

Cheltenham Borough Council

Cabinet – 8 February 2011

Council – 11 February 2011

General Fund Revenue and Capital - Revised Budget 2010/11 and Final Budget Proposals 2011/12

Accountable member	Cabinet Member for Community Development and Finance, John Webster
Accountable officer	Chief Finance Officer, Mark Sheldon
Accountable scrutiny committee	All scrutiny committees
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report summarises the revised budget for 2010/11 and the Cabinet's final budget proposals for 2011/12.
Recommendations	<ol style="list-style-type: none">1. Note the revised budget for 2010/11.2. 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 2011/12 (a 0% increase based on a Band D property).3. Approve the growth proposals, including one off initiatives at Appendix 3.4. Approve the reserve re-alignments at Appendix 8, as outlined in section 10.5. Approve the proposed capital programme at Appendix 9, as outlined in Section 11 and note the intention to fund the replacement of vehicles and recycling bins through prudential borrowing where deemed appropriate.6. Approve the proposed Property Maintenance programme at Appendix 10.7. Note the updated Medium Term Financial Strategy at Appendix 11 including the impact of the 'bridging the gap' programme on the forecast budget gap.8. Approve a level of supplementary estimate of £100,000 for 2011/12 as outlined in section 15.9. Approve the creation of the budget working group, with 2 members nominated from each overview and scrutiny committee, to support the process of developing the budget process and improving scrutiny as outlined in Appendix 13.

Financial implications	<p>As contained in the report and appendices.</p> <p>Contact officer: Mark Sheldon.</p> <p>E-mail: mark.sheldon@cheltenham.gov.uk</p> <p>Tel no: 01242 264123</p>
Legal implications	<p>The budget setting process must follow the Council's Budget and Policy Framework Rules.</p> <p>.</p> <p>Contact officer: Peter Lewis</p> <p>E-mail: peter.lewis@tewkesbury.gov.uk</p> <p>Tel no: 01684 272012</p>
HR implications (including learning and organisational development)	<p>In the spirit of building on our positive industrial relations environment, the recognised trade unions received a budget briefing on 9th December 2010 and continue to be updated. The final budget proposals (Appendix 4) details the savings generated from a number of restructures that have already taken place this financial year. 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. Many of the fte (full time equivalent) reductions shown below will be as a result of restructures, and the Council's policies on managing change and consultation regarding any redundancies will be followed.</p> <p>On going, it is important that capacity is carefully monitored and managed in respect of any reductions on fte and reduced income streams as the reductions represent a 5.3% reduction in fte capacity overall.</p> <p>The budget proposals include the following implications for staff:</p> <p>Total reduction in staffing = 31.9fte (full time equivalent) of which 17.8fte are vacant posts, 6.6fte are redundancies, 0.5fte is shared, 4fte are to be confirmed, and 3fte seasonal therefore not required. A further planned reduction of 7.4fte will take place in 2012/13.</p> <p>Contact officer: Julie McCarthy</p> <p>E-mail: julie.mccarthy@cheltenham.gov.uk</p> <p>Tel no: 01242 264355</p>

Key risks

An overall risk assessment of the final budget proposals is contained in Appendix 1 and the risks associated with each of the proposals for bridging the funding gap are identified in Appendix 4.

During the current year, the council through its budget monitoring predicted an overspend of £800k, much of this as the result of income streams not matching target levels. There is a risk that 2011/12 will see a similar pattern of income reduction particularly if as predicted public sector cuts, inflation and other pressures reduce household incomes and the predicted economic recovery is slow. The council will need to satisfy itself that the income levels in the budget are robust and that regular budget monitoring identifies any issues at an early stage so that remedial action can be taken.

The council had been planning for reductions in funding and through its bridging the gap (BtG) programme had been planning a range of initiatives which would reduce expenditure over the life of the Medium Term Financial strategy (MTFS). As outlined above, earlier in the year the coalition government announced their intention to reduce public sector expenditure and indicated that there would be a front loading to this i.e. greater reduction in years one and two. There is now a real risk therefore that the profile of reduction in public sector grant support will impact on a planned response to the medium term financial savings, as the council needs to make cuts now and cannot wait for shared services and other commissioning initiatives to deliver their planned savings.

