Cheltenham Borough Council

Cabinet – 14th October 2014

Budget Monitoring Report 2014/15 – position as at August 2014

Accountable member	**Councillor John Rawson, Cabinet Member for Finance**
Accountable officer	**Paul Jones, Head of Financial Services**
Accountable scrutiny committee	**All**
Ward(s) affected	**All**
Key Decision	**Yes**
Executive summary	To update Members on the Council's current financial position for 2014/15 based on the monitoring exercise at the end of August 2014. 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 2014/15 original budget and areas with volatile income trends.
Recommendations	**1. To note the contents of this report including the key projected variances to the original 2014/15 budget, and the projected delivery of services within budget.** **2. To authorise officers to take corrective action to ensure that the council delivers services within the overall budget for the year if, following the more detailed monitoring process currently being undertaken, a potential overspend is identified.** **3. To approve a contribution from general balances of £20,000 to fund additional Joint Core Strategy costs in 2014/15, as recommended in paragraph 2.4.**

Financial implications	As detailed throughout this report. **Contact officer: Sarah Didcote,sarah.didcote@cheltenham.gov.uk, 01242 775154**
Legal implications	None 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 second monitoring position statement for the financial year 2014/15. The purpose of this report is to notify members of any known significant variations to budgets for 2014/15 and highlight any key issues, allowing Members to take action if required.

1.2 Financial 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 2014/15 agreed by Council on the 14th February 2014, 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.

1.3 A significant variance of an exempt nature is referred to at Appendix 4.

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 3.1. A more detailed exercise will be undertaken and reported in the next budget monitoring report in December 2014.

Significant budget variances	Overspend / (Underspend) £	para. ref:
Built Environment		
Off Street car parking and fines– net shortfall of income	315,500	2.3
Joint Core Strategy – Contribution to additional costs (subject to recommendation reference no. 3)	20,000	2.4
Cemetery & Crematorium – shortfall in income	240,000	2.5
Cemetery & Crematorium – Cameo Fees	50,000	2.6
Leisure & Culture		
Art Gallery & Museum	50,000	2.8
Leisure & Culture Services	55,800	2.9
General		
General under spend in net budgets	(300,000)	2.10
Business Rates		
Business Rates Retention Scheme surplus	(294,000)	2.11
Treasury		
Interest – net surplus General Fund	(70,000)	3.1
Use of reserves	(67,300)	2.3
Total projected (under) / overspend for year	-	

Savings from employee costs

2.2 The 2014/15 original budget includes a target of £450k from salary savings to be made throughout the council from vacant posts arising during the year. Industrial action taken on 10th July 2014 by some GMB and Unison members of staff resulted in one day's loss of pay for staff involved, with further industrial action being planned for October. The resulting saving in employee costs will be used to contribute towards the central salary savings target.

An initial assessment of vacant posts (i.e. staff turnover) and restructures in the first five months of the year indicates that this target is likely to be achieved for the financial year.

Built Environment

Off-street Car Parking Income

2.3 The income position for off-street car parking to the end of August is falling short by around £175.6k, which equates to around 5% of target. However, a compensating surplus in fine income is also being generated, with income being around £29.6k up against target.

Since the Council's sale of North Place and Portland Street Car Parks, it has leased back North Place to continue car parking operations until development commences. The Council has continued to receive an income from North Place during 2014/15, although this is anticipated to cease by the end of October. Portland Street Car Park is currently being operated as a car park by its new owner until development starts and thus, the Council is not benefiting as anticipated from this usage being displaced to other car parks around the town. In addition, the Brewery Car Park has recently closed to allow redevelopment and so the Council will cease to receive its 50% share of income generated. However, the negotiation of the sale of this leasehold interest has resulted in the Council receiving all the income generated by this car park in the lead up to its disposal, which has mitigated the impact of this closure in the current financial year. Once development at North Place and Portland Street Car Parks commences, the Council will be in receipt of a guaranteed £350k of replacement income per annum from the developer, Augur Buchler.

Taking into account these structural changes and factoring in the current performance of individual car parks against previous trends, it is anticipated that car parking income will be £501,800 short of target, with fine income likely to be up by around £64.1k. The shortfall will be further offset by savings on NNDR and other miscellaneous budgets totalling £122.2k leaving a forecasted shortfall against income targets of around £315.5k. Future budget monitoring reports will provide updated positions with an increasing degree of accuracy.

Paragraph 3.1 refers to £70k additional interest mainly generated as a result of the North Place and Portland Street Car Park capital receipt. This will be used to partly offset the projected year end shortfall on car parking income.

An earmarked equalisation reserve has previously been created to cushion the impact of the expected fluctuation in income levels. The reserve stands at £350k and will be drawn upon at the year end, if necessary, to offset any projected shortfall in income.

