

# Cheltenham Borough Council

Cabinet – 26 October 2010

## Budget strategy and process 2011/12

<b>Accountable member</b>	<b>Cabinet Member for Finance and Community Development , John Webster</b>
<b>Accountable officer</b>	<b>Chief Finance Officer, Mark Sheldon</b>
<b>Accountable scrutiny committee</b>	<b>Economy and Business Improvement</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Key Decision</b>	<b>Yes</b>
<b>Executive summary</b>	<b>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 2011/12. It outlines a number of principles that need to be established at this stage to enable budget preparation to commence.</b>
<b>1. Recommendations</b>	<b>1. Approve the budget setting timetable at Appendix 2. 2. Note the estimated funding gap for 2011/12 of £2.6m at Appendix 3, based upon a freeze in council tax increase. 3. Approve the budget strategy outlined in section 5 below.</b>

<b>Financial implications</b>	<p>This report sets out the budgetary process for 2011/12 and the general financial parameters under which the budget will be prepared.</p> <p><b>Contact officer: Mark Sheldon, mark.sheldon@cheltenham.gov.uk, 01242 264123</b></p>
<b>Legal implications</b>	<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><b>Contact officer: Julie McCarthy, julie.mccarthy@tewkesbury.gov.uk, 01242 264355</b></p>
<b>HR implications (including learning and organisational development)</b>	<p>None at this stage, other than the need to ensure proper consultation with staff and trade unions in relation to the budget.</p> <p><b>Contact officer: Peter Lewis, <a href="mailto:peter.lewis@tewkesbury.gov.uk">peter.lewis@tewkesbury .gov.uk</a>, 01684 272012</b></p>
<b>Key risks</b>	<p>See risk assessment at Appendix 1.</p>

<b>Corporate and community plan Implications</b>	The annual budget aims to deliver the outcomes defined by the council corporate business plan and resourcing should be aligned to the delivery of corporate plan priorities.
<b>Environmental and climate change implications</b>	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 2011/12 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 2011/12.
  - 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 2011, validated by Financial Services.
  - Members aim to set Cheltenham Borough Council's budget and council tax at the initial Council meeting.

## **3. 2011/12 and MTFs funding gap**

- 3.1 Included in the budget presented to Council in February 2010 was an estimate of the Medium Term Financial Strategy (MTFS) which identified a funding gap of £1.7m for 2011/12 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 (2012/13 – 2015/16) of £3.4m.
- 3.2 During the current year, these projections have been updated and it was estimated, based on the emergency budget on 22<sup>nd</sup> June 2010, that the budget gap for 2011/12 may increase to £2.4m and the MTFs funding gap increase to £4.7m based on a cut in Government support of 25% over the period of the MTFs.
- 3.3 The MTFs projection has been reassessed to include the latest view of the financial implications of more recent developments, attached at Appendix 3, which now project the funding gap for 2011/12 to be £2.6m and the MTFs funding gap to be £4.8m based on a cut in Government

support of 25% over the period of the MTFS assuming a 10% cut falling in 2011/12. Clearly the big uncertainty is the impact of the comprehensive spending review announcement and the financial outcome of the proposals to transfer responsibility for concessionary fares from the districts in Gloucestershire to Gloucestershire County Council from 1st April 2011. The Council tops up the cost of the scheme by in excess of £1m above the level of funding provided by the Government. Early indications are that this top up will be taken away from the Council as a result of the transfer of responsibility. The Council is lobbying against this proposal. The MTFS projections may be updated at the meeting to reflect the level of cuts announced in the spending review on 20th October 2010. It is anticipated that the announcement will provide an indication of the level of cuts but the exact impact on the level of government support will not be announced until mid to late November 2010.

- 3.4 The economic downturn continues to impact on the Council's finances with depressed income levels for car parking income, investment returns and housing activity showing no sign of recovery. The budget monitoring exercise for the current year would indicate that, unless corrective action is taken to address the potential overspend in 2010/11, the General Reserve would be significantly depleted, placing further pressure on the Council's overall resources.

## 4. Council tax

- 4.1 In the emergency budget, the coalition government indicated that it wished to see council tax frozen for 2010/11 and suggested that it would support Council in doing so. The Council has yet to see how and if this will be funded.
- 4.2 In making decisions about the budget and level of council tax, the Cabinet is aware that every 1% increase in council tax generates additional revenue to fund services of around £77,000.

