

Cheltenham Borough Council

Cabinet – 14 October 2014

Budget strategy and process 2015/16

Accountable member	Cabinet Member for Finance, Councillor John Rawson
Accountable officer	Director of Resources (Section 151 Officer), Mark Sheldon
Accountable scrutiny committee	Budget Scrutiny working group
Ward(s) affected	All
Key Decision	Yes
Executive summary	The purpose of this report is to propose a broad strategy and outline a process for setting the budget, housing rents and council tax for 2015/16. It outlines a number of principles that need to be established at this stage to enable budget preparation to commence.
1. Recommendations	That Cabinet: 1. Approves the budget setting timetable at Appendix 2. 2. Notes the expected cut in government funding of £835k for 2015/16, the estimated funding gap of £902k and the large amount of work done so far to bridge this gap. 3. Approves the budget strategy outlined in section 5 and appendix 3. 4. Approves the increases in garden waste charges as at paragraph 5.15. 5. Requests the Section 151 Officer and the Cabinet Member for Finance to consider suggestions from the Budget Scrutiny Working Group in preparing the interim budget proposals for 2015/16 as outlined in section 5.
Financial implications	This report sets out the budgetary process for 2015/16 and the general financial parameters under which the budget will be prepared. Contact officer: Mark Sheldon, mark.sheldon@cheltenham.gov.uk, 01242 264123

Legal implications	<p>The budget process is governed by the Budget and Policy Framework Procedure Rules (contained in the Council Constitution) and the process recommended in this report is designed to meet and exceed the requirements of those Rules.</p> <p>Contact officer: Peter Lewis, peter.lewis@teWKesbury .gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>None at this stage, other than the need to ensure proper consultation with staff and trade unions in relation to the budget.</p> <p>Contact officer: Julie McCarthy, julie.mccarthy@teWKesbury.gov.uk, 01242 264355</p>
Key risks	<p>The Council, as part of its work on corporate governance, has a corporate risk management strategy and corporate risk register, which highlights key risks to the organisation in achieving business objectives. The high level risks will need to be addressed as part of the budget process and may require additional resources or the re-direction of existing resources to mitigate unacceptable levels of risk. These risks are regularly reviewed by the Corporate Governance Group and Cabinet and the Overview and Scrutiny Committee have the option to scrutinise any aspect of the risk register.</p> <p>See risk assessment at Appendix 1.</p>
Corporate and community plan Implications	<p>The annual budget aims to deliver the outcomes defined by the Council's corporate business plan and resourcing should be aligned to the delivery of corporate plan priorities.</p>
Environmental and climate change implications	<p>None arising from this report</p>

1. Background

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

2. Budget / business planning timetable

- 2.1 The budget and policy framework requires that the Council publish a timetable setting out the key dates in the budget setting process. A draft budget timetable, attached for approval at Appendix 2, sets out the sequence of events leading up to the setting of the budget and council tax level for 2015/16.
- 2.2 The timetable allows sufficient time to consider alternative budget proposals or amendments put forward to the budget proposed by the Cabinet.

- 2.3 The following fundamental principles, established in previous budget rounds, are incorporated into the process of determination of the budget for 2015/16.
- Cabinet make timely decisions in order to assist the officers in presenting the budget proposals to Cabinet and Council in accordance with the timetable.
 - Opposition parties work up alternative budget proposals, validated by GO Shared Services, in time for the initial budget meeting in February 2015.
 - Members aim to set Cheltenham Borough Council's budget and council tax at the initial Council meeting.

3. The national funding scenario

- 3.1 Since 2009/10 the Council's core funding from the Government has been cut by some £4.2 million, from £8.8 million to £4.6 million.
- 3.2 On 5th February 2014, the Local Government Minister announced the final local government settlement for 2014/15 and the illustrative settlement for 2015/16.
- 3.3 The proposed levels of central government funding for this Council are set out in the table below. Overall 'core' central government funding (referred to as the settlement funding Assessment) was reduced by 12.3% in 2014/15 and a further 15.3% cut is proposed in 2015/16.

