

**Cheltenham Borough Council**

**Cabinet - 9 February 2010**

**Council - 12 February 2010**

**General Fund Revenue and Capital - Revised Budget  
2009/10 and Final Budget Proposals for 2010/11**

**Joint report of the Cabinet Member for Community  
Development and Finance and the Chief Finance Officer**

**1. Executive Summary and recommendation**

**1.1 This report summarises the revised budget for 2009/10 and the Cabinet's final budget proposals for 2010/11.**

**1.2 Cabinet is recommended to:**

**1.2.1 Note the revised budget for 2009/10 including the proposal to use any of the predicted under spend in 2009/10 to replenish the General Reserve.**

**1.2.2 Agree the schedule of fees and charges at Appendix H.**

**1.3 Agree the following for recommendation to Council.**

**1.3.1 Approve the final budget proposals, detailed in this report and supporting appendices, including a proposed council tax for the services provided by Cheltenham Borough Council of £187.12 for the year 2010/11 (a 2.5% increase based on a Band D property of £4.57 per year or 9p per week).**

**1.3.2 Approve the proposed capital programme at Appendix I and reverse the decision to earmark £300,000 to support the Pittville Park restoration scheme which was originally allocated subject to achieving HLF funding at full Council on 17<sup>th</sup> March 2008 and release the funds back into the Capital Reserve, as outlined in paragraph 13.4 – 13.5.**

**1.3.3 Approve the proposed Property Maintenance programme at Appendix J.**

**1.3.4 Note the updated Medium Term Financial Strategy at Appendix K including the impact of the 'Bridging the Gap' programme on the forecast budget gap.**

**1.3.5 Approve a level of supplementary estimate of £100,000 for 2010/11 as outlined in Section 22.**

**1.3.6 Note that given the financial outlook, the process for scrutiny of the budget is**

to be reviewed in order to determine a more effective approach.

In respect of the Everyman Theatre (paragraphs 13.8 – 13.15)

- 1.3.7 Approve in principle the request for one off capital grant to the Everyman theatre of £250,000 funded from the Capital Reserve in 2011/12 subject to a £30,000 reduction in annual grant over a 6 year period and the granting of a new lease plus a £1m loan with interest.
- 1.3.8 Delegate to the Chief Finance Officer, in consultation with the Cabinet Member for Community Development and Finance, the authorisation of the loan subject to ensuring that the theatre can demonstrate a robust business case for repaying the loan.
- 1.3.9 Subject to the approval of the above, agree not to recover the under paid rent under the terms of the existing lease, over the past 6 years, totalling £120,000 (See paragraph 13.13).

#### 1.4 Summary of implications

1.4.1 Financial As contained in the report and appendices.

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## **1.4.2 Legal**

The budget setting process must follow the Council's Budget and Policy Framework Rules.

With regard to the Everyman Theatre, detailed consideration has been given to whether the package of support is capable of constituting State Aid and thereby incompatible with the internal market under the Treaty on the Functioning of the European Union in particular whether the transactions and assistance proposed distort competition or have an effect on trade between Member States. Having considered carefully the Treaty requirements and sought advice from the Department of Business, Innovation and Skills, Members are advised that there are sound grounds for regarding the aid and support by the Council to the activities of the Everyman Theatre as not affecting inter State trade and unlikely to distort competition and, therefore, do not constitute State Aid.

In relation to Glitnir Bank, if the current mediation process being undertaken on behalf of the affected councils is not successful then it may be necessary for the Council to join in a group legal action for recovery of the monies owing to it.

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### 1.4.3 Human Resources

In the spirit of building on our positive industrial relations environment, the recognised trade unions were briefed on the budget proposals at a meeting on 9<sup>th</sup> December 2009.

The final budget proposals detail the savings generated from a number of restructures that have already taken place this year. Further potential savings are predicted to be achieved following restructures within the Wellbeing and Culture Division. The exact HR implications arising from the proposed restructures are yet to be determined. Dialogue with the recognised trade unions will continue in order to ensure that the potential impact on employees are kept to a minimum and in doing so help to avoid the need for any compulsory redundancies.

On going, it is important that capacity is carefully monitored and managed in respect of any reduced income streams.

The budget proposals include the following implications for staff:

- 2 = retirement
- 11.4 = deletion of vacant posts
- 2 = compulsory redundancies
- 3.5 = creation of shared services/shared roles

Total = 18.9 FTE

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### 1.4.4 Equal opportunities, social justice and anti-poverty

None as a direct result of this report.