The government have announced the settlement for future years which helps with resource planning but it means that the council will face budget cuts in future years, and will need to identify savings to meet these cuts. Although plans are in place to meet some of these savings there are still significant shortfalls in future years and the council will need to identify how it will meet these savings targets. The council has agreed a commissioning approach but there is a risk that in delivering immediate savings there is insufficient resources to work up plans for future years. The council will need to prioritise the commissioning work plan to ensure that those areas which have the greatest opportunity to deliver savings are reviewed first.

As the council moves towards other delivery models for service provision e.g. shared services, service level agreements or contracts there is a risk that the savings which need to be found in future years fall on fewer service areas and potentially have a disproportionate impact on the retained organisation. When commissioning services the council will need to be mindful of its budget situation and consider how contracts can be flexible to new demands.

Some of the budget proposals will impact directly on the public. There is a risk that if the communication of these proposals is not handled sensitively then there will be public opposition to them. If these proposals are accepted then there will need to be a clear communication plan with those service users about the cuts and what other alternative arrangements, if appropriate, are being made.

The audit committee at its meeting in January have confirmed that the budget does not propose any cuts which have the potential to impact on corporate governance although were concerned that project management training remained a high priority despite the proposed cuts in training budgets.

Corporate and community plan Implications	The aim of the final budget proposals is to direct resources towards the key priorities identified in the Council's Corporate Business Plan whilst recognising the reduction in government funding.
Environmental and climate change implications	The final budget contains a number of proposals for improving the local environment, as set out in this report.

1. Introduction

- 1.1 In accordance with the Council's Budget and Policy Framework Rules, which is 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 2011. The consultation period took place between 22nd December 2010 to 22nd January 2011 and this report sets out the final budget proposals for 2011/12.

2. Background

- 2.1 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.
- 2.2 For 2011/12, the coalition Government expects the average council tax increase to be 0%.

3. 2010/11 Revised Budget

- 3.1 The budget monitoring report to the end of August 2010, considered by Cabinet on 26th October 2010, identified a potential projected overspend of £800k for the current year, 2010/11. In response, the Senior Leadership Team implemented a recruitment freeze and reviewed all unspent supplies and services budgets. As a result of the action taken, the revised budget for 2010/11 which includes projected savings in employee related and supplies and services budgets is now projected to have managed the projected overspend to zero.

4. Finance Settlement including Concessionary fares funding

- 4.1 The Government's comprehensive spending review (CSR10) in 2010 determines the level of funding for the whole of the public sector for the period 2011/12 to 2012/13. The following table summarises the headline final figures for the level of Government support to the Council released on 31st January 2011.

	2010/11 £m adjusted	2011/12 £m	2011/12 £m adjusted	2012/13 £m
Revenue Support Grant	1.118	1.440	1.440	
Cheltenham's share of Redistributed Business Rates	7.701	4.658	4.658	
Formula Grant	8.819	6.098	6.098	5.473
less formula grant adjustment e.g. concessionary fares	(1.631)	-	(0.046)	
Adjusted formula grant	7.188	6.098	6.052	5.473
Actual cash (decrease) over previous year		(1.090)		(0.579)
% cash cut		(15.16%)		(9.57%)

