

Cheltenham Borough Council

Cabinet – 8 October 2019

Budget strategy and process 2020/21

Accountable member	Cabinet Member Finance, Councillor Rowena Hay
Accountable officer	Executive Director Finance and Assets (Section 151 Officer), Paul Jones
Accountable scrutiny committee	Budget Scrutiny working group
Ward(s) affected	All
Key Decision	Yes
Executive summary	<p>The purpose of this report is to propose a broad strategy and outline a process for setting the budget and council tax for 2020/21. It outlines a number of principles that need to be established at this stage to enable budget preparation to commence.</p>
1. Recommendations	<p>That Cabinet:</p> <ol style="list-style-type: none">1. Approves the budget setting timetable at Appendix 2.2. Approves the budget strategy outlined in section 5.3. Notes the intention for this Council to remain in the Gloucestershire Business Rates Pool in 2020/21 as outlined in section 6.4. Requests the Executive Director Finance & Assets and the Cabinet Member for Finance to consider suggestions from the Budget Scrutiny Working Group in preparing the interim budget proposals for 2020/21 as outlined in section 7.

Financial implications	<p>This report sets out the budgetary process for 2020/21 and the general financial parameters under which the budget will be prepared.</p> <p>Contact officer: Paul Jones, paul.jones@cheltenham.gov.uk, 01242 264365</p>
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Legal implications	None specifically arising from the report recommendations. The budget setting process is governed by the Budget and Policy Framework Rules (contained in the Council Constitution) and the process recommended in this report is designed to meet the requirements of those Rules. Contact officer: Sarah Farooqi, sarah.farooqi@tewkesbury.gov.uk, 01684 272012
HR implications (including learning and organisational development)	There are no HR implications arising from the content of the report at this stage. As part of ongoing dialogue with the two recognised trade unions consultation on the budget position will take place. Contact officer: Julie McCarthy, julie.mccarthy@publicagroup.uk 01242 264355
Key risks	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 and Cabinet and the Overview and Scrutiny Committee have the option to scrutinise any aspect of the risk register. See risk assessment at Appendix 1.
Corporate and community plan Implications	The annual budget aims to deliver the outcomes defined by the Council's corporate business plan and resourcing should be aligned to the delivery of corporate plan priorities.
Environmental and climate change implications	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. Accordingly, 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 2020/21.
- 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 2020/21:

- Cabinet should 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, whom have worked up alternative budget proposals, should be validated by Publica Group (Support Services) Ltd, in time for the budget meeting in February 2020.
- Members aim to set Cheltenham Borough Council's budget and council tax at the Full Council budget meeting.

3. Settlement Funding Assessment

3.1 In 2016/17, the government offered a guaranteed 4 year budget to every council, which could demonstrate efficiency savings. 2019/20 was the final year of the 4 year offer. It was anticipated that a fair funding review, business rates review and business rates reset would be concluded in 2019/20 which would take effect from 2020/21. However, the political uncertainty surrounding Brexit has resulted in a 12 month deferral to 2021/22.

3.2 The Chancellor published the Spending Review 2019 (SR19) on 4th September 2019 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/829177/Spending_Round_2019_web.pdf It is a one-year spending review that covers only 2020/21; a multi-year spending review will be announced next year.

3.3 The headlines from SR19 which directly affects local government were:

- Confirmation that the Fair Funding Review, Business Rates Review and business rates reset has been deferred by 12 months to 2021/22.
- There is a £2.9bn increase in Core Spending power overall. Most of the additional funding is for adults and children's services, but there is £54m for Homelessness. Clarification on how this is going to be distributed has been requested.
- The Council Tax referendum limit is proposed at 2% but this will be subject to consultation in the Provisional Settlement.
- Baseline funding for business rates will be uprated by CPI.
- Funding to remove negative RSG has been continued for 2020/21.
- New Homes Bonus (NHB) – legacy payments will be honoured but the scheme for 2020/21 is still for discussion with ministers.
- 75% business rates pilots will come to an end and there are no new pilots planned for 2020/21.
- A technical consultation will be issued on the settlement with the provisional settlement being announced in early December.