## 5. Cabinet Budget Strategy

- 5.1 The Cabinet is also acutely aware that, in the present state of the economy, many Council taxpayers are struggling financially.
- 5.2 The main thrust of the 2011/12 budget is for the Council to respond to the current economic crisis to play its part in helping the country manage its way out of recession into economic recovery. The key aims in developing an approach to the budget is 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 a new approach to commissioning services.

### 'Bridging the Gap' Programme

- 5.3 The perpetual "budget gaps" continue to present a huge challenge to the Council. The scope for finding savings by 'salami slicing' at the edges of Council expenditure has gone having taken this approach for a number of years. The Council recognises the need to take a long term strategic approach and continually works throughout the year to address the budget problem through the 'Bridging the Gap' programme.
- 5.4 The following summarises the activity undertaken and the development of the programme.

### Asset Management

- 5.5 The Council has a significant property portfolio including some key public buildings which place significant pressure on the Council's budget and represents a significant cost to the tax payer. Annually the Council is planning to increase its budget by some £200k (equivalent to 2.5% Council

tax) in order pay the annual cost of around £1.4m on the maintenance of public buildings. Through this BtG work stream, the Council is aiming to reduce the net cost of the Council's property portfolio through reducing the size of the asset base, increasing income from investment properties and increasing income from the sale of surplus properties.

### **Shared Services**

- 5.6 Through this BtG work stream, the Council is actively considering the sharing of services with other organisations in order to make savings through the economies of scale and service resilience in the face of reducing budgets. The Council has already developed a shared service with Tewkesbury Borough Council for Legal Services and Building Control and Audit Services with Cotswold District Council. The business case for a shared Enterprise Resource Planning (ERP) system to replace individual payroll, HR and finance systems in 4 district councils (Cheltenham, Forest of Dean, Cotswold and West Oxfordshire District Council) with one system has now been approved by this council and Forest of Dean council and we await Cotswold and West Oxford district council decisions. The project is expected to deliver significant savings in back office functions.

### **Service reviews / Systems thinking**

- 5.7 This work stream seeks to examine how services are provided in order to seek improvements and efficiencies and reduce costs through the use of 'systems thinking' analytical approaches.

### **Identification of further savings**

- 5.8 Given that the immediate budget gap for 2011/12 has increased since February 2010 and that the longer term MTFS may increase as a result of a Government squeeze on public sector spending, the Council cannot be complacent about the future. As such, officers were asked to consider the potentially more significant cuts in funding and the implications in their services. Meetings have taken place over the summer to discuss these options. The Cabinet will consider these proposals in preparing the interim budget in light of the Cabinet's non priority areas.

### **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 Business Plan. Overview and Scrutiny Committees 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.

### **Review of Medium Term Financial Strategy (MTFS)**

- 5.11 The current MTFS makes certain assumptions about future financial pressures. As part of the preparation of the interim budget proposals, the MTFS projections will be re-visited in detail. Over the next few months, officers have been asked to flag up any additional pressures or revisions to the financial assessment of existing items.
- 5.12 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.

**5.13** The Council is in the process of developing its corporate strategy and is looking to develop a joint corporate strategy and MTFS. Currently consultation work is underway and stakeholders, interested groups and residents are being asked to confirm the direction of the business plan through the identification of priority areas for the council for the future. This may be used to re-direct resources over the period of the MTFS.

## **6. Budget Setting Process 2011/12 – key stages**

**6.1** In approaching the budget setting process for 2011/12, 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
- Chief Finance Officer (CFO) 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 CFO over budget progress / issues.
- Ensure clarity of savings achieved from procurement.
- Senior Leadership Team aligned behind collective approach to resolving budget gap issue.
- Include Overview and Scrutiny Committees in the budget process

**6.2** The proposed key stages in the process for setting the budget for 2011/12 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**

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

### **Budget preparation**

**6.4** Between October and November 2010, 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. No pay inflation will be budgeted for.
- 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.

- 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.
- An assessment of potential savings from procurement and any savings identified in order to meet the funding gap.
- Proposals for service growth (invest to save schemes only).
- Proposals for increases in fees and charges
- 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.

### **Overview and Scrutiny committee**

- 6.5** Each Overview and Scrutiny Committee will be invited to use the scheduled October / November 2010 meetings to participate in the budget process and guide the Cabinet, ahead of the preparation of the interim budget, by identifying the Committee's non priority areas where savings should be focused and any necessary growth.

