

Mayor, Members

I have great pleasure in presenting the revised general fund budget for 2018/19 and the final budget proposals for 2019/20.

For some years now, we have been working to a Medium Term Financial Strategy that sets out our financial situation over a rolling five-year period. Planning for several years at a time became even more important, when the Government announced that it was going to phase out the revenue support grant over four years and give councils a bigger share of the income from business rates.

#### Funding Settlement

As members will recall this council took up the four year settlement funding offer in order to bring some guaranteed stability of at least a fixed amount for those years albeit decreasing to zero in 2019/20.

The final financial settlement, was announced on the 29th January 2019, there were some changes made from the draft budget proposals, the most significant changes and announcements proposed in the settlement were:

- The announcement that Gloucestershire was not successful in its application to pilot 75% Business Rates Retention (BRR) in 2019/20;
- No changes in the way that the New Homes Bonus (NHB) is calculated and the baseline target will remain at 0.4%. This equates to an additional £228,797 NHB in 2019/20;
- The distribution of £180m business rates retention levy pro-rata to the 2013/14 Settlement Funding Assessment. This equates to an additional £42,893 in 2019/20;
- An upward adjustment to the 2017/18 tariff for business rates revaluation which resulted in a reduction in retained business rates of £81k;
- Fair Funding Review and Retained Business Rates consultations on new funding methodology from 2020/21 which closes on 21st February 2019;
- Confirmation to the removal of 'negative Revenue Support Grant (RSG)' in 2019/20.

Additional pressures outlined in Appendix 4 have been funded by the additional funding, which will result in a revised net budget requirement of £14.831m as detailed in Appendix 3.

#### Business rates

The redistribution of business rates income, has become an important part of our lives, to the extent that business rates are a major source of income,

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 not least the new West Cheltenham development.

But it must aware 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.

I am disappointed to say that Gloucestershire was not successful in its bid to become a pilot area again this year for the new 75% retention rate, it is interesting to note that government decided to award this to other authorities including Northhamptonshire, Somerset, Worcestershire and Buckinghamshire. ( note to self all struggling authorities)

Under the current pilot arrangement which ends on the 31st March this year, 100% of growth is shared locally, with 30% going to the District's, 50% to the County Council and 20% to the Strategic Economic Development Fund. Current projections suggest that the overall pilot gain in 2018/19 is now circa £14m. After allowing for the creation of a £1.4m 'risk reserve', the benefit to Cheltenham Borough Council is estimated to be circa £640k and Council approved that this would be ring-fenced to fund one-off economic growth initiatives specific to Cheltenham.

The move to local business rates retention is still I believe a positive one albeit we have faced a series of obstacles in trying to make it a success, alongside significant levels of risk due to the volume of outstanding business rates appeals which are being processed by the Valuation Office. Where appeals are successful, refunds of business rates may be repayable back to the 2010/11 financial year, which reduces the business rates yield in the year in which the refund is made. The Council has made provision for its share of the cost of outstanding appeals in its financial statements. The level of provision has been reviewed as part of the preparation of the business rates estimates for 2019/20.

### New Homes Bonus

If I could turn to the new homes bonus, this year there are no changes in the way that the New Homes Bonus is calculated and the baseline target will remain at 0.4%.

There have long been concerns as to the sustainability of this funding stream, and in 2017/18 the Government changed the calculation for the award of the grant. Prior to 2017/18 the grant comprised six annual tranches, reducing to five in 2017/18 and four thereafter. A baseline of 0.4% housing growth was introduced under which no New Homes Bonus grant is paid.

MHCLG recently consulted on further proposed changes to the current New Homes Bonus scheme which is intended to incentivise house building within local authority boundaries and may include an increase in the baseline target although the scheme has remained unchanged in 2019/20.

It is likely that further changes will be implemented post 2020 although NHB is not currently included as an element of the FFR. It is this Council's belief that NHB in its current format, does not equate to the needs of the authority and the Council will continue to lobby on this front.