3.4 The Council's approved Medium Term Financial Strategy (MTFS) was predicated on the basis that council tax will increase by 2.99% per annum. However, the proposal to retain business rates growth achieved between 2013 and 2020 for a further year alongside a continuation of the removal of negative RSG should have a positive effect on the council's funding in 2020/21.

3.5 The MTFS assumed legacy payments for NHB would be honoured, however, a continuation of the same methodology for a further year could equate to an additional £250k funding in 2020/21.

4. Medium Term Financial Strategy (MTFS) and 2020/21 projected funding gap

4.1 The Medium Term Financial Strategy 2019 – 2023, approved by Council in February 2019, projected a funding gap for the period 2020/21 to 2022/23 of £2.787m. This was the projected financial gap between what the Council needs to spend to maintain existing services (including

pay and price inflation) and the funding available based on a business rates reset in 2020/21 which has now been deferred for 1 year. The majority of the funding gap was front-loaded in 2020/21 in anticipation of the full business rates reset.

- 4.2 The MTFS projections are in the process of being updated to reflect the best estimates of the financial pressures impacting on the Council, including an updated view on business rates income and the potential impact of the fair funding review, business rates review and business rates reset in 2021/22. The estimate of the funding gap for 2020/21, based on the previous iteration of the MTFS was £2.414m. Updated high level projections support a revised worst case funding gap of £1.9m with a best case of £900k.
- 4.3 As in the previous year, given the current uncertainty surrounding business rates retention, council tax referendum principles and new homes bonus, it is prudent to defer the full publication of the MTFS projections to the Cabinet meeting in December 2019 as part of the interim budget proposals. This will enable the Cabinet to react positively to any changes announced in the provisional settlement and ensure that our MTFS is robust and fit for purpose.

5. Cabinet Budget Strategy

- 5.1 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 mind-set. Our aim is to hold down council tax as far as possible, now and in the longer term, while also protecting frontline services from cuts – an immensely challenging task in the present climate.
- 5.2 The key mechanism for carrying out this strategy is the commercial strategy, which seeks to bring service costs in line with available funding and seek additional forms of funding.
- 5.3 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 financial year 2021/22*".
- 5.4 Part of our drive towards financial sustainability includes identifying new opportunities to generate income and investment in projects which provide good financial returns. Our commercial strategy aligns closely with other key strategies including place-making, economic growth, digital transformation, workforce and skills development, investment and asset management which have a combined message that Cheltenham Borough Council has entered a new era of business enterprise, growth and innovation. We will work with partners who share our ambition and values and will continue to put the best interests of Cheltenham residents at the heart of everything we do.
- 5.5 Our Executive Director People and Change already has ambitious plans to take the modernisation programme forward and is working closely with the Executive Director Finance and Assets to deliver on the commercial skills development programme. In March 2019, the leading public commercial consultant and author, David Elverson, was commissioned to undertake a high level commercial opportunities assessment, which also included a commercial masterclass and introductory training sessions for a number of staff. Before new commercial ideas are developed, training consultancy Human Engine were commissioned to provide introductory and advanced business case writing training for staff and partner organisations with 40 people taking part. Later on in 2019 the Council's Commercial Forum will be established to review and consider commercial businesses case proposals following the training and mentoring Officers have received.
- 5.6 In June 2019, the national MJ achievement awards recognised Cheltenham Borough Council for

its efforts in making significant local investments and long-term financial planning to ensure continuity of frontline services and public realm investment. This approach has helped the council manage the impact following the loss of £6.8m funding since 2010 where the Council was successful in winning the 2019 award for Best Commercial Council:

<https://awards.themj.co.uk/library/media/pdfs/CBCMJaward2019BestCommercialCounciloriginal-compressed.pdf>