Joint Core Strategy (JCS)

2.4 Cheltenham Borough, Tewkesbury Borough and Gloucester City Councils all contribute £60k per annum to the Joint Core Strategy (JCS). In previous years, any unspent funds have been transferred to an earmarked reserve for the JCS. However, in 2014/15 there are anticipated to be some significant areas of expenditure which will exhaust this reserve and the current year contributions. There are two key items: firstly, transport modelling work costing around £90k which had not previously been budgeted, and secondly examination costs, which although anticipated, have been difficult to estimate for, as the actual cost is dependent on the complexity of the plan and the extent and nature of objections received. Each council is therefore being asked to provide an additional contribution of £20k in 2014/15 to support the continuation of the process. It is recommended that Cabinet approved this contribution, to be funded from general balances in 2014/15.

Cemetery & Crematorium

Income

2.5 The first five months of 2014/15 have seen a general downturn in income at the Cemetery & Crematorium in comparison with the same period in the previous financial year. This has been compounded by a loss in income arising from essential maintenance in July resulting in a two week shutdown of both cremators. Income to the end of August is down by £133.5k against budget; analysis has estimated this to be made up of a loss of income from essential maintenance of £43.5k and a general downturn in cremation and cemetery income of £90k. However, this is anticipated to be offset somewhat by a drop in gas usage and this will be kept under review.

Service analysis has shown that in the period April to July 2013 693 cremations were undertaken, whilst in the same period in 2014 only 500 which is a drop of 193 cremations; although around 79 of these are a result of the shutdown. Burials however are marginally up when reviewing the same period – 80 in 2013 compared to 99 in 2014.

Should this trend continue throughout the final seven months of the year, it is anticipated that outturn will be £240k (15%) short of target. This takes account of an estimated loss of further income from scheduled downtime for planned maintenance during October/November. This will be monitored closely and future budget monitoring reports will provide updated positions.

Cameo

2.6 In 2005 DEFRA introduced a requirement for the cremation industry to remove mercury from 50% of cremations. The national target, based on the available science, achieves a proportionate response for removing mercury from cremations, whilst not burdening the bereaved with excessive cost and the possibility of closing local crematoria. Along with the 50% target the principle of "burden sharing" was introduced, a process whereby Operators who could install abatement plant do so, and the cost is shared with those that could not install such abatement equipment. DEFRA recognised this as the most equitable way of achieving the target, whilst the cost or "burden" is shared by the entire sector. The mercury abatement equipment purchased from Crawford's was not operational during 2013 and is not anticipated to be operational during 2014. As a result the Council will be required to make a payment to the "burden sharing scheme" called CAMEO in line with the principles outlaid by DEFRA. This had not been budgeted for as it was anticipated that the abatement equipment would be operational and the Council would therefore be an operator, whose abatement costs could be shared under the scheme. The payment to CAMEO is likely to be around £50k for the calendar year 2014.

Feasibility Study

2.7 The cremators were replaced in 2012 using the firm Crawford Equipment Europe Ltd. Following the installation of the cremators, a number of issues regarding the quality of the equipment supplied arose which were being managed in conjunction with the Crawford. However, in July 2013 Crawford entered into Voluntary Liquidation and thus were no longer in a position to continue working with the Council in remedying the issues. Since then remedial interim repairs have been undertaken to keep the cremators operational whilst work is being done to achieve a long term resolution of the situation. The Council had held back its final 5% retention payment of £30,812 from Crawford whilst issues were ongoing whilst carrying the obligation in its accounts as a creditor. However, since the company has gone into liquidation the Council has taken legal advice to confirm that the retention payment is no longer due. These funds will be reallocated to fund a consultant to support on a feasibility study of options for the Cemetery & Crematorium, the requirement of which has already been supported by members.

Leisure & Culture

Art Gallery & Museums / Tourism

2.8 There is an expected net overspend for the year of £50k in the Art Gallery & Museum / Tourism services, made up of an overspend in employee costs of £46k, expected overspend in exhibition costs of £6k and an estimated shortfall in income of £38k. This is likely to be offset by expected savings in other supplies and services costs of £20k and additional net exhibition funding of £20k.

The employee costs overspend includes £26k decommissioning costs following the completion of the restructuring of the service upon the reopening of The Wilson in 2013. These costs formed part of the business case to generate restructure savings in 2012/13 and 2013/14.