### Council Tax

I believe we have a serious responsibility to protect services not just in 2019/20 but beyond. There is no doubt that any additional council tax income, will strengthen the council's finances 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.

With increased pressure for the cap on public sector pay to be lifted and the need for inward investment in the Borough through specific events and marketing of the Town, the Cabinet has had to consider what level of increase in council tax is sustainable, without creating an increased risk of service cuts and/or larger tax increases in the future.

Therefore, the Cabinet is proposing a 2.99% increase in council tax in 2019/20 ; an increase of £6.07 for the year for a Band D property.

I am not minimising the significance of any tax increase, but we need to keep this in perspective. The County Council and the Police tax increase this year is far greater than we are proposing. I think our proposed 18 pence a week increase is a price people will be prepared to pay for their services and their quality of life.

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.

The uncertainty surrounding the future of New Homes Bonus, the fair funding review and the reset in the business rates post 2020 which represents a significant proportion of our income, places a greater reliance on council tax as our main source of income.

Collection fund In accordance with the Local Authorities Funds (England) Regulations 1992, the Council has to declare a surplus or deficit on the collection fund by 15th January and notify major preceptors accordingly. This Council's share of the collection fund surplus for 2018/19 is £110,500 which will be credited to the General Fund in 2019/20. Collection fund surpluses arise from higher than anticipated rates of collection of the council tax collection rates, my thanks to the team for all their efforts.

### Roundup

In the current exceptionally difficult national funding situation, the Cabinet's overriding financial strategy has been, and is, to drive down the Council's net costs via a commercial mindset. This

Cabinet's aim is to hold down council tax as far as possible, while also protecting frontline services, identify savings through reorganization of service delivery or raising additional income, an immensely challenging task in the present climate.

How have we done that,

This budget has been prepared under a general philosophy of no growth,

Firstly a major focus for the longer term is closing the gap as set out in the MTFS, The MTFS indicates broadly how the Council will close the projected funding gap over the period 2019/20 to 2022/23. In future years, it includes targets rather than necessarily specific worked up projections of cost savings and additional income to allow the Executive leads autonomy and flexibility. Engaging with stakeholders will be crucial when it comes to developing a sense of ownership in local decision-making and service delivery. Working with stakeholders will allow the council to fine tune services based on actual needs. Holding adequate information upon which to base the allocation of scarce resources is essential to address under-met needs.

The commercial strategy was adopted by Full Council in February 2018 with the vision "to become an enterprising and commercially focused Council which people are proud to work for and which others want to work with. We will use our assets, skills and infrastructure to shape and improve public services and enable economic growth in the Borough. We shall generate significant levels of new income for the Council working towards the objective of enabling it to become financially sustainable by the financial year 2021/22".

it includes the relocation strategy, sharing management and staff costs where possible, commercial asset rationalization which includes the depot. The MTFS indicates broadly how the Council will close the projected funding gap over the period 2019/20 to 2022/23. It is based on the building blocks of place and economic growth; organizational change; and finance and assets. The detailed schedule of target savings is provided in greater detail within Appendix 5.

The cabinet believes that the longer term approach to closing the funding gap is fundamentally through economic growth and investment together with the effective use of our assets to this end cabinet worked with the executive finance officer and introduced last year a commercial strategy which sits alongside the MTFS, in addition resources will be geared towards supporting and delivering major benefits to the Town in North West and West Cheltenham.

I am also proposing that we make full use of the New Homes Bonus of £1.468 million to support this revenue budget,

A budget support reserve was created in 2015 for the specific purpose of providing more resilience, should short term challenges be faced, today my proposal is to draw on this reserve, having been successful with some major redevelopments that in the long term will benefit our Towns economy enormously Because these are short term challenges the use of £256 thousand of this reserve I would suggest is preferable to cuts in service.