- 5.7** Heather Jameson, The MJ's editor, said: "Congratulations to Cheltenham BC for being named as Best Commercial Council. Our judges had a difficult task, selecting the best authority, never an easy decision when there are so many strong contenders, but Cheltenham stood out for its approach that covered the whole council. 'Well done to everyone at Cheltenham BC. This is a massive achievement and they should be proud of their innovative approach to saving local taxpayers' money.'" In September 2019, the Council's commercial approach to supporting its medium term financial strategy was further validated with the Council winning the APSE award for Best Commercial Council and Entrepreneurship Initiative;
<https://www.apse.org.uk/apse/index.cfm/news/articles/2019/announcing-the-apse-service-awards-finalists-2019/>
- 5.8** The Cabinet believes the longer term approach to finding efficiencies to close the funding gap is fundamentally through economic growth and investment and the efficient utilisation of our assets; linking our Place and Commercial Strategies to 'Invest in Cheltenham, for Cheltenham'. This has seen a place focused investment approach offering long term investment, income through rents as well as other social and financial benefits. The Executive leadership team's collaborative approach has enabled considerable progress.
- 5.9** On a separate item to this cabinet agenda, proposals for the Council to take a leading role in the Minster project will bring about an innovative box park concept, forming a hub for small start-up business in the creative and tech sector. The project will use under-utilised car parking space in partnership with Creative England, Cheltenham Festivals, the Gfirst LEP and Workshop Cheltenham. It will create new jobs, regenerate the surrounding area, bring in rental and business rates, but more importantly act as a growth magnet, encouraging investment and footfall on the fringes of the town centre.
- 5.10** Our Managing Director Place and Growth and Executive Director Finance and Assets are working closely with Cheltenham Borough Homes, to deliver on the recently announced £100m investment in Housing across the Borough. This investment will deliver an additional 500 homes across the Borough which matches the needs of our residents. This investment will also provide a commercial return in addition to capital appreciation.
- 5.11** At the end of August the council completed the purchase of 112 acres of strategically important land which forms part of the West Cheltenham JCS allocation. This was the most expensive land purchase ever made by CBC. It will enable the delivery of the Cyber Central vision – which was formally launched on 17th September at Hub8 in Cheltenham. In June 2019 the government announced that Cyber Central had been awarded 'Garden Communities' status.
- 5.12** The Council's £37.5m investment into this site will enable the rapid growth of the Cyber Tech and innovative industries as part of a thriving integrated community, a place where people can live, work and recreate. It is a significant step forward in achieving the council's corporate plan priority of Cheltenham becoming the UK capital of cyber. Our Housing Investment Strategy will play a leading role in shaping the residential aspect, working with Homes England to create high quality homes that offer a range of tenures with security and affordability. A report will come to November's cabinet setting out the arrangements for the delivery of this significant programme
- 5.13** The starting point for constructing the 2020/21 budget has been a projected mid-range funding gap of £1.2m.

- 5.14 Closing a gap of this size is a huge challenge for the Council, but the challenge is being met by a proactive approach to identifying budget efficiencies, carried out by the Cabinet and the Executive Leadership Team. This work has already made significant progress towards bridging the gap, having identified at this early stage potential efficiency savings and additional income of £0.8m.
- 5.15 It is the Cabinet's intention to meet the shortfall in funding in 2020/21 from the budget strategy (support) earmarked reserve in order to deliver a balanced budget.
- 5.16 Clearly work remains to be done towards building a robust base budget for 2020/21 and this may result in the funding gap increasing. In addition, the Government's final financial settlement may be worse than currently indicated. It is therefore important that the work of identifying budget efficiencies should continue up to the publication of the draft budget proposals and beyond.

Council tax

- 5.17 Government legislation, through the Localism Act, requires councils proposing excessive rises in council tax to hold a local referendum allowing the public to veto the rise. The referendum threshold for council tax increases is proposed at 2 per cent for all local authorities, a 1% reduction compared to what was permitted in 2018/19 and 2019/20. This limit will form part of the consultation to which this council will submit a response.

Service growth.

- 5.18 Members will need to base decision-making, particularly requests for additional resources, upon the priorities in the Council's business plan. The Budget Scrutiny Working Group and the Overview and Scrutiny Committee 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.

6. Business Rates Retention – Pooling and Pilot arrangements

- 6.1 In October 2012, Council approved the principle of Cheltenham joining the Gloucestershire Business Rates Pool, subject to a thorough assessment of risks and rewards and agreement of satisfactory governance arrangements.
- 6.2 Continuation within the pool was delegated to the Section 151 Officer and Chief Executive and this is reviewed on an annual basis.
- 6.3 The Gloucestershire Business Rates Pool was set up in 2013/14 to maximise the business rate income retained within the County and to support economic growth within the area of the Local Enterprise Partnership.
- 6.4 The anticipated level of business rates due to this Council in 2019/20, taking into account the re-developments at the Brewery, John Lewis and Jessops Avenue, is significantly above the baseline funding target (Cheltenham's target level of retained Business Rates) which will result in Cheltenham still being liable to a 'levy'.
- 6.5 Taking the above into account, it is the opinion of the Section 151 Officer that this Council will benefit from remaining in the pool in 2020/21 as it will result in a reduction in the levy payment due to Government, which will be distributed in accordance with the governance arrangements.