### 1.4.5 Environmental

The budget contains a number of proposals for improving the local environment, as set out in this report.

## 1.5 Links to Business Plan and Corporate Objectives

**1.5.1** The aim of the interim budget proposals is to direct resources towards the key priorities identified in the Council's Corporate Business Plan.

## 1.6 Statement on Risk

**1.6.1** 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 have been

reviewed in preparing the interim budget and will be reviewed by the Corporate Governance Group and audit committee.

- 1.6.2** A risk assessment of the final budget proposals is contained in Appendix L.

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## **2. Introduction**

- 2.1** In accordance with the Council's Budget and Policy Framework Rules, which forms part of the Council's constitution, the Cabinet is required to prepare interim budget proposals for the financial year ahead and consult on the proposals for a period of not less than four weeks before making firm proposals to Council in February 2010. This report sets out the final budget proposals for 2010/11.

## **3. Background**

- 3.1** Following consultation on the interim budget proposals, the Cabinet is required to draw up its firm budget proposals, having regard to the responses it has received during the consultation period. This report reflects the Cabinet's response to such comments.
- 3.2** For 2010/11, the Government expects the average council tax increase to be substantially below 5%.

## **4. Budget Consultation**

- 4.1** The consultation period took place between 16<sup>th</sup> December 2009 and 26<sup>th</sup> January 2010. Consultation with the trade unions commenced in the late summer and consultation with the employees affected is ongoing.
- 4.2** During the consultation period, interested parties were invited to provide feedback on the initial budget proposals including groups, businesses, tenants, residents, staff, trade unions and overview and scrutiny committees. Presentations were made to key business groups as part of the consultation process.
- 4.3** A summary of the budget consultation responses and the Cabinet's responses, in arriving at the final budget proposals, are contained in Appendix M.

## **5. 2009/10 Revised Budget**

- 5.1** Budgets for 2009/10 have been revised to reflect savings in employee cost budgets as a result of savings due to staff turnover, the pay award for 2009/10 which was below the level budgeted and the additional cost of single status on the base budget, vacant posts, reduced income and operational savings.
- 5.2** The Cabinet propose to recommend to Council in June 2010 that the projected underspend for 2009/10 is used to re-imburse the General Reserve which has been used to fund the 'one off' staffing costs associated with the 2010/11 budget proposals. The revised budget reflects this proposal.

## 6. 2010/11 Finance Settlement / Planning Delivery Grant / Concessionary fares grant / Local Authority Business Growth Incentive (LABGI) / Flood grant

- 6.1 The Government's comprehensive spending review (CSR07) in 2007 determined the level of funding for the whole of the public sector for the period 2008/09, 2009/10 and 2010/11. The following table summarises the final figures for the level of Government support to the Council notified on 20<sup>th</sup> January 2010, in line with the CSR07 figures.

	2009/10 £m	2010/11 £m
Revenue Support Grant	1.646m	1.118m
Cheltenham's share of Redistributed Business Rates	7.129m	7.701m
Formula Grant	8.775m	8.819m
Actual cash increase over previous year	0.043m	0.044m

- 6.2 The level of government support, based upon a 'like for like' comparison will increase by £43,875 or 0.5% in 2010/11 (a 2% increase over the CSR07 3 year period 2008/09 – 2010/11). The increases in Government support do not keep pace with pay and price inflation (e.g. fuel and utilities), pension fund pressures or provide full recognition of the costs imposed by new legislation which has added in excess of £1m to the 2010/11 budget therefore, this represents a real terms decrease in funding.
- 6.3 Housing and Planning Delivery Grant (HPDG): The Council's planning functions are facing exceptional pressures as a result of changes to the national and local planning framework, demands for greater transparency, public involvement, cross-boundary working and significant proposed growth at north-west and south Cheltenham. In recognition of these increased demands, the government introduced a performance-related incentive scheme known as Housing and Planning Delivery Grant (HPDG). The Council's most recent allocation of HPDG is £485,000 and it is recommended that this should continue to be used to support planning services which generate the performance giving rise to the grant allocations. Expenditure commitments on projects and staff have been reduced, but are still significant (five employees are currently supported via HPDG) meaning that the current HPDG cash reserve is fully committed. Future allocations of HPDG (including that relating to the latest allocation) will continue to link closely to the Council's performance in progressing the Local Development Scheme and in helping achieve targets for delivering new housing. There remains some concern that the economic downturn could impact on future HPDG allocations, but the government recognises this risk and the allocation mechanism has been revised accordingly. Given the allocation of HPDG for 2010/11, work will be needed to identify how best to allocate resources to maximise planning and HPDG performance in future years, having regard to the staffing structure and strategic evidence base required.
- 6.4 Local Authority Business Growth Incentive (LABGI): The Government has reviewed the LABGI scheme and it is unlikely that the Council will receive anything like the amounts previously received and therefore no assumptions have been made about what the Council may receive in future in preparing the final budget proposals.

