

# Cheltenham Borough Council

Cabinet – 18 October 2011

## Budget strategy and process 2012/13

<b>Accountable member</b>	<b>Cabinet Member for Finance and Community Development , John Webster</b>
<b>Accountable officer</b>	<b>Director of Resources (Section 151 Officer), Mark Sheldon</b>
<b>Accountable scrutiny committee</b>	<b>Economy and Business Improvement</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Key Decision</b>	<b>Yes</b>
<b>Executive summary</b>	<b>The purpose of this report is to propose a broad strategy and outline a process for setting the budget, housing rents and council tax for 2012/13. It outlines a number of principles that need to be established at this stage to enable budget preparation to commence.</b>
<b>1. Recommendations</b>	<b>That Cabinet:</b>  <b>1. Approve the budget setting timetable at Appendix 2.</b>  <b>2. Note the estimated funding gap for 2012/13 of £824k at Appendix 3, based upon a 2.5% increase in council tax.</b>  <b>3. Approve the budget strategy outlined in section 4 below.</b>  <b>4. Delegate to the Section 151 Officer, in consultation with the Cabinet Member for Finance, to consider the suggestions from the Budget Working Group in preparing the interim budget proposals for 2012/13 as outlined in section 5.</b>

<b>Financial implications</b>	<p>This report sets out the budgetary process for 2012/13 and the general financial parameters under which the budget will be prepared.</p> <p><b>Contact officer: Mark Sheldon, mark.sheldon@cheltenham.gov.uk, 01242 264123</b></p>
<b>Legal implications</b>	<p>The budget process is governed by the Budget and Policy Framework Procedure Rules (contained in the Council Constitution) and the process recommended in this report is designed to meet and exceed the requirements of those Rules.</p> <p><b>Contact officer: Peter Lewis, <a href="mailto:peter.lewis@tewkesbury.gov.uk">peter.lewis@tewkesbury .gov.uk</a>, 01684 272012</b></p>

<b>HR implications (including learning and organisational development)</b>	None at this stage, other than the need to ensure proper consultation with staff and trade unions in relation to the budget.  <b>Contact officer: Julie McCarthy, julie.mccarthy@tewkesbury.gov.uk, 01242 264355</b>
<b>Key risks</b>	The Council, as part of its work on corporate governance, has a corporate risk management strategy and corporate risk register, which highlights key risks to the organisation in achieving business objectives. The high level risks will need to be addressed as part of the budget process and may require additional resources or the re-direction of existing resources to mitigate unacceptable levels of risk. These risks are regularly reviewed by the Corporate Governance Group, Economy and Business Improvement overview and scrutiny committee and Cabinet.  See risk assessment at Appendix 1.
<b>Corporate and community plan Implications</b>	The annual budget aims to deliver the outcomes defined by the council corporate business plan and resourcing should be aligned to the delivery of corporate plan priorities.
<b>Environmental and climate change implications</b>	None arising from this report

## 1. Background

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

## 2. Budget / business planning timetable

- 2.1 The budget and policy framework requires that the Council publish a timetable setting out the key dates in the budget setting process. A draft budget timetable, attached for approval at Appendix 2, sets out the sequence of events leading up to the setting of the budget and council tax level for the Council for 2012/13 and the council business plan.
- 2.2 The timetable allows sufficient time to consider alternative budget proposals or amendments put forward to the budget proposed by the Cabinet.
- 2.3 The following fundamental principles, established in previous budget rounds, are incorporated into the process of determination of the budget for 2012/13.
  - Cabinet make timely decisions in order to assist the officers in presenting the budget proposals to Cabinet and Council in accordance with the timetable.
  - Opposition parties work up alternative budget proposals ready for initial budget meeting in February 2012, validated by Financial Services.
  - Members aim to set Cheltenham Borough Council's budget and council tax at the initial Council meeting.

