenue, is above the baseline funding target (Cheltenham's target level of retained Business Rates) which would result in Cheltenham still being liable to a 'levy'.
- 4.16** Taking the above into account, the Section 151 Officer confirmed that this Council would benefit from remaining in the pool in 2018/19 as it would result in a reduction of any levy payment due to Government, which would be distributed in accordance with the governance arrangements
- 4.17** The Local Government Finance Bill was published on 13th January 2017. Its main purpose was to put in place the framework for 100% BRR. However, with the General Election in June 2017, this Bill was withdrawn and was not mentioned in any subsequent publications.
- 4.18** On 1st September 2017 the Department for Communities and Local Government (now known as the Ministry of Housing, Communities and Local Government) published an 'invitation to local authorities to pilot 100% business rates retention in 2018/19 and to pioneer new pooling and tier-split models,' with a deadline of 27th October 2017. Extensive modelling work was undertaken by the 7 Council's within Gloucestershire, supported by an external consultant, which reviewed the risks and rewards and resulted in a bid being submitted to the Government by the deadline with the following criteria:
- Full agreement by all 7 councils to be designated a pool for 2018/19 (in accordance with Part 9 of Schedule 7B to the Local Government Finance Act 1988).
 - An agreed proposal as to how the additional growth should be split. This provides for;
 - a. 20% to an already established Strategic Economic Development Fund (set up under the existing pooling arrangements)
 - b. 30% to the 6 District Councils and
 - c. 50% for the County Council
 - Each authority will use its funding for financial resilience/sustainability and growth initiatives specific to its area. Given that the pilot is being presented as a 'one off for 2018/19 only', individual authorities will be careful not to build in longer term financial commitments.
 - We acknowledge that we forego Revenue Support Grant and Rural Services Grant funding for the period of the pilot i.e. the financial year 2018/19.
 - We accept the terms of the pilot being a safety net threshold of 97% and that there is a "zero levy", as is the case for the current 2017/18 pilot areas.
 - We understand that Ministers have now agreed that all pilots are to have a 'no detriment' clause.
 - Should we not be successful with our pilot bid, we wish to see our current pooling arrangements continue. This would involve the 6 authorities currently in the Gloucestershire pool. Tewkesbury BC is not part of the pool.
- 4.19** The Government announced the successful pilots on 19th December 2017 alongside the provisional financial settlement. Gloucestershire's bid was successful, and indications announced at the time were that this was worth circa £9.2m to Gloucestershire as a whole.
- 4.20** Under the pilot announced by the Government, 100% of growth is shared locally, with 50% going

to the District's and 50% to the County Council. As detailed in the table below, the benefit to Cheltenham Borough Council is estimated to be circa £633,457. However out of this share, provision must be made for a transfer to the Strategic Economic Development Fund which is currently estimated at £333,000. It is therefore anticipated that a retained element of circa £300,000 will be used to fund one-off economic growth initiatives specific to Cheltenham. It should be noted that this is an estimate of the rates collection forecast based on NNDR1 and the actual business rates collected may be more or less than this. It is therefore prudent to allocate this additional share to the Business Rates Retention earmarked reserve until a point that the monies can be released to fund specific schemes when there is more clarity on the actual business rates collected. As the pilot does not form part of the settlement funding assessment for Cheltenham Borough Council and is only for one year, this additional income has not been built into future base budget estimates.