Given the expectations on councils to make a significant contribution to reducing the national budget deficit, this Council faces a significantly more challenging financial position in the early years of the MTFS. The latest projections indicate a gap of £2.787m for the period 2020/21 to 2022/23, primarily as a result of the baseline funding allocation reset proposed in 2020 whereby the growth generated from business rates since 2013/14 will be redistributed based on need under the fair funding review.

This council is aspirational and horizon scanning in the approach it takes to delivering its services, and supporting those it works with in partnership to ensure Cheltenham is a vibrant and desirable place to live, work and invest.

However, recognising the change in the council's short to medium term finances has required an alternative approach to be taken over the next few financial years with a focus on delivering services within approved budgets and enhancing the council's reserves to ensure it is able to meet any unforeseen costs in the future and also mitigate known risks and forecast cost pressures, particularly those arising from changes in the way local government is financed post 2019/20.

## Capital programme

The proposed capital programme for the period 2018/19 to 2020/21 is at Appendix 7.

The strategy for the use of the council's capital resources is led by our corporate priorities. The existing programme includes sums for infrastructure investment to be funded from capital receipts and the purchase of new vehicles through Ubico. It also includes the allocations agreed by the Council in April 2015 to facilitate the redevelopment to the Town Hall and the Crematorium, and an earmarked contribution to public realm works within the Town Centre.

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

Supporting the artistic, heritage and cultural life of the town as economic drivers will remain a core focus, it all helps to show that Cheltenham is a town with a vision, backed up with a new Place Strategy.

Investing in our services that contribute to our income is imperative, the proposals for the new crematorium is one example, of a commitment to provide a facility, that is fit for purpose to deliver a first class service to our residents and the businesses that use it.

## Pay Policy

Before I conclude, Section 38 of the Localism Act requires local authorities to produce pay policy statements which should include the authority's policy on pay dispersion, we are also 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.

Mayor, may I pause here to reflect on where we have come from, got to and a plan for the future.

Since 2010, CBC like other councils has faced unprecedented fiscal challenges with:

- A double-dip recession
- Stunted economic growth
- Government cuts in funding
- Rising demand for services, with increased costs
- Welfare reform and stagnant wage growth

The negative experience of CBC's Icelandic Bank investments and double dip recession meant the financial environment was challenging; core funding was cut by £5.7m, from £8.8m to £3.1m, with further reductions through to 2019/20.

In addition, during 2013/14, £11m investments performed at 0.4% return which was poor; the base rate was 0.5%.

All of those events could have seen this authority shrink to providing the very bare minimum of services to the residents of our Town, this administration did not consider that was an acceptable option, and I believe the majority of members would agree.

How could we change for the future ?

Our finance and assets department initiated an audit of assets, worked with Grant Thornton and treasury advisers to develop a sound roadmap that fostered financial structuring and investment options planning. Options were defined into three categories: continuing as we are, take a commercial approach, or seek greater collaboration to secure the council's future.

To continue as we were would mean CBC would have had to rely heavily on fees and charges, further streamlining, or significant service cuts, including reducing our staff and skills base. we were keen to explore alternatives delivering growth, income and revenue streams, together with tangible

improvements. A bold shift to collaboration and commercialisation was needed to deliver expectations.

I would like to highlight some of the changes and outcomes achieved

## Treasury Management

With investment and interest rates remaining low in the medium-term, CBC demonstrated skilled treasury management and cash-flow performance. Returns from traditional fixed-term cash deposits are minimal, so growth was met through diversification into alternative investment sources, such as pooled property funds, multi-asset funds, including bond and equity markets, which alongside LGPS up-front payments has generated half a million in additional revenue.

Debt restructuring and minimum revenue provision reviews have enabled CBC to make significant savings on debt repayments. For example, in 2018 CBC arranged 38 loans, receiving £41.867m from the Public Works Loan Board to finance four commercial property acquisitions. In the business case, the annuity loans rate to borrow funds over 40yrs was 2.81% and on the day the loans were agreed the annuity rate stood at 2.78%. However, a decision was made to take out a basket of maturity loans from 3yrs to 40yrs, resulting in interest savings of £937k against taking out a 40yr annuity loan and achieving an average borrowing rate of 2.57%.