### **3. 2012/13 and MTFs funding gap**

- 3.1 Included in the budget presented to Council in February 2011 was an estimate of the Medium Term Financial Strategy (MTFS) which identified a funding gap of £824k for 2012/13 between what the Council will need to spend to maintain services and what it can spend assuming an illustrative council tax increase of 2.5%. The MTFS also identified a funding gap over the period of the MTFS (2012/13 – 2016/17) of £2.5m.
- 3.2 The MTFS projection will be reassessed to include the latest view of the financial implications of more recent developments including any information in respect of future funding levels in the presenting final budget proposals in February 2012.
- 3.3 At the time of writing this report the Government has unveiled a scheme to extend a council tax freeze to 2012/13 to those authorities that limit spending rises to 2.5%. Given that this Council's funding strategy was to limit spending rises to 2.5% it is anticipated that Cheltenham will be able to take advantage of this proposal to freeze council tax in 2012/13 although we await full details of how the scheme will work.
- 3.4 The economic downturn continues to impact on the Council's finances with depressed income levels for car parking income, investment returns and housing activity showing little sign of recovery. The budget monitoring exercise for the current year indicates that, unless corrective action is taken to address the potential overspend in 2011/12, the General Reserve would be significantly depleted, placing further pressure on the council's overall resources. This includes the shortfall on the delivery of some of the initiatives to bridge the funding gap in the current year which, if not resolved, may add circa £400k to the funding gap for 2012/13.

### **4. Cabinet Budget Strategy**

- 4.1 The Cabinet is also acutely aware that, in the present state of the economy, many council taxpayers are struggling financially.
- 4.2 The main thrust of the 2012/13 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.**

#### **'Bridging the Gap' Programme**

- 4.3 The Council takes a long term strategic approach to the MTFs funding gaps and continually works throughout the year to address the budget problem through the 'Bridging the Gap' programme. The following summarises the co-ordinating activity undertaken by the programme.

#### **Asset Management**

- 4.4 The Council has a significant property portfolio including some key public buildings which place significant pressure on the Council's budget and represents a significant cost to the tax payer. Both the council's Asset Management Working Party and the BtG programme develop initiatives which aim to reduce the net cost of the Council's property portfolio through reducing the size of the asset base, increasing income from investment properties and increasing income from the sale of surplus properties.

## **Shared Services**

- 4.5** The Council has already developed shared services with Tewkesbury Borough Council for Legal Services and Building Control and with Cotswold District Council for Audit Services and, in 2012/13 will share Finance, HR, payroll and procurement with 4 district councils (Cheltenham, Forest of Dean, Cotswold and West Oxfordshire District Council) using a single Enterprise Resource Planning system. The council is also forming a local authority company with Cotswold district council to deliver its refuse and recycling and grounds maintenance services. It is anticipated that shared service delivery will deliver significant savings over time. Other opportunities for shared services are actively being considered.

## **Service reviews / Systems thinking**

- 4.6** This work stream seeks to examine how services are provided in order to seek improvements and efficiencies and reduce costs through the use of 'systems thinking' analytical approaches.

## **Identification of further savings**

- 4.7** Given that a number of the work streams deliver savings in the medium term there is still an immediate budget gap for 2012/13 which has to be met. The Cabinet have requested that Directors and Service Managers identify options for closing the gap, accepting that there is little scope for 'salami slicing'. The Cabinet will consider these proposals in preparing the interim budget in light of the Cabinet's lower priority areas.

## **Service growth**

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

## **5. Budget working Group**

- 5.1** In February 2011, the council agreed to set up a budget working group with the following terms of reference:
- To consider options for bridging the funding gap i.e. proposals for charging or reduction in expenditure
  - To review the work programme for commissioning and options being considered
  - To develop members' scrutiny skills and understanding of financial matters
  - To develop the approach to budget consultation
- 5.2** The group has met on a number of occasions during the year so far and has thoroughly considered the current budget process and paperwork and has made a number of proposals to improve and simplify the budget setting process including the following key suggestions:
- Reducing the size of reports generally.
  - Merging the Section 151 officer's Section 25 report into the main budget report
  - Removing a number of appendices including capital charges, investment income and detailed

reserve movements.

- Removing some duplicated narrative e.g. treasury management which is included in the Treasury Management Policy.
- Placing some of the more detailed supporting appendices e.g. budget consultation responses in the members room rather than reproducing it for all members in the budget papers.
- Moving the HRA budget item to earlier on the council agenda.
- Introducing a time limit for budget speeches
- No longer consulting with overview and scrutiny committees ahead of the cabinet agreeing the interim budget proposals since this adds no value to the process.

**5.3** It is proposed that the Section 151 Officer be delegated to work with the Cabinet Member for Finance to consider the suggestions from the Budget Working Group in preparing the interim budget proposals for 2012/13.

