

Cheltenham Borough Council

Cabinet – 13th December 2011

General Fund Revenue and Capital - Revised Budget 2011/12 and Interim Budget Proposals 2012/13 for Consultation

Accountable member	Cabinet Member for Community Development and Finance, John Webster
Accountable officer	Director of Resources (Section 151 Officer), Mark Sheldon
Accountable scrutiny committee	All scrutiny committees
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report summarises the revised budget for 2011/12 and the Cabinet's interim budget proposals for 2012/13 for consultation.
Recommendations	<ol style="list-style-type: none">1. Note the revised budget for 2011/12.2. Approve the interim budget proposals for consultation including a proposed council tax for the services provided by Cheltenham Borough Council of £187.12 for the year 2012/13 (a 0% increase based on a Band D property).3. Approve the growth proposals, including one off initiatives at Appendix 3.4. Approve the proposed capital programme at Appendix 6, as outlined in Section 9.5. Delegate authority to the Director Resources, in consultation with the Cabinet Member for Community Development and Finance, to determine and approve any additional material that may be needed to support the presentation of the interim budget proposals for consultation.6. Seek consultation responses by 14th January 2012.
Financial implications	As contained in the report and appendices. Contact officer: Mark Sheldon. E-mail: mark.sheldon@cheltenham.gov.uk Tel no: 01242 264123

Legal implications	<p>As this report proposes an interim budget for consultation purposes, there are no specific legal implications at this stage.</p> <p>Contact officer: Peter Lewis</p> <p>E-mail: peter.lewis@teWKesbury.gov.uk</p> <p>Tel no: 01684 272012</p>
HR implications (including learning and organisational development)	<p>In the spirit of building on our positive industrial relations environment, the recognised trade unions received a budget briefing at a Joint Consultative Committee on 24 November 2011. The interim budget proposals (Appendix 4) details the savings generated from a number of restructures that have already taken place this year. Dialogue with the recognised trade unions will continue in order to ensure that the potential impact on employees are kept to a minimum and in doing so help to avoid the need for any compulsory redundancies. The Council's policies on managing change and consultation regarding any redundancies will be followed.</p> <p>On going, it is important that capacity is carefully monitored and managed in respect of any reductions on FTE and reduced income streams.</p> <p>Contact officer: Julie McCarthy</p> <p>E-mail: julie.mccarthy@cheltenham.gov.uk</p> <p>Tel no: 01242 264355</p>
Key risks	As outlined in Appendix 1
Corporate and community plan Implications	The aim of the interim budget proposals is to direct resources towards the key priorities identified in the Council's Corporate Business Plan whilst recognising the reduction in government funding.
Environmental and climate change implications	The draft budget contains a number of proposals for improving the local environment, as set out in this report.

1. Background

- 1.1 In accordance with the Council's Budget and Policy Framework Rules, which is part of the Council's constitution, the Cabinet is required to prepare interim budget proposals for the financial year ahead and consult on its proposals for no less than four weeks prior to finalising recommendations for the Council to consider in February 2012. This report sets out the interim proposals for 2012/13.

2. 2011/12 Revised Budget

- 2.1 The budget monitoring report to the end of August 2011, considered by Cabinet on 18th October 2011, identified a potential projected overspend of £476k for the current year, 2011/12. In response, the Senior Leadership Team implemented a freeze on all unspent supplies and services budgets which included leasing costs for the purchase of new vehicles and equipment. As a result of the action taken, the revised budget for 2011/12, which includes projected savings in employee related and supplies and services budgets, is now projected to have managed the projected overspend to zero.

3. Finance Settlement

- 3.1 The Government's comprehensive spending review (CSR10) in 2010 determined the level of funding for the whole of the public sector for the period 2011/12 to 2012/13. The following table summarises the updated headline figures for the level of Government support to the Council released on 7th February 2011.

	2010/11 £m	2011/12 £m	2011/12 £m adjusted	2012/13 £m
Revenue Support Grant	1.118	1.440	1.440	
Cheltenham's share of Redistributed Business Rates	7.701	4.658	4.658	
Formula Grant	8.819	6.098	6.098	5.518
less formula grant adjustment e.g. concessionary fares	(1.631)	-	(0.046)	
Adjusted formula grant	7.188	6.098	6.052	5.518
Actual cash (decrease) over previous year		(1.090)		(0.534)
% cash cut		(15.16%)		(8.82%)

- 3.2 In the coalition Government's comprehensive spending review in October 2010, the Chancellor of the Exchequer announced that councils would receive a cut in government support of 7.1% in each of the next 4 years, a total of 28.4%. This was broadly in line with the assumptions for a reduction in government support modelled in the council's Medium Term Financial Strategy (MTFS) although the council anticipated some front loading and planned for a 10.7% cut in 2011/12.