However, the budget proposals do include proposals for the use of a previous unspent LABGI award of £25,000 plus the sum received in 2009/10 of £55,000, a total of £80,000 (see Appendix B)

- 6.5** Concessionary Fares: The finance settlement includes separate grant funding for the introduction of national concessionary fares for the over 60's of £552k. The Department for Transport (DfT) has recognised that some councils are under funded and has now notified the council that it may receive a further £90,000 in 2010/11. The DfT also undertook a consultation exercise with a deadline of 31st December 2009 to which the Council made a formal response seeking further funding for 2010/11 and in which the Council also highlighted the overall local underfunding of the current scheme.
- 6.6** Flood Defence Grant in Aid: The Council has received notification that it will receive the following one off funding from the national allocation of flood defence grant.
- Warden Hill Flood Relief Works - £520,000 in 2010/11, £15,000 in 2011/12
  - Hearne Brook catchment area study – £150,000 in 2014/15

## **7. The Cabinet's final budget proposals for 2010/11.**

- 7.1** In preparing the final budget proposals, the Cabinet have undertaken the following:
- Prepared a standstill budget projection under a general philosophy of no growth in levels of service. Inflation for contractual and health and safety purposes has been allowed at an appropriate inflation rate where proven.
  - The general rate of inflation remains at historically low levels. The September 2009 RPI is 1.3% and CPI rate of 1.1% but December rates have increased i.e. RPI is 2.7% and CPI rate of 1.9%. Despite inflation rates increasing, general inflation has not been allowed for but given the potential of there being no pay award, there could be a saving on pay which could offset the impact of any sustained general inflationary pressure on budgets in 2010/11.
  - Provided for pay inflation for 2010/11 at 1%. Given the employers response to the request for a pay award i.e. that no pay award can be afforded, there may be a saving on the pay bill of £141,400 during the year. Given the uncertainty over the outcome of the pay negotiations the budget has not been revised downward at this stage. This prudent approach will cushion the Council's budget against the continued impact of the recession and Icelandic banks without putting further pressure on the General Reserve. Should a 0% pay award materialise, this will be factored in at the revised budget stage.
  - Based income budgets upon an average increase in fees and charges of 2.5%. Price increases above this figure have been separately identified in Appendix C. A full schedule of fees and charges to be approved by Cabinet under, its constitutional powers, are listed fully in Appendix H.
  - Assessed the impact of prevailing interest rates on the investment portfolio, the implications of which have been considered by the Treasury Management Panel.
  - Identified savings and additional income at Appendix C required in order to bridge the funding gap and proposals for service growth. The three year cumulative efficiency target (NI179) for 2010/11 is £3,095,000 which represents cumulatively

10.3% of our baseline expenditure as at 2007/08. The annual NI179 efficiency target for 2010/11 is £1,262,000. Appendix C identifies savings and additional income streams which qualify against the target with an asterisk. The total of these allowable efficiency gains is £775,600. In addition, each year the Council prepares a standstill budget and does not inflate direct operational costs. The allowable efficiency saving from this source, identified as 'Withstanding the impact of Inflation,' equates to £345,700. The combined efficiency savings from these two sources amounts to £1,121,300. This leaves a shortfall of £140,700 against the required efficiency target of £1,262,000. However, if there were a pay freeze in 2010/11, this would deliver a further £141,400 of efficiency savings. The combined efficiency savings would therefore be £1,262,700 which would meet the target requirement of £1,262,000 for 2010/11.

