

BUDGET MEETING 12th FEBRUARY 2016
PRESENTATION BY THE CABINET MEMBER FOR FINANCE, COUNCILLOR JOHN RAWSON

Mr Mayor

I have great pleasure in presenting the revised general fund budget for 2015/16 and the final budget proposals for 2016/17, in what is my last budget presentation.

This budget started out last autumn as an ordinarily difficult one. There was the customary large gap between what we need to spend to maintain services and what money we have available next year. This was increased by the expected short term fall in business rates income due to the fact that several sites are undergoing redevelopment in the coming year.

When we published the draft budget in December we had three key methods of dealing with the gap. The first was a council tax increase of just under two per cent, the first increase since 2010. The cost of this to the average Band D council taxpayer would have been £3.72 a year. The second was £738,000 of efficiency savings, which appeared in appendix 4 of the draft budget. The third was the restrained use of reserves to tide us over short term problems such as the drop in business rates income.

The whole package assumed a drop in revenue support grant of £331,000, based on the modelling that the Department of Communities and Local Government gave us last autumn.

All was calm and reasonably bright until December 17th. On that day we heard that under Government's new funding settlement the cut in grant was going to be over half a million pounds bigger than we had been led to expect. We faced a cut of £839,000 or 40 per cent in 2016/17, followed by a similarly large cut the following year. In all, the Government indicated that it would cut three quarters of our revenue support grant in the next two years and phase it out completely by 2020.

Viewed nationally, the Government funding settlement was a huge blow to local government. Lord Porter, the Conservative chairman of the LGA, literally spoke for England when he said: "Today's Spending Review has handed down a difficult £4.1 billion funding cut over this Spending Review period...Even if councils stopped filling in potholes, maintaining parks, closed all children's centres, libraries, museums, leisure centres and turned off every street light they will not have saved enough money to plug the financial black hole they face by 2020."

However, the settlement was much worse for Cheltenham than it was for the average district council. Over four years, Cheltenham will see its Government funded spending power per head of population fall from £54.37 in 2015/16 to £31.79 in 2019/20, a 41.5 per cent reduction. Worse still we will be well below the average government funding per head for shire districts. Our £31.79 per head in 2019/20 will be £7.96 or 20 per cent lower than the average for urban shire districts. This is a desperately unfair settlement.

Now, it's true that phasing out the revenue support grant and letting councils keep a bigger

share of business rates has a lot to be said for it. I will come to the merits and risks of business rates redistribution later in this presentation. But it's first and foremost the phasing of this radical change that gives us a serious problem. It is thought to be unlikely that the Government will publish its proposals for redistributing business rates for another two years. In the meantime we face a cumulative 74 per cent cut in revenue support grant, which represents over £1.5 million a year of lost income by the second year.

As you may recall, I wrote to the Secretary of State before Christmas to urge that the cut in revenue support grant should be applied more gently over a four year period so that we did not face such a precipitous drop in the first two years. This was followed up in the New Year by a long and detailed submission to the Government by our finance officers explaining the reasons why the settlement was unfair and based on unrealistic assumptions.

We made these submissions without much hope that they would be listened to, but of course it was not just Cheltenham that was up in arms about aspects of the financial settlement. No fewer than 277 other councils made representations, many of them about the very sharp fall in grant in the early years of the settlement. As a result, last Monday night we were informed that the Government had made a significant concession in response to what we said. It gave us a transitional grant of £74,000 a year over two years to help us cope with the grant reduction. This is a small part of the money they are taking away from us, but it is something. As a further move to helping councils compensate themselves for the huge grant reductions, it also allowed shire districts like Cheltenham to raise council tax by £5 a year if this is more than the 2% previously allowed.

I would like to thank our officers for a submission which clearly made an impact on the Government. I would like to thank our MP Alex Chalk for reading the submission, coming to meet us to discuss it, and making his own representations to Government.

Mr Mayor, let me now turn to the subject of business rates. The redistribution of business rates income, which was introduced in 2013, has become an important part of our lives, to the extent that business rates are already our biggest source of government income. So let me say a word about it and what it means for the Council's finances.

The idea that local councils can share more fully in the proceeds of business rates is very attractive, especially for towns like Cheltenham which are likely to see substantial economic growth over the next few years. And by and large, giving councils like ours a direct stake in economic growth in their areas is the right approach. But the devolution of business rates income to local authorities has introduced a very large element of risk into council finances that wasn't there before. That is because councils have now become liable for part of the cost to the taxpayer when business rates valuations are reduced on appeal. Not only that, but they are liable for part of the backdated costs of revaluations over several years.