- 4.2 The final figures for 2011/12 show an increase of £21,922 over the provisional figures announced in December 2010, and for 2012/13 a reduction of £61,925.
- 4.3 In the coalition Government's comprehensive spending review in October 2010, the Chancellor of the Exchequer announced that councils would receive a cut in government support of 7.1% in each of the next 4 years, a total of 28.4%. This was broadly in line with the assumptions for a reduction in government support modelled in the council's Medium Term Financial Strategy (MTFS) although the council anticipated some front loading and planned for a 10.7% cut in 2011/12.
- 4.4 The actual settlement is very different. The council will receive a cash reduction in government support (revenue support grant plus share of redistributed non domestic rates) of £1.090m, a cut of 15.16% in 2011/12 followed by a further provisional cash cut of £579k (9.57%) in 2012/13. Cumulatively, this equates to a 23.86% cut over 2 years. Funding levels for the following 2 years i.e. 2014/15 and 2015/16, have yet to be announced but it is likely that they will continue to impact on the council's finances detrimentally.
- 4.5 In announcing the provisional settlement in December 2010, the local government minister Eric Pickles referred to a new measure of government support, 'revenue spending power'. Rather than measuring cash changes, this measures the total resources available to the council including council tax revenues and one off grants. In declaring that no council would be any worse off than 8.9% he was referring to the revenue spend rather than actual cash position. Cheltenham's calculation of this 'revenue spending power' is a decrease of 6.03%.
- 4.6 The provisional finance settlement includes the removal of £2.2m of funding for free bus service for the over 60's concessionary fares scheme as a result of the transfer of the responsibility to Gloucestershire County Council with effect from 1st April 2011. As a result, the council's top up of annual government funding for the scheme, estimated at £1m, will **NOT** be released back to the council. This will leave the council with no resources to either top up the county's proposed statutory concessionary fares scheme i.e. the current discretionary 9.00 – 9.30 period of use funded by the council or to fund the existing transport schemes which operate.

5. The Cabinet's general approach to the 2011/12 budget

- 5.1 The Cabinet's budget strategy for 2011/12, approved at a meeting on 26th October 2010, included an estimate of £2.6m for the 2011/12 budget gap i.e. the financial gap between what the Council needs to spend to maintain services (including pay and price inflation) and the funding available assuming a 10.7% cut in government support. This was subject to the outcome of the Comprehensive Spending Review (CSR10) and assumed a funded council tax freeze. The council only received notification of its actual grant on 31st January 2011 and it was worse than anticipated. The final assessment of the budget gap for 2011/12, based on the detailed budget preparation undertaken over recent months and the actual financial settlement is £2.808m.
- 5.2 The settlement was actually £223k worse than anticipated and, given the delay in its publication, presented the Cabinet and the council's Senior Leadership Team (SLT) with an incredibly difficult task in responding to deeper and more rapid cuts.
- 5.3 In preparing the final budget proposals, the Cabinet and officers have made the following assumptions:
- Prepared a standstill budget projection under a general philosophy of no growth in levels of service with the exception of a 6 FTE planning posts, costing £130k annually, which have now been built into the base budget. These posts had previously been funded from Planning Delivery Grant (PDG) which has been withdrawn as part of the overall CSR10 settlement.
 - Provided for inflation for contractual and health and safety purposes has been allowed at an appropriate inflation rate where proven.

- Not budgeted for pay inflation for 2011/12 or 2012/13.
- Increased income budgets based on an average increase in fees and charges of 2.5% with the exception of property rents which have not been inflated but are now set in line with rent projections based on property leases. The Cabinet intend to freeze car park charges at current year's levels which have been shown as growth within the budget proposals.
- Assessed the impact of prevailing interest rates on the investment portfolio, the implications of which have been considered by the Treasury Management Panel.
- Removed the central savings target for procurement in recognition that these will be targeted through the GO programme.
- Built into the base budget for 2011/12, the cost of the final revised single status pay structure following the transition period and conclusion of the appeals process.
- Estimated the financial impact of the triennial revaluation by the pension fund actuary in 2010/11 resulting in increased annual costs of £27,700 wef from 1st April 2011.
- Allowed for a council tax freeze, in line with the coalition Government's request, on the basis that it will be funded through a specific grant.

5.4 The key aims in developing the approach to the budget were to:

- Protect frontline services, as far as possible
- Reduce costs by the development of longer term plans for efficiencies over the period of the Medium Term Financial Strategy (MTFS) including work on shared services, systems thinking, reducing the cost of assets and energy usage, and the new approach to commissioning services.