	2013/14 £m	2014/15 £m	2015/16 £m
Revenue Support Grant	3.731	2.921	2.015
Baseline Funding (Cheltenham's target level of retained Business Rates)	2.482	2.530	2.601
Settlement Funding Assessment	6.213	5.451	4.616
Actual cash (decrease) over previous year		(0.762)	(0.835)
% cash cut		(12.3%)	(15.3%)

- 3.4 New mechanisms have been introduced to redirect central government funding, principally New Homes Bonus and the Retained Business Rates scheme. These changes have forced local authorities to engage much more with what is happening on the ground in their areas (e.g. with the quantity of new housing development and the number of empty homes) and how this might impact on their funding. The way the funding mechanisms have been introduced also place much greater discretion in the hands of the local authority treasurer, and with that comes the ability to be much more tactical in how the system is operated - especially in making provisions for potential rate retention losses. Getting this wrong can result in big irrecoverable losses; getting it right can lead to an authority gaining significantly. And with these increasingly complex funding schemes, with funding streams from different places, comes a greater chance of getting it wrong.
- 3.5 Looking beyond the general election, some government policies are likely to change significantly and probably very quickly, but the downward pressure on local government funding is almost certain to continue. Accordingly, a further reduction in funding of 7-8% per annum has been built into our financial model for the years 2016/17 to 2018/19.
- 3.6 On a more positive note, the 2014/15 council tax freeze grant has been rolled up into the base

RSG and will therefore continue into the future.

4. 2015/16 and MTFS funding gap

- 4.1** Included in the budget presented to Council in February 2014 was an estimate of the Medium Term Financial Strategy (MTFS) which identified a funding gap of £1.351m for 2015/16 between what the Council will need to spend to maintain services and what it can spend assuming an illustrative council tax increase of 2%. The MTFS also identified a funding gap over the period of the MTFS (2015/16 – 2017/18) of £2.9m.
- 4.2** The MTFS projections have been updated, at Appendix 3, to reflect the best estimates of the financial pressures impacting on the Council, including an updated view on business rates income and the potential funding cuts after the general election. The updated estimate of the funding gap for 2015/16 is now £902k and the estimated MTFS gap over the period 2015/16 – 2018/19 is £3.388m.

5. Cabinet Budget Strategy

- 5.1** In the current exceptionally difficult national funding situation, the Cabinet's overriding financial strategy has been, and is, to drive down the Council's costs. Our aim is to hold down council tax as far as possible, now and in the longer term, while also protecting frontline services from cuts – an immensely challenging task in the present climate.
- 5.2** The key mechanism for carrying out this strategy is the Bridging the Gap (BtG) programme, which seeks to bring service costs in line with available funding. To date, this programme has been very successful in managing funding gaps, with over £7.5m generated annually from BtG work streams including service reviews, shared services, increased income generation and assets management initiatives. This achievement has made it possible to adopt a more strategic approach to identifying savings rather than relying on 'salami slicing' of budgets.
- 5.3** The BtG programme has also developed the 'Bridging the Gap Strategy' which indicates broadly how the Council may close the projected funding gap over the period of the MTFS. It includes savings targets rather than necessarily specific worked up projections of cost savings and includes the accommodation strategy (based on the high level option appraisal work); sharing ICT; asset rationalisation; future waste initiatives and savings targets for commissioning reviews.
- 5.4** The Cabinet believes this longer term approach to finding efficiencies, with increasing emphasis on shared services and the development of new models of service delivery through commissioning, is essential if we are to find the very substantial savings that are needed without having a damaging impact on services.
- 5.5** The starting point for constructing the 2015/16 budget has been a MTFS funding gap of £902k. A further year's freeze on parking charges would increase this by around £100k.
- 5.6** Bridging a gap of this size is a huge challenge for the Council, but the challenge is being met by an energetic and proactive approach to identifying budget savings, carried out as part of the BtG programme. This work has already made significant progress towards bridging the gap, having identified at this early stage potential savings of £602k, leaving £300k to find, assuming a 2% council tax increase.
- 5.7** The £602k of target savings are listed in Appendix 3. They include further savings from organisational change; savings resulting from the establishment of the Cheltenham Trust to manage leisure and culture services; and savings resulting in the expansion of Ubico to cover three district councils instead of two.
- 5.8** One of the major issues which the Cabinet and Council will need to consider in formulating the

2015/16 budget is what use it makes of New Homes Bonus money to support the budget. The growth of income from the New Homes Bonus, and the fact that it is being top-sliced from the RSG, mean that the Council has little alternative but to regard this money as an important part of its income stream. As New Homes Bonus income is projected to increase to £1.49m in 2015/16, one way of bridging the residual gap would be to take an additional £300k into the revenue budget. This would still leave substantial headroom between anticipated New Homes Bonus income and the amount (£700,000) currently being used to support the revenue budget.