- 3.3 The actual settlement was very different. The council received a cash reduction in government

support (revenue support grant plus share of redistributed non domestic rates) of £1.090m, a cut of 15.16% in 2011/12 followed by a further projected cash cut of £534k (8.82%) in 2012/13. Cumulatively, this equates to a 23.23% cut over 2 years. Funding levels for the following 2 years i.e. 2014/15 and 2015/16, have yet to be announced but it is likely that they will continue to impact on the council's finances detrimentally.

4. The Cabinet's general approach to the 2012/13 budget

- 4.1** The Cabinet's budget strategy for 2012/13, approved at a meeting on 18th October 2011, included an estimate of £824k for the 2012/13 budget gap i.e. the financial gap between what the Council needs to spend to maintain services (including pay and price inflation) and the funding available assuming a 9.57% cut in government support. A technical change to the provisional 2012/13 settlement was made on 7th February 2011, which provided an additional £45k in government support which represents a revised cash reduction of 8.82%.
- 4.2** The final assessment of the budget gap for 2012/13, based on the detailed budget preparation undertaken over recent months and the provisional financial settlement is £972k which takes into account, structural shortfalls within the 2011/12 base budget such as car parking income and green waste sales.
- 4.3** In November 2011, the Chancellor of the Exchequer announced that the Government intends to make funding available to help councils freeze their council tax in 2012/13. Unlike for 2011/12, the council tax freeze grant for 2012/13 will involve a single one-off payment and this will not be built into the baseline (i.e. no further grant payments will be made over the Spending Review period). Whilst the Cabinet are proposing to take up the Governments offer to freeze council tax at 2011/12 levels it recognises that this will put additional pressure on the 2013/14 budget as this decision will add circa £200k to the funding gap.
- 4.4** In preparing the interim budget proposals, the Cabinet and officers have made the following assumptions:
- Prepared a standstill budget projection under a general philosophy of no growth in levels of service with the exception of Taxi Marshall's, tree maintenance and license costs for 'Huddle', costing £44k annually, which have now been built into the base budget. The Taxi Marshall's service had previously been funded from the Licensing Equalisation Reserve which is no longer sustainable.
 - Provided for inflation for contractual, statutory, and health and safety purposes at an appropriate inflation rate where proven.
 - Not budgeted for pay inflation for 2012/13.
 - Increased income budgets based on an average increase in fees and charges of 2.5% with the exception of property rents which have not been inflated but are now set in line with rent projections based on property leases. The Cabinet intend to freeze car park charges and hire charges for its entertainment's venues at current year's levels which have been shown as growth within the interim budget proposals.
 - Assessed the impact of prevailing interest rates on the investment portfolio, the position in respect of Icelandic banks and the impact of HRA self-financing, the implications of which have been considered by the Treasury Management Panel.
 - Allowed for a council tax freeze, in line with the coalition Government's request, on the basis that it will be funded through a specific grant for one year only.

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

- Protect frontline services, as far as possible
- Continue to develop longer term plans for efficiencies over the period of the MTFS including increasing emphasis on shared services and commissioning services.

4.6 Once again, there has been considerable activity during the course of the year to develop this longer term strategy for closing the funding gap. The Cabinet have worked with officers to develop the 'Bridging the Gap (BtG)' programme using the BtG group supported by the Senior Leadership team. The Cabinet's interim budget proposals for closing the budget gap in 2012/13, the result of this work, are detailed in Appendix 4, split into:

- Decisions already made by council and therefore built into the base budget, totalling £254k.
- Proposals yet to be agreed by council which are not built into the base budget, totalling £862k which includes a contribution from New Homes Bonus (NHB) of £250k.

4.7 The Cabinet and SLT have been anticipating having to make significant savings and have been actively managing vacancies and staffing levels in order to minimise the impact of service reviews, system's thinking and savings initiatives and cuts. As a result, the reduction in staffing numbers (4.9 full time equivalents) outlined in the budget proposals have been achieved at minimal cost to the taxpayer.