5.5 There has been considerable activity during the course of the year to develop this longer term strategy for closing the funding gap. The Cabinet have worked with officers to develop the 'Bridging the Gap (BtG)' programme using the BtG group supported by the Senior Leadership team. The Cabinet's budget proposals for closing the budget gap in 2011/12, the result of this work, are detailed in Appendix 4 and include an assessment of the impact of these proposals over the period of the MTFS, split into:

- Decisions already made by council and therefore built into the base budget, totalling £732k.
- Proposals yet to be agreed by council which are not built into the base budget, totalling £2,076k

5.6 The Cabinet and SLT have been anticipating having to make significant savings and have been actively managing vacancies and staffing levels in order to minimise the impact of service reviews, system's thinking and savings initiatives and cuts. As a result, the reduction in staffing numbers (31.9 full time equivalents) outlined in the budget proposals have been achieved at minimal cost to the taxpayer.

5.7 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	£
Revised contribution rates following the 2010 formal valuation of the pension fund	(259,000)
Additional funding from finance settlement	(21,922)
One Legal savings (cumulative effect of 2 year pay freeze)	(9,600)
LGA subscriptions (additional saving)	(900)
Extended programme of urban gull population control by egg oiling (sterilization)	1,500
Investment in Imperial and Montpellier Gardens to provide improved facilities for hirers, including Cheltenham Festivals.	140,000
One-off transitional funding to Arts Council in lieu of permanent cut to funding.	6,000
Additional income from allotment rentals	(1,000)
Deferred cut to grass verges contract to 2012/13	110,000
Reduced saving from closure of public toilets	21,750
Reduced saving from training budgets	500
Net 'write-off' in box office commission	11,200
Additional contribution to General Balances	1,472
Net impact on General Fund Budget for 2011/12	nil

6. Service growth

- 6.1 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 supported by Cabinet meets these criteria and reflect the need to invest in business processes and schemes which support the BtG programme.
- 6.2 The revised contribution rates following the 2010 formal valuation of the pension fund has released a one-off sum of £259,000 which has been used to fund one-growth growth detailed within Appendix 3 to the value of £149,000. It is proposed that the remaining £110,000 is used to continue the additional 10 cuts per year to grass verges before transferring back to the County Council wef 1st April 2012.
- 6.3 The Cabinet has an aspiration to make the following one off investment, funded from LAA performance reward grant, estimated at £278k for 2011/12, subject to it being awarded and these will be confirmed in the outturn report to council in June 2011.
- £50k towards match funding the £50k contribution from GCC to address youth work issues that the County can no longer fund in the way that it traditionally has.
 - £30k for community pride / big society initiatives to establish another round of Community Pride as last year, with the emphasis on enabling 'Big Society' initiatives to be taken forward, such as promoting volunteering or voluntary initiatives.
 - £30k towards supporting Cheltenham Voluntary and Community Action (VCA) at £10k a year for the next three years from the LAA Performance Reward Grant to develop the voluntary and community market through capacity building and supporting the Council to achieve its goal of being a commissioning organisation.
 - A capital contribution towards the Warm and Well scheme administered by Severn Wye Energy Agency on the basis that private sector renewal grant has been withdrawn from 2011/12.

6.4 The full list of proposals for growth, including one off initiatives, is included in Appendix 3.

7. Treasury Management

7.1 Appendix 6 summarises the budget estimates for treasury management activity taking into account the following changes, considered by the Treasury Management Panel, at its meetings on 22nd November 2010 and 27th January 2011.

7.2 The council has been affected by the low interest rates which have remained at 0.50% throughout the year and are predicted to remain at this level for some time still. Due to our consolidated debt rate being lower this has resulted in the Housing revenue Account (HRA) paying £183,000 less interest to the General Fund for 2011/12, even though borrowing interest costs have reduced overall by £6,700.

7.3 The low interest rates will also affect our investment income and is estimated to fall by £74,900 in 2011/12.

7.4 As a result, the net impact on 2011/12 budget is a reduction in net treasury income of £236,200.

7.5 The council has been actively pursuing the deposits from the three Icelandic owned banks, Glitnir, Landsbanki and Kaupthing Singer and Friedlander (KSF). The situation with both Glitnir and Landsbanki is that the council's legal advisors have now filed written submissions with the Icelandic courts with regards to the deposits made in 2006, and court hearings are due to take place in Spring 2011. As regards to KSF we have received £1.628m back to date which amounts to 53p in the pound. The latest information we have indicates a recovery rate in the range of 75p to 84p in the pound.