- 5.9** Clearly work remains to be done towards building a robust base budget for 2015/16 and this may result in the funding gap increasing. In addition, the Government's final financial settlement may be worse – perhaps substantially worse – than currently indicated. It is therefore important that the work of identifying budget savings should continue up to the publication of the draft budget proposals and beyond.

2020 vision

- 5.10** Looking further into the future and bearing in mind the need to close the budget gap over the whole period of the MTFs, the 2020 vision for joint working with our GO partner councils is one potential means of delivering further savings.
- 5.11** The major efficiency savings from this programme would be gained by amalgamating services, achieving reductions in management and operational costs whilst retaining local democracy. Current estimates suggest that the programme could deliver £130k of efficiency savings in 2016-17, an additional £175k in 2017-18 and a further £460k in 2018-19, thus making a huge contribution to closing the medium term funding gap.

Council tax

- 5.12** For the past four years the Council has frozen its council tax precept at £187.12 a year for a Band D taxpayer. In proposing this course of action, the Cabinet has borne in mind the difficult economic and financial climate that many of our residents face. However, during the period of the freeze our own financial position as a Council has deteriorated sharply. Our core Government funding has been cut drastically, with further large cuts to come. In addition inflation has continued to affect many areas of the Council's costs.
- 5.13** Currently the Government is offering councils roughly half the cost of freezing council tax in 2015/16, in comparison with increasing council tax by 2%. Consequently the Cabinet and the Council will need to consider whether a further freeze is sustainable, or whether it will act against the interests of local residents by creating an increased risk of service cuts and/or larger tax increases in future years.
- 5.14** Government legislation, through the Localism Act, requires councils proposing excessive rises in council tax (over 2% in 2015/16) to hold a local referendum allowing the public to veto the rise. The Cabinet is not disposed to regard a tax increase of more than 2% as feasible, since any benefits to the Council's finances would have to be set against the very considerable cost of the referendum. Equally the Cabinet continues to recognise the financial pressures on many residents and its own responsibility to keep the tax level within reasonable bounds regardless of Government requirements.

Garden waste charges

- 5.15** While the Council's budget will provide for a general review of fees and charges broadly in line with inflation, proposals for reviewing garden waste charge need to be implemented at an earlier stage, as the renewals process for 2015/16 starts before the end of the current financial year. The number of residents is gradually increasing, with circa 14,400 signed up for 2014/15, suggesting

that the scheme is well liked by a growing number of householders. In line with our general policy of uprating fees and charges on an annual basis, the Cabinet is proposing to increase the charge by £1 to £38 per bin with effect from December 2014. However, we will still apply an 'early bird' discount of £2, making the effective charge £36 for prompt renewals.

Service growth

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

6. Budget Scrutiny Working Group

- 6.1** The cross party Budget Scrutiny Working Group will continue to support the budget process by:
- 6.2**
- Considering options for bridging the funding gap i.e. proposals for charging or reduction in expenditure
 - Reviewing the work programme for commissioning and options being considered
 - Developing members' scrutiny skills and understanding of financial matters
 - Developing the approach to budget consultation
- 6.3** This strategy report has already been considered by this Group and both the Cabinet Member for Finance and the Section 151 Officer are keen that this Group should play a significant part in developing and supporting the budget process.

