

Cheltenham Borough Council

Cabinet – 21st December 2012

General Fund Revenue and Capital - Revised Budget 2012/13, Budget Monitoring to November 2012 and Interim Budget Proposals 2013/14 for Consultation

Accountable member	Cabinet Member for Finance, Councillor John Rawson
Accountable officer	Director of Resources (Section 151 Officer), Mark Sheldon
Accountable scrutiny committee	Overview and Scrutiny Committee
Ward(s) affected	All
Key Decision	Yes
Executive summary	This report summarises the revised budget for 2012/13 and provides a budget monitoring position to November 2012. It also sets out the Cabinet's interim budget proposals for 2013/14 for consultation.
Recommendations	<ol style="list-style-type: none">1. Note the revised budget for 2012/13 with a projected underspend of £270.5k and approve the proposals for its use as detailed in Appendix 3.2. 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 2013/14 (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 7.5. Note the potential liability in respect of Municipal Mutual Insurance, as outlined in Section 9, and note that £80k has been built into the revised budget as a provision to cover the potential exposure of this liability.6. Delegate authority to the Director of Resources, in consultation with the Cabinet Member for Finance, to determine and approve any additional material that may be needed to support the presentation of the interim budget proposals for consultation.7. Seek consultation responses by 25th January 2013.

Financial implications	<p>As contained in the report and appendices.</p> <p>Contact officer: Paul Jones.</p> <p>E-mail: paul.jones@cheltenham.gov.uk</p> <p>Tel no: 01242 775154</p>
Legal implications	<p>As this report proposes an interim budget for consultation purposes, there are no specific legal implications at this stage. Fundamental changes to the local government finance system are referred to in section 3.</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 employee relations environment, the recognised trade unions received a budget briefing paper following the Joint Consultative Committee on 22nd November 2012. The interim budget proposals (Appendix 4) detail the savings that need to be delivered in the coming year. Dialogue with the recognised trade unions will continue in order to ensure that the potential impact on employees is 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>Going forward, it is important that capacity is carefully monitored and managed in respect of any reductions in staffing 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 2013. This report sets out the interim proposals for 2013/14.
- 1.2 This report also outlines the revised budget for 2012/13 based on the budget monitoring exercise to 30th November 2012.
- 1.3 It is standard practice to update the Council's Medium Term Financial Strategy (MTFS) during the autumn of each year so that the update can be used to inform the preparation of the budget for the following year. This year, due to the significant changes to local government finance which are taking place, the emphasis of this report will be on the Council's budget for 2013/14. The MTFS will be updated once the implications of the Local Government settlement have been considered and modelled. It is expected that an updated MTFS will be ready for consideration in spring 2013.

2. 2012/13 Revised Budget and Budget Monitoring to November 2012

- 2.1 The budget monitoring report to the end of August 2012, considered by Cabinet on 16th October 2012, identified a potential projected overspend of £281k for the current year, 2012/13. 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 this action, together with the net additional income that is currently forecast and the projected savings in employee related budgets, the revised budget for 2012/13 is now projected to be within budget for the year, delivering a modest saving of £270.5k.
- 2.2 The table below summarises the net impact of the variances identified at this stage in the financial year and have been used to prepare the revised budget for 2012/13. A more detailed analysis of the variances is supplied at Appendix 7.

Significant budget variances	Overspend / (Underspend) £
Employee costs	
Shortfall in salary savings target of £480,000 as at November 2012	78,700
Net reduction in service costs	(262,000)
Net additional income	(87,200)
Total projected underspend	(270,500)

- 2.3 It should be noted that whilst the August 2012 monitoring exercise only considered variances in excess of £50k, the more detailed analysis has given the Council a clear steer to which areas are facing the most significant budget pressures and these have been used to formulate the interim budget proposals for 2013/14.

3. Finance Settlement and significant changes to Local Government Finance

- 3.1 The Local Government Finance Bill was given Royal Assent on 1st November 2012, becoming an

Act of Parliament. This legislation represents a radical change to the local government finance system. The key changes introduced by the Act are:

- implementation of the business rates retention scheme;
- replacement of the existing council tax benefit system with local council tax support;
- implementation of changes to council tax rules to provide some local discretion as to the tax that local authorities can charge on empty properties.

All of the above changes come into effect for the 2013/14 financial year.