Leisure & Culture Services

2.9 The original 2014/15 budgets approved in February 2014 included a reduction in the overall cost of the Leisure and Culture services budgets of £181.7k, based on the creation of The Cheltenham Trust on 1st October 2014. As the business case and arrangements have developed throughout the year, this expected saving has been reduced by £55.8k to £125.9k, mainly as a result of additional IT software licence requirements and the firming up of staffing and pension arrangements needed for the Trust. However, it should be noted that the total savings of £832.7k to be achieved by 2018/19 remain deliverable within this overall period.

Resources

Other general net underspend

2.10 This report forecasts the expected outturn position for the year based on activity in the first five months of the financial year. Only significant variances are reported which can lead to the overall position being adversely weighted. A review of the net position at 31st August for areas of income and expenditure not already itemised in this report indicates a likely net underspend of £200k. Projecting this forward to the end of the financial year suggests an anticipated net general underspend in supplies and services totalling £300k to offset against the significant variances already identified in this report and demonstrated in 2.1.

Business Rates Retention

2.11 The Final Outturn 2013/14 and Budget Monitoring Report to May 2014, reported to Cabinet and Council in July 2014, included details of the move to the local business rates retention scheme in April 2013. As reported, the move appears to be a positive one for this Council. The net positive variance for business rates in 2014/15 continues to be estimated to be £294k which takes account of the surplus achieved in 2013/14 less an adjustment on Section 31 Grants as a result of the doubling of the small business rate relief. Please refer to sections 6 and 15 of the Final Outturn and Budget Monitoring Report for further detail.

3. Treasury Management Activity

3.1 There is a predicted surplus of interest of £70k to report on Treasury Management within the general fund for 2014/15. The surplus is down to lending interest being forecast to be around £70k better off compared to the original budget set due to holding higher cash balances on a daily basis. At the backend of the 2013/14 financial year the Council received some large capital receipts from the sale of land and also had monies returned from Icelandic banks via an auction. Interest rates on the money markets have also risen slightly over the year, which has also enabled better results than expected.

Due to the closure of several car parks in the centre of town due to the sale of the land, any surplus interest will partially offset the shortfall in car park income for this year, as reported in paragraph 2.3.

4. Capital expenditure

4.1 There are no significant variances to the 2014/15 original capital budgets at this time. A detailed exercise will be carried out in November 2014 to ensure that these schemes are being delivered as planned within the allocated capital budgets.

5. Programme maintenance expenditure

5.1 All the work that has been planned for completion in 2014/15 remains as scheduled. However, a detailed exercise will be undertaken to ensure that the priorities in place remain appropriate.

6. Housing Revenue Account (HRA)

6.1 The HRA budget for 2014/15, approved in February 2014, showed a surplus of £124,900 for the year which would result in a balance of £3,663,700 to be carried forward in revenue reserves at 31st March 2015.

6.2 Variations to the budget for the current year following completion of the final accounts for 2013/14 were reported to Cabinet in July:-

- The outturn position for 2013/14 showed an increased level of reserve at 31st March 2014 of £4,204,600 (previously estimated at £3,538,800).
- Capital expenditure totalling £581,000, originally programmed for 2013/14, was delayed into 2014/15 increasing the budget for the current year to £8,320,000. Funding for that expenditure was carried forward in the revenue reserve.

6.3 No significant variations to the revenue budget have been identified to date apart from changes to revenue contributions to fund capital expenditure as explained below.

HRA - Capital

6.4 As detailed above the revised budget for capital expenditure for the year is £8,320,000. Current forecast for expenditure is £7,705,900, a potential reduction of £614,100 against that budget. This is primarily due to a reduction in the anticipated take up of pv panels and a delay in encapsulation works for two blocks of flats. Cheltenham Borough Homes is investigating the possibility of accelerating works originally programmed for 2015/16 to make use of the additional resources now available.

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 August 2014 and the projected outturn for 2014/15.

8. Sundry debt collection

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

9. Conclusion

9.1 This report summarises the results of a broad monitoring exercise at an early stage in the year which reports a position which may result in the identification of further projected net variances identified during the more detailed budget monitoring exercise referred to above.

9.2 It is clearly important to ensure that budgets continue to be closely monitored over the coming months with a view to taking action, 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	1. Risk Assessment 2. Council Tax and NNDR collection 3. Aged Debt Report August 2014 4. Exempt item
Background information	1. Section 25 Report – Council 14th February 2014 2. Final Budget Proposals for 2014/15 – Council 14th February 2014

Risk Assessment

Appendix 1

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 2015/16, SLT to consider the options for offsetting reduced income streams by analysing and reducing the level of expenditure across the Council.	December 2014	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 s151 officer then it would reduce the Councils reserves.	Cabinet	June 2010	3	3	9	Reduce	In preparing the budget for 2015/16, an exercise to realign earmarked reserves will be undertaken in order to strengthen the level of General Balances.	December 2014	s151 officer	Corporate Risk Register