7. Budget Setting Process 2015/16 – key stages

- 7.1** In approaching the budget setting process for 2015/16, the Cabinet will endeavour to adhere to some well-established principles designed to deliver budget proposals in a timely manner following proper process, including:
- Early and clear direction input from Cabinet and Senior Leadership Team
 - Ensuring that Financial Services (GOSS) maintain a strong role in moderating the process
 - Director of Resources (Section 151 Officer) to lead and advise on strategic budget issues
 - Agree Cheltenham Borough Homes (CBH) management fee and Housing Revenue Account (HRA) budget as early as possible
 - Maintaining good communications between Chief Executive, Senior Leadership Team, Council Leader, Cabinet Member for Finance and Director of Corporate Resources (Section 151 Officer) over budget progress / issues.
 - Ensuring consultation with the recognised Trade Unions and that employees are aware.
 - Ensuring clarity of savings achieved from procurement.
 - Aligning the Senior Leadership Team behind a collective approach to resolving budget gap issue.
 - Including the Overview and Scrutiny Committee and the Budget Scrutiny Working Group in the budget process

- 7.2 The proposed key stages in the process for setting the budget for 2015/16 are summarised in the timetable at Appendix 2 and are detailed below. The timing of events may change as the process develops.

Publication of budget timetable

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

Budget preparation

- 7.4 Between October and November 2014, the Cabinet Member for Finance and officers will work with the Cabinet towards the creation of 'interim budget' proposals which will make the following assumptions:

- The projection will be for a standstill budget, prepared under a general philosophy of no growth in levels of service. Inflation for contractual and health and safety purposes will only be allowed where proven at the appropriate inflation rate.
- There has been a Local Government pay freeze for three consecutive years (2010/11, 2011/12 and 2012/13) with staff pay inflation of 1% allowed for in 2014/15 in line with the capping level proposed in the spending review. Given the period of pay restraint, funding for 2% award has been allowed for in 2015/16.
- The current MTFs assumes inflation on fees and charges at an average rate of 2% annually over the 5 year period. This increase will be assumed in the preparation of the standstill budget and any deviation from this will form part of the interim budget proposals. At this stage the Cabinet is minded to continue to freeze car parking charges.
- The impact of prevailing interest rates on the investment portfolio will be assessed in preparing the budget. The Treasury Management Panel will consider the position in respect of treasury management activity during the budget setting cycle.
- An assessment of the charges to be made to Cheltenham Borough Homes and the Housing Revenue Account will be incorporated in the budget proposals, including assessing the impact on the General Fund of the changes to the housing subsidy system.
- A council tax increase of 2% has been used for modelling purposes.
- Proposals for service growth will be included, though only for invest to save schemes.
- An updated assessment of the MTFs will be included, incorporating the financial assessment of the Business Plan tasks and any updated estimates for future funding pressures and sources of income.
- The net cost of service assumes a staff vacancy rate of 3% of gross pay budget. Historically, this target (£450k) has been held centrally with in-year budget virements taking place during the course of the year. In order to aid transparency and to give budget holders targets at individual service level it is proposed that this target is allocated across the business. This gives managers clear cash targets within which they have to manage. It is important to recognise that budget holders will not be penalised for failing to meet this target if they benefit from having a full establishment in any given financial year.

Publication of initial budget proposals

- 7.5 The Cabinet will present its initial budget proposals and publish them for consultation in line with the advertised plan. The initial budget proposals will include all general fund revenue, capital and

housing revenue account estimates to meet a balanced budget, together with assumptions made on future council tax and rent levels.

Budget Consultation

- 7.6** As a result of the very extensive budget consultation exercise carried out in 2010, a residents' focus group was formed which has met annually since to consider budget proposals. It is the Cabinet's intention to repeat this again this year. In addition to the formal budget consultation, some targeted consultation around specific issues, particularly those arising from commissioning, may be undertaken and to inform decisions in respect of the use of capital from the sale of North Place and Portland street car parks.
- 7.7** The formal budget consultation period will be no less than four weeks and will take place during December 2014 to January 2015. The Cabinet will seek to ensure that the opportunity to have input into the budget consultation process is publicised to the widest possible audience. During the consultation period all interested parties will be welcome to provide feedback on the initial budget proposals. Groups, businesses, tenants, residents, staff and trade unions will be encouraged to comment on the initial budget proposals at this time. They will be asked to identify, as far as possible, how alternative proposals complement the Council's business plan and community plan, how they will be financed, and how they will help the Council to achieve best value. Presentations will be made to key business groups as part of the consultation process.
- 7.8** The Budget Scrutiny Working Group and Overview and Scrutiny Committee will be invited to review the interim budget proposals in the meetings scheduled for January 2015 and feed any comments back to the Cabinet.
- 7.9** Whilst the Cabinet will be as flexible as possible, it is unlikely that any comments received after the consultation period can be properly assessed to consider their full implications and to be built into the budget. Accordingly, if alternative budget proposals are to come forward, this should happen as early as possible.
- 7.10** All comments relating to the initial budget proposals should be returned to the Section 151 Officer by the end of the consultation period for consideration by the Cabinet in preparing their final budget proposals. Consultation questionnaires will be available in key locations and for completion on line via the Council's website. Comments can be e-mailed to moneymatters@cheltenham.gov.uk.