- Prepared the schedule of fees and charges for approval by Cabinet at Appendix H, the budgetary implications of which are included within the revenue estimates for approval by Council.
- 7.2** In making decisions about the budget and level of council tax, the Cabinet has borne in mind that every 1% increase in council tax generates additional revenue to fund services of around £77,000. However, the Cabinet is also acutely aware that, given the present state of the economy, many council taxpayers are struggling financially. This strengthens its previously stated resolve to keep the council tax increase for 2010/11 to a modest and affordable level.
- 7.3** The Council, in response to the current economic climate, increased the General Reserve in April 2009 by £1.1m to support the further impact of the recession on the Council's budgets. The economic downturn continues to impact on many council run services e.g. the demand for housing benefit and council tax support is increasing, income levels for many of its service areas remains suppressed. In addition, the bank base rate cut to 0.5% has resulted in a dramatic and sustained reduction in the investment interest earned by the council which has impacted on the 'bottom line' net cost of services. However, despite these continued trends the overall budget does not need to use the General Reserve to maintain services into 2010/11.
- 7.4** As outlined above, the 2010/11 finance settlement includes separate grant funding for the introduction of **national** concessionary fares for the over 60's and disabled, of £552,000 for 2010/11. The Council, along with the other councils in Gloucestershire, are in the process of settling a long running dispute over the reimbursement rate for concessionary fares which results in an increase in the costs of the scheme by some £440,000 per annum. This increases the total cost of concessionary fares to almost £2.2m per annum and the cost of the introduction of the national scheme to around £1m per annum, the shortfall in government funding of around £800,000 is one of the major contributors to the increased funding gap compared to the February 2009 estimate.
- 7.5** The Cabinet is also acutely aware that, in the present state of the economy, many council taxpayers are struggling financially. This strengthens the Cabinet's resolve to close the budget gap and keep the council tax increase for 2010/11 to a modest and affordable level.
- 7.6** The main thrust of the 2010/11 budget is for the Council to respond to the current economic crisis to play its part in helping the country manage its way out of recession into economic recovery. The key aims in developing an approach to the budget is to:
- Protect frontline services, as far as possible



- Develop longer term plans for efficiencies over the period of the MTFS including increasing emphasis on shared services and a new approach to commissioning services.
- 7.7** The financial crisis will inevitably be a key determinate in influencing any new Governments strategic response, and already there are indications that there will be a freeze on the pay of local government employees. Moreover, it is clear that everyone will be affected by public expenditure reductions, despite attempts to protect the most vulnerable.
- 7.8** The Cabinet believes that in making the decisions to balance the budget and plan for the future, there should be open discussion and transparency, and has chosen to make clear which officer recommendations have been accepted and which have not been in a new format that is easier to understand both in terms of the individual decisions, their impact on the budget gap and the impact on the MTFS.
- 7.9** In the coming period of uncertainty it will be necessary for the Council to carefully consider the financial implications of any schemes it embarks on and consequently it needs to bear in mind bolstering its reserves.
- 7.10** Following the consultation period , a number of changes have been made to the budget to reflect further consideration of the proposals and their impact on the organisation which are documented in the supporting appendices to the report and summarised as follows:

Summary of changes to Interim Budget proposals	£
Defer proposal to reduce the frequency of building control inspections to a statutory level of inspection (Interim budget proposals, Appendix C – G5)	40,000
Additional charge to the HRA across the 'ring fence' for Housing Forecourts contract	(22,500)
Savings target for Housing forecourts contract budget	(5,000)
Delete contribution to General Reserve – (Interim budget, Appendix G) adjusted for central admin outcome	(12,500)
Net impact on General fund Budget for 2010/11	nil

- 7.11** The proposal to reduce the inspection frequency for building control requires further consideration as a result of the shared service with Tewkesbury Borough Council which has yet to be concluded. As such Officers are not confident that this can be delivered as was originally proposed and, as such, has been deferred pending further investigation.
- 7.12** The additional costs of the housing forecourt contract in 2010/11 resulting from an increase in payroll costs arising from single status needs to be passed onto the HRA in order to preserve the principle of the 'ring fencing' of the Housing Revenue Account. Some of the additional cost will be met from savings in the budget for the contract for which a target has now been set for 2010/11 at £5,000. These changes reduce the net cost the General Fund but the charge to the HRA has to be passed onto tenants as an increase in the service charge. The separate report on the HRA provides more detail.

- 7.13 The interim budget included a net contribution to the General Reserve of c£5,000 which increased at final budget stage as a result of central administration allocations across the HRA 'ring fence' to c£15,000. This has been used to offset the above changes.

## 8. Service growth

- 8.1 The Cabinet's initial approach was that, given the difficult financial situation, there should be no growth in services which has an impact on revenue expenditure except where there is a statutory requirement or a compelling business case for an 'invest to save' scheme. The growth identified in the budget proposals meets these criteria and reflect the need to invest in business processes and schemes which support the BtG programme. Proposals for growth are included in Appendix B

## 9. Treasury Management

- 9.1 Appendix F summarises the budget assumptions for treasury management activity taking into account the following changes, considered by the Treasury Management Panel, at its meetings on 23<sup>rd</sup> November 2009 and 28<sup>th</sup> January 2010.

