

Cheltenham Borough Council

Cabinet – 14th January 2014

Budget Monitoring Report 2013/14 – position as at November 2013

Accountable member	Councillor John Rawson, Cabinet Member for Finance
Accountable officer	Paul Jones, GOSS Head of Finance
Accountable scrutiny committee	All
Ward(s) affected	All
Key Decision	Yes
Executive summary	To update Members on the Council's current financial position for 2013/14 based on the monitoring exercise at the end of November 2013. The report covers the Council's revenue, capital, treasury management and the housing revenue account. The report identifies any known significant variations (minimum £50,000) to the 2013/14 original budget and areas with volatile income trends.
Recommendations	<ol style="list-style-type: none">1. Note the contents of this report including the key projected variances to the 2013/14 budget and the projected total budget saving of £444,600.2. Resolves in principle to recommend to Council, as part of the 2013/14 revised budget report to Council in February 2014, that this projected budget saving be used to fund the following expenditure: A new earmarked reserve of £200k to be set aside to support the new Cheltenham Leisure and Culture Trust should any unforeseen deficits arise in the early year's of trading (paragraph 2.13). Additional one off funding of £150k to support the creation of the Cheltenham Leisure and Culture trust in 2014/15 (paragraph 2.14). The remaining underspend of £94,600 to be transferred to a newly created car parking equalisation reserve to support the expected shortfall in income due to the imminent closure of North Place and Portland Street car parks. (paragraph 2.5).3. Approve the budget virements to the 2013/14 budget, as detailed in Appendix 4.

Financial implications	As detailed throughout this report. Contact officer: Sarah Didcote, sarah.didcote@cheltenham.gov.uk, 01242 775154
Legal implications	None specific directly arising from the recommendations. Contact officer: Peter Lewis, Peter.Lewis@teWKesbury.gov.uk, 01684 272695
HR implications (including learning and organisational development)	Service Managers and the HR Business Partners are continuing to monitor vacancies and recruitment. A request to recruit to a new or vacant post must be approved by the divisional Director, and all recruitment is based on a business case outlining the impact on the service delivery and/or loss of income generation if the post were to remain unoccupied. Capacity to deliver key projects is also being monitored, and regular updates are provided to the Senior Leadership Team. Contact officer: Julie McCarthy , julie.mccarthy @cheltenham.gov.uk, 01242 264355
Key risks	As outlined in Appendix 1.
Corporate and community plan Implications	Key elements of the budget are aimed at delivering the corporate objectives within the Corporate Business Plan.
Environmental and climate change implications	None.

1. Background

- 1.1 This report provides the third monitoring position statement for the financial year 2013/14. The purpose of this report is to notify members of any known significant variations to budgets for 2013/14 and highlight any key issues, allowing Members to take action if required.
- 1.2 GO Shared Services carry out a regular budget monitoring exercise for services in liaison with Directors and cost centre managers. This identifies any major variations from the current approved budget that are anticipated to occur in the financial year. The current approved budget is the original budget 2013/14 agreed by Council on the 8th February 2013, subject to any amendments made under delegated powers (for example supplementary estimates, virement, etc). Possible significant variations to revenue budgets are outlined in this report.

2. Net revenue position

- 2.1 The table below summarises the net impact of the variances identified at this stage in the financial year, projecting the position to the end of the financial year for all budget variances in excess of £50,000 and areas with volatile income trends, details of which are provided in paragraphs 2.2 to 3.3.

Significant budget variances	Overspend / (Underspend)£	para. ref:
Employee costs		
Shortfall in salary savings target	-	2.2
Small Business Rates Relief		
Compensation for loss of business rates under the extended small business rates relief scheme	(255,000)	2.16
Built Environment		
Off Street car parking and fines– surplus on income	(29,000)	2.3
Off Street car parking – shortfall against savings target	60,000	2.4
Development control – surplus on income budget	(100,000)	2.6
Total Built Environment Directorate	(69,000)	
Commissioning		
Bring Sites – shortfall in income	27,000	2.7
Recycling Collection Schemes – shortfall in income	26,000	2.8
Waste & Recycling costs – underspend	(60,000)	2.9
Trade Refuse - shortfall in income	100,000	2.10
Leasing costs	(251,300)	2.11
Total Commissioning Directorate	(158,300)	
Provisions		

Municipal Mutual Insurance provision	63,600	2.14
Treasury		
Interest – net surplus General Fund	(17,000)	3.3
Other – net under spends	(8,900)	Appendix 4
Total projected underspend for year	(444,600)	

Savings from employee costs

- 2.2** The 2013/14 original budget includes a target of £450,000 from salary savings to be made throughout the Council from vacant posts arising during the year. An assessment of vacant posts (i.e. staff turnover) and restructures in the first eight months of the year indicate that this target is likely to be achieved for the financial year. Appendix 4 includes virement of £275,000 of net salary savings achieved to November 2013, to be offset against the central target.

