

Cheltenham Borough Council
Cabinet – 18th December 2018
General Fund Revenue and Capital - Interim Budget Proposals
2019/20 for Consultation

Accountable member	Cabinet Member for Finance, Councillor Rowena Hay
Accountable officer	Paul Jones, Executive Director Finance and Assets (Section 151 Officer)
Accountable scrutiny committee	Overview and Scrutiny Committee and Budget Scrutiny Working Group
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report sets out the Cabinet’s interim budget proposals for 2019/20 for consultation. The budget projections have been prepared before the local government finance settlement consultation was released on 13th December. The government had intended to announce the provisional settlement for local authorities on Thursday, 6th December, but it was delayed as a result of the detailed negotiations taking place on Brexit.
Recommendations	<ol style="list-style-type: none"> 1. Approve the interim budget proposals for consultation including a proposed council tax for the services provided by Cheltenham Borough Council of £209.08 for the year 2019/20 based on a band D property (an increase of 2.99%). 2. Note the Medium Term Financial Strategy (MTFS) projection, outlined in section 3 and Appendix 3. 3. Approve the growth proposals, including one off initiatives at Appendix 4, for consultation. 4. Approve the proposed capital programme at Appendix 6, as outlined in Section 6. 5. Delegate authority to the Executive Director Finance and Assets, in consultation with the Cabinet Member for Finance, to determine and approve any additional material that may be needed to support the presentation of the interim budget proposals for public consultation which will include any changes arising from the provisional settlement. 6. Seek consultation responses by 25th January 2019.

Financial implications	<p>As contained in the report and appendices.</p> <p>Contact officer: Paul Jones.</p> <p>E-mail: paul.jones@cheltenham.gov.uk</p> <p>Tel no: 01242 264365</p>
Legal implications	<p>This report proposes an interim budget for consultation purposes and there are no specific legal implications at this stage.</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>Relationships with the two recognised trade unions continue to remain very positive. The Executive Leadership Team and the HR team will continue to work closely with TU colleagues in order to ensure that any potential impacts on employees as a result of realisation of budget savings are kept to a minimum.</p> <p>Contact officer: Julie McCarthy</p> <p>E-mail: julie.mccarthy@publicagroup.uk</p> <p>Tel no: 01242 264355</p>
Key risks	<p>As outlined in Appendix 1</p>
Corporate and community plan Implications	<p>The aim of the interim 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.</p>
Environmental and climate change implications	<p>The draft budget contains a number of proposals for improving the local environment, as set out in this report.</p>

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 2019. This report sets out the interim proposals for 2019/20.
- 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 75% 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.

2. Settlement Funding Assessment

- 2.1** The Government delayed the announcement of the provisional local government finance settlement 2019/20. It had been scheduled for 6th December 2018 but was delayed because parliamentary attention was focussed on Brexit and the "meaningful vote" which was scheduled to take place on 11th December. The actual settlement was announced on 13th December which officers are currently in the process of analysing.
- 2.2** As a direct consequence of the above, the assumptions within the interim budget proposals are based on the technical consultation on the local government finance settlement for 2019/20 which was released by the Ministry of Housing, Communities and Local Government (MHCLG) on 24th July 2018.
- 2.3** The headlines from that consultation were:
 - Confirmation of the 4 year offer as set out in 2016/17;
 - Under the council tax referendum principles, the flexibility to increase council tax by the greater of up to 3% or £5 based on a Band D property;
 - A proposal to remove negative Revenue Support Grant (RSG) in full via the governments share of business rates receipts;
 - Proposals to increase the baseline target for New Homes Bonus (NHB) which is currently 0.4%;
 - An invitation to bid for a pilot programme for 75% business rates retention for 2019/20
- 2.4** The Council's Medium Term Financial Strategy (MTFS) is already predicated on the basis that council tax will increase by 2.99% per annum.
- 2.5** The removal of negative RSG would equate to an increase in funding of c. £390k in 2019/20. MHCLG put forward a range of options in the technical consultation paper for dealing with negative RSG. The preferred option is to "directly eliminate" negative RSG via forgone business rates receipts. In other words, to make negative RSG go away by not making the tariff adjustment. This is the approach that we expected the Government to announce in the provisional settlement and the interim budget proposals are presented with that assumption.
- 2.6** It was confirmed in the technical consultation that NHB will continue into 2019/20 in its current form. The overall payments from the scheme will be capped at £900m and the Government will use the national baseline (or deadweight) to manage the cost of the scheme which is currently set at 0.4%. This current baseline target ensures that no NHB is paid to this council for the first 206 additional homes delivered.
- 2.7** The projections for additional new homes in the Borough were estimated to be 350 per annum

and this figure is used to calculate the New Homes Bonus. The actual number delivered over the last 12 months was an additional 368 new homes for occupation. With a baseline target of 0.4% this means we would only receive NHB for 162 additional new homes.