### Budgeting assumptions

- 9.2 The Council has been affected by the collapse of Icelandic Banks in which it deposited a total of £11m on fixed term interest rates in 2006. Additionally interest rates are at an all-time low, with the base rate falling to 0.5% in 2009. Interest rates are forecast to remain at this level for some time yet and are not predicted to rise until late 2010.
- 9.3 In accordance with the 2009/10 Treasury Management Strategy which was approved at Council on 13<sup>th</sup> February 2009, maturing investments have been used to reduce debt which has resulted in reducing debt costs. This has been the effect of reducing the Council's debt levels hence borrowing costs are expected to reduce by a further £294,400. This has removed some of the exposure of reducing interest rates on investment income. Moving forward, if the market and PWLB conditions are right, it is still proposed that the Council will use maturing investments to reduce the overall debt levels of the Council at the earliest opportunity, assuming that the Council will not have to pay significant premiums as a result.
- 9.4 However, investment interest is estimated to fall by £580,000 to around £243,000 for 2010/11 compared to 2009/10 as a result of the unprecedented and sustained low interest rates. This is significantly less than the investment income levels of around £1.5m being achieved in 2008/09.
- 9.5 As a result of reducing both borrowing and lending, the net impact on the 2010/11 is a reduction in net treasury management income of £293,600 (Appendix F).

### Icelandic banks

- 9.6 The Council has been actively pursuing the recovery of its deposits in 3 Icelandic banks, namely Kaupthing Singer & Friedlander, Glitnir and Landsbanki. At the time of preparing the interim budget proposals it was assumed, based upon external advice that councils were likely to be classed as preferential depositors. This could result in a total potential loss of £1.5m based on recovering 50% from Kaupthing, Singer & Friedlander; 83% from Landsbanki and 100% from Glitnir. As such, the Council made a capitalisation direction application to cover this amount in order to spread the cost over twenty years at a cost of £75,000 per annum which was built into the interim

budget proposals for 2010/11.

- 9.7 However, in December 2009, the winding up board (wub) of Glitnir bank made a surprising announcement that it would treat local authority deposits the same as other depositors rather than give them preferential depositor status. The LGA are actively working with the 51 councils with deposits in Glitnir bank and are determined to challenge this decision using external legal support. The wub treatment of council deposits is totally opposite to the decision made by the wub of Llandsbanki bank which gave UK councils priority depositor status. The change in status would mean that the Council would recover in the region of 25-30% rather than the 100% from Glitnir that would be recovered with priority depositor status. Given the uncertainty over the position, an application for an increased level of capitalisation direction at £4.4m was submitted in December 2009 as a precautionary measure.
- 9.8 Should this worse case scenario materialise, then the Council would need to write off £221,500 over 20 years, an additional £146,500 over and above the £75,000 already budgeted for in 2010/11. For 2010/11, it is proposed that the £90,000 additional concessionary fares grant should be used to partially offset this, leaving £56,500 to be financed from the General Reserve **if necessary**. Given the uncertainty surrounding the outcome, this has not been factored into the final budget proposals. No accrued interest on these deposits has been budgeted for in 2010/11. The updated MTFS assumes the write off of the larger sum, assuming a worse case scenario i.e. that councils are unsuccessful in their challenge of the Glitnir bank decision.
- 9.9 The process of recovery may result in legal proceedings being commenced through the Icelandic Courts. Should this be needed, the affected 51 councils have agreed to share the costs of a joint legal case. The total costs of such an action have yet to be confirmed but it is estimated that the Council's share could be in the order of £10-20k. It is currently proposed that any such costs would be funded from the budgets which support the treasury management activity (Appendix F). Any such issue of proceedings would be subject to Member approval following consideration of a report from the Chief Finance Officer and Borough Solicitor.

