

Cheltenham Borough Council

Cabinet – 16 October 2012

Budget strategy and process 2013/14

Accountable member	Cabinet Member for Finance, Councillor John Rawson
Accountable officer	Director of Resources (Section 151 Officer), Mark Sheldon
Accountable scrutiny committee	Budget Scrutiny working group
Ward(s) affected	All
Key Decision	Yes
Executive summary	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 2013/14. It outlines a number of principles that need to be established at this stage to enable budget preparation to commence.
1. Recommendations	<p>That Cabinet:</p> <ol style="list-style-type: none">1. Approve the budget setting timetable at Appendix 2.2. Note the estimated funding gap for 2013/14 of £0.95m-£1.2m and the steps taken to close it at Appendix 3.3. Approve the budget strategy outlined in section 4 below.4. Delegate to the Section 151 Officer, in consultation with the Cabinet Member for Finance, to consider the suggestions from the Budget Scrutiny Working Group in preparing the interim budget proposals for 2013/14 as outlined in section 5.

Financial implications	<p>This report sets out the budgetary process for 2013/14 and the general financial parameters under which the budget will be prepared.</p> <p>Contact officer: Mark Sheldon, mark.sheldon@cheltenham.gov.uk, 01242 264123</p>
Legal implications	<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>Contact officer: Peter Lewis, peter.lewis@tewkesbury .gov.uk, 01684 272012</p>

HR implications (including learning and organisational development)	None at this stage, other than the need to ensure proper consultation with staff and trade unions in relation to the budget. Contact officer: Julie McCarthy, julie.mccarthy@tewkesbury.gov.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. 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 2013/14 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 2013/14.
- 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 2013, validated by Financial Services.
 - Members aim to set Cheltenham Borough Council's budget and council tax at the initial Council meeting.

3. The national funding scenario

- 3.1** In August 2012, the Public Sector Borrowing Requirement for the year stands at £44.9bn, up from £35.6bn from the same period in 2011. This puts the UK's net debt at £1.032bn, or 65.7% of GDP according to the Office for National Statistics. Not brilliant but a far cry from the 231% high seen in 2008. If the UK keeps borrowing at the current rate, the Office for Budget Responsibility predicts that public borrowing will hit £119bn for the whole of the financial year. This would be a significant step backwards in dealing with the deficit.
- 3.2** These figures suggest that the Chancellor of the Exchequer could be forced to make deeper cuts to public spending to meet his target of eliminating the structural deficit by 2017.
- 3.3** The Government funding strategy is shifting towards rewarding councils for growth, both housing and employment. The top slicing of money for New Homes Bonus and proposed pooling of business rates will redirect funding to those councils which embrace growth. Since there is not likely to be any more money overall, these funding streams will potentially be offset by reduction in traditional RSG funding and, there is the potential for considerable uncertainty about future funding streams and a significant risk to the Council if we do not support housing and employment growth.
- 3.4** The Government is currently consulting on a new Business Rates Retention system of allocation of resources which will impact on the overall grant settlement the Council will receive. At present it is unclear what the full impact of the options under this new system will have on the Council in 2013/14 and ongoing.
- 3.5** The budget process this year will be challenging given many uncertainties around both the expenditure of the Council due to budget pressures from items such as the localised Council Tax Benefit scheme and also the financing aspects with the radical changes to the financing of local government through the Resource Review. Both these elements will bring risk and uncertainty into the budget process which officers will highlight later in the year.
- 3.6** Given this uncertainty, there is no clear view about future funding levels and Section 151 officers across the country are finding it difficult to project forward and are in agreement that certainty will only come in the funding settlement in December 2012.
- 3.7** Cheltenham Borough Council has already had its RSG funding cut by 23.23% since 2010. This has placed tremendous pressure on finances and services. Previous Government announcements suggested we would be facing a further 5% cut in 2013/14, but the cut may well be significantly more.

4. 2013/14 and MTFS funding gap

- 4.1** Included in the budget presented to Council in February 2012 was an estimate of the Medium Term Financial Strategy (MTFS) which identified a funding gap of £735k for 2013/14 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 (2013/14 – 2017/18) of £2.1m.
- 4.2** The MTFS projections have been updated, at Appendix 3 to reflect local factors (scenario 1) and modelled to reflect a potential greater than planned funding cut for planning purposes (scenario 2). These indicate the MTFS gap increasing to £3.3m, due to developments outside our control such as the benefits funding cut as a result of the localisation of council tax benefit, the impact of the global financial markets on the council's pension fund in addition to the potential for a deeper cut in government funding.