- 2.8** However an increase in the baseline target for NHB could negate this benefit. An increase to 0.6% would reduce our funding by c. £100k whereas an increase to 0.8% would equate to a reduction of c. £200k and effectively mean no additional NHB is received in 2019/20 despite the fact that Cheltenham delivered an additional 368 new homes for occupation over the last 12 months.
- 2.9** Modelling based on the 2018 CTB1 forms submitted, estimate that the overall cost of the scheme would be £915m, only marginally higher than the £900m budget which supports a fair chance that the national baseline will stay at 0.4%. The interim budget proposals, however, assume no additional NHB will be paid in 2019/20 in order for the proposals to be both robust and prudent.
- 2.10** District Councils are concerned that decisions relating to the New Homes Bonus scheme continue to be made only a few months before the start of the new financial year therefore impacting on the ability for district councils to understand the impact on their budgets. This runs contrary to the stated aim of 4 year settlements which was to reduce this uncertainty.
- 2.11** 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.
- 2.12** 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 1.4% in 2019/20 which is significantly less than expected due to the anticipated removal of negative RSG.

	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m
Revenue Support Grant	1.273	0.544	0.102	0.000
Baseline Funding (Cheltenham's target level of retained Business Rates)	2.600	2.653	2.733	2.796
Settlement Funding Assessment	3.873	3.197	2.835	2.796
Actual cash (decrease) over previous year	(0.816)	(0.676)	(0.362)	(0.039)
% cash cut	(17.4%)	(17.5%)	(11.3%)	(1.4%)

- 2.13** 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.

Retained Business Rates

- 2.14** 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.
- 2.15** Continuation within the pool was delegated to the Section 151 Officer and Chief Executive and this is reviewed on an annual basis.
- 2.16** 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.
- 2.17** 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 significantly above the baseline funding target (Cheltenham's target level of retained Business Rates) which will result in Cheltenham still being liable to a 'levy'.
- 2.18** Taking the above into account, it is the opinion of the Section 151 Officer that this Council will benefit from remaining in the pool in 2019/20 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 information, Cheltenham's additional share of the pool surplus in 2017/18 was £475,341.
- 2.19** Furthermore, the Government is committed to continuing to give local authorities greater control over the money they raise locally. It is in this context that the Government has announced its continuation for piloting business rates retention with a new pilot programme for 75% business rates retention in 2019/20.
- 2.20** Members will recall that Gloucestershire's bid was successful to pilot 100% business rates retention in 2018/19 and indications announced at the time were that this was worth circa £9.2m to Gloucestershire as a whole.
- 2.21** Under the current pilot arrangement, 100% of growth is shared locally, with 30% going to the District's, 50% to the County Council and 20% to the Strategic Economic Development Fund. Current projections suggest that the overall pilot gain in 2018/19 is now circa £14m. After allowing for the creation of a £1.4m 'risk reserve', the benefit to Cheltenham Borough Council is estimated to be circa £640k and Council approved that this would be ring-fenced to fund one-off economic growth initiatives specific to Cheltenham. As the pilot does not form part of the settlement funding assessment for Cheltenham Borough Council and was only for one year, this additional income has not been built into future base budget estimates.
- 2.22** The Ministry of Housing, Communities and Local Government (MHCLG) issued a technical consultation paper on 24th July 2018 on the 2019/20 Local Government Finance Settlement. This included information on business rates pilots for 2019/20.
- 2.23** The existing 100% business rates pilot will end on 31st March 2019. Gloucestershire, alongside all other authorities in England, were able to make an application to MHCLG to pilot 75% business rates retention in 2019/20. Any proposal for a pilot must have been received by MHCLG no later than 25th September 2018.
- 2.24** The main change from the 100% pilot is that the local share will reduce from 100% to 75%, largely because the national scheme from 2020/21 will operate with a 75% share, but also because the cost of the pilot programme has become significant (£920m+).
- 2.25** An important change to the 75% pilot scheme is that there will not be a "no detriment" clause. Under the existing pilot, this has ensured that Gloucestershire is no worse-off than the individual authorities would have been in aggregate under the 50% scheme.