## 10. Single Status

- 10.1 In 1997, national agreement was reached between the National Employers and recognised trade unions upon the need for all local authorities to move towards the harmonisation of terms and conditions of employment of the former manual workers, and former white collar workers. This harmonisation process was also intended to support the principle of ensuring equal pay for equal work for all employees. The 1997 Agreement (more commonly referred to as 'Single Status') was further strengthened by the 2004 nationally negotiated pay award which represented a 'package' of change. One element of that package was that all local authorities should have completed their local pay reviews by April 2007.
- 10.2 The single status package was agreed locally in principle in February 2008, subject to national union approval. Costs for the package were worked out based on job evaluating roles, devising a new 11-grade grading structure together with a revised set of terms and conditions, and making comparisons with the current position. A two and a half year pay-protection arrangement was also negotiated to cushion the effects of implementation on employees likely to be adversely affected. Successive Cabinet's have taken the view that this should be achieved on a cost neutral basis in the long term but recognised that there will be short and medium term costs which needed to be budgeted for (i.e. cost of protection, support costs to help manage

implementation and appeals).

- 10.3** The Council had already set aside £957,000 for the transitional cost of single status. The Cabinet are not proposing that the Council should set aside any additional funds for this purpose at this stage. Equal pay issues could be raised at anytime irrespective of single status, and historic equal pay claims remains a significant risk to the Council.
- 10.4** The base budget now includes the cost of the new pay structure based on the conclusion of the appeals process. The implications of which are that, since less staff face a reduction in pay there are less staff requiring salary protection resulting in the need for a lesser sum to fund the transitional costs. As such the balance of the reserve has been used to support the additional cost of a net increase in the salary budget in 2009/10. The on-going increase to the pay bill has been built into the base budget estimated for 2010/11. The additional cost as a result of concluding all job evaluation appeals is £283k which, when offset by the saving on the 2009/10 pay award, leaves additional costs of £81k to be funded in 2009/10.
- 10.5** There is a risk of historic equal pay claims as a result of single status implementation. The window for lodging any Equal Pay claims is from 11<sup>th</sup> September 2009 to 10<sup>th</sup> March 2010. A full financial impact assessment will be completed once at that date, as we will then be able to quantify the potential financial impact of any claims received.

## **11. Medium Term Financial Strategy (MTFS)**

- 11.1** Looking ahead, the impact of the recession of reduced revenues to the treasury (including company and personal tax, stamp duty and VAT) coupled with the cost of bailing out the banking sector has increased the level of public borrowing to record levels. The major political parties have expressed a desire to bring the level of public debt under control through a tightening of public sector finances and, as such, the future level of grant support is likely to be reduced significantly. Although not yet confirmed, politicians and commentators have suggested that the public sector may see a squeeze in funding for at least the period of the next spending review (2011/12 – 2013/14) in the region of 7% - 20%.
- 11.2** The MTFS approved in February 2009 has been updated to reflect the latest estimates of the implications of the chancellor's pre-budget report and assumes a 15% reduction in the level of government support as a result of a public sector spending squeeze. It also includes the Council's strategy for closing the gap and makes further projections of the impact of this strategy on the gap. The updated MTFS is attached at Appendix K and assumes a worst case scenario.

## **12. Pensions**

- 12.1** The Council's pension fund was subject to triennial revaluation by the pension fund actuary in 2007/08 which resulted in an increase in the contribution rate to 24.96% with effect from 1<sup>st</sup> April 2008.
- 12.2** The Council receives an annual report which projects the pension fund position forward taking into account changes in both member profile and performance of the fund. The latest report, which provided a position statement to August 2009, suggested that due to the significant fall in the stock markets and the expectation of increasing inflation, the funding level has dropped from an estimated 75.3% at

20/3/07 to 53.4% at 28/8/09.

- 12.3** If this situation does not recover, this could result in a larger deficit and a significant increase in contribution rates at the next triennial revaluation. The actuary is conscious of the impact of these potential increases on council tax and may consider moving to a higher rate by capping increases at 1% per annum over a longer period of increase but has yet to determine the longer term implications of this on the fund. The Council is already assuming an increase in contributions to 2% per annum over a 3 year period from 1/4/11 i.e. 6% overall. This position will be re-visited as guidance on options becomes clearer.

### **13. Capital and Property Maintenance Programmes**

- 13.1** The proposed capital programme for the period 2010/11 to 2015/16 is at Appendix I.
- 13.2** The Section 151 Officer has raised the issue of the long term financing of both the Council's capital programme and 20 year maintenance programme on a number of occasions. The work to update the Council's Asset Management Plan will provide a strategic view in respect of the long term aspirations for the Council's property portfolio, supporting the priorities identified in the Council's Business Plan. This work should identify additional funding requirements over the coming years and may consider alternative forms of financing, including prudential borrowing.