The Virgin Media appeal for a revaluation has already hit the Gloucestershire Business Rates Pool hard. In just the last few weeks, the revaluation for purpose-built health and medical centres has devastated our business rates reserves. And we know that further appeals are in the pipeline. Valuation panels have an ability to wreak havoc with our finances that George Osborne can only dream of. That is why I strongly believe that, if the redistribution of

business rates is going to work, the Government has to step in and reduce the risks that councils face, risks which are immense but which are totally outside our control.

There is also another threat to the future financial stability of the Council, in the Government's review of New Homes Bonus. This has become a growing part of the income of this Council and every other English local authority. We expect it to deliver £2.1 million to us in 2016/17. But the Government is now considering shortening the period for which NHB is payable on each new home from six years to four. It is also considering top-slicing NHB to pay for social care. That means we cannot assume New Homes Bonus and our income from it will continue after next year at the level we have hitherto expected.

This Council has always been cautious in its use of New Homes Bonus to support the revenue budget. Many other councils put their whole Bonus towards ongoing revenue costs, but even in the coming year, we only intend to use 81% of it for that purpose, leaving us some headroom in the event of fluctuations in our NHB income. In the revised Medium Term Financial Strategy I am proposing that we should even more cautious from 2017/18 onwards.

In the draft budget I was proposing that we should put another £250,000 into the revenue budget from NHB in 2017/18 and a further £100,000 on top of that in the following year. But I am now proposing that the contribution to the revenue budget from NHB should be pegged at its 2016/17 level in the following years. That will provide a safeguard against the impact of any Government changes to NHB. All being well, it should also allow us to put some of our NHB income into reserves.

All this is a sombre backcloth to this year's budget and the Council's medium term financial prospects. It would be easy to throw up our hands, present a do-nothing budget and simply hope for better times. But I believe that, as the Bishop of Carlisle says in Shakespeare's *Richard II*, "wise men ne'er sit and wait their woes, but presently prevent the ways to wail".

That is why we have tried to find a positive and dynamic way forward in these difficult circumstances.

We have looked for and found additional income, particularly identifying additional business rates income that is likely to come in through business rates pooling.

We have looked for savings in the current financial year so that we can strengthen our budget strategic support reserve and cushion services against cuts in government grant.

We have also added more savings and additional income to Medium Term Financial Strategy, not just for 2016/17 but for 2017/18 and the following years.

I think it is important that I say a word about our reserves. The Government's advice to councils who are facing difficulty as a result of the grant cut is that we should draw on our reserves. And indeed this advice was echoed by Cllr Harman in his comments in the Echo on Christmas Eve. I have three major concerns about this.

The first is that our general fund balances, the unallocated portion of our reserves, are fairly modest at £1.4 million.

Secondly, I do not wish to raid earmarked reserves that are needed for necessary and beneficial projects such as providing affordable housing, improving play for children, building a new crematorium and improving the town centre. I am very proud of the capital projects we are currently embarked on, which will benefit the people of Cheltenham for generations to come.

The third consideration is that of course using reserves cannot be a long term solution. Using reserves is a two-act play in which you have to come back after the interval to look for sustainable long term savings. If we relied on reserves to cover the drop in grant, it would cost us roughly £6.5 million over four years and we would entirely exhaust our available reserves.

Accordingly I am glad to say that we have made the new budget balance without digging into the general fund balances. In addition, we have actually strengthened our budget strategic support reserve since the draft budget was published. Even before the Government's final settlement, we built up the budget reserve to £737,000 so that it could be there to support us over the next two years and beyond. We are now proposing that the first year's transitional grant should be added to that reserve to give our finances still greater resilience.

All this adds up to a remarkable turnaround between the provisional grant settlement announcement and the publication of the final budget proposals – a period of about five working weeks. I have to say, Mr Mayor, that I am bowled over by the terrific hard work that has been done by our officers to fill the huge gap that the grant settlement left us with.

I do not for a moment claim that we have solved the financial problems we face. We have done enough to avoid slamming on the brakes. We have done enough to avoid panic cuts in services, which would scarcely be legitimate as we wouldn't have had enough time to consult on them. We have made progress in sustainably closing the financial gap that has opened up. The Medium Term Financial Strategy does not just identify £780,000 in sustainable savings and additional income for 2016/17. It also identifies another million pounds worth in 2017/18, including £224,000 from the 2020 Vision programme of shared services.

