

Cheltenham Borough Council
Cabinet – 9 November 2021
Budget Strategy and Process 2022/23

Accountable member	Cabinet Member for Finance and Assets, Cllr Peter Jeffries
Accountable officer	Head of Property, Finance and Assets (Deputy s151), Gemma Bell
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 2022/23. It outlines a number of principles that need to be established at this stage to enable budget preparation to commence.</p>
<ul style="list-style-type: none"> • Recommendations 	<p>That Cabinet:</p> <ol style="list-style-type: none"> 1. Approves the budget setting timetable at Appendix 2. 2. Approves the outline budget strategy outlined in section 4. 3. Notes the pressures in addition to the £1.044m overspend reported in the August 2021 budget monitor and the large amount of work which will be required to close this gap. 4. Notes the intention for this Council to remain in the Gloucestershire Business Rates Pool in 2022/23 as outlined in section 5. 5. Requests that the Section 151 Officer, Deputy Section 151 Officer and the Cabinet Member for Finance and Assets consider suggestions from the Budget Scrutiny Working Group in preparing the interim budget proposals for 2022/23.

Financial implications	This report sets out the budgetary process for 2022/23 and the general financial parameters under which the budget will be prepared. Contact officer: Gemma Bell, gemma.bell@cheltenham.gov.uk
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: Shirin Wotherspoon, legalservices@onelegal.org.uk
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
Key risks	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, including the priority to be carbon neutral by 2030, and resourcing should be aligned to the delivery of corporate plan priorities.
Environmental and climate change implications	

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 and Assets, 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 2022/23.
- 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 2022/23:
 - 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 the Council's Finance team, in time for the budget meeting in February 2022.
- Members aim to set Cheltenham Borough Council's budget and council tax at the Full Council budget meeting.

3. The Local Government Finance Settlement

3.1 In 2016/17, the government offered a guaranteed four year budget to every council, which could demonstrate efficiency savings and 2019/20 represented the final year of the four year offer. The principles of that settlement allowed authorities to spend locally what is raised locally, whilst recognising the savings already made by local government. Since then, only one year settlements have been provided to Local Authorities which has made long term financial planning very difficult. Since 2016/17, there has been a shift away from freezing council tax to using council tax to generate additional funding.

3.2 The Budget and Spending Review 2021 was announced by the Chancellor on 27 October 2021. Although we will have to wait until December for the provisional Local Government settlement to understand the direct impact on our Council, the key headlines from the announcement were:

- The announcement covered three years from 2022/23 to 2024/25 which may provide more certainty to allow longer term financial planning. It is not clear whether the settlement in December will announce one year allocations or a multi-year package.
- An indication that additional grant funding will be available although there is no confirmation on how this will be distributed. The increase in funding is very much front-loaded, with growth in grant funding of £1.5bn in 2022-23, and no further general increases in funding in either 2023-24 or 2024-25.
- Council tax thresholds will remain at similar levels to recent years, with the threshold for "core" council tax increases remaining at 1.99% and the adult social care precept by a further 1%.
- There has been no announcement about local government funding reforms (Fair Funding Review or business rates changes).
- No reference was made to the New Homes Bonus which made up £747k of our funding in 2021/22.
- No reference was made to the business rates baseline reset or any of the other business rates reforms. Given that pilots will be continuing until 2024-25, this suggests that the baseline reset will also be delayed.
- No new funding has been announced for any additional COVID-19 pressures in local government.

4. Cabinet Budget Strategy

4.1. The 2021/22 budget monitoring report presented in October 2021 reported a forecast net overspend against the budget of £1,044,000 for the current financial year. The variances will continue to be monitored through the year, in particular the assumptions underpinning the recovery of income budgets which make up the large part of the forecast overspend.

4.2. The pandemic has had a significant effect on the Council and the full impact of the re-opening of the economy on our longer term financial position is still being understood. To support this, work has been ongoing to review our current budgets to reflect the changes in activity and behaviour

and reduce the dependency on income streams which may never fully recover to pre-pandemic levels.

- 4.3. The 2022/23 budget provides an opportunity to reset our fiscal position against our Corporate Priorities and prepare a Medium Term Financial Strategy for 2022/23 and beyond which ensures we continue to be financially sustainable whilst continuing to support growth and our carbon neutrality ambitions for the town.
- 4.4. The starting point for re-setting the 2022/23 budget is the projected budget gap from the August 2021 monitor. There are also additional pressures such as increases in energy costs, the national pay award and rising inflation which may also significantly increase the future net budget requirement for the Council.
- 4.5. Closing a gap of this size is a huge challenge for the Council, but the challenge is being met by a proactive approach to reviewing the prioritisation of our resources and 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.
- 4.6. The proposal to bridge the remaining gap will be reported in the December 2021 draft budget proposal. This will also include any proposals or recommendations for the application of reserves against any residual overspend, bearing in mind the need to keep the level of reserves robust and the uncertainty surrounding future budget funding gaps, as outlined in the Council's Medium Term Financial Strategy.