5. Service growth

5.1 The Cabinet's initial approach was that, given the difficult financial situation, there should be no growth in services which has an impact on revenue expenditure except where there is a statutory requirement or a compelling business case for an 'invest to save' scheme. The growth identified in the budget proposals supported by Cabinet meets these criteria and reflect the need to invest in business processes, infrastructure and schemes which support the BtG programme.

5.2 The New Homes Bonus (NHB) scheme was designed to address the disincentive within the local government finance system for local areas to welcome growth. The scheme is designed to provide local authorities with the means to mitigate the strain the increased population causes whilst promoting a more positive attitude to growth and creating an environment in which new housing is more readily accepted. Whilst funding is not ring-fenced for a specific purpose, it is designed to allow the 'benefits of growth to be returned to local communities'.

5.3 An assessment of projected allocations for NHB based on housing commitments to 2022/23 allows for £250k to be built into the 2012/13 base budget which is sustainable over the period of the MTFS. This leaves a further £324k allocation of NHB in 2012/13 which the Cabinet aspires to fund the following one-off investment and an aspiration to take a similar approach in future years.

- A further £50k towards addressing youth work issues that the County can no longer fund in the way that it traditionally did.
- £137k for small environmental works to tackle environmental issues costing up to a maximum of £15k.
- £137k towards a Promoting Cheltenham fund to support events, projects and initiatives that will stimulate economic and business growth in Cheltenham.

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

6. Treasury Management

- 6.1** Appendix 2 summarises the budget estimates for interest and investment income activity taking into account the following changes, considered by the Treasury Management Panel, at its meeting on 21st November 2011.
- 6.2** Security of capital remains the Council's main investment objective. The solvency issues surrounding Europe in addition to the downgrades of some UK banks has meant the Council has scaled back its lending list, and will start to repay temporary debt with maturing investments rather than re-invest. For 2012/13 interest payable will reduce by £10,600 and interest receivable will reduce by £127,400. Interest rates are expected to remain at low levels for the foreseeable future. Interest payable to the HRA for reserves and balances held within the Council's overall balances will reduce by £32,500.
- 6.3** The government are going ahead with changes which will have a major impact on the way the Housing Revenue Account (HRA) is financed from April 2012. One of the changes is the methodology for splitting the current loans the council has and charging the coupon rate of a loan instead of a weighted average rate to the HRA loans. This has resulted in an additional £232,200 of borrowing costs being transferred to the HRA.
- 6.4** As a result, the net impact on the 2012/13 budget is an increase in net treasury income of £147,900.
- 6.5** The council has been actively pursuing the deposits from the three Icelandic owned banks, Glitnir, Landsbanki and Kaupthing Singer and Friedlander (KSF). Recently the Icelandic Supreme Court upheld the District Court decision that the test cases involving Local Authority deposits with Landsbanki and Glitnir banks as having priority creditor status. This means that local authority deposits will be at the front of the queue in getting the deposits back. Although the council is awaiting ratification of the court decision on non-test cases, it is expected that the council will receive back 98% of the Landsbanki deposits and 100% of the Glitnir deposits. So far 63p in the pound has been received from KSF and future total distributions should be in the range of 79p to 86p in the pound.
- 6.6** This has enabled the council to reduce its Minimum Revenue Provision (MRP), as an element of the capital direction received in 2009 is no longer required, which will save the council £155,000. This has been built into the base budget projection for 2012/13.

7. Medium Term Financial Strategy (MTFS)

- 7.1** The MTFS identified a funding gap for the period 2012/13 – 2016/17 of £2.5m. The MTFS projection will be reassessed to include the latest view of financial implications of more recent developments including any information in respect of future funding levels for the Cabinet's final budget proposals in February 2012.

8. Reserves

- 8.1** Further work on reserves will be undertaken prior to the presentation of the final budget in February 2012, including the Civic Pride, ICT and Property Maintenance reserves.

9. Capital Programme

- 9.1** The proposed capital programme for the period 2012/13 to 2016/17 is at Appendix 6.

- 9.2 The programme includes provisional sums for infrastructure investment to be funded from the Civic Pride reserve. The council may well be concluding the sale of the Midwinter site, North Place and Portland Street car parks during 2012/13. A shopping list of infrastructure investment across the town is being developed for approval.

10. Property Maintenance Programmes

- 10.1 The budget proposals include a proposal to defer the increase in annual contribution of £200k to the planned maintenance reserve by a further year, in response to the severe settlement position. In line with the budget working group's suggestions to Cabinet, the planned maintenance programme will be reviewed by the Asset Management Working Group prior to the final budget preparation in February 2012.