Nonetheless there is a lot still to do. The Council will need to redouble its efforts to find longer term savings through the Bridging the Gap process and, even with the savings that have already been found, next year's budget will be a very challenging one.

I strongly suspect that the next council administration, whichever party wins in May, will be very different from the one we have had over the past four years. But I would implore those who run the Council in the future not to be so foolish as to abandon the 2020 Vision programme. Achieving and over-achieving the savings targets we have set ourselves in the 2020 programme will play a key part ensuring our financial future.

Mr Mayor, another way in which we can protect our financial future is by taking advantage of the new flexibility that the Government is now allowing us on council tax. I mentioned earlier that the Government last Monday changed its policy on council tax increases and gave us and other shire districts the chance to increase our share of council tax by £5. This compares with the £3.72 that we were originally proposing. Although we didn't have much time, the cabinet thought carefully about what we should do.

I believe we have a serious responsibility to protect services not just in 2016/17 but beyond. There is no doubt that an additional £51,000 of council tax income, plus the £74,000 of transitional grant next year, will strengthen the council's finances very substantially and reduce our dependence on reserves. It will directly benefit Cheltenham residents by reducing the budget gap we have to bridge in future years and thereby protecting services from cuts.

That is why the cabinet on my advice decided to recommend a £5 increase. We resolved to ask the average Band D taxpayer for an extra £1.28 a year to help protect the services we all cherish. That's the price of one copy of a quality daily newspaper.

I don't minimise the significance of any tax increase, but we need to keep this in perspective. The County Council tax increase this year is likely to be over £43 for a Band D taxpayer, so this is small beer in comparison. These days you don't get a portion of takeaway fish and chips for £5. I think it is a price people will be prepared to pay for their services and their quality of life.

It is also important to recognise that this entitlement to put tax up by £5 comes with a certain amount of pressure from the Government. It is a way to increase our spending power to compensate for the grant cut, but without the Government having to spend its own money.

What's more, it is very clear that the Government in future financial settlements will assume we have made this increase. Therefore not doing it will affect our funding for years to come. That's why we need to make it clear to Cheltenham residents that this tax increase is not the result of greed on our part, but a direct result of the grant cut.

Mr Mayor, as a Council, we need a clear strategy, and it's when we are under the greatest financial pressure that we need it most of all.

My strategy is twofold. The first is to protect the services that people in the town want and need. The budget I am presenting today, despite all the difficulties, achieves this.

My second aim, I think, is shared by the whole Council. It is for Cheltenham to be the most prosperous, vibrant and welcoming town that it can be.

Prosperity and business growth are central to the Council's strategy. They are not just good for the town but a direct financial benefit to the Council, in a situation where the Government is promising us a bigger share of business rates in future years. That is why,

despite all the financial difficulties, it would be foolish not to play our full part in supporting the local economy. Much of what I have to propose today is focused on that goal.

We will continue our support for the Business Improvement District, including our financial support. It will be a matter for businesses in the town centre to decide whether they wish this scheme to go ahead, and if it does go ahead it will be led and shaped by them. But they need have no doubt about our commitment to the scheme, which I think offers huge opportunities for improving the town centre and making it a more welcoming place.

We will find additional money to enable us to complete the Joint Core Strategy process and to continue the work that will lead to the introduction of the community infrastructure levy. Both these things are vital to the future prosperity of the town, and for ensuring that new development is matched by new infrastructure.

We will continue our support for the artistic and cultural life of the town. This budget does include a substantial saving from leisure and culture, but this is the reduction in the Cheltenham Trust's management fee that we negotiated some years ago. It does not represent a cut in services.

In addition, Mr Mayor, we will find money to kick-start the implementation of the new tourism strategy, which is currently in preparation. Tourists, shoppers and visitors of all kinds are huge contributors to the local economy, and we need to make sure that Cheltenham plays to its strengths as a visitor destination.

We will continue our efforts to make the Cheltenham environment as clean and green as it can be. There will be no cutback in cleaning services, despite the financial pressures. On the contrary, this budget contains a sum of £36,000 to fund an intensive clean-up of the town centre, including the removal of chewing gum from the pavements. I hope that this will be the first stage of a project that could be extended to other key areas of the town. The Council will also be working with local voluntary groups to clear up litter and mess right across the town as part of the nationwide Clean for The Queen initiative to mark The Queen's 90th birthday.