Off-street Car Parking Income

- 2.3** The income position for off-street car parking to the end of November has improved over October and November and is now back on target to deliver the budget. This turnaround has mainly been due to a rise in income from Regent Arcade between September and October 2013. Further to this, fine income continues to exceed budget. Since the last budget monitoring report this has further improved and should trends continue as currently anticipated fine income will be up by around £29k.
- 2.4** Following the return of the on-street car parking function to Gloucestershire County Council on 1st April 2013, it was anticipated the retained car parking function would deliver £150k of savings against its expenditure budgets. Work towards this target has been ongoing to date, resulting in a new staffing structure and significant contract reviews. However, the service has been unable to deliver full year savings in the current year due to transitional arrangements following the termination of the on-street car parking contract and the subsequent staff changes. The full saving is anticipated to be delivered in 2014/15, and having reviewed the position to end of November 2013 the forecast remains a shortfall of around £60k in 2013/14.
- 2.5** The Council anticipates the imminent disposal of North Place and Portland Street car parks. Whilst this is a welcome boost to the economy, it is acknowledged that the Council will have a temporary shortfall in its net car parking revenue until the new facility is completed. In order to protect the Council from this volatility, the Cabinet is minded to create an earmarked equalisation reserve to cushion the impact of fluctuating activity levels of £94,600, representing the balance of the anticipated underspend for 2013/14.

Development Control fees

- 2.6** The income position for Development Control (including pre-application advice) is currently exceeding profiled budget by around £100k. This includes a large planning application that generated a £45,000 fee. On the basis that profiled budget will be achieved rather than exceeded going forward, an overall surplus of £100k is forecast to the end of the financial year.

2.7 Commissioning

2.8 Bring Sites

Income is slightly under target due to the price of recyclates reducing and also to a reduction in the tonnage on paper and glass. There is an increase in tonnage on these materials on the kerbside collection, but for paper it is not a corresponding amount. Nationally the recycling industry has seen a drop in the amount of paper being recycled due to the reduction in the number of people purchasing newspapers and magazines. The income shortfall is estimated at £27,000 for the year. A review of the Council's Bring Sites scheme is currently being undertaken to ensure that the sites are working effectively and that the bins provided are meeting the local needs.

2.9 Recycling Collection Schemes

Income levels are lower than anticipated due to the fluctuations in the price of recyclates – this is estimated at £26,000 for the year.

2.10 Waste & Recycling

The overall costs of waste & recycling are forecast to be £60k under budget, largely due to Ubico cost savings in service delivery in 2013/14.

2.11 Trade Refuse

Income levels are lower than estimated due to non take up of anticipated contracts when the budget was set, resulting in a potential income shortfall of £100k for 2013/14. There is an ongoing review of trade waste and how improvements can be made to increase take up by businesses and a report will be brought back to Cabinet.

2.12 Leasing costs

As reported in the previous budget monitoring report, the decision to fund the replacement of vehicles and recycling bins through prudential borrowing has resulted in a one-off saving of £251k in leasing costs. This is due to the accounting entries surrounding the financing of assets from prudential borrowing in so much that they equate to the depreciation charge levied on that asset. The depreciation policy for CBC is that newly acquired assets are depreciated from the year following that in which they are acquired. Consequently the financing costs via Minimum Revenue Provision (MRP) are also deferred by one year which results in a one-off saving.

Wellbeing & Culture

2.13 Cheltenham Leisure & Culture Trust

The Council is currently in the process of creating an independent Leisure and Cultural Trust which will deliver some of the borough's 'flagship' services from October 2014. In order to give the new Trust some assurances in its infancy, the Cabinet is minded to create an earmarked reserve of £200k to cover any potential deficits in the early years of trading. Cabinet proposes that this reserve be funded from the anticipated underspend for 2013/14.

- 2.14** Cabinet also recommends that £150k of the anticipated underspend for 2013/14 be used to fund additional costs required for the set up of the new Cheltenham Leisure & Culture Trust. This will be used to fund costs that were not provided for in the 2013/14 budget.

Municipal Mutual Insurance

- 2.15** The Council has a potential liability in respect of the run-off of Municipal Mutual Insurance (MMI) to the value of £360,415 as at 31st March 2013. This liability will only materialise if the assets of the company do not cover the insurance claims yet to be settled. In 2012/13 Ernst & Young (who managed MMI's business affairs and assets) set a levy of 15% (£63,603) against clients/owners potential liabilities as an estimate of the amount that would be

needed to achieve a solvent run-off. This figure was included in the 2012/13 accounts as a provision and is expected to be payable in January 2014.