#### **Regent Arcade negotiations**

- 13.3** The Council has been negotiating the potential sale of the Council's interest in the Regent Arcade in order to release pump priming for civic pride. However, these negotiations are unlikely to result in a sale at this stage and therefore the Council is now faced with an exposure to its share of the costs of the refurbishment of the arcade, circa £350,000 to £500,000. The Council, as a priority, must budget for this **potential** commitment and the Cabinet has built this into its final budget proposals.

#### **Parks and Gardens capital proposals**

- 13.4** In October 2009, the Cabinet withdrew a report to the Council which made recommendations to the Council to re-allocate £300,000 of the Capital Reserve which the Council had previously earmarked towards supporting the Heritage Lottery bid for Pittville Park to invest in other parks.
- 13.5** However, in light of the rejection of the lottery bid and in view of the commitment to Regent Arcade, this now has to be re-considered consistent with the resolution agreed at Council on 17<sup>th</sup> March 2008. The money set aside for Pittville is now needed to fund the liability toward the Arcade and the Cabinet is recommending that the decision to ring fence the money for Pittville Park be reversed.

#### **Civic Pride**

- 13.6** Given the current position with Regent Arcade, funding of the next stages of civic pride has also been revisited. In order to progress plans, the Council needs to fund the delivery vehicle, undertake site investigation and preparation work in order to present the development sites to the market.
- 13.7** The Council has now secured funding from the Homes and Communities Agency, South West Regional Development Agency and Gloucestershire County Council towards funding the delivery vehicle and transport related costs. A projection of the

Council's own civic pride reserve, including these contributions and estimated costs has been made which would indicate that there is sufficient funding to cover costs in 2010/11 but that an additional c£110,000 may be required for 2011/12. There is the potential for a future capital receipt to be used to finance this, including Regent Arcade, sale of Midwinter allotments or other assets and although it is flagged up for future consideration, no provision is made within the final budget proposals to finance this.

## **Everyman Theatre**

- 13.8** The Council received a request from the Everyman Theatre, which it owns, for financial support towards its ambitious plans for the refurbishment of the theatre. The theatre company have asked the Council for a one off grant support of £250,000 and an interest free loan of £1m over 25 years.
- 13.9** Given the financial outlook, the Cabinet are unable to offer an interest free loan but are recommending that the Council approve a £1m loan (with interest) plus a grant of £250,000 in 2011/12 in time for the commencement of the refurbishment works.
- 13.10** The Cabinet have taken the opportunity with officers to review the current lease and wish to deal with some of its anomalies and are proposing that the grant is conditional on the following:
- granting of a new lease for a term of 50 years.
  - move to a full repairing lease which transfer annual maintenance costs of £15,000 to the theatre,
  - transfer of the engineering insurance to the theatre at an annual cost of c£3,000 (currently organised by the council but recoverable under the existing lease)
  - move to a market rent for the theatre, calculated at £72,750 per annum
  - reduction in grant of £30,000 (£5,000 per annum incrementally from 2011/12 over the period 2011/12 to 2016/17
  - success in achieving support from the Heritage Lottery Fund for the residue of the works
  - a service level agreement
  - production of a robust business plan
- 13.11** It is proposed that the annual grant is increased in 2010/11 to £225,450 to offset the above additional costs / rent being transferred to theatre (currently estimated at £76,650) so that neither the theatre nor the Council are any worse off.
- 13.12** The theatre has given an initial response which is broadly supportive of the proposal although have made further requests of the Council in respect of specific elements of it. The Council is still in negotiations with the theatre in respect of the proposals.
- 13.13** In reviewing the lease, the Council established that the conditions of the current lease were not being adhered to and the Council had been under paid rent over the past 6 years totalling £120,000. The Cabinet, in proposing the terms of the new lease are recommending that Council do not seek to recover this sum from the theatre.

**13.14** The Cabinet acknowledges that this is a very substantial commitment that may be controversial, and has taken it for the following reasons:

- The theatre is not only a Grade 2 listed building but unique in being the earliest surviving example of the work of the renowned theatre architect Frank Matcham, and is of national importance.
- It is an important part of the cultural infrastructure of the town which has a significant impact on the early night-time economy and on the attraction of the town centre, and on the whole of the town through the outreach work it performs.
- Unless this decision is taken now there is a fear that the opportunity will be missed given the difficult times ahead and the scarcity of capital resources.
- It provides an opportunity to reduce longer term funding for the Theatre by enabling it to become a more attractive venue with a more resilient business case for its long term survival.

