

Cheltenham Borough Council

Cabinet – 15 October 2013

Budget strategy and process 2014/15

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	<p>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 2014/15. It outlines a number of principles that need to be established at this stage to enable budget preparation to commence.</p>
1. Recommendations	<p>That Cabinet:</p> <ol style="list-style-type: none">1. Approve the budget setting timetable at Appendix 2.2. Note the expected cut in government funding of £844k (13.6%) for 2014/15 and estimated funding gap of £989k.3. Approve the budget strategy outlined in section 4 and appendix 3.4. Request the Section 151 Officer and the Cabinet Member for Finance, to consider suggestions from the Budget Scrutiny Working Group in preparing the interim budget proposals for 2014/15 as outlined in section 5.

Financial implications	<p>This report sets out the budgetary process for 2014/15 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. 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 the Council for 2014/15 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 2014/15.
 - 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, validated by GO Shared Services, in time for the initial budget meeting in February 2014.
 - Members aim to set Cheltenham Borough Council's budget and council tax at the initial Council meeting.

3. The national funding scenario

- 3.1** Since 2009/10 the Council's core funding from the Government has been cut by some £3.7 million, from £8.8 million to £5.1 million
- 3.2** At the end of last year the Government announced that its funding would be cut again by 12.7%, making a further loss of £788k. More recently, it has become clear that the cut will be even bigger, and is likely to amount to 13.6% or £844k. Part of the reason for the larger cut is the Government's intention of creating a safety net to compensate local authorities for the loss of business rates income.
- 3.3** Overall we are likely to see a cut in RSG between 2014/15 and 2015/16 of 28%. The cut is not evenly distributed across blocks or elements, with the largest reductions in RSG of 34% being for lower tier (district council) functions. These reductions are much worse than expected.
- 3.4** An additional problem is the Government's proposal to take £400 million of New Homes Bonus away from local authorities from 2015/16 to fund economic development. This proposal, if implemented, will take funding away from local services and add to the financial difficulties of local authorities like ours. We estimate that it could cost this Council £483k in 2015/16.

4. 2014/15 and MTFs funding gap

- 4.1** Included in the budget presented to Council in February 2013 was an estimate of the Medium Term Financial Strategy (MTFS) which identified a funding gap of £963k for 2014/15 between what the Council will need to spend to maintain services and what it can spend assuming an illustrative council tax increase of 2%. The MTFS also identified a funding gap over the period of the MTFS (2014/15 – 2017/18) of £2.1m.
- 4.2** The MTFS projections have been updated, at Appendix 3 to reflect the planned funding cuts per the next spending review. These show that the funding gap for 2014/15 has risen to £989k and the MTFS gap over the period 2014/15 – 2017/18 has risen to £2.635m.

5. Cabinet Budget Strategy

- 5.1** In the current exceptionally difficult national funding situation, the Cabinet's overriding financial strategy has been, and is, to drive down the Council's costs. Our aim is to hold down council tax as far as possible, now and in the longer term, while also protecting frontline services from devastating cuts – an immensely challenging task in the present climate.
- 5.2** The key mechanism for carrying out this strategy is the Bridging the Gap (BtG) programme, which seeks to bring service costs in line with available funding. To date, this programme has been largely successful in managing funding gaps, with over 5m generated annually from BtG work streams including service reviews, shared services, increased income generation and assets management initiatives. This achievement has made it possible to adopt a more strategic approach to identifying savings rather than relying on 'salami slicing' of budgets.
- 5.3** The starting point for constructing the 2014/15 budget has been a MTFS funding gap of £989k. An energetic and proactive approach to identifying budget savings, carried out as part of the BtG programme has made significant progress towards bridging the gap, having identified at this early stage in the process potential savings of £664k, leaving £327k to find, assuming a 2% council tax increase. A further year's freeze on parking charges would increase this by a further circa £100k. This assumes that there will be a 13.6% cut in government support.
- 5.4** Identifying budget savings is work in progress at present, and further savings are in the process of

being identified, particularly bearing in mind that the Government's local government final finance settlement may be worse than currently indicated.

- 5.5** The BtG programme has also developed 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.
- 5.6** The Cabinet believes this longer term approach to finding efficiencies, with increasing emphasis on shared services and the development of new models of service delivery through commissioning, is essential if we are to find the very substantial savings that are needed without having a disastrous impact on services.
- 5.7** One of the major issues which the Cabinet and Council will need to consider in formulating the 2014/15 budget is what use it makes 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. In the recent spending review announcement, the chancellor indicated his intention to top slice £400m nationally to funding economic development and safety nets, despite previously indicating that this would be a permanent funding stream. Even so, there is still considerable headroom between the current NHB projections and what is currently being used to support the revenue budget.

