

Cheltenham Borough Council

Cabinet – 13 January 2015

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

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	<p>To update Members on the Council's current financial position for 2014/15 based on the monitoring exercise at the end of November 2014. The report covers the Council's revenue, capital and treasury management position. The report identifies any known significant variations (minimum £50,000) to the 2014/15 original budget and areas with volatile income trends.</p> <p>The net effect on the general fund of the variances identified in this report is that there may be an overspend against the budget of £178,250. However the reported financial position of Ubico in the first half year indicates that there will be a contribution payable to the council for 2014/15 of approximately £180,000. It is therefore expected that the overall position for the council will be within budget for 2014/15.</p>
Recommendations	<ol style="list-style-type: none">1. Cabinet note the contents of this report including the key projected variances to the 2014/15 budget and the expected delivery of services within budget.2. Cabinet approve the budget virements to the 2014/15 budget, as detailed in Appendix 4.3. Cabinet recommend that Council approve a one-off contribution from general balances of £178,250 as part of the budget setting process for 2015/16.
Financial implications	<p>As detailed throughout this report.</p> <p>Contact officer: Sarah Didcote, sarah.didcote@cheltenham.gov.uk, 01242 775154</p>
Legal implications	<p>None specific directly arising from the recommendations.</p> <p>Contact officer: Peter Lewis, Peter.Lewis@tewkesbury.gov.uk, 01684 272695</p>

HR implications (including learning and organisational development)	<p>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.</p> <p>Contact officer: Julie McCarthy , julie.mccarthy @cheltenham.gov.uk, 01242 264355</p>
Key risks	<p>As outlined in Appendix 1.</p>
Corporate and community plan Implications	<p>Key elements of the budget are aimed at delivering the corporate objectives within the Corporate Business Plan.</p>
Environmental and climate change implications	<p>None.</p>

1. Background

- 1.1 This report provides the third 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 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 for 2014/15 agreed by Council on 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.

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.

Significant budget variances	Overspend / (Underspend)£	para. ref:
Employee costs		
Central salary savings target	-	2.2
Built Environment		
Off Street car parking and fines– net shortfall of income	126,700	2.6
Cemetery & Crematorium – shortfall in income	233,900	2.8
Cemetery & Crematorium – Cameo Fees	48,000	2.9
Total Built Environment Directorate	408,600	
Leisure & Culture		
Leisure & Culture Services	30,700	2.10
Art Gallery & Museum	42,600	2.11
Total Leisure & Culture	73,300	
Commissioning		
Recycling Collection Schemes – shortfall in income	30,000	2.12
Trade Refuse - shortfall in income	66,000	2.13
Leasing Costs – Saving in expenditure	(297,300)	2.14
Total Commissioning Directorate	(201,300)	

Resources		
Area Office Recharge -saving	(52,900)	2.15
Business Rates Retention Scheme	248,000	2.16
Use of reserves	(248,000)	2.16
Treasury		
Interest – net surplus General Fund	(70,000)	3.1
Other – net overspends	20,550	Appendix 4
Contribution from general balances	(178,250)	9.1
Total projected under spend for year	-	

Savings from employee costs

- 2.2** The 2014/15 original budget includes a target of £350,000 from employee related savings to be made throughout the Council 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 over achieved for the financial year. Appendix 4 includes virement of £333,200 of net salary savings achieved to November 2014, to be offset against the central target.
- 2.3** The Local Government Services pay award for employees on NJC terms and conditions has been agreed for 2014 to 2016. The original budget for 2014/15 included an estimated 1% pay award for all employees. An initial assessment of the actual pay award indicates a saving against the 2014/15 salary budgets of £50,000. This will be reviewed and confirmed in the next budget monitoring report.
- 2.4** It is the intention that this target saving for 2015/16 is vired from the centrally held budget, to individual service budgets, in proportion to existing service salary budgets. This will be included in the 2015/16 budgets for approval and will improve accountability and budget monitoring within council services. .

Off-street Car Parking Income

- 2.5** The income position for off-street car parking to the end of November is falling short by around £164.2k, which equates to around 7% of target. However, a compensating surplus in fine income is also being generated, with income being around £44.5k up against target.
- 2.6** 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 commenced. As previously reported, the Council has continued to receive an income from North Place during 2014/15. The previous budget monitoring report had assumed this would cease by the end of October but has actually continued until 8th December resulting in net additional income of £45.5k. Overall performance in the three months since last reported has also improved and it is now anticipated that car parking income will be £281,600 short of target, with fine income likely to be up by around £65.2k. The shortfall will be further offset by savings on NNDR and other miscellaneous

budgets totalling £105.2k leaving a forecasted net shortfall against income targets of around £126.7k for the year. Future budget monitoring reports will provide updated positions with an increasing degree of accuracy.

- 2.7** 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.

Cemetery & Crematorium

Income

- 2.8** As reported in August's budget monitoring report, there has continued to be a general downturn in income at the Cemetery & Crematorium in comparison with the same period in the previous financial year. However, initial forecasts have improved and the estimated shortfall in income has been somewhat mitigated by improved performance in the last 3 months.