**13.15** The Cabinet are proposing that the package of support to the Everyman theatre is approved subject to a robust business case and are recommending to the Council to approve the delegation of the decision to approve the loan to the Chief Finance Officer. The business case must demonstrate that the theatre can repay the loan with interest, in full, so that there is no cost to the council tax payer.

## **14. Supplementary Estimates**

**14.1** Under financial rule 11.3, 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 2010/11 to be met from the General Reserve, the same level as in 2009/10.

## **15. Budget Presentation**

**15.1** The budget presented in this report at Appendix A includes a projection of the base budget i.e. the cost of providing the same level of services in 2010/11 as in 2009/10 taking into account inflation and pay awards including some savings and additional income in the base budget. In an attempt to concentrate attention on the policy changes to the budget, the detailed projection of base budgets for existing service levels are not included as supporting paperwork to this report but these formed part of the Members' budget packs.

## **16. Budget Scrutiny process**

**16.1** Given the financial outlook and the importance of ensuring that Members are given adequate opportunity to scrutinise and influence the budget decisions, the Cabinet are keen to explore whether there is a more effective way of undertaking the budget scrutiny process. Many alternative methods have been tried in the past but it is important to re-consider the current approach. One option may be a budget scrutiny working party drawn from each overview and scrutiny committee or a continual process which takes place during the course of the existing scrutiny committee cycle of meetings rather than once the budget proposals have been published.

**16.2** Ideas for progressing this will be canvassed over the coming months. Given the

financial outlook, scrutiny of budgets is likely to become more important and as such, Members are asked to approve that the process for scrutiny of the budget is reviewed in order to determine a more effective approach

## **17. Alternative Budget Proposals**

- 17.1** It is important that any political group wishing to make alternative budget proposals should discuss them, in confidence, with the Chief Finance Officer and / or the appropriate Strategic Director / Chief Executive (preferably channelled through one Group representative) to ensure that the purpose, output and source of funding of any proposed changes are properly identified.
- 17.2** Given the fine political balance of the Council and the possibility that significant amendments to the budget may be carried, 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.

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

- 18.1** The Cabinet have 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.
- 18.2** 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.
- 18.3** An in-principle decision will automatically become effective 5 working days from the date of the Council's decision, unless the Leader informs the Chief Finance 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.
- 18.4** 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.

## **19. Conclusions**

- 19.1** As outlined throughout the report, the economic situation is having a major impact on the budget setting process. The budget proposals for 2010/11 have been prepared in a climate of uncertainty and have been severely impacted upon by the continued economic downturn. Low interest rates coupled with suppressed income levels have presented a huge challenge for both Officers and Members in preparing a budget for the year ahead.
- 19.2** Future funding gaps, coupled with the uncertainty of the implications for local government of a public sector spending squeeze point to a challenging period for the



Council.

**19.3** The Council continues to find itself under pressure in the following key areas:

- The cost implications of providing a wide range of services, including many discretionary services.
- The impact of the performance of the pension fund, due to falling stock markets, on employment costs.
- The cost of maintaining a large property portfolio.
- The impact of low interest rates on investment income.
- The potential impact of the Icelandic banking situation.
- The impact of sustained low income levels.

**19.4** Given the current concerns about council tax levels, it is important Members ensure that in setting the 2010/11 budget the following are considered:

- it achieves a proper balance between increasing spending, efficiency savings, council tax and holding reasonable balances and reserves;
- it can demonstrate public support for local spending decisions; and
- it receives the support of the majority of Members.

**19.5** As part of the Council's medium term financial planning, it is important to continue to prepare for a number of challenges, including the identification of savings required for future years to bridge future funding gaps, maintaining the Council's substantial asset portfolio, meeting new government targets and local customer demand for improved services.

Appendices

A. Net General Fund Budget 2009/10 Revised and 2010/11

B. Growth Bids

C. Final Budget Proposals 2010/11 – Impact on MTFS

D. Bridging the Gap – Potential Future Options for Cross Party Consideration.

E. Capital Charges

F. Interest and Investment Income

G. Detailed Reserve Movements

H. Schedule of fees and charges

I. General Fund Capital Programme

J. Programme Maintenance

K. Medium Term Financial Strategy 2010/11 to 2015/16

L. Risk Assessment of Budget Proposals 2010/11

M. Cllr. John Webster: Response to Budget Consultation

Background papers

Provisional Finance settlement 2010/11

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Accountability

John Webster, Cabinet Member for Community Development and Finance.

All Overview and Scrutiny Committees.