- 4.21** 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 Ministry of Housing, Communities and Local Government (MHCLG). The NNDR1 return was submitted to the MHCLG by the deadline of 31st January 2018 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 under the 100% pilot is £1,942,709. However, due to temporary retail closures arising from town centre redevelopments, 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) and other rateable value changes, deficit adjustments need to be made from previous years to the value of £745,710.
- 4.22** It is therefore appropriate and necessary to support the 2018/19 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 Original 50% system £	2017/18 Revised 50% system £	2018/19 Comparison 50% system £	2018/19 Original 100% system £
Retained business rates per NNDR1	21,470,254	20,960,028	21,742,783	27,178,478
Tariff payable to government	(17,818,354)	(17,818,354)	(18,665,960)	(23,875,005)
Grant to compensate for government decisions	676,296	1,156,858	1,187,681	1,474,787
Estimated levy payable to government after Pool surplus/deficit	(605,394)	(434,174)	(222,000)	-
Net retained business rates	3,722,802	3,864,358	4,042,504	4,778,260
Less Baseline Funding (target level of net retained rates)	(2,653,532)	(2,653,532)	(2,733,252)	(2,835,551)
Net surplus on business rates against baseline funding	1,069,270	1,210,826	1,309,252	1,942,709
Deficit adjustment re 2015/16	(303,960)	(303,960)	-	-
Deficit adjustment re 2016/17	(140,464)	(140,464)	(235,484)	(235,484)
Deficit adjustment re 2017/18	-	510,226	(510,226)	(510,226)
One-off adjustments re previous years' deficits	(444,424)	65,802	(745,710)	(745,710)
Net retained business rates (after one-off deficit adjustments)	3,278,378	3,930,160	3,296,794	4,032,550
Revenue Support Grant	544,030	544,030	102,299	-
Net retained business rates plus revenue support grant	3,822,408	4,474,190	3,399,093	4,032,550
Transfer to BRR earmarked reserve				(633,457)
Net retained business rates				3,399,093

4.23 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.

4.24 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 may be 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 2018/19.

- 4.25** 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 could also undermine local government's ability to make business rates retention a success.

Council Tax

- 4.26** For the period 2010 to 2015 the Council had frozen its council tax. 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 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.
- 4.27** 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 in 2018/19 for council tax increases is now proposed at 3 per cent for all local authorities. However, shire districts will be allowed increases of up to and including £5, or up to 3 per cent, whichever is higher.
- 4.28** Consumer price index (CPI) inflation was 3.0% in December 2017, which is above the Monetary Policy Committee's (MPC) 2% target. Inflation is not projected to fall back towards the 2% target until mid-2018, reflecting past increases in energy prices falling out of the annual comparison.
- 4.29** With increased pressure for the cap on public sector pay to be lifted and the need for inward investment in the Borough through specific events and marketing of the Town, 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.
- 4.30** Therefore, the Cabinet is proposing a 2.99% increase in council tax in 2018/19; an increase of £5.89 for the year for a Band D property.

Collection Fund

- 4.31** 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 2017/18 is £172,000 which will be credited to the General Fund in 2018/19. Collection fund surpluses arise from higher than anticipated rates of collection of the council tax collection rates.

5. The Cabinet's general approach to the 2018/19 budget

- 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 £12m generated from BtG work streams including service reviews, shared services, increased income generation and asset

management initiatives. This achievement has made it possible to date, to adopt a more strategic approach to identifying savings and additional income rather than relying on 'salami-slicing' of budgets.

- 5.3** The Cabinet believes the longer term approach to finding efficiencies to close the funding gap is fundamentally through economic growth and investment and the efficient utilisation of our assets. With this in mind, the Cabinet has been working with the Executive Management team to deliver a commercial strategy which sits alongside the Medium Term Financial Strategy (MTFS) as detailed in Appendix 10. In addition, resources will be geared towards supporting and delivering the growth agenda including major developments in North West and West Cheltenham.
- 5.4** The MTFS indicates broadly how the Council will close the projected funding gap over the period 2018/19 to 2021/22. It includes savings targets rather than specifically worked up projections of cost savings and is based on the building blocks of place and economic growth; organisational change; and finance and assets. The detailed schedule of target savings is provided in greater detail within Appendix 5.
- 5.5** The Cabinet's interim budget proposals for 2018/19, approved at a meeting on 12th December 2017, included an estimate of £1.643m for the 2018/19 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 11.3% cut in government support.
- 5.6** The final assessment of the budget gap for 2018/19, based on the detailed budget preparation and the assumed financial settlement is £1.629m.
- 5.7** 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.
- 5.8** In preparing the 2018/19 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 2% for 2018/19.
 - Budgeted for an increase in Members allowances of 2% for 2018/19 as agreed by Full Council on 11th December 2017.
 - 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 2018/19 and 2019/20.
 - Increased income budgets for the Cemetery and Crematorium, assuming an average increase in fees and charges of 2%.
 - All other fees and charges, including car park charges, are subject to annual review by the Place and Economic Development Services 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.
- Assessed the impact of prevailing interest rates on the investment portfolio, the implications of which have been considered by the Treasury Management Panel.