8. Medium Term Financial Strategy (MTFS)

8.1 Prior to the comprehensive spending review, the council was estimating the MTFS funding gap to be c£4.7m based on an anticipated cut in government support of 25%. The MTFS projections have been updated for the Cabinet's final budget proposals in February 2011, taking into account the levels of Government support for the period of the CSR10 spending review.

8.2 The MTFS approved in February 2010 has been updated to reflect the latest estimates of the implications of the spending review and assumes a 31.28% 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 11 and assumes a worst case scenario.

8.3 The cumulative funding gap over the next 5 years is projected to be c£2.5m although measures taken to date results in a residual cumulative funding gap of c£1.5m.

9. Pensions

9.1 The Council's pension fund has been subject to triennial revaluation by the pension fund actuary in 2010/11, the draft results of which were published in December 2010. The valuation found that the Fund's objective of holding sufficient assets to meet the estimated current cost of providing members' past service benefits was not met at the valuation date.

9.2 Contribution rates are calculated on an individual basis for each participating employer. For the council's element of the fund, the funding level was assessed at 66% (compared with 75.3% in 2007), with a shortfall of £34.1m. The fund actuary is aiming for this deficit to be recovered over a 20 year period, giving the following target contribution rates for the council (for this three-year valuation period):

- a 14.65% future service rate which should cover the liabilities scheme members build up in the future, plus
- an annual lump sum past service deficit contribution of £1.387m in 2011/12 (rising to £1.728m by 2013/14), to cover the shortfall in the fund

10. Reserves

10.1 The Cabinet has taken the opportunity to review the reserves held by the council on the advice of SLT and the CFO. Some realignment of reserves, detailed in Appendix 8, are proposed to further the aims of the council including:

- Transfer £1m of the reserve realignment to increase the civic pride reserve to fund future costs including site investigations and preparation work in order to present development sites and some pump priming for Boots corner redevelopment. The council is progressing with the civic pride scheme using the Cheltenham Task Force delivery vehicle. In February 2010, a projection of the council's civic pride reserve, including external partner contributions, identified a funding shortfall for 2011/12 of c£110k. The reserve realignment will address this shortfall.
- Transfer £717k of Planning Delivery Grant (PDG) reserve to the General Reserve, given that planning posts funded from this reserve have been built into the base budget from 2011/12.
- Recently the council owned properties in Ledmore Road have been sold and the receipt can now be used to fund the redevelopment of St Paul's and other housing regeneration schemes, in line with the council decision in July 2009. This allows for transfer of £1.3m of the Housing Capital Reserve (General Fund) which had been earmarked to support housing regeneration schemes, releasing it for other purposes.
- Transfer £300k of the reserve realignment to the capital reserve to support future capital programmes.
- The sourcing strategy programme has now been closed down and the balance of unused sourcing strategy money, £274.4k, is to be returned back to the general reserve as outlined in Appendix 7. However, it is proposed that some of this money is earmarked to support potential work around the creation of shared services for revenues and benefit (£100k), subject to business case. A further £80k is to be used to support the business change flowing from the restructuring proposals around commissioning and GO programme, as outlined in the Section 4 report and agreed by council on 13th December 2010.
- More work is to be undertaken to understand both the immediate and longer term investment required to pump priming the commissioning activity which may justify a further earmarking of money or an earmarking of the general reserve, subject to business case.

11. Capital Programme

11.1 The proposed capital programme for the period 2011/12 to 2015/16 is at Appendix 9.

11.2 The programme includes a provisional sum of £250k for investment in new car park management technology, which will be subject to a business case and options appraisal and investment in telephony switch upgrades, identified in the council's ICT strategy, approved by Cabinet on 22nd June 2010.