- 2.26** The criteria for becoming a pilot as outlined in the invitation prospectus, was:
- Proposed pooling arrangements operate across a functional economic area;
 - Proposal demonstrates how pooled income from growth will be used across the pilot areas to either boost further growth, promote financial sustainability or a combination of these;
 - Proposal sets out robust governance arrangements for strategic decision making around the management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements.
- 2.27** The Gloucestershire Chief Financial Officers met on several occasions and discussed the modelling of how a pilot scheme may work across Gloucestershire. Whilst the modelling supports potential financial gains of circa £7m from becoming a pilot, the Gloucestershire Chief Financial Officers needed to balance these gains against the risks such as claims from NHS Foundation Trusts for mandatory charitable relief on business rates.
- 2.28** Given that 2019/20 represents the final year of the current 4 year settlement, significant growth has been achieved across the pool since business rates retention commenced in 2013/14. Detailed modelling acknowledges the significant financial risk that the NHS appeal creates, but also acknowledges that this Council could not mitigate this risk by being outside the pool or pilot. The modelling actually acknowledges that there would be a greater financial risk to the council if it were to leave the existing pool.
- 2.29** Following the advice of the Gloucestershire Chief Financial Officers, Leadership Gloucestershire submitted a bid on 25th September 2018 with the following criteria:
- Full agreement by all 7 councils to be designated a pool for 2019/20 (in accordance with Part 9 of Schedule 7B to the Local Government Finance Act 1988). We have agreed arrangements on how to pool the additional business rates income and sign-off by each authority's Section 151 officer.
 - An agreed proposal as to how the additional growth should be split. This provides for;
 - **20%** to an already established Strategic Economic Development Fund (set up under the existing pooling arrangements)
 - **30%** to the 6 District Councils and
 - **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 2019/20 only', individual authorities will be careful not to build in longer term financial commitments.
 - We acknowledge that we forgo Revenue Support Grant and Rural Services Grant funding for the period of the pilot i.e. the financial year 2019/20.
- 2.30** The successful pilots were announced alongside the provisional Local Government Finance settlement. It is with regret that Gloucestershire was not successful in its bid to become a pilot in 2019/20 but it has been confirmed as having pool status, which will result in a reduced levy being payable. The interim budget proposals were put together on that basis.

Council Tax

- 2.31** 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 3 per cent for all local authorities, as in 2018/19. However, shire districts will be allowed increases of up to and including £5, or up to 3 per cent, whichever is higher.

- 2.32** CPI inflation was 2.4% in September 2018, which is above the Monetary Policy Committee's (MPC) 2% target. With increased pressure to deliver services with reducing government support, there is a clear mandate from central government for the reliance of council tax to fund our local services.
- 2.33** The tax base has increased by 2.16% in 2019/20 which has significantly exceeded the target of 0.8%. This increase comes from additional properties completed in the past year, effective management of the property database by the Revenues and Benefits team and changes to the council tax support scheme (0.55%).
- 2.34** 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.
- 2.35** The uncertainty surrounding the future of New Homes Bonus post 2020, which represents a significant proportion of our income, and the actual final local government settlement which is not likely to be announced until February 2019, places a greater reliance on council tax as our main source of income.
- 2.36** Therefore, at this stage the Cabinet is proposing a 2.99% increase in council tax in 2019/20; an increase of £6.07 for the year for a Band D property.

Collection Fund

- 2.37** At this point in time, it is estimated that the Council's share of the Collection Fund surplus for 2019/20 is £85,000. Collection fund surpluses arise from higher than anticipated rates of collection of the council tax collection rates and the Council's actual share will be confirmed within the final budget proposals presented to Council in February 2019.