I would also like to say a word about parking. Parking income has been one of the good news stories of this year's budget. We are expected to exceed our income target in the current financial year by something like £330,000. This means we have been able to keep our parking income reserve intact and carry it forward into the next financial year.

We will also see increased parking capacity in the coming year. The Shopfitters site will be cleared and laid out for additional parking in the next few months. In addition, Auger Buchler is keen to work with us to bring the North Place site back into use as a car park until a new scheme comes forward for the long-term redevelopment of the site.

All of this has given us the confidence to adopt an imaginative and forward-looking approach to parking charges. We will continue the freeze on charges in our car parks for the sixth year running. Indeed the Medium Term Financial Strategy assumes the freeze will continue for

another four years, though that cannot be guaranteed. I am also proposing that we should abolish parking charges in council car parks after six o' clock at night.

As members know, we have a cabinet member working group looking at future parking strategy. This is quite a complex area. Parking is something of a mixed economy, with the county council controlling on-street parking and the borough council and the private sector running car parks. I do not wish to prejudge the conclusions of the working party, but I am anxious to show in this budget that we are serious about change.

I believe that making parking free after six in our car parks will help to transform our town, making it more accessible to visitors, boosting the café culture and the restaurant industry, supporting leisure and culture activities and encouraging late night shopping. It will improve the environment of the town in the evenings, encouraging motorists to park in the car parks rather than cluttering up the streets. It could also bring relief to some residential streets that are currently cluttered up with non-resident parking in the evening.

The change will bring us into line with most of the County Council on-street parking schemes, but I hope that where the County is charging for on-street parking till 8 o'clock, they will change their policy and come into line with us.

Mr Mayor, I have talked at length about the action we are taking to support the local economy. Can I also refer to another way in which we will need to respond to the new realities of local government finance.

In a situation where Government funding is rapidly dwindling, we will need to raise more of our own income in future years. And a major part of this will have to come from our property investments.

In the coming year we will be receiving the first fruits of our purchase of Delta Place, with income from the building bringing in £100,000 a year over and above borrowing costs.

When we decided to buy Delta Place last April, I was told my head was on the block and that the Council would be haunted by the purchase for years to come. I am happy to report that my head is still firmly on my shoulders and that no ghosts have so far been sighted. The building, far from being unwanted as some councillors claimed, is now very much in demand. It currently sports a proud red FULLY LET sign. I believe it will prove to be a hugely valuable investment for the Council, bringing in a very substantial income far into the future. I also believe that future councils, far from being haunted, will bless the day we bought it.

Members will also remember that some time ago we bought the Shopfitters site in St George's Place. In the short term the site will be cleared and used to provide additional car parking. But in the longer term, Shopfitters together with the adjacent Synagogue Land and Chelt Walk car parks will form a valuable development site which can be used either to realise a large capital amount, or more usefully to generate a substantial income. This is an illustration of why we cannot live year to year but have to think about the medium term and long term future.

I hope the Council will continue to look out for similar investment opportunities in the future, and officers are currently looking at how some other councils have used property investment to deliver very high levels of income. I hope to be bringing a report to the Council on this subject in March.

Before I conclude, may I refer to two other matters which are essentially about fairness and human decency. We are required on an annual basis to reaffirm our support for the Living Wage and for paying the supplements necessary to implement it. I am proposing that we do so now in these budget resolutions. Let me also mention Council Tax Support. Until now we have resisted Government pressure to cut this benefit for people of working age on very low incomes. I am proposing that we stand firm on this, by declining to mirror in Council Tax Support the changes the Government has recently made in Housing Benefit, particularly the abolition of the family premium.

Finally, Mr Mayor, let me set out in summary what my proposals achieve.

A balanced budget, despite a huge cut in Government grant.

The local economy strengthened.

The town made cleaner.

Car park charges after six abolished.

Front line services protected

More efficiency savings.

More services shared to save money.

Our reserves strengthened.

Despite the financial difficulties, this is not a do-nothing budget but a do-plenty budget.

This is local government with its sleeves rolled up.

This is how we show our love for Cheltenham through action.

This is sound financial management.

Mr Mayor, I have pleasure in proposing the general fund budget for 2016/17.