### **Publication of initial budget proposals**

- 6.6** 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**

- 6.7** Given the scale of the level of public sector funding squeeze, the Cabinet were keen to engage with the public on where to make savings ahead of the decision making process. A summer public consultation road show was rolled out over 21 locations across the town requiring residents to identify which services should be protected, reduced or stopped given the need to make savings. This was not a scientific exercise and the results were not drawn from a representative sample of the population. However, the consultation proved to be very effective in engaging the public and is the start of a dialogue about the future role of the council given reducing resources. The consultation has been followed up by resident's panels where the results have been relayed and options for saving money have been tested. The information gained from this exercise is valuable and will be considered, amongst other evidence, in arriving at a draft budget for 2011/12.
- 6.8** The formal budget consultation period will be no less than four weeks and will take place during December 2010 to January 2011. 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.
- 6.9** The Overview and Scrutiny Committees have each nominated two members to sit on a budget scrutiny working group. The council is keen to improve its budget scrutiny process and previously

the budget scrutiny process has happened too late in the year to properly consider and influence Cabinet decisions in respect of the budget. The budget working group will enable members to work collectively, accepting political differences, on a solution to the budget gap. As such it is proposed that a group of members is drawn together from the various scrutiny committees to develop as budget scrutiny champions to support the process

- 6.10 The Overview and Scrutiny Committees will be invited to review the interim budget proposals in the meetings scheduled for January 2011 and feed any comments back to the Cabinet.
- 6.11 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.
- 6.12 All comments relating to the initial budget proposals should be returned to the Chief Finance 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](mailto:moneymatters@cheltenham.gov.uk).

### **Assessment of alternative Budget Proposals**

- 6.13 It is important that any political group wishing to make alternative budget proposals should discuss them, in confidence, with the Chief Finance Officer and / or the appropriate Strategic Director / Assistant Director / Chief Executive (preferably channelled through one Group representative) to ensure that the purpose, output and source of funding of any proposed changes are properly identified.
- 6.14 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**

- 6.15 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 2011.

## **7. Capital Budget**

- 7.1 The prudential code allows authorities to borrow to fund capital expenditure within what the Council considers to be prudential limits i.e. that it considers prudent, sustainable and affordable. The impact on the level of council tax is one of the most important considerations in determining the level of borrowing.
- 7.2 The Council has, so far, taken a cautious approach to the relaxation of borrowing restrictions. The council now has an Asset Management Plan which provides a clearer strategic view in respect of the long term aspirations for the Council's property portfolio. This should support the priorities identified in the Business Plan and provide some guidance on future funding and potential prudential borrowing levels.
- 7.3 The Council has already committed to a one off grant support to the Everyman Theatre of

£250,000 from the capital reserve for 2011/12 hence the scope for additional capital expenditure is limited unless additional resources can be identified. Given this position, capital bids will be restricted to items which are considered to be business critical, required for health and safety reasons, address corporate risks or meet DDA requirements or are 'invest to save' schemes.

## **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 2011/12 (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. CBH are also currently investigating funding options for new social housing which will include a bid to the Housing Corporation for Social Housing Grant.
- 8.6** Other issues that will impact on the HRA in 2011/12 include the following:
- Annual subsidy determination – always potentially volatile but no significant redistribution anticipated whilst reforms are being considered
  - Right to Buy Sales – sales continue to be low. Overall a reduction in sales will reduce the capital receipts available to fund new investment.

## **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 2011/12 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 Lead for Finance.

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<b>Appendices</b>	<ol style="list-style-type: none"><li>1. Risk Assessment</li><li>2. Budget timetable</li><li>3. MTFS funding gap projection</li></ol>
<b>Background information</b>	<ol style="list-style-type: none"><li>1. RSG consultation</li><li>2. Coalition Government Emergency budget 22/6/10</li></ol>

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
	The need to make savings quickly may result in decisions which significantly impact of the quality of services which could have been avoided given more lead in time.	Pat Pratley		2	4	8		The bridging the gap programme meets throughout the year in order to plan for both the financial year ahead and over the period of the MTFS.	on - going	Mark Sheldon	
	The level of cuts may be significantly greater assumed	Mark Sheldon		4	4	16		Refresh the MTFS estimates to reflect best estimates of position and plan for worse case scenarios.	on - going	Mark Sheldon	26/10/10