3. The Cabinet's budget strategy

- 3.1** In the current exceptionally difficult national funding situation, the Cabinet's overriding financial strategy has been, and is, to drive down the Council's net costs via a commercial mind-set. 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.
- 3.2** The council has a significant funding gap to resolve as well as a number of financial risks to manage. Given the ambitious nature of the council and its desire to ensure Cheltenham is a place where people wish to work, visit and live the budget strategy for the medium term must reflect these aspirations and not jeopardise these core priorities whilst recognising that the net cost of the council's services must reduce over time.
- 3.3** The proposed key building blocks for the executive team structure of Place and Growth; People and Change; and Finance and Assets, together with a planned and proactive approach to the use of reserves, are the key drivers for delivering the budget strategy.
- 3.4** The budget strategy looks inwards at service transformation and modernisation, outwards at economic growth and investment, and relies heavily on collective ownership and oversight. The Council has an ambition to become more commercial in order to move towards a greater level of financial self-sufficiency. This will require a change at strategic level that will affect the whole organisation, taking into account the tight geography of the Borough, the pace of change desired and the high level of senior leadership buy-in required.
- 3.5** The key mechanism for carrying out this strategy is the commercial strategy, which seeks to bring service costs in line with available funding and seek additional forms of funding.

- 3.6** The commercial strategy was adopted by Full Council in February 2018 with the vision “to become an enterprising and commercially focused Council which people are proud to work for and which others want to work with. We will use our assets, skills and infrastructure to shape and improve public services and enable economic growth in the Borough. We shall generate significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable by financial year 2021/22”.
- 3.7** Part of our drive towards financial sustainability includes identifying new opportunities to generate income and investment in projects which provide good financial returns. Our commercial strategy aligns closely with other key strategies including place-making, economic growth, digital transformation, workforce and skills development, investment and asset management which have a combined message that Cheltenham Borough Council has entered a new era of business enterprise, growth and innovation. We will work with partners who share our ambition and values and will continue to put the best interests of Cheltenham residents at the heart of everything we do.
- 3.8** The budget strategy indicates broadly how the Council may close the projected funding gap over the period 2019/20 to 2022/23. In future years, it includes targets rather than necessarily specific worked up projections of cost savings and additional income to allow the Executive leads autonomy and flexibility. Engaging with stakeholders will be crucial when it comes to developing a sense of ownership in local decision-making and service delivery. Working with stakeholders will allow the council to fine tune services based on actual needs. Holding adequate information upon which to base the allocation of scarce resources is essential to address under-met needs.

Place and Growth

- 3.9** **Place and Growth** – refers to “place shaping” in its widest sense – being clear on the ambitions for Cheltenham, gaining alignment and commitment from others on the scale of ambition, and having clarity of purpose, intent and delivery to make sure that Cheltenham is and continues to be a “place where everyone thrives”.
- 3.10** One of the strengths of the Cheltenham economy is its diversity. With the exception of GCHQ, we are not overly dependent on one or two major employers or on the performance of a specific industrial or service sector. It is possible to influence how Cheltenham is shaped, by supporting and encouraging existing and new businesses, marketing the town’s rich cultural and dynamic offer and promote inward investment and building a strong and cohesive community. The place strategy is closely linked to the commercial strategy. Driving growth, increasing gross value added (GVA), investment into Cheltenham, encouraging businesses to thrive and improving employment opportunities; the town’s economy will grow, as should the council’s income through business rates and council tax, providing longer term financial sustainability.
- 3.11** A new senior leadership post was created - MD for Place & Growth. The savings targets were set for the Cost of Service Reduction (£157.5k) which is scheduled for delivery in 2018/19 as approved by Cabinet. However, a transformation programme was agreed to bring a new approach to service delivery – encouraging cost effective and agile working practices as well as increasing income generation. The new approach has enabled the delivery of Marketing Cheltenham (officially launched in Nov 2017), the creation of a business support team, and intern programme and delivery of an agile working project. The programme will continue to drive the savings targets whilst delivering priorities and service improvements.
- 3.12** Following the change in approach to income inflation for fees and charges within the forecast for the funding gap, a new target has been introduced under the Place & Economic Development (P&ED) Transformation programme covering a review of fees and charges and income generation opportunities. This reflects that whilst it is recognised that a flat % inflationary increase is no longer appropriate, a review of the fees and charges made by the services within P&ED should year-on-year result in an additional base budget contribution. The £50k per annum target represents less than 1% of the P&ED 2018/19 income budgets, inclusive of car parking

and excluding cemetery & crematorium which is subject to an inflationary increase. Initiatives such as the pre-application advice services, various licencing initiatives and planning performance agreements have seen a more commercial approach and a sustained growth in income.