Business Rate Retention

- 3.2** Details of the BRR scheme have been provided in a series of consultation documents and other Government papers over the last 12 months. The most recent of these is the Technical Consultation published in July 2012 which builds on the proposals in the Government response to consultation published in December 2011, and on the statements of intent published in May 2012. The Government have also published a Pooling Prospectus which outlines the benefits of pooling.
- 3.3** Whilst the Government have provided some clarity on how the BRR scheme will work, there remains a great deal of uncertainty around the actual level of funding councils can expect to receive in 2013/14. This uncertainty may not be resolved until the Local Government Finance Settlement is announced in December 2012.
- 3.4** Under the current funding arrangements, this Council collects business rates from all the business in the district and then pays it over to the Government into a central pool. This is then redistributed back to local authorities via a complex funding formula.
- 3.5** The Government is not proposing to make any changes to the way in which business rates are calculated, which will continue to be set nationally. There will also be no change to the existing mandatory and discretionary reliefs available to eligible ratepayers.
- 3.6** The Government has made clear from the outset that the BRR scheme must not put at risk the deficit reduction programme and should operate within existing spending control totals and be fiscally sustainable in future years. The original Spending Review figures planned for a 0.8% decrease in central government funding in 2013/14 and a 5.8 % decrease in 2014/15. However, revised figures were announced in the Chancellors Autumn Statement on 5th December and this will then be reflected in the draft Local Government Finance Settlement later in December 2012. These reductions are expected to increase significantly both as a result of economic conditions and funding being top-sliced to fund capitalisation, New Homes Bonus and the BRR scheme "Safety Net" which will protect councils where business rate income falls below target by more than 7.5% or 10% (actual rate still to be announced).
- 3.7** It is proposed that councils can keep 50% of business rates collected (the **local share**), with the remaining 50% (the **central share**) retained by government and paid into a central pool and redirected to local government through other grants. Of the 50% local share, the District share has been set at 80%, with the County authority share being 20%.
- 3.8** The Scheme is very complex and details of the operation of the Business Rates Retention Scheme were set out in the "**BUSINESS RATES RETENTION SCHEME – POOLING**" report considered by Cabinet on 25th September 2012 and Council on 15th October 2012.
- 3.9** The Council has agreed in principle to joining in a Business Rate Pool with all of the Gloucestershire local authorities with the aim of retaining a great share of business rates within

Gloucestershire. It will not be clear until after the announcement of the Local Government Finance Settlement whether the Council should be part of the Gloucestershire Pool. The Chief Executive and the Chief Finance Officer have been granted delegated powers, in consultation with the Leader and the Cabinet Member for Finance, to decide whether to be part of the pool for 2013/14.

- 3.10** As part of establishing the start up funding levels for the BRR Scheme, the Government consulted upon the proposals and has subsequently acknowledged that rural authorities have not been funded adequately to reflect the additional cost burden of delivering services in a rural environment. Changes will therefore be made within the Relative Needs section of formula grant which should increase the start-up funding allocation for the Council. However, modelling has suggested that around 70% of this benefit may be lost through the application of the damping mechanism. This Council has lobbied the Government for a change to the damping arrangements to allow the rural benefits to flow through to the Council. How successful this lobbying has been will not be known until the Local Government Finance Settlement details are announced.

Council Tax support

- 3.11** The existing Council Tax Benefits Scheme is largely a national scheme which local authorities with council tax billing responsibilities operate on behalf of central government. The Government funds the cost of the scheme. Benefit is allocated to individual council tax accounts, reducing the amount payable, with central government making a similar cash payment to the local authority. With effect from 1st April 2013, this Council is required to set its own local scheme for council tax support (as detailed in the report to Cabinet on 11th December 2012).
- 3.12** The Government intends the local Council Tax Support scheme to operate in a similar way to existing discounts such as for empty properties or single person occupiers. Rather than being accounted for as a benefit cash payment, the council tax base will be reduced. Whilst this has no impact for the individual council tax payer, a lower council tax base reduces the yield in council tax to this Council, Gloucestershire County Council, Gloucestershire Police and parish councils. To offset this impact, the Government will pay a cash grant to the billing and major precepting authorities. With regards to parish councils, the billing authority will receive their share of the grant for redistribution. However, the Government has announced that the overall value of the grant will be 10% lower the previous cost of the council tax benefit grant. This change therefore has implications for all local authorities and the police.

Changes to Council Tax exemptions

- 3.13** A separate report was considered by Cabinet on 11th December 2012 in respect of the following proposed changes to council tax discounts and exemptions.
- Second home discount be reduced from 10% to 0%;
 - Class A exemptions (where the property is unoccupied due to major refurbishment) be replaced by discounts of 25% for a maximum of 12 months;
 - Class C exemptions (where the property is unoccupied and unfurnished) be replaced with a discount of 100% for one month then 25% for the following 5 months.
- 3.14** The changes being proposed will have the effect of increasing the council tax base for this Council, Gloucestershire County Council, Gloucestershire Police and parish councils.

Finance settlement

- 3.15** Taking all of the above points in to account, estimating the level of central government support

and the Council's share of business rate income has been a challenging task. Given the degree of uncertainty, the draft budget for 2013/14 has been based upon the assumption that central government funding will fall by 9.3%.