11.3 The adoption of International Financial Reporting Standards (IFRS) has necessitated the need to review all council leases to determine whether they are classified as operational or finance leases. The review has concluded that leases drawn for the purchase of vehicles and recycling

bins are deemed to be finance leases and as such must be represented on the council's balance sheet as external borrowing.

- 11.4** As a consequence of the above, officers have reviewed and compared the costs associated with leasing against prudential borrowing and concluded that whilst the gains from prudential borrowing were marginal in the early years, it gave the council more flexibility in terms of ownership.
- 11.5** With the potential shared waste management service, it is the view of officers that the flexibility surrounding ownership of the assets from the outset and the marginal financial benefits support a decision to finance those assets through prudential borrowing.

12. Property Maintenance Programmes

- 12.1** The proposed property repairs and maintenance programme for 2011/12 is at Appendix 10.
- 12.2** The budget proposals include a proposal to defer the increase in annual contribution of £125k to the planned maintenance reserve by one year, in response to the severe settlement position. As a result the planned maintenance programme, at appendix 10, has been reviewed to reflect the affordability envelope available.
- 12.3** A decision to close public toilets will save substantial maintenance costs over the course of the 20 year property maintenance programme. This is currently costed at c£400,000 and further endorses the proposal to defer the annual increase in planned maintenance contributions by one year.
- 12.4** The programme includes a sum of £157k towards the council's share of the costs of the refurbishment of the arcade, finalised at £517k.
- 12.5** There are a series of initiatives to reduce power consumption. The installation of voltage optimisation devices to moderate the electricity supply coming into buildings will cost £97k of which some £14k is being spent in 2010/11 for a pilot plant at Leisure@. In total these will save the Council some £15.7k pa, and reduce our Carbon footprint by 92 tonnes of CO2 p.a. Further schemes are proposed for the future costing a total of £76k - as follows:
- Replacing pool hall lights with 100w LEDs, (£27k);
 - Replacement of lighting at Regent Arcade car park (£33k); Improving cooling efficiency in server room, including replacing air-con units with evaporative cooling unit (£10.5k);
 - Extend replacement of security lighting at Depot with LEDs and install PIRs on percentage of security lighting (£5.5k).
- 12.6** In total these will save the Council an estimated £36k pa, and reduce our Carbon footprint by some 159 tonnes of CO2 p.a. Because these are initiatives that promise a payback they will be funded from the Repairs and Renewals reserve.

13. Budget consultation and feedback

- 13.1** Given the scale of the level of public sector funding squeeze, the Cabinet were keen to engage with the public on where to make savings ahead of the decision making process. The results from the summer public consultation road shows and residents panels provided the Cabinet with an indication of where the Cabinet might look to protect, reduce or stop spending on services. The budget proposals take into account the response to this consultation.
- 13.2** The formal budget consultation on the detailed interim budget proposals took place over the

period 22nd December 2010 to 22nd January 2011. The Cabinet sought to ensure that the opportunity to have input into the budget consultation process was publicised to the widest possible audience. During the consultation period, interested parties including businesses, tenants, residents, staff and trade unions were encouraged to comment on the initial budget proposals. They were asked to identify, as far as possible, how alternative proposals complement the Council's Business Plan and Community Plan and how they can be financed. The Overview and Scrutiny Committees were invited to review the interim budget proposals meetings in January 2011 and comments were fed back to the Cabinet.

- 13.3** A summary of the budget consultation responses and the Cabinet's responses, in arriving at the final budget proposals, are contained in Appendix 12.

14. Performance management – monitoring and review

- 14.1** The scale of budget cuts will require significant work to deliver within the agreed timescales and there is a danger that it diverts management time from delivery of services to delivery of cuts. 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.
- 14.2** The delivery of the savings workstreams included in the final budget proposals, if approved by full council will be monitored via the BtG group.

15. Supplementary Estimates

- 15.1** 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 2011/12 to be met from the General Reserve, the same level as in 2010/11.