- 3.13** Cheltenham is uniquely placed to grow. The creation of a growth zone, as promoted in the Strategic Economic Plan (SEP), is to ensure the availability of quality employment land in proximity to the M5 motorway, attractive to businesses and with excellent connectivity throughout Gloucestershire and the rest of the UK. This will serve latent demand in the marketplace and provide space required to enable businesses to grow; particularly in the town's margins and with the neighbouring district of Tewkesbury, which is also geographically well positioned to deliver growth development to the north-west of Cheltenham and along the M5 corridor.
- 3.14** A 45 hectare site in West Cheltenham has been identified to create a Cyber Business Park, closely connected to the delivery of GCHQ's Cyber Innovation Centre (CIC), seeking to create a cluster of cyber and associated businesses. Cyber security is one of the fastest growing industries in the UK as cyber-crime poses an ever greater threat to the UK economy and Critical National Infrastructure. The CIC will assist in supporting business to develop cyber security products and services. Some will enjoy GCHQ accreditation; others will be purely commercially based, though will need to meet basic security criteria. This model could see fast and sustained employment growth with high value jobs benefiting the wider region.
- 3.15** Initial estimates suggest that this site alone could generate significant additional business rates, of which under existing regulations, Cheltenham would retain 40%. There are obvious constraints such as planning, which will need to be considered alongside the Joint Core Strategy and furthermore the proposed changes to the Business Rates Retention Scheme mean that it is currently unclear how growth would firstly be retained by, and secondly shared between upper and lower tier authorities. It is also important to consider the wider impact and economic significance this cyber business park would have – attracting a wide range of international investors and business.
- 3.16** Another aspect of the Place Strategy is strengthening the town's cultural offer, and in particular a focus on the town centre. Working in collaboration with other partner organisations such as the BID, Marketing Cheltenham has raised the profile of Cheltenham as a destination and the cultural centre for the Cotswolds. The investment programme for the High Street and the improvements through the Cheltenham Transport Plan have seen increased footfall, increases in cycle visits, car parking numbers and bus usage into the town centre. With new stores and business opening in Cheltenham, Cheltenham's High Street is currently performing well. October saw John Lewis open and the more recent announcement that House of Fraser's lease has been renewed, both represent a significant vote of confidence in the town's retail and leisure offer.
- 3.17** Following a review of the council's environmental services provided by Ubico, it is evident that under investment over a period of time now needs to be addressed resulting in the requirement to increase the contract sum for 2019/20 significantly. However, in order to offset this increase, savings of £200k are necessary within the MTFs. These savings will be found by a review of the services provided by Ubico identifying operational and process efficiencies. Following a public consultation exercise, service provision such as the recycling service, household recycling centre at Swindon Road, the recycling bring banks around the borough and further reducing the cost of collection for residual waste, will be determined. Opportunities to explore ways in which income can be increased to offset the need for savings will be maximised.

People and Change

- 3.18** The **people and change** element of the budget strategy currently has two key areas of focus over the life of the savings plan:
1. Savings following the creation of The Cheltenham Trust which formed part of the original business case when the trust was created in 2014;
 2. Savings targets arising from transformation and modernisation of service delivery within the authority, which are in addition to the savings target to transform regulatory and environmental services.
- 3.19** Whilst the Place and Economic Development (P&ED) programme, which started in 2016, is progressing the current position is that only part of the authority is undergoing a programme of modernisation and change and this now needs to be urgently addressed.
- 3.20** Modernisation will bring cash savings, as set out in the MTFs, but also deliver non-cash savings, which will allow resources to be freed up to support existing, emerging and future corporate priorities.
- 3.21** Ahead of the modernisation programme, Publica Group has been asked to expedite some quick win savings, including the re-negotiation of the Council's mobile phone contract and from other telephony improvements.
- 3.22** Following the review of the Executive Leadership Team, the next stage of the organisational design will be the development of a business case and framework to enable a review of the existing organisational structure. This will set out the approach and resources needed in assisting the Council in determining its future operating model. The outcome of this work will help ensure the Council is then best placed to meet the future opportunities and challenges ahead.
- 3.23** The vision for the services that has emerged through the P&ED transformation programme is services that are financially sustainable, have a commercial mind-set, foster creativity and innovation, with a strong customer and community ethos, and which are flexible and drive out as much as efficiency as possible.
- 3.24** The objectives of the services are to be:
- **Customer focussed** - with services delivered in a way that is convenient for the customer and in a way that meets their changing needs through maximising advancements in technology;
 - **Supportive to economic growth** - through freeing up resources to focus on corporate priorities and improved data to enable more informed decision making;
 - **Efficient** - with joint up services provided at minimal cost and underpinned by clear data;
 - **An organisation** - that is placed to best support the Council in achieving its aims and objectives and to meet the opportunities and challenges ahead;
 - **Investing in our people** - invest in our people to create culture that consistently supports and encourages:
 - Commercial thinking
 - Innovation
 - Continuous improvement through new ways of working.