The likelihood and timing of any additional liabilities is unknown at this stage. However, the Council's insurance brokers recommend that a further amount of 15% (on top of the current levy) should also be provided for, as a further levy could be imposed in the future should the current amount not prove sufficient to achieve a solvent run off. The scheme is operating with a deficit in respect of claims already paid and reserves held on current claims against assets. However due to the unknown extent of future claims, it is difficult to accurately project if or how much a further levy would be. A further provision of 15% (£63,600) will therefore be made in 2013/14, which was unforeseen when setting the original budget.

Small Business Rates Relief

- 2.16** The Council is anticipating a payment of £255k from the Department of Communities & Local Government (CLG) in January 2014. This payment represents 60% compensation for the loss of income to councils, arising as a result of the government decision to give extra rate relief to small businesses. This will represent one-off windfall income in 2013/14. CLG are to retain the remaining 40% of the payment at this stage until the safety-net payments and levy receipts are known from the Business Rates Retention Scheme (BRRS).

3. Treasury Management

3.1 Icelandic Banks

Members will be aware that the Council has outstanding loans with the Icelandic owned banks Glitnir, Landsbanki and Kaupthing, Singer & Freidlander (KSF). Since the decision was made by the Icelandic Supreme Court that Local Authority wholesale depositors are considered preferential creditors, both the Landsbanki and Glitnir Winding up Boards have made repayments to the Council, with further amounts expected in the future.

- 3.2** As reported in the August budget monitoring report, Kaupthing, Singer & Freidlander administrators have returned 79p in the pound with a further distribution to be made shortly. It is estimated that between 84p/86.5p in the pound will be recovered in total. Glitnir returned 82p in the pound with the remaining 18% being held in an escrow account in Iceland. Landsbanki have returned approximately 55p in the pound with 2p in the pound being held in escrow in Iceland. It is expected to recover 100%, but repayable over a number of years.

3.3 Treasury Management Activity

As reported in the August budget monitoring report, there is a predicted surplus of interest of £17,000 to report on Treasury Management within the general fund for 2013/14. Lending interest is forecast to be around £17,000 better off compared to the original budget set due to holding higher cash balances on a daily basis. Even though investment rate returns are very low it has benefited the Council to invest in longer periods (still within one year). Temporary borrowing interest is predicted to be around the original budget set in February 2013.

4. Capital expenditure

4.1 A detailed exercise has been carried out in November 2013 to ensure that capital schemes are being delivered as planned within the allocated capital budgets. A revised capital programme is provided as appendix 6 to the Interim Budget proposals 2014/15 approved by Cabinet on 17th December 2013. Significant variances to the 2013/14 original capital budgets are detailed below.

4.2 Art Gallery & Museum Development
 The Art Gallery & Museum development was successfully completed in October 2013 – and during the first two months of re-opening, 50,000 people have visited the new galleries. The final outturn account has yet to be agreed, and the Council are working with their appointed professionals to determine a final settlement figure.

5. Programme maintenance expenditure

5.1 All the work that has been planned for completion in 2013/14 remains as scheduled. However, a detailed exercise will be undertaken to ensure that the priorities in place remain appropriate. Any slippages in schemes or underspend against budget will be transferred to the Repairs & Renewals reserve at the year end, to fund future programme maintenance expenditure.

6. Housing Revenue Account (HRA)

6.1 The HRA budget for 2013/14, approved in February 2013, showed a deficit of £285,800 for the year which would result in a balance of £2,827,200 to be carried forward in revenue reserves at 31st March 2014.

6.2 Variations to the budget for the current year following completion of the final accounts for 2012/13 were reported to Cabinet in July 2013:-

- The outturn position for 2012/13 showed an increased level of reserve at 31st March 2013 of £3,561,900 (previously estimated at £3,113,000).
- Capital expenditure totalling £603,000, originally programmed for 2012/13, was delayed into 2013/14 increasing the budget for the current year to £7,075,000. Funding for that expenditure was carried forward in the revenue reserve and major repairs reserve.

6.3 Further variations to the HRA revenue budget that have been identified to date are summarised in the table below:-

Budget Heading	Change in resources
	£'000

Repairs & Maintenance – higher repair cost from increased voids	-150
Bad Debt Provision – lower arrears than anticipated reflect delay in implementation of benefit changes and allocation of additional resources to mitigate impact	120
Depreciation	-47
Dwelling Rents – loss of rent from additional sales and higher voids	-161
Transfer from Major Repairs Reserve – confirmation of accounting practice	-108
Revenue contributions to fund capital programme – additional funding options have reduced use of revenue resources	635
Other net variations	-26
Net Savings	263

6.4 Variations to the capital programme include:-

- Current forecast spend is £7,091,400 compared to the revised budget of £7,075,000. Within that figure two significant schemes, the replacement of warden call technology at sheltered schemes and improvement of non-traditional stock, will be delayed by ongoing appraisal work to ensure best value. The resources released from the delayed schemes have been used to bring forward additional neighbourhood and fire protection works from 2014/15.
- In addition it is expected that major void expenditure will exceed budget by £125,000 following a higher incidence of significant works required to restore properties to letting standard and demand for higher value disabled adaptations will increase expenditure by a further £50,000.