11. Reasons for recommendations

- 11.1 As outlined in the report.

12. Alternative options considered

- 12.1 The Cabinet have considered many alternatives in arriving at the interim budget proposals. Opposition groups will be able to suggest alternative budget proposals for consideration by council in February 2012.

13. Consultation and feedback

- 13.1 The formal budget consultation on the detailed interim budget proposals will be over the period **14th December 2011 to 13th 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, interested parties including businesses, tenants, residents, staff and trade unions will be encouraged to comment on the initial budget proposals. They will be asked to identify, as far as possible, how alternative proposals complement the Council's Business Plan and Community Plan and how they can be financed. The Overview and Scrutiny Committees will be invited to review the interim budget proposals in the meetings scheduled for January 2012 and any comments will be fed back to the Cabinet.
- 13.2 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.
- 13.3 All comments relating to the initial budget proposals should be returned to the Head of Financial Services 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.

14. Performance management – monitoring and review

- 14.1 The scale of budget cuts will require significant work to deliver within the agreed timescales and there is a danger that it diverts management time from delivery of services to delivery of cuts. There are regular progress meetings to monitor the delivery of savings and this will need to be

matched with performance against the corporate strategy action plan to ensure that resources are used to best effect and prioritised.

- 14.2** The delivery of the savings workstreams included in the interim budget proposals, if approved by full council will be monitored via the BtG group.

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Appendices	<ol style="list-style-type: none">1. Risk Assessment2. Summary net budget requirement3. Growth4. Savings / additional income5. Projection of reserves6. Capital programme
Background information	<ol style="list-style-type: none">1. Provisional Finance settlement 2012/132. MTFS 2011/12 – 2016/17

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	I	L	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1.01	If the council is unable to come up with long term solutions which bridge the gap in the medium term financial strategy then it will find it increasingly difficult to prepare budgets year on year without making unplanned cuts in service provision.	Mark Sheldon	15 December 2010	3	3	9	R	The council has agreed a commissioning approach and the MTFS identifies a number of longer term solutions. The council will need to be mindful of capacity to deliver the savings programme	Dec 2012	Mark Sheldon	
1.02	If the robustness of the income proposals is not sound then there is a risk that the income identified within the budget will not materialise during the course of the year.	Mark Sheldon	15 December 2010	3	3	9	R	Robust forecasting is used to prepare the budget looking back on previous income targets and collection, and forecasts take into account the current economic situation. Professional judgement used on the deliverability of income targets. Once budget approved, regular monitoring of income targets will identify any issues and any corrective action which need to be taken and will be reported through the budget monitoring reports.	Ongoing during course of year	Mark Sheldon	
1.03	If when developing a longer term strategy to meet the MTFS, the council does not make the public aware of its financial position and clearly articulates why it is	Jane Griffiths	15 December 2010	3	3	9	R	As part of the development of BtG programme there will need to be a clear communication strategy. In adopting a	Dec 2012	Communications team to support the BTG programme	

	making changes to service delivery then there may be confusion as to what services are being provided and customer satisfaction may decrease.							commissioning culture then it will be basing its decisions on customer needs and requirements and this should help address satisfaction levels.			
1.04	There is a reliance on shared services delivering savings. If these savings do not materialise or shared service projects do not proceed as anticipated then other savings will need to be found to meet the MTFS projections.	Pat Pratley	15 December 2010	3	3	9	R	All shared services are operated under prince 2 principles, with clear business case and risk logs are maintained for the shared service projects and regularly reviewed	Ongoing during course of year	Pat Pratley	
1.05	In the past the council has used in year savings to support one off growth to fund new initiatives or unpredicted expenditure. It is unlikely that moving forward over the life of the MTFS there will be such savings and if new initiatives or unpredicted expenditure arises then the dependency on the General Reserve will intensify.	Mark Sheldon	15 December 2010	3	3	9	R	Future realignment of reserves may be required in order to increase the General Reserve.	Dec 2012	Mark Sheldon (working with SLT and Cabinet)	
1.06	If the council does not carefully manage its commissioning of services then it may not have the flexibility to make additional savings required by the MTFS in future years and a greater burden of savings may fall on the retained organisation	Mark Sheldon	15 December 2010	3	3	9	R	Contracts, SLAs and other shared service agreements will need to be drafted and negotiated to ensure that there is sufficient flexibility with regards to budget requirements	Ongoing	AD Commissioning	