## **6. Budget Setting Process 2012/13 – key stages**

**6.1** In approaching the budget setting process for 2012/13, the Cabinet will endeavour to adhere to some well established principles designed to deliver budget proposals in a timely manner following proper process, including:

- Debating the allocation of one-off money at the earliest opportunity
- Requirement for early and clear direction input from Cabinet and Senior Leadership Team
- Ensure Financial Services maintain strong role in moderating process
- Director of Resources (Section 151 Officer) leads and advises on strategic budget issues
- Agree Cheltenham Borough Homes (CBH) management fee and Housing Revenue Account (HRA) budget as early as possible
- Maintain good communications between Chief Executive, Senior Leadership Team, Council Leader, Cabinet Member for Finance and Director of Resources (Section 151 Officer) over budget progress / issues.
- Ensure clarity of savings achieved from procurement.
- Senior Leadership Team aligned behind collective approach to resolving budget gap issue.
- Include Overview and Scrutiny Committees in the budget process

**6.2** The proposed key stages in the process for setting the budget for 2012/13 are summarised in the timetable at Appendix 2 and are detailed below. The timing of events may change as the process develops.

### **Publication of budget timetable**

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

### **Budget preparation**

**6.4** Between October and November 2011, the Cabinet Member for Finance and officers will work with the Cabinet towards the creation of 'interim budget' proposals which will incorporate the following:

- A standstill budget projection prepared under a general philosophy of no growth in levels of service. Inflation for contractual and health and safety purposes will only be allowed where proven at the appropriate inflation rate. No pay inflation will be budgeted for.
- The current MTFs assumes inflation on fees and charges at an average rate of 2.5% (excluding the VAT increase) annually over the 5 year period. This increase will be assumed in the

preparation of the standstill budget and any deviation from this will form part of the interim budget proposals.

- The impact of prevailing interest rates on the investment portfolio will be assessed in preparing the budget. The Treasury Management Panel will consider the position in respect of treasury management activity during the budget setting cycle, including the latest position in respect of Icelandic banks.
- An assessment of the charges to be made to Cheltenham Borough Homes and the Housing Revenue Account including assessing the impact on the General Fund of the changes to the housing subsidy system.
- An assessment of potential savings from procurement and any savings identified in order to meet the funding gap.
- Proposals for service growth (invest to save schemes only).
- Proposals for increases in fees and charges
- An updated assessment of the MTFS incorporating the financial assessment of the Business Plan tasks and any updated estimates for future funding pressures and sources of income.

### **Publication of initial budget proposals**

- 6.5** The Cabinet will present its initial budget proposals and publish them for consultation in line with the advertised plan. The initial budget proposals will include all general fund revenue, capital and housing revenue account estimates to meet a balanced budget, together with assumptions made on future council tax and rent levels.

### **Budget Consultation**

- 6.6** Last year, 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. A summer public consultation road show was rolled out across the town requiring residents to identify which services should be protected, reduced or stopped given the need to make savings. This was not a scientific exercise and the results were not drawn from a representative sample of the population. However, the consultation proved to be very effective in engaging the public and was seen as the start of a dialogue about the future role of the council given reducing resources. This was followed up by resident's panels where the results had been relayed and options for saving money have been tested. The information gained from this exercise was valuable and, not only informed the budget setting process for 2011/12, but will support decisions in future years.
- 6.7** The Cabinet considered whether to repeat this exercise but concluded that the results may be similar and it would not add any further value. Instead it proposes, in addition to the formal budget consultation, some targeted consultation around specific issues particularly those arising from commissioning. This approach was endorsed by the Budget Working Group.
- 6.8** The formal budget consultation period will be no less than four weeks and will take place during December 2011 to January 2012. The Cabinet will seek to ensure that the opportunity to have input into the budget consultation process is publicised to the widest possible audience. During the consultation period all interested parties will be welcome to provide feedback on the initial budget proposals. Groups, businesses, tenants, residents, staff and trade unions will be encouraged to comment on the initial budget proposals at this time. They will be asked to identify, as far as possible, how alternative proposals complement the Council's Business Plan and Community Plan, how they will be financed, and how they will help the Council to achieve best value. Presentations will be made to key business groups as part of the consultation process.

- 6.9** The Overview and Scrutiny Committees will be invited to review the interim budget proposals in the meetings scheduled for January 2012 and feed any comments back to the Cabinet as proposed by the Budget Working Group (see section 5).
- 6.10** Whilst the Cabinet will be as flexible as possible, it is unlikely that any comments received after the consultation period can be properly assessed to consider their full implications and to be built into the budget. Accordingly, if alternative budget proposals are to come forward, this should happen as early as possible.
- 6.11** All comments relating to the initial budget proposals should be returned to the Section 151 Officer by the end of the consultation period for consideration by the Cabinet in preparing their final budget proposals. Consultation questionnaires will be available in key locations and for completion on line via the council's website. Comments can be e-mailed to [moneymatters@cheltenham.gov.uk](mailto:moneymatters@cheltenham.gov.uk).