6.5 In summary the overall impact of the reported variations will produce a net deficit for the year of £23,100 leaving a balance of £3,538,800 at 31st March 2014.

7. Council tax and Business rates collection

7.1 The monitoring report for the collection of council tax and business rates (NNDR) income is shown in Appendix 2. This shows the position at the end of November 2013 and the projected outturn for 2013/14.

8. Sundry debt collection

8.1 The monitoring of the aged sundry debts and recovery is shown at Appendix 3.

9. Conclusion

9.1 The net effect on the general fund of the variances reported above is that there may be a net saving against the budget of £444,600 for 2013/14. The next detailed budget monitoring report in February 2014 may result in the identification of further projected net variances. It will be for Cabinet and Council to decide in June 2014, when outturn is finalised, how to apply any further potential savings, bearing in mind the need to keep the level of reserves robust and the uncertainty surrounding possible future budget funding gaps. However, Cabinet is minded to recommend that a further contribution be made to the car parking reserve if circumstances allow, in addition to the £94,600 recommended in paragraph 2.5.

9.2 The continued impact of the economic recession present particular concerns for the Council's budgets. It is clearly important to ensure that budgets continue to be closely monitored over the coming months with a view to taking action at a future date, if necessary, in order to ensure that the Council delivers services within budget.

10. Consultation

- 10.1 The work undertaken to produce this report has involved consultation with a wide number of services and cost centre managers.

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Appendices	<ol style="list-style-type: none">1. Risk Assessment2. Council Tax and NNDR collection3. Budget virements for approval – 2013/14 budget
Background information	<ol style="list-style-type: none">1. Section 25 Report – Council 8th February 20132. Final Budget Proposals for 2013/14 – Council 8th February 2013

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.	If we are unable to take corrective action in respect of reduced income streams then there is a risk that Council will not be able to deliver its budget	Cabinet	June 2010	3	3	9	Reduce	In preparing the budget for 2014/15, SLT to consider the options for offsetting reduced income streams by analysing and reducing the level of expenditure across the Council.	December 2013	SLT	Corporate Risk Register
2.	If the requirement to fund projected overspend from General Balances result in General Balances falling below the minimum range of £1.5m to £2m set by the Chief Finance Officer then it would reduce the Councils reserves.	Cabinet	June 2010	3	3	9	Reduce	In preparing the budget for 2014/15, an exercise to realign earmarked reserves will be undertaken in order to strengthen the level of General Balances if required.	December 2013	Chief Finance Officer	Corporate Risk Register

Guidance

Types of risks could include the following:

- Potential reputation risks from the decision in terms of bad publicity, impact on the community or on partners;
- Financial risks associated with the decision;
- Political risks that the decision might not have cross-party support;
- Environmental risks associated with the decision;
- Potential adverse equality impacts from the decision;
- Capacity risks in terms of the ability of the organisation to ensure the effective delivery of the decision
- Legal risks arising from the decision

Remember to highlight risks which may impact on the strategy and actions which are being followed to deliver the objectives, so that members can identify the need to review objectives, options and decisions on a timely basis should these risks arise.

Risk ref

If the risk is already recorded, note either the corporate risk register or TEN reference

Risk Description

Please use “If xx happens then xx will be the consequence” (cause and effect). For example “If the council’s business continuity planning does not deliver effective responses to the predicted flu pandemic then council services will be significantly impacted.”

Risk owner

Please identify the lead officer who has identified the risk and will be responsible for it.

Risk score

Impact on a scale from 1 to 4 multiplied by likelihood on a scale from 1 to 6. Please see risk [scorecard](#) for more information on how to score a risk

Control

Either: Reduce / Accept / Transfer to 3rd party / Close

Action

There are usually things the council can do to reduce either the likelihood or impact of the risk. Controls may already be in place, such as budget monitoring or new controls or actions may also be needed.

Responsible officer

Please identify the lead officer who will be responsible for the action to control the risk.

For further guidance, please refer to the [risk management policy](#)

Transferred to risk register

Please ensure that the risk is transferred to a live risk register. This could be a team, divisional or corporate risk register depending on the nature of the risk and what level of objective it is impacting on.