Finance and Assets

- 3.25 Finance and assets** – we recognises the continuing need for sound strategic financial planning in the context of uncertainty in the national local government finance landscape, and in a context where more of the authority’s ongoing financial revenue will come from business rates or commercial opportunities with a potentially higher risk profile. The acquisition of 4 new commercial investment properties (Ellenborough House, Sainsbury’s, Café Nero and 53-57 Rodney Road) has already resulted in us over-achieving our new revenue income target.
- 3.26** The relationship between how we develop, grow and utilise our assets such as the Municipal Offices, Swindon Road depot and our cultural assets needs to be influenced by our ambition for Place, how we use our assets strategically and in the long term to achieve the outcomes we want to see for the town and also the wider county of Gloucestershire. Our Public Realm investment across the Town has enabled us to attract major new businesses which have a positive effect on both business rates income and the vibrancy across the Town.
- 3.27** Active asset management of the authority’s asset portfolio and maximising the return from the authority’s own assets to help deliver a sustainable financial plan will be increasingly important and is a complex area. Decisions around the extent as to the commercial investment opportunities will heavily rely upon careful and sound strategic financial advice and support.
- 3.28** The property services team are working on an energy plan to make significant efficiencies in the way we manage our buildings. In addition, they have been tasked with ensuring our land and property asset portfolio is fit for purpose, secures increased income generation, maximises capital receipts (where appropriate) and stimulates growth and investment in the Borough.
- 3.29** As stated earlier, the principles of the latest settlement allow authorities to spend locally what is raised locally. In order to do this it needs to grow its taxbase through growth, regeneration and reasonable tax increases. It also needs to ensure the taxbase is maximised through effective management and by using measures available, including counter fraud, reducing the number of empty premises and working effectively within the parameters of the planning process with regards to land supply.

Summary

- 3.30** Taking the above into account, the MTFS indicates broadly how the Council will close the projected funding gap over the period 2019/20 to 2022/23 with the stated aim to become financially sustainable. It includes efficiency targets and additional income rather than specifically worked up projections of cost savings and is based on the building blocks of place and growth; people and change; and finance and assets. The detailed schedule of target savings is provided within the MTFS extract at Appendix 3.
- 3.31** The starting point for constructing the 2019/20 budget has been a projected MTFS funding gap of £2.019m.
- 3.32** Closing a gap of this size is a huge challenge for the Council, but the challenge is being met by a proactive approach to identifying budget efficiencies, carried out by the Cabinet and the Executive Leadership Team. This work has already made significant progress towards bridging the gap, having identified efficiency savings and additional income of £1.621m.
- 3.33** It is the Cabinet’s intention to meet the shortfall in funding in 2019/20 from the budget strategy (support) earmarked reserve in order to deliver a balanced budget. This will give the Council more time to deliver its long-term strategy for delivering the substantial efficiencies required to become financially sustainable by financial year 2021/22.
- 3.34** In preparing the interim budget proposals, the Cabinet and officers have considered the following:
- 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 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 2019/20.
- Budgeted for an increase in Members allowances of 2% for 2019/20.
- Budgeted for superannuation increases in accordance with the triennial review 2016 for the financial year 2019/20.
- Increased income budgets for the Cemetery and Crematorium, assuming an average increase in fees and charges of 2%.
- Increased garden waste charges by £3 whilst retaining the prompt payment discount at £3 per bin for households renewing their subscription ahead of their annual renewal date.
- All other fees and charges, including car parking charges, are subject to annual review by the Regulatory and Environmental Services management team. A target of £50k per annum has been established as part of the budget strategy approved to deliver a balanced budget.
- Assessed the impact of prevailing interest rates on the investment portfolio, the implications of which have been considered by the Treasury Management Panel.

4. Treasury Management

- 4.1** Appendix 2 summarises the budget estimates for interest and investment income activity. Security of capital remains the Council's main investment objective.
- 4.2** 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 has been achieved through alternative investment sources such as investment in property assets and multi-asset funds which include exposure to the bond and equity markets.