16. Budget Presentation

- 16.1** The budget presented in this report at Appendix 2 includes a projection of the base budget i.e. the cost of providing the same level of services in 2011/12 as in 2010/11 taking into account inflation and pay awards including 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.

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** 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.

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 and severe cuts to public spending are having a major impact on the budget setting process. The budget proposals for 2011/12 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. 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.
- 19.2** 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.
- 19.3** 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.

20. Reasons for recommendations

20.1 As outlined in the report.

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Appendices	<ol style="list-style-type: none">1. Risk Assessment2. Summary net budget requirement3. Growth4. Savings / additional income5. Capital charges6. Interest and investment income7. Detailed reserve movements and sourcing strategy programme closedown8. Projection of reserves9. Capital programme10. Planned maintenance programme11. Medium Term Financial Strategy (MTFS)12. Consultation responses13. Budget Scrutiny working group report
Background information	<ol style="list-style-type: none">1. Finance settlement 2011/12 http://www.local.communities.gov.uk/finance/1112/grant.htm

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	
1.01	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.	Mark Sheldon	15 December 2010	3	3	9	R	The council has agreed a commissioning approach and the MTFS identifies a number of longer term solutions. The council will need to be mindful of capacity to deliver the savings programme	Sept 2011	Mark Sheldon		
1.02	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.	Mark Sheldon	15 December 2010	3	2	6	R	Robust forecasting is used to prepare the budget looking back on previous income targets and collection, and forecasts take into account the current economic situation. Professional judgement used on the deliverability of income targets. Once budget approved, regular monitoring of income targets will identify any issues and any corrective action which need to be taken and will be reported through the budget monitoring reports.	Ongoing during course of year	Mark Sheldon		

1.03	If when developing a longer term strategy to meet the MTFS, the council does not make the public aware of its financial position and clearly articulates why it is making changes to service delivery then there may be confusion as to what services are being provided and customer satisfaction may decrease.	Jane Griffiths	15 December 2010	3	3	9	R	As part of the development of BtG programme there will need to be a clear communication strategy. In adopting a commissioning culture then it will be basing its decisions on customer needs and requirements and this should help address satisfaction levels.	31 March 2011	Communications team to support the BTG programme	
1.04	There is a reliance on shared services delivering savings. If these savings do not materialise or shared service projects do not proceed as anticipated then other savings will need to be found to meet the MTFS projections.	Pat Pratley	15 December 2010	3	3	9	R	All shared services are operated under prince 2 principles, with clear business case and risk logs are maintained for the shared service projects and regularly reviewed	Ongoing during course of year	Pat Pratley	
1.05	In the past the council has used in year savings to support one off growth to fund new initiatives or unpredicted expenditure. It is unlikely that moving forward over the life of the MTFS there will be such savings and if new initiatives or unpredicted expenditure arises then the dependency on the General Reserve will intensify.	Mark Sheldon	15 December 2010	4	3	12	R	Future capital receipts may be needed to galvanise the General Reserve.	1 st December 2011	Mark Sheldon (working with SLT and Cabinet)	

1.06	If the council does not carefully manage its commissioning of services then it may not have the flexibility to make additional savings required by the MTFS in future years and a greater burden of savings may fall on the retained organisation.	Mark Sheldon	15 December 2010	3	3	9	R	Contracts, SLAs and other shared service agreements will need to be drafted and negotiated to ensure that there is sufficient flexibility with regards to budget requirements	Ongoing	AD Commissioning	
1.07	If the levels of cuts are deeper and sooner than suggested in the coalition Government's comprehensive spending review, the council may not be able to deliver a measured and planned response to a reduction in services.	Mark Sheldon	15 December 2010	4	4	16	Reduce	SLT work with the Cabinet using the BtG programme to deliver existing workstreams, new initiatives and accelerate the commissioning programme.	Feb 2012	Chief Finance Officer Mark Sheldon	
1.08	If the triennial review of pensions identifies that contribution rates should be greater than anticipated then this will increase the budget gap within the MTFS.	Mark Sheldon	26 January 2010	3	3	9	R	MTFS based on advice received from actuary.	November 2010	Mark Sheldon	