- 5.9** 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 2018/19, which are the result of this work, are detailed in Appendix 5.
- 5.10** This budget proposes to make full use of the New Homes Bonus, a total of £1.754m, to support the 2018/19 revenue budget.
- 5.11** 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. 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 £913,058 in 2018/19 from the budget strategy (support) reserve rather than by cuts in services or increases in charges which would have a long-term impact.

Grants to Cheltenham Performing Arts and the Holst Birthplace Trust

- 5.12** It is proposed to extend the provision of grant funding for Cheltenham Festival of Performing Arts (CFPA) and The Holst Birthplace Trust for another three years from April 2018 to March 2021 in the sum of £20,000 per annum and £7,500 per annum respectively. Both organisations form an important part of Cheltenham's cultural offer. The Holst Birthplace Museum houses the council's collection relating to Gustav Holst together with more general Victoriana, providing visitors with an opportunity to learn more of Holst's life and experience domestic life at the end of the 19th Century. These objects might otherwise not be publicly accessible. Gustav Holst also supports the town's international profile. The Cheltenham Festival of Performing Arts is the town's oldest festival and provides an opportunity for local schools and individuals to become involved in the Arts with particular reference to music, speech, drama and dance. The work of both organisations will contribute to the council's Place Strategy outcomes.

The Cheltenham Trust

- 5.13** In October 2014, the Council created a charitable trust (The Cheltenham Trust) to sustain and develop the good work of the council's in-house leisure and culture services. As well as leading to significant financial benefits to the Council and the town, it was recognised that a trust would be in a stronger position to promote healthier lives, to create inspirational experiences and to promote the town as a great place to be.
- 5.14** Over the first 3 years of operation (2014 to 2017) the Trust has delivered base budget revenue savings to the Council of £641,800 which cumulatively equates to financial savings in excess of £1.8m over the same period. In addition, the Trust has managed to leverage in additional grants in excess of £900k. These savings primarily have come from business rates, employer pension contributions and VAT; it is acknowledged that these savings could not have been realised through the continuation of an in-house provision.
- 5.15** When the original business case was put before Council it was anticipated that overall savings of £835,300 could be realised by 2018/19, the difference being £193,500 which were scheduled to be delivered in 2017/18 and 2018/19. Over the last 3 months, representatives from the Trust have met with Officers and the Cabinet to express their difficulty in delivering these latter savings

without significant investment into the business.

- 5.16 Members will recall that the Council has recently agreed to invest in the leisure facility which will deliver a significant new income stream after taking into account the financing costs. The delays to this scheme mean that the financial benefits will not be delivered until early 2019.
- 5.17 The Cabinet therefore propose that, in order to give the Trust the best opportunity to succeed, the management fee reductions proposed in 2017/18 and 2018/19 (totalling £150,500 and £43,000 respectively) be deferred until the financial years 2019/20 and 2020/21 as detailed in Appendix 5.
- 5.18 The Cabinet further propose that a contingency provision of £150,000 be held in general balances for the Trust to draw down; this will provide for short-term losses incurred by the Trust as they go through re-organisation and transformation. Furthermore, the Cabinet have requested that the Trust look at their business operations, including those services that are currently protected, to ensure it is fit for purpose and commercially focussed.

6. Treasury Management

- 6.1 Appendix 3 summarises the budget estimates for interest and investment income activity. Security of capital remains the Council's main investment objective.
- 6.2 Investment interest rates 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 and multi-asset funds which include exposure to the bond and equity markets.