5. Cabinet Budget Strategy

- 5.1** To date, the Council's 'Bridging the Gap (BtG)' programme has been largely successful in managing the funding gaps over recent years with over 5m generated annually from BtG work streams including service reviews, shared services, increased income generation, assets management initiatives etc. This has made it possible to adopt a more strategic approach to identifying savings rather than relying on 'salami slicing' of budgets.
- 5.2** The starting point for constructing the 2013/14 budget has been a MTFS funding gap of £954,946. An energetic and proactive approach to identifying budget savings, carried out as part of the BtG programme has bridged the gap with £14,254 to spare, assuming a 3.5% council tax increase and a freeze on parking charges at existing levels. However this assumes that there will be a 5% cut in RSG, which could well be an underestimate.
- 5.3** In all, £1,089,200 of savings and additional charges have already been identified and included in the 2013/14 budget – a remarkable achievement. However, this is work in progress at present, and further savings are in the process of being identified in case the Government's local government finance settlement is significantly worse than expected.
- 5.4** The BtG programme has also started to develop a 'Bridging the Gap Strategy' which indicates broadly how the Council may close the projected funding gap over the period of the MTFS. It includes savings targets rather than necessarily specific worked up projections of cost savings and includes the accommodation strategy (based on the high level option appraisal work); sharing ICT; asset rationalisation; future waste initiatives and savings targets for commissioning reviews.
- 5.5** One of the key changes in the BTG proposals is the increased use of New Homes Bonus money to support the budget. The potential growth of income from the New Homes Bonus, and the fact that it is being top-sliced from the RSG, means that the Council has little alternative but to regard this money as an important part of its income stream. For this reason, the intention is to use £200,000 of the New Homes Bonus money each year to top up the 20 year maintenance fund, removing the need to increase the base revenue budget contribution to this fund.
- 5.6** The BtG projections indicate potential shortfalls in some of the years against the savings target. The Council may take the view that if the longer term strategy for closing the gap is robust and it is confident about delivery, then it could justifiably meet the shortfalls from one off sources.
- 5.7** The Cabinet's key aims in developing an approach to the budget are 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 the development of new models of service provision through commissioning.
- 5.8** The Government introduced legislation through the Localism Act to require councils proposing what it regards as an excessive rise in Council Tax (over 3.5% in 2012/13) to hold a local referendum allowing the public to veto the rise. This legislation will need to be considered later in the budget process when we consider financing of the overall budget and when the Secretary of State has announced both the settlement figures and referendum criteria.

Service growth

- 5.9** 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.

5.10 Officers and 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. Budget Scrutiny Working Group

6.1 In February 2011, the Council agreed to set up a Budget Scrutiny 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

6.2 This strategy report has already been considered by this Group and I am keen that this this Group should play a significant part in developing and supporting the budget process.

7. Budget Setting Process 2013/14 – key stages

7.1 In approaching the budget setting process for 2013/14, the Cabinet will endeavour to adhere to some well established principles designed to deliver budget proposals in a timely manner following proper process, including:

- Tabling one-off money for debate at 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.
- Align the Senior Leadership Team behind a collective approach to resolving budget gap issue.
- Include 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 2013/14 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

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

Budget preparation

7.4 Between October and November 2012, 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.
- There has been a Local Government pay freeze for three consecutive years (2010/11, 2011/12 and 2012/13). Given that a three year freeze has now been completed and given that an increase in some employee's pension contributions is expected from April 2014, it is felt prudent for the Council to include an allowance for pay inflation in 2013/14 for staff of 1%. This is less than current CPI (2.6% in July 2012) but is likely to be a more realistic level of pay increase within the sector given the Chancellor's public sector pay cap of 1% announced in the last budget.
- 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. At this stage the Cabinet intends to freeze car parking income and has already modelled the impact of this in the MTFs projections at Appendix 3.
- 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.
- A council tax increase of 3.5% has been used for modelling purposes.
- Proposals for service growth (invest to save schemes only).
- 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

- 7.5 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

- 7.6 The Cabinet considered whether to repeat the significant budget consultation of the summer of 2010 but concluded that the results may be similar and it would not add any further value. As a result of that consultation, a residents' focus group was formed which has met annually since to consider budget proposals and it is the Cabinet's intention to repeat this again this year. In addition to the formal budget consultation, some targeted consultation around specific issues, particularly those arising from commissioning, may be undertaken.
- 7.7 The formal budget consultation period will be no less than four weeks and will take place during December 2012 to January 2013. 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.

- 7.8** 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 2013 and feed any comments back to the Cabinet.
- 7.9** 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.
- 7.10** 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.

Assessment of alternative Budget Proposals

- 7.11** 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 s are properly identified. Executive Director / Director / Chief Executive (preferably channelled through one Group representative) to ensure that the purpose, output and source of funding of any proposed change
- 7.12** 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

- 7.13** 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 2013.

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 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.

- 8.3** The revised projections will be available to inform decisions on the level of management and maintenance and capital investment in 2013/14 (to include fees payable to Cheltenham Borough Homes and administrative charges from Council Divisions).
- 8.4** 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.
- 8.5** Now that the Decent Homes programme is completed, future investment will focus on retaining the decency standard and further neighbourhood works including the potential to build new social housing using the funding 'headroom' following the abolition of the housing subsidy system.

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. In view of the size of the challenge the Council faces in setting the 2013/14 budget, consultation has already commenced with trade unions.

12. Performance management – monitoring and review

- 12.1** 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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Appendices	<ol style="list-style-type: none"> 1. Risk Assessment 2. Budget timetable (this is currently being worked and will be available for the Cabinet meeting) 3. Funding gap projection
Background information	<ol style="list-style-type: none"> 1. RSG projections 2012/13 – 2013/14 2. MTFS 2012/13 to 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
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	1/9/2010	3	4	12	Reduce	A budget strategy report and projection has been developed to include 'targets' for work streams to close the 2 funding scenarios i.e. with the current projection of cuts and a deeper level of cuts. Further work streams have been developed to close the projected funding gap for 2013/14.	On-going	Mark Sheldon	1/9/2010
	Considerable uncertainty in funding streams including localisation of council tax benefit scheme, changes in the local government Resource Review i.e. top slicing of New Homes Bonus, business rates localisation and the resulting impact on Revenue Support grant.	Director of Resources Mark Sheldon	28/9/12	4	4	16	Reduce	Update Cabinet with latest views during the budget process.	On-going	Mark Sheldon	

	Uncertainty and impact on income streams as a result of the introduction of the business rates retention scheme in April 2013 resulting from the loss of major business and the constrained ability to grow the business rates in the town.	Mark Sheldon	14/09/2012	4	4	16	Accept & Monitor	Join Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by the council. Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.	On-going On-going	Jayne Gilpin Mike Redman	
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