Income to the end of November is down by £154.5k against budget; analysis has estimated this to be made up of a specific loss of income from essential maintenance of £43.5k and a general downturn in cremation and cemetery income of £111k. However, it continues to be anticipated that this will be offset somewhat by a drop in gas usage and this will be kept under review.

Should this trend continue until the end of the financial year, it is anticipated that outturn will be £233.9k (14%) short of target. This takes account of an estimated loss of further income from scheduled downtime for planned maintenance. This will be monitored closely and future budget monitoring reports will provide updated positions.

Cameo

- 2.9** 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 £48k for the calendar year 2014.

Leisure & Culture Services

- 2.10** 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 £30.7k to £151k, mainly as a result of additional staffing needed for the Trust. Approval is sought to increase the 2014/15 budget accordingly.

- 2.11** There is an overspend of £42.6k in decommissioning costs following the completion of the restructuring of the Art Gallery & Museum service prior to the creation of The Cheltenham Trust. These costs formed part of the business case to generate restructure savings in 2012/13 and 2013/14, prior to the reopening of the museum.

Commissioning

2.12 Recycling Collection Schemes

Income levels are lower than anticipated due to the fluctuations in the price of recyclates – this is estimated at £30,000 for the year.

2.13 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 £66k for 2014/15. 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.

2.14 Leasing Costs

The historical decision to fund the replacement of vehicles and recycling bins through prudential borrowing has resulted in a one-off saving of £297.3k in leasing costs in 2014/15. 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.

Resources

2.15 Area Office Recharge

There is a saving of £52,900 in the reallocation of costs to the Housing Revenue Account in 2014/15 in respect of cash collection and customer services.

Business Rates Retention

- 2.16** 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 is currently estimated to be £248k, comprising the council's share of further estimated growth during 2014/15 and of the Collection Fund surplus achieved in 2013/14, less an adjustment to section 31 government grants as a result of the doubling of the small business rate relief. This amount may increase depending on the performance of the Gloucestershire Business Rates Pool, which should reduce the Levy payable to the government on any growth.
- 2.17** However, due to current government regulations governing when amounts can be credited to the General Fund, the £248,000 will impact on the General Fund as a reduction in income in 2014/15. This is because, although the General Fund cannot be credited with its share of the growth until at least the year after it is received, the government's share of the growth (the Levy) is charged to the General Fund in the year of receipt. In addition, the section 31 grants received from the government are adjusted for any growth in the year of receipt.
- 2.18** In view of these timing differences the council had budgeted to set up a reserve in 2014/15 of £350,000, and the estimated shortfall for this year can therefore be funded from this.

3. Treasury Management

- 3.1** As reported in the August budget monitoring report, 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.
- 3.2** Due to the closure of several car parks in the centre of town due to the sale of the land, the surplus interest will partially offset the shortfall in car park income for this year, as reported in paragraph 2.7.

4. Capital expenditure

- 4.1** A detailed exercise has been carried out in November 2014 to ensure that capital schemes are being delivered as planned within the allocated capital budgets. The revised capital programme included in the Interim Budget proposals 2014/15 approved by Cabinet on 16th December 2014 is included as Appendix 5 to this report. Significant variances to the 2014/15 original capital budgets are detailed below.

Art Gallery & Museum Development

- 4.2** The Art Gallery & Museum extension was successfully completed and opened in October 2013. Since re-opening, some 209,170 people have visited the Wilson. In February 2014, the council approved an additional budget allocation to fund an identified overspend of £360k on the project. However, in recent weeks, additional expenditure has been identified and although the final outturn account has yet to be confirmed, the additional spend it is likely to be under £100k. The Council is currently working with GOSS, both its Internal and External Auditors to determine a final outturn figure and to identify the reason for the additional overspend. Once the outturn is finalised, Cabinet will need to recommend to Council, in February 2015, that additional budget is set aside to fund this expenditure.

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. 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 revised forecast for 2014/15 and interim budget proposals for 2015/16 were reported to Cabinet on 16th December 2014. This report provides details of variances within the Housing Revenue Account budgets for 2014/15.

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 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 The net effect on the general fund of the variances reported above is that there may be a net overspend against the budget of £178,250 for 2014/15. However, the reported financial performance of Ubico in the first half year indicates that there will be a contribution payable to the council for 2014/15 of approximately £180,000. It is therefore expected that the overall position for the council will be within budget for 2014/15.

It is proposed that a contribution of £178,250 be made from general balances, based on the position as at November 2014. It is recommended that Cabinet make this formal request for Council approval as part of the budget setting process for 2015/16 at its meeting on 13th February 2015. It is anticipated that the general reserve will be replenished at the financial year end, upon confirmation of the Ubico outturn for 2014/15.

9.2 The next detailed budget monitoring report in February 2015 may result in the identification of further projected net variances. It will be for Cabinet and Council to decide in June 2015, when outturn is finalised, how to apply any potential savings, bearing in mind the need to keep the level of reserves robust and the uncertainty surrounding possible future budget funding gaps.

9.3 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. Aged Debt Report November 20144. Budget virements for approval – 2014/15 budget5. Interim budget Capital Programme 2015/16
Background information	<ol style="list-style-type: none">1. Section 25 Report – Council 14th February 20142. Final Budget Proposals for 2014/15 – Council 14th February 2014

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