Assessment of alternative Budget Proposals

- 7.11** It is important that any political group wishing to make alternative budget proposals should discuss them, in confidence, with the Section 151 Officer and / or the appropriate Executive Director / Director / Chief Executive (preferably channelled through one Group representative) to ensure that the purpose, output and source of funding of any proposed change.
- 7.12** Given the financial pressures and the potentially very difficult decisions which will have to be made, it is very important that there is time for members to carefully consider and evaluate any alternative budget proposals. Political groups wishing to put forward alternative proposals are not obliged to circulate them in advance of the budget-setting meeting, but in the interests of sound and lawful decision-making, it would be more effective to do so, particularly given that they may have implications for staff.

Final Budget Proposals and Council Approval

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

2015.

8. Housing Revenue Account

- 8.1** Draft proposals for the Housing Revenue Account will also form part of the same process for considering the General Fund revenue and capital budgets.
- 8.2** The financial projections contained in the HRA Business Plan are currently being updated to reflect revised estimates for:
- Need to spend on stock investment and maintenance,
 - Stock numbers,
 - Rent and service charge income.
- 8.3** The revised projections will be available to inform decisions on the level of management and maintenance and capital investment in 2015/16 (to include fees payable to Cheltenham Borough Homes and administrative charges from Council Divisions).
- 8.4** The HRA financial strategy adopted by the Council in recent years has been to seek ongoing efficiency savings in management and maintenance, to retain a contingency balance of approximately £1 million on the account and use any surplus resources to fund capital investment in the stock.
- 8.5** Future investment will focus on retaining the decency standard and further neighbourhood works including the potential to build new social housing using the funding 'headroom' following the abolition of the housing subsidy system.

9. Reasons for recommendations

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

10. Alternative options considered

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

11. Consultation and feedback

- 11.1** The consultation process is described fully above. In view of the size of the challenge the Council faces in setting the 2015/16 budget, consultation has already commenced with trade unions.

12. Performance management – monitoring and review

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

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Appendices	<ol style="list-style-type: none">1. Risk Assessment2. Budget timetable3. Funding gap projection
Background information	<ol style="list-style-type: none">1. RSG projections 2015/16 – 2018/192. MTFS 2015/16 to 2018/19

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
CR3	If the Council is unable to come up with long term solutions which bridge the gap in the medium term financial strategy then it will find it increasingly difficult to prepare budgets year on year without making unplanned cuts in service provision	Director of Corporate Resources Mark Sheldon	1/9/2010	4	4	16	Reduce	The budget strategy projection includes 'targets' for work streams to help close the funding gap. SLT are working with Cabinet on further work streams to close the residual projected funding gap for 2015/16 and over the period of the MTFS.	On-going	Mark Sheldon	1/9/2010
	If funding streams including New Homes Bonus and Revenue Support grant do not meet expectations or are reduced further then the budget gap may increase above current projections.	Director of Corporate Resources Mark Sheldon	28/9/12	3	4	12	Reduce	Section 151 Officer to update Cabinet with latest information during the budget process. Section 151 Officer to take prudent view of income levels used in budget projections.	On-going	Mark Sheldon	

	If income streams resulting from the introduction of the business rates retention scheme in April 2013 are impacted by the loss of major business and the constrained ability to grow the business rates in the town then the MTFS budget gap may increase.	Director of Corporate Resources Mark Sheldon	14/09/2012	3	4	12	Accept & Monitor	<p>The council joined Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by the council.</p> <p>Monitoring of the position to August 2014, indications suggest that the pool has been effective in retaining business rates in Gloucestershire.</p> <p>Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.</p>	<p>On-going</p> <p>On-going</p>	<p>Jayne Gilpin</p> <p>Mike Redman</p>	
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