### **Assessment of alternative Budget Proposals**

- 6.12** It is important that any political group wishing to make alternative budget proposals should discuss them, in confidence, with the Section 151 Officer and / or the appropriate Strategic Director / 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.
- 6.13** Given the financial pressures and the potentially very difficult decisions which will have to be made, it is very important that there is time for members to carefully consider and evaluate any alternative budget proposals. Political groups wishing to put forward alternative proposals are not obliged to circulate them in advance of the budget-setting meeting, but in the interests of sound and lawful decision-making, it would be more effective to do so, particularly given that they may have implications for staff.

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

- 6.14** At the end of the consultation period, the Cabinet will draw up firm budget proposals having regard to the responses received. In drawing together its budget proposals to Council the report will reflect the comments made by consultees and the Cabinet's response. The firm budget proposals will be presented to Council at the budget setting meeting for decision in February 2012.

## **7. Housing Revenue Account**

- 7.1** Draft proposals for the Housing Revenue Account will also form part of the same process for considering the General Fund revenue and capital budgets.
- 7.2** The financial projections contained in the HRA Business Plan are currently being updated to reflect revised estimates for:
- Need to spend on stock investment and maintenance,
  - Subsidy changes,
  - Stock numbers,
  - Rent and service charge income.
- 7.3** The revised projections will be available to inform decisions on the level of management and maintenance and capital investment in 2012/13 (to include fees payable to Cheltenham Borough Homes and administrative charges from Council Divisions).

- 7.4 The HRA financial strategy adopted by the Council in recent years has been to seek ongoing efficiency savings in management and maintenance, to retain a contingency balance of approximately £1 million on the account and use any surplus resources to fund capital investment in the stock.
- 7.5 Now that the Decent Homes programme is completed, future investment will focus on retaining the decency standard and further neighbourhood works. CBH are also currently investigating funding options for new social housing which will include bids to the Housing Corporation for Social Housing Grant.
- 7.6 Other issues that will impact on the HRA in 2012/13 include the following:
- Changes to the Housing Subsidy system
  - Right to Buy Sales – sales continue to be low. Overall a reduction in sales will reduce the capital receipts available to fund new investment.

## 8. Reasons for recommendations

8.1 The council is required to agree a budget process and timetable.

## 9. Alternative options considered

9.1 The process for considering alternative budgets is set out above.

## 10. Consultation and feedback

10.1 The consultation process is described fully above. In view of the size of the challenge the Council faces in setting the 2012/13 budget, consultation has already commenced with trade unions.

## 11. Performance management – monitoring and review

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

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<b>Appendices</b>	<ol style="list-style-type: none"> <li>1. Risk Assessment</li> <li>2. Budget timetable</li> <li>3. Funding gap projection</li> </ol>
<b>Background information</b>	<ol style="list-style-type: none"> <li>1. RSG projections 2011/12 – 2012/13</li> <li>2. MTFS 2011/12 to 2016/17</li> </ol>



The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
CR3	If the council is unable to come up with long term solutions which bridge the gap in the medium term financial strategy then it will find it increasingly difficult to prepare budgets year on year without making unplanned cuts in service provision	Director of Resources Mark Sheldon		3	4	12	Reduce	Development of the BtG programme. Establishment of a cross party working group following the elections in May. Review budget scrutiny process. Review and rolled out revised budget consultation process SLT presentation of new ideas to Cabinet leads.	on -going	Mark Sheldon	1/9/2010
CR27	Icelandic banks - financial exposure  If the group claim against Glitnir bank fails and the council is not recognised as a 'priority depositor' the council's deposits would be re-classified as 'general unsecured creditors' resulting in a lower recovery rate and exposure to defendants costs.	Director of Resources Mark Sheldon		4	3	12	9/4/2010	Council commitment to join in group action with other councils to make case for priority depositor status.  Capitalisation direction approved for £4.43m allows for write off of loss over 20 years.	1/12/2011	Mark Sheldon	9/4/2010
CR28	Icelandic banks - financial exposure  If the current status as	Director of Resources Mark Sheldon		4	3	12	9/4/2010	Council commitment to join in group action with other councils to defend current priority		Mark Sheldon	9/4/2010

	<p>priority deposits with Llandsbanki bank is successfully challenged, the council's deposits would be re-classified as 'general unsecured creditors' resulting in a lower recovery rate and exposure to claimant costs and impact on the MTFS over that already factored in through capitalisation of losses.</p>							<p>depositor status.</p>			