5. Business Rates Retention – Pooling and Pilot arrangements

- 5.1 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.
- 5.2 Continuation within the pool was delegated to the Section 151 Officer and Chief Executive and this is reviewed on an annual basis.
- 5.3 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.
- 5.4 The anticipated level of business rates due to this Council in 2021/22 indicates some growth based on the previous year and is still forecast to be above the baseline funding target (Cheltenham's target level of retained Business Rates) which will result in Cheltenham still being liable to a 'levy'.
- 5.5 Taking the above into account, it is the opinion of the Deputy Section 151 Officer that this Council will benefit from remaining in the pool in 2022/23 as it will result in a reduction in the levy payment due to Government, which will be distributed in accordance with the governance arrangements.
- 5.6 There is a strong indication that the Government will continue piloting business rates retention with the pilot programme for 75% business rates retention now expected to continue until 2024/25.

6. Budget Scrutiny Working Group

- 6.1 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.

6.2 The Cabinet Member for Finance and Assets and the Deputy Section 151 Officer are keen that this Group should play a significant part in developing and supporting the budget process. As such the budget timetable has already been scrutinised by the Group and includes opportunities in December 2021 and in January 2022 for discussion and review of the draft budget proposal in order that feedback can be provided to this Cabinet.

7. Budget Setting Process 2022/23 – key stages

7.1 In approaching the budget setting process for 2022/23, 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 Board.
- 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.

7.2 The proposed key stages in the process for setting the budget for 2022/23 are summarised in the timetable at Appendix 2 and are detailed below. The timing of events may change as the process develops.

Budget preparation

7.3 Between October and December 2021, the Cabinet Member for Finance and Assets 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.
- Budgeted for employee pay inflation and an increase in members allowances for 2022/23 which will include contingency for any pay award.
- An inflationary increase of the relevant costs in the base budget.
- 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 change in activity for 2021/22 and beyond.
- A council tax increase of 1.99% has been used for modelling purposes.

- Proposals for service growth will be included, where supported.

Publication of initial budget proposals

- 7.4** 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

- 7.5** The formal budget consultation period will be no less than four weeks and will take place during December 2021 to January 2022. 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 Corporate 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.
- 7.6** 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 2022 and feed any comments back to the Cabinet.
- 7.7** 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.
- 7.8** All comments relating to the initial budget proposals should be returned to the Head of Property, Finance and Assets 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.

Assessment of alternative Budget Proposals

- 7.9** It is important that any political group wishing to make alternative budget proposals should discuss them, in confidence, with the Head of Property, 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.
- 7.10** 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

- 7.11** 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 2022.

8. Housing Revenue Account

8.1 Draft proposals for the Housing Revenue Account will also form part of the same process for considering the General Fund revenue and capital budgets.

8.2 The financial projections contained in the HRA Business Plan will be updated to reflect :

- Progress in achieving service efficiencies:
- Updated need to spend on stock investment and maintenance;
- Progress in the new build programme
- The impact of further changes in Government policy

8.3 The revised projections will be available to inform decisions on the level of management and maintenance and capital investment in 2022/23 (to include fees payable to Cheltenham Borough Homes and administrative charges from Council Divisions).

9. Reasons for recommendations

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

10. Alternative options considered

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

11. Consultation and feedback

11.1 The consultation process is described fully above.

12. Performance management – monitoring and review

12.1 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 and Assets.

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Appendices	1. Risk Assessment 2. Budget timetable
Background information	1. Budget Monitoring Report 2021/22 – position at 31 August 2021 – 12 October Cabinet

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 Section 151 Officer in the council's Medium Term Financial Strategy	ED Finance and Assets	01/04/2016	5	4	20	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 2020/21 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	01/04/2016
1.02	If income streams from the introduction of the business rates retention scheme in April 2013	ED Finance and Assets	14/09/12	5	4	20	Accept & Monitor	The Council joined the Gloucestershire pool to share the risk of fluctuations in	Ongoing	ED Finance and Assets	14/09/12

	are impacted by the loss of major business and the constrained ability to grow the business rates in the town then the MTFS budget gap may increase.							business rates revenues retained by the Council. 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	4	4	16	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	15/12/10
1.07	If the assumptions around government support, business rates income, impact of	ED Finance and Assets	13/12/10	5	3	15	Reduce	Work with Publica and countywide CFO's to monitor changes to local	Ongoing	ED Finance and Assets	13/12/10

	changes to council tax discounts prove to be incorrect, then there is likely to be increased volatility around future funding streams.							government financing regime including responding to government 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.			
New corporate risk	If government support to compensate this Council for the impact of COVID-19 is insufficient, greater reliance will be placed on the use of reserves, service reduction and asset sales.	ED Finance and Assets		5	3	15	Reduce	The Council will continue to lobby for additional resource, as promised by Central Government from the outset of the pandemic. Work programmes are underway to review service provision, capital programmes and rationalisation of assets.	Ongoing	ED Finance and Assets	To be added to the risk register