3.16 This assumption is based on the illustrative 2013/14 start-up funding allocation (based on 2013/14 control totals and proposed methodology set out in the technical consultation paper and 2012/13 data) released by the DCLG on 18th October 2012. Clearly, this will need to be reviewed following the Local Government Finance Settlement.

3.17 The analysis of central government funding which has been used to put the 2013/14 budget proposals together is shown in the following table:

	2012/13 £m	2013/14 £m
Revenue Support Grant	0.108	
Cheltenham's share of Redistributed Business Rates	5.608	
Formula Grant	5.716	5.184
Actual cash (decrease) over previous year		(0.532)
% cash cut		(9.3%)

3.18 The more detailed analysis of the net budget requirement for 2013/14 and the funding available is attached at Appendix 2.

4. The Cabinet's general approach to the 2013/14 budget

4.1 The Cabinet's budget strategy for 2013/14, approved at a meeting on 16th October 2012, included an estimate of £1.205m (scenario 2) for the 2013/14 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 10% cut in government support.

4.2 The final assessment of the budget gap for 2013/14, based on the detailed budget preparation undertaken over recent months and the assumed financial settlement is £1.358m which takes into account, structural shortfalls within the 2012/13 base budget such as car parking and trade refuse income.

4.3 In October 2012, the Chancellor of the Exchequer announced that the Government intends to make funding available to help councils freeze their council tax in 2013/14 (a third consecutive year). The funding being made available equates to a 1% increase in council tax and will be payable in both financial years 2013/14 and 2014/15. In addition, in 2013/14 the Government intends to lower the local authority tax referendum threshold to two per cent. This would mean if a local authority seeks to raise its relevant basic amount of council tax by more than two per cent, local people would have the right to keep council tax bills down through a binding referendum veto.

4.4 The Cabinet has carefully considered whether to freeze council tax at its present level or to increase it by 2 per cent. It recognises that freezing is not an easy option, as the Government's financial support for a freeze only covers about half of the cost and only for two years – leaving an additional funding gap of about £180,000 a year from 2015/16 onwards. However, it is also well

aware of the financial pressure that many people in Cheltenham are under, following the fall in real-terms incomes over the past four years. In these circumstances the Cabinet believes it is right to continue the council tax freeze for a third year.

4.5 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 that it is a statutory requirement or there is a compelling business case for an 'invest to save' scheme. The full list of proposals for growth, including one off initiatives, is included in Appendix 3.
- Provided for inflation for contractual, statutory, and health and safety purposes at an appropriate inflation rate where proven.
- Budgeted for pay inflation at 1% for 2013/14.
- 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, green waste and building control charges which have been shown as growth within the interim budget proposals.
- Assessed the impact of prevailing interest rates on the investment portfolio and the position in respect of Icelandic banks, 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 equivalent to a 1% increase.

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

- Do everything possible to protect frontline services
- Continue to develop longer term plans for efficiencies over the period of the MTFS including increasing emphasis on shared services and commissioning services.

4.7 Once again, there has been a great deal of activity during the course of the year to develop this longer term strategy for closing the funding gap. The Cabinet has 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 2013/14, the result of this work, are detailed in Appendix 4, split into:

- Decisions already made by Council totalling £390k.
- Proposals yet to be agreed by Council which are not built into the base budget, totalling £968k. This includes a contribution from New Homes Bonus (NHB) of £200k to top up the 20 year property maintenance fund, removing the need to increase the base revenue budget contribution to this fund.

4.8 The Bridging the Gap programme and the commissioning process have also helped the Council to move towards a robust five-year strategy for closing the funding gap. The work done on leisure and culture services, ICT services, management restructuring and accommodation strategy, as well as a number of smaller pieces of work, give the Council the opportunity to think ahead over a period of several years, rather than planning its budgets a year at a time.

4.9 This budget proposes to change significantly the way that income from the New Homes Bonus is

treated by the Council. This reflects the Government's view that the New Homes Bonus is part of local authorities' income stream, and not simply a "nice to have" extra. Instead of using a large proportion of the income for "bidding funds", the Cabinet proposes to contribute £200k of it to the property maintenance fund. This can hopefully be repeated in future years and will remove the need to increase the base revenue budget contribution to this fund (see separate Appendix 4). There will be a single bidding fund for community groups and parish councils, called Community Pride, which will be funded in 2013/14 by taking £50k from the projected under spend in 2012/13. We also propose to allocate a one off amount of £219k of NHB to support the commissioning of leisure and cultural services; and to take £30k per year to fund work to reduce the number of empty homes in the town (which will also generate substantial sums of extra NHB in future years).

- 4.10** The Cabinet and SLT have been anticipating the need to make significant savings and have been actively managing vacancies and staffing levels in order to minimise the impact of service reviews, systems thinking and savings initiatives.