7. Budget Scrutiny Working Group

7.1 The cross party Budget Scrutiny Working Group will continue to support the budget process by:

- Considering options for addressing the funding gap
- Reviewing the work programme for commissioning and options being considered
- Developing members' scrutiny skills and understanding of financial matters
- Developing the approach to budget consultation.

7.2 This strategy report will be considered by this Group on 12th November 2019 and the Cabinet Member for Finance is keen that this Group should play a significant part in developing and supporting the budget process.

8. Budget Setting Process 2020/21 – key stages

8.1 In approaching the budget setting process for 2020/21, the Cabinet will endeavour to adhere to some well-established principles designed to deliver budget proposals in a timely manner following proper process, including:

- Early and clear direction input from Cabinet and the Executive Leadership Team.
- Ensuring that Financial Services maintain a strong role in moderating the process.
- Executive Director Finance and Assets (Section 151 Officer) to lead and advise on strategic budget issues.
- Agreeing Cheltenham Borough Homes (CBH) management fee and Housing Revenue Account (HRA) budget as early as possible.
- Maintaining good communications between Chief Executive, Executive Leadership Team, Council Leader, and Cabinet Member for Finance over budget progress / issues.
- Ensuring consultation with all stakeholders and ensure that employees are aware.
- Including the Overview and Scrutiny Committee and the Budget Scrutiny Working Group in the budget process.

8.2 The proposed key stages in the process for setting the budget for 2020/21 are summarised in the timetable at Appendix 2 and are detailed below. The timing of events may change as the process develops.

Budget preparation

8.3 Between October and November 2019, the Cabinet Member for Finance and officers will work with the Cabinet towards the creation of 'interim budget' proposals which will make the following assumptions:

- The projection will be for a standstill budget, 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.
- Budgeted for employee pay inflation and an increase in members allowances of 2% for 2020/21
- The current MTFs only assumes inflation on fees and charges at an average rate of 2% annually over the 4 year period for green waste, burial and cremation fees. These increases will be assumed in the preparation of the standstill budget and any deviation from this will form part of the interim budget proposals.
- The vast majority of fees and charges are generated within the Place and Growth Division and a target of £50,000 per annum is set within the existing approved strategy for more targeted reviews of income generation, as opposed to a blanket increase across the board to reflect

market forces.

- 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.
- An assessment of the charges to be made to Cheltenham Borough Homes and the Housing Revenue Account will be incorporated in the budget proposals, including assessing the impact on the General Fund of the changes to the housing benefit subsidy system.
- A council tax increase of 2.00% has been used for modelling purposes.
- Proposals for service growth will be included, where supported.

Publication of initial budget proposals

- 8.4** 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

- 8.5** The formal budget consultation period will be no less than four weeks and will take place during December 2019 to January 2020. 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.
- 8.6** The Budget Scrutiny Working Group and Overview and Scrutiny Committee will be invited to review the interim budget proposals in the meetings scheduled for January 2020 and feed any comments back to the Cabinet.
- 8.7** 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.
- 8.8** All comments relating to the initial budget proposals should be returned to the Executive Director Finance and Assets by the end of the consultation period for consideration by the Cabinet in preparing their final budget proposals. Comments can be e-mailed to moneymatters@cheltenham.gov.uk.

Assessment of alternative Budget Proposals

- 8.9** It is important that any political group wishing to make alternative budget proposals should discuss them, in confidence, with the Executive Director Finance and Assets (preferably channelled through one Group representative) to ensure that the purpose, output and source of funding of any proposed change is identified.
- 8.10** Given the financial pressures and the potentially very difficult decisions which will have to be made, 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.

Final Budget Proposals and Council Approval

- 8.11 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 2020.