Council tax

- 5.8** For the past three years the Council has frozen its council tax precept at £187.12 a year for a Band D taxpayer. In proposing this course of action, the Cabinet has borne in mind the difficult economic and financial climate that many of our residents face. However, during the period of the freeze our own financial position as a Council has deteriorated sharply. Our core Government funding has been cut from £8.8 million in 2009/10 to £5.1 million in 2013/14, with further large cuts to come. In addition inflation has continued to affect many areas of the Council's costs.
- 5.9** Although the Government has incentivised councils to freeze their council tax, the 'deal' it has offered councils has been increasingly unattractive. Currently the Government is offering councils roughly half the cost of freezing council tax in 2014/15, in comparison with increasing council tax by 2%. However, this limited incentive only lasts for two years, after which it drops out of councils' budgets. If this Council were to freeze its council tax again in 2014/15, it would therefore be left with an additional budget gap of £73k from 2014/15 and £149k a year from 2015/16. Consequently the Cabinet and the Council will need to consider whether a further freeze is sustainable, or whether it will act against the interests of local residents by creating an increased risk of service cuts and/or larger tax increases in future years.
- 5.10** The Government introduced legislation through the Localism Act to require councils proposing what it regards as an excessive rise in Council Tax (over 2% in 2014/15) to hold a local referendum allowing the public to veto the rise. The Cabinet is not disposed to regard a tax increase of more than 2% as feasible, since any benefits to the Council's finances would have to be set against the very considerable cost of the referendum. Equally the Cabinet continues to recognise the financial pressures on many residents and its own responsibility to keep the tax level within reasonable bounds regardless of Government requirements

Service growth

- 5.11** 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.

- 5.12 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 both the Section 151 Officer and the Cabinet Member for Finance are keen that this Group should play a significant part in developing and supporting the budget process.

7. Budget Setting Process 2014/15 – key stages

- 7.1 In approaching the budget setting process for 2014/15, 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 Senior Leadership Team
- Ensuring that Financial Services (GO) maintain a strong role in moderating the process
- Director of Resources (Section 151 Officer) to lead and advise on strategic budget issues
- Agree Cheltenham Borough Homes (CBH) management fee and Housing Revenue Account (HRA) budget as early as possible
- Maintaining 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 consult with the recognised Trade Unions and that employees are aware.
- Ensuring clarity of savings achieved from procurement.
- Aligning the Senior Leadership Team behind a collective approach to resolving budget gap issue.
- 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 2014/15 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 2013, the Cabinet Member for Finance 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. 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) with staff pay inflation of 1% allowed for in 2014/15 and 2015/16, in line with the capping level proposed in the spending review. This is less than current CPI (2.7% in August 2013).
- 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 is minded to continue to freeze car parking charges.
- 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 will be incorporated in the budget proposals, including assessing the impact on the General Fund of the changes to the housing subsidy system.
- A council tax increase of 2% has been used for modelling purposes.
- Proposals for service growth will be included, though only for invest to save schemes.
- An updated assessment of the MTFs will be included, 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 As a result of the very extensive budget consultation exercise carried out in 2010, a residents' focus group was formed which has met annually since to consider budget proposals. 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 2013 to January 2014. 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 2014 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 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 2014.

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 2014/15 (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 2014/15 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 Assessment2. Budget timetable3. Funding gap projection
Background information	<ol style="list-style-type: none">1. RSG projections 2014/15 – 2015/162. MTFS 2014/15 to 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
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	4	5	20	Reduce	The budget strategy report and projection includes 'targets' for work streams to close Further work streams will be developed to close the residual projected funding gap for 2014/15.	On-going	Mark Sheldon	1/9/2010
	If the uncertainty in funding streams including the proposed top slicing of New Homes Bonus, business rates localisation results in further impact on Revenue Support grant then the budget gap may increase above current projections.	Director of Resources Mark Sheldon	28/9/12	3	4	12	Reduce	Update Cabinet with latest information during the budget process.	On-going	Mark Sheldon	

	<p>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.</p>	<p>Mark Sheldon</p>	<p>14/09/2012</p>	<p>3</p>	<p>4</p>	<p>12</p>	<p>Accept & Monitor</p>	<p>The council joined Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by the council.</p> <p>Monitoring of the position to August 2013, indications suggest that the pool has been effective in retaining business rates in Gloucestershire.</p> <p>Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.</p>	<p>On-going</p> <p>On-going</p>	<p>Jayne Gilpin</p> <p>Mike Redman</p>	
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