5. Treasury Management

- 5.1** 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.
- 5.2** Security of capital remains the Council's main investment objective. The solvency issues surrounding Europe and the downgrades of some UK banks, together with the expectation that interest rates will remain at low levels for the foreseeable future, 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 2013/14 interest payable will reduce by £64,800 and interest receivable will reduce by £23,800. As a result, the net impact on the 2013/14 budget is an increase in net treasury income of £41,900.

6. Reserves

- 6.1** Further work on reserves will be undertaken prior to the presentation of the final budget in February 2013, including the ICT and Property Maintenance reserves. A projection of the level of reserves to be held at 31st March 2013 and 31st March 2014 respectively is detailed in Appendix 5.

7. Capital Programme

- 7.1** The proposed capital programme for the period 2013/14 to 2017/18 is at Appendix 6.
- 7.2** 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 2013/14. A list of potential infrastructure investment projects across the town is being developed for approval by the Council, aimed at achieving our aspirations for a vibrant, beautiful and prosperous town.
- 7.3** The capital programme also includes the proposals the ICT Infrastructure Upgrade strategy, agreed by Cabinet on 11th December 2012.

8. Property Maintenance Programmes

- 8.1** The budget proposals do not include an assessment of the 2013/14 property maintenance

programme as the detail is still being worked up. In line with the Budget Scrutiny Working Group's suggestions to Cabinet, the planned property maintenance programme will be reviewed by the Asset Management Working Group prior to the final budget preparation in February 2013.

9. Municipal Mutual Insurance (MMI)

- 9.1** Municipal Mutual Insurance was a local authority insurer to which local authorities became members (as opposed to customers) and following insolvency in 1993 all of the members have a potential liability related to the claims made against the authorities. Since insolvency was announced they have been attempting a solvent run off of outstanding claims which has now proved unsuccessful. A scheme of arrangement was devised and approved by the HMRC to be triggered in the event of solvent run off failure which we are now advised has been triggered. The total exposure to Cheltenham Borough Council as of 30th September 2012 is £424,018.56. It is anticipated that a percentage levy will be imposed on this exposure to all scheme members in December ranging from 12% (£50,882.23) to 32% (£135,685.94) which would be payable almost immediately.
- 9.2** Following payment of the levy, the liability will continue until such a time as the scheme is wound up. It is therefore unknown whether any further levy will be imposed in the future. Unfortunately there is also no foreseeable end date to the liability, due to the claims generally being for diseases that can take 20-30 years to manifest such as mesothelioma (asbestosis). Following recent High Court rulings these claims would be directed against historical insurers such as MMI based on the date of exposure.

10. Reasons for recommendations

- 10.1** As outlined in the report.

11. Alternative options considered

- 11.1** 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 2013.

12. Consultation and feedback

- 12.1** The formal budget consultation on the detailed interim budget proposals will be over the period **21st December 2012 to 25th 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, 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 Committee will be invited to review the interim budget proposals in the meetings scheduled for January 2013 and any comments will be fed back to the Cabinet.
- 12.2** 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.

12.3 All comments relating to the initial budget proposals should be returned to the GO Shared Services Head of Finance 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.

13. Performance management – monitoring and review

13.1 The scale of budget savings will require significant work to deliver them within the agreed timescales and there is a danger that this could divert management time from delivery of services to delivery of savings. 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.

13.2 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 Assessment 2. Summary net budget requirement 3. Growth 4. Savings / additional income 5. Projection of reserves 6. Capital programme 7. Budget Monitoring analysis as at 30th November 2013
Background information	<ol style="list-style-type: none"> 1. MTFS 2012/13 – 2017/18

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	4	5	20	R	The council continues to deliver savings and additional income from its Bridging the Gap (BtG) programme which now includes targets for commissioning projects based on approved business cases. The Cabinet have developed a budget strategy which identifies longer term savings targets for closing the MTFS funding gap.	ongoing	Director of Resources	26 January 2011
1.02	If the robustness of the income proposals are 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 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 which are monitored throughout the year and reported through the budget monitoring reports to cabinet.	ongoing	Director of Resources	
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 delivery of the BtG / commissioning programmes there needs to be a clear communication strategy. In adopting a	ongoing	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 the council is basing decisions on customer outcomes which should address satisfaction levels.			
1.04	If there is a reliance on shared services delivering savings and 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. Savings / Benefit realisation are reviewed via the BTG and corporate plan monitoring	Ongoing	Pat Pratley	
1.05	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	
1.06	If the assumptions around government support, business rates income, impact of changes to council tax discounts prove to be incorrect, then there is likely to be increased volatility around future funding streams.	Mark Sheldon	13 December 2012	4	3	12	R	Work with GOSS and county wide CFO's to monitor changes to local government financing regime and adjust future budgets for any significant variances.	Ongoing	Director of Resources	