Our commissioned services have made significant savings for this authority

Since 2011/12 to date Ubico contributions on waste and recycling is over 1 million

The Cheltenham Trust since 2013/14 savings stand at £832,300

Go shared services now known as Publica have since 2012 given savings of £433,900

Turning to our shared services

South West Audit Partnership delivered savings of £73,400

One Legal savings of £113,500

Investments in our Public realm in partnership with the County Council & European Structural & investment fund supported by the BID and Development Taskforce brought in almost 1 million pounds to support the High Street revitalization.

February 2018 saw the introduction of our commercial strategy that is at the heart of our mindset to be more commercially focused and financially sustainable, CBC is in the top 10 local authority property acquisitions ratings for 2018 and its net income from its property investment portfolio is £1.7m per annum, projected to rise to £2m by 2022/23 all of it invested in Cheltenham.

So turning to the future with just a small bite of things to come,

Our commercial journey continues, with initiatives including:

- Making Cheltenham the 'Cyber Capital' of the UK, through the creation of the UK's first cyber park.
- Building three new industrial units to meet demand with projected net yields of 6%.
- Community Lottery: launching 2019.
- Options review for new depot provision - current site is at saturation point, so it's key to ensure waste and recycling services continue efficiently into the future. Current site re-development has a potential yield of 5%-6%.
- Working with Professor Paul Courtney from the University of Gloucestershire, to optimise social value from procurement spend.

- A new £8.5m crematorium, provided through borrowing on an 'invest to save' basis opening on-time and on-budget in March 2019; investment underpins a long term revenue stream and valued local service.
- Car parking – strategic consultancy review by Ove Arup Ltd completed in 2017, resulting in tariff restructuring to help secure objectives, such as modal travel shift and investment in infrastructure. This has seen CBC off-street parking income rise by £680k (17.7%) to £4.5 million in 2018, whilst bus travel is up by 5,000 journeys per week (4%) against a national average decline of 2%.
- Vacant Municipal Offices space, available for small business lets from August 2019.
- Leading Public Sector commercial consultant, David Elverson providing training, mentoring and coaching for staff, to foster new commercial initiatives to fruition through a 'bottom up solutions' approach.
- Working with our ALMO, Cheltenham Borough Homes, implement an approved £100m housing investment plan, creating affordable homes and support wider regeneration. National press coverage - Inside Housing.
- Expansion of 'Marketing Cheltenham' in 2019 (established in 2017), a growing service led by CBC, Cheltenham BID and Cheltenham Tourism Partnership to further boost the visitor economy.

The Minster Box Park provision creative arts small business hub.

In summary Mayor I believe that rather than have cuts we need to be brave and bold to achieve what I have just said, this is a –

balanced budget, despite a huge cut in Government grant.

The local economy strengthened.

Car parks Invested in

Front line services protected

More efficiency savings.

Skilled Treasury Management,

Commercial investment

I have heard it said from the other side of the chamber that this administration has no vision for Cheltenham whilst the opposition may say this, there is never a suggestion of meaningful alternatives, I believe I have set out today that we very much do have a vision and have led the way.

We as Liberal Democrats have aspirations for the long-term future of Cheltenham, a festival spa town, to deliver and maintain the very best quality of life for its people. Cheltenham was named by the Telegraph as the best place to raise a family in the UK and the New York Times dubbed it as a destination enjoying cultural renaissance. CBC prides itself as being the custodian and provider of local services, enabling the town to continue developing its compelling marketplace offer.

“Success is not final there is always more to do, caution leads to mediocrity, an appetite for risk allows for growth: it is the courage to continue that counts.”

Mayor, I have pleasure in proposing the general fund revenue & capital budget for 2019/20