9. Housing Revenue Account

- 9.1 Draft proposals for the Housing Revenue Account will also form part of the same process for considering the General Fund revenue and capital budgets.
- 9.2 A number of significant changes in Housing policy were announced by the Government in 2015 including a four year programme of social rent reduction to March 2020. Cheltenham Borough Homes undertook a comprehensive review of the HRA Business Plan financial forecasts to inform proposals to mitigate the impact of reduced income during that period.
- 9.3 The 2019/20 HRA budget was based on the last year of that four year plan, which proposed efficiency targets for management and maintenance costs, a realignment of the capital programme and the use of HRA reserves above the contingency level. It is anticipated that all targets will have been met, and in some cases exceeded, by the end of the year.
- 9.4 The financial projections contained in the HRA Business Plan will be updated to reflect: -
- The Government's new 5 year social rent policy which commences April 2020. This will see rents increase annually by CPI +1% (based on September index in the previous year)
 - The abolition of the HRA debt cap
- 9.5 It is anticipated that the additional resources provided by rent increases will allow further development of services to our tenants whilst greater borrowing capacity will boost our ambitions to deliver an increased supply of new homes.
- 9.6 The revised projections will be available to inform decisions on the level of management and maintenance and capital investment in 2020/21 (to include fees payable to Cheltenham Borough Homes and administrative charges from Council Divisions).

10. Reasons for recommendations

- 10.1 The Council is required to agree a budget process and timetable.

11. Alternative options considered

- 11.1 The process for considering alternative budgets is set out above.

12. Consultation and feedback

- 12.1 The consultation process is described fully above.

13. Performance management – monitoring and review

13.1 The delivery of efficiencies and additional income proposed as part of the budget will be monitored by the Executive Leadership Team monthly and will be shared with the Cabinet Member for Finance.

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Appendices	<ol style="list-style-type: none">1. Risk Assessment2. Budget timetable
Background information	<ol style="list-style-type: none">1. Spending Review 2019 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/829177/Spending_Round_2019_web.pdf

Risk Assessment

Appendix 1

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 close 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.	Cabinet	01/09/2010	5	3	15	Reduce	The budget strategy projection includes 'targets' for work streams to close the funding gap which aligns with the council's corporate priorities.	Ongoing	ED Finance and Assets	01/09/2010
CR105	If the Budget Strategy (Support) Reserve is not suitably resourced insufficient reserves will be available to cover anticipated future deficits resulting in the use of General Balances which will consequently fall below the minimum required level as recommended by the Chief Finance Officer in the council's Medium Term Financial Strategy	ED Finance and Assets	01/04/2016	4	3	12	Reduce	The MTFS is clear about the need to enhance reserves and identifies a required reserves strategy for managing this issue. In preparing the budget for 2019/20 and in ongoing budget monitoring, consideration will continue to be given to the use of fortuitous windfalls and potential future under spends with a view to strengthening reserves whenever possible.	Ongoing	ED Finance and Assets	
1.02	If income streams from the introduction of the business rates retention scheme in April 2013 are impacted by the loss of major business and the constrained ability to	ED Finance and Assets	14/09/12	4	3	12	Accept & Monitor	The Council joined the Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by the Council.	Ongoing	ED Finance and Assets	

	grow the business rates in the town then the MTFS budget gap may increase.							The Gloucestershire S151 Officers continue to monitor business rates income projections and the performance and membership of the pool / pilot. Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.			
1.03	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.	ED Finance and Assets	15/12/10	3	3	9	Reduce	Robust forecasting is applied in preparing budget targets taking into account previous income targets, collection rates and prevailing economic conditions. Professional judgement is used in the setting / delivery of income targets. Greater focus on cost control and income generation will be prioritised to mitigate the risk of income fluctuations.	Ongoing	ED Finance and Assets	
1.07	If the assumptions around government support, business rates income, impact of changes to council tax discounts prove to be incorrect, then there is	ED Finance and Assets	13/12/10	5	3	15	Reduce	Work with Publica and county wide CFO's to monitor changes to local government financing regime including responding to government	Ongoing	ED Finance and Assets	

	likely to be increased volatility around future funding streams.							consultation on changes Business Rates and the Fair Funding review. The assumptions regarding government support have been mitigated to a certain extent by the acceptance of a multi-year settlement agreement.			
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