7. Reserves

- 7.1 Section 25 of the Local Government Act 2003 requires the Chief Finance Officer to comment upon "the robustness of the estimates and the adequacy of the reserves for which the budget provides". This assessment is included within Appendix 2.
- 7.2 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.
- 7.3 A projection of the level of reserves to be held at 31st March 2018 and 31st March 2019 respectively is detailed in Appendix 6.

8. Capital Programme

- 8.1 The proposed capital programme for the period 2017/18 to 2020/21 is at Appendix 7.
- 8.2 The strategy for the use of the council's capital resources is led by our corporate priorities. The existing programme includes sums for infrastructure investment to be funded from capital receipts and the purchase of new vehicles through Ubico. It also includes the allocations agreed by the Council in April 2015 to facilitate the redevelopment to the Town Hall and the Crematorium, and an earmarked contribution to public realm works within the Town Centre.
- 8.3 In addition the capital programme sets aside an allocation for enhancing our property portfolio with the aims of delivering economic growth and regeneration.

9. Property Maintenance Programmes

- 9.1 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.

10. Pay Policy Statement

- 10.1 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.

- 10.2 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.

11. Reasons for recommendations

- 11.1 As outlined in the report.

12. Consultation and feedback

- 12.1 The formal budget consultation on the detailed interim budget proposals took place over the period 14th December 2017 to 19th January 2018. 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.

- 12.2 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 8th January 2018 and comments have been fed back to the Cabinet.

13. Supplementary Estimates

- 13.1 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 2018/19 to be met from the General Reserve, the same level as in 2017/18.

14. Alternative budget proposals

- 14.1 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.

14.2 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.

15. Final budget proposals and Council approval

15.1 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.

15.2 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.

15.3 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.

15.4 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.

16. Performance management – monitoring and review

16.1 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.

16.2 The delivery of the savings workstreams included in the final budget proposals, if approved by full Council, will be monitored by the Budget Scrutiny Working Group.

Report author	Paul Jones, Chief Finance Officer (Section 151 Officer) Tel. 01242 775154; e-mail address paul.jones@cheltenham.gov.uk
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Appendices	<ol style="list-style-type: none"> 1. Risk Assessment 2. Section 151 Officer budget assessment 3. Summary net budget requirement 4. Growth 5. Savings / additional income 6. Projection of reserves 7. Capital programme 8. Programmed Maintenance programme 9. Pay Policy Statement 10. Medium Term Financial Strategy (MTFS) – Background Paper
Background information	<ol style="list-style-type: none"> 1. Budget strategy and process report 2018/19 (Cabinet 10th October 2017) 2. General Fund Revenue and Capital – Interim Budget Proposals and Medium Term Financial Strategy 2018/19 to 2021/22 (Cabinet 12th December 2017) 3. Budget Monitoring Report 2017/18 position as at December 2017 (Cabinet 13th February 2018) <p> www.gov.uk/government/consultations/the-case-for-a-business-rates-relief-for-local-newspapers </p>

Risk Assessment - proposed budget 2018/19

Appendix 1

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	3	15	Reduce	The budget strategy projection includes 'targets' for work streams to close the funding gap which aligns with the council's corporate priorities.	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 the minimum required level as recommended by the Chief Finance Officer in the council's Medium Term Financial Strategy	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 2018/19 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 possible.	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	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.	Ongoing	Chief Finance Officer	

	grow the business rates in the town then the MTFS budget gap may increase.							The Gloucestershire S151 Officers continue to monitor business rates income projections 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	Chief Finance Officer	15/12/10	3	3	9	Reduce	As part of the delivery of the BtG / commissioning programmes a clear communication strategy is in place. In adopting a	Ongoing	Communications team to support the BTG programme	

	is making changes to service delivery then there may be confusion as to what services are being provided and customer satisfaction may decrease.							commissioning culture the council is basing decisions on customer outcomes which should address satisfaction levels.			
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	5	3	15	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	