5. Reserves

- 5.1** Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to comment upon "the robustness of the estimates and the adequacy of the reserves for which the budget provides". This review forms part of the formal budget setting report to be presented to Council in February 2019. A projection of the level of reserves to be held at 31st March 2019 and 31st March 2020 respectively is detailed in Appendix 5.
- 5.2** 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.

6. Capital Programme

- 6.1** The interim capital programme for the period 2018/19 to 2020/21 is set out at Appendix 6.
- 6.2** 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.

- 6.3 In addition the capital programme sets aside an allocation for enhancing our property portfolio with the aims of delivering economic growth and regeneration.

7. Property Maintenance Programme

- 7.1 The interim budget proposals include the 2019/20 property maintenance programme, which has been reviewed by the Asset Management Working Group, and the budget includes a revenue contribution of £470k to planned maintenance and £130k to reactive repairs, as detailed in Appendix 7.

8. Reasons for recommendations

- 8.1 As outlined in the report.

9. Alternative options considered

- 9.1 The Cabinet has considered many alternatives in arriving at the interim budget proposals. Opposition groups will be able to suggest alternative budget proposals for consideration by Council in February 2019.

10. Consultation and feedback

- 10.1 The formal budget consultation on the detailed interim budget proposals will be over the period **19th December 2018 to 25th January 2019**. The Cabinet will seek to ensure that the opportunity to have input into the budget consultation process is publicised to the widest possible audience. During the consultation period, interested parties including businesses, tenants, residents, staff and trade unions will be encouraged to comment on the initial budget proposals. They will be 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. The Overview and Scrutiny Committee will be invited to review the interim budget proposals in the meetings scheduled for January 2019 and any comments will be fed back to the Cabinet.
- 10.2 Whilst the Cabinet will be as flexible as possible, it is unlikely that any comments received after the consultation period can be properly assessed to allow consideration of their full implications and to enable them to be built into the budget.
- 10.3 All comments relating to the initial budget proposals should be returned to the Executive Director Finance and Assets (Section 151 Officer) by the end of the consultation period for consideration by the Cabinet in preparing their final budget proposals. Consultation questionnaires will be available in key locations and for completion on line via the council's website. Comments can be e-mailed to moneymatters@cheltenham.gov.uk.
- 10.4 It is important that any political group wishing to make alternative budget proposals should discuss them, in confidence, with the Executive Director Finance and Assets (preferably channelled through one Group representative) to ensure that the purpose, output and source of funding of any proposed change is captured.
- 10.5 Given the financial pressures and the potentially very difficult decisions which will have to be made, it is 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.

11. Performance management – monitoring and review

11.1 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 the delivery of services to the 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. It is intended that this will be evidenced further in the publication of the MTFS in February 2019.

11.2 The delivery of the savings workstreams included in the interim budget proposals, if approved by full Council will be monitored by the Budget Scutiny Working Group.

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Appendices	<ol style="list-style-type: none"> 1. Risk Assessment 2. Summary net budget requirement 3. MTFS and Commercial Strategy 4. Growth 5. Projection of reserves 6. Capital programme 7. Programmed Maintenance programme
Background information	<ol style="list-style-type: none"> 1. Budget Strategy and Process 2019/20 report to Cabinet 6th November 2018.

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	ED Finance and Assets	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	ED Finance and Assets	01/04/2016	4	3	12	Reduce	The MTFS is clear about the need to enhance reserves and identifies a required reserves strategy for managing this issue. In preparing the budget for 2019/20 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	ED Finance and Assets	
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	ED Finance and Assets	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	Ongoing	ED Finance and Assets	

	the constrained ability to grow the business rates in the town then the MTFS budget gap may increase.							the Council. The Gloucestershire S151 Officers continue to monitor business rates income projections and the performance and membership of the pool / pilot. 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.	ED Finance and Assets	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	ED Finance and Assets	
1.07	If the assumptions around government support, business rates income, impact of changes to council tax discounts prove to be	ED Finance and Assets	13/12/10	5	3	15	Reduce	Work with Publica and county wide CFO's to monitor changes to local government financing regime including responding	Ongoing	ED Finance and Assets	

	incorrect, then there is likely to be increased volatility around future funding streams.							to government consultation on changes Business Rates and the Fair Funding review. The assumptions regarding government support have been mitigated to a certain extent by the acceptance of a multi-year settlement agreement.			
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