

# Cheltenham Borough Council

## Cabinet – 10 November 2015

### Budget Monitoring Report 2015/16 – position as at September 2015

<b>Accountable member</b>	<b>Councillor John Rawson, Cabinet Member for Finance</b>
<b>Accountable officer</b>	<b>Paul Jones, GOSS Head of Finance (S151 Officer)</b>
<b>Accountable scrutiny committee</b>	<b>All</b>
<b>Ward(s) affected</b>	<b>All</b>
<b>Key Decision</b>	<b>Yes</b>
<b>Executive summary</b>	To update Members on the Council's current financial position for 2015/16 based on the monitoring exercise at the end of September 2015. The report covers the Council's revenue, capital and treasury management position. The report identifies any known significant variations (minimum £50,000) to the 2015/16 original budget and areas with volatile income trends.
<b>Recommendations</b>	<b>1. Cabinet note the contents of this report including the key projected variances to the 2015/16 budget and the expected delivery of services within budget.</b>

<b>Financial implications</b>	As detailed throughout this report.  <b>Contact officer: Nina Philippidis <a href="mailto:nina.philippidis@cheltenham.gov.uk">nina.philippidis@cheltenham.gov.uk</a>, Business Partner Accountant 01242 264121</b>
<b>Legal implications</b>	None specific directly arising from the recommendations.  <b>Contact officer: Peter Lewis, <a href="mailto:Peter.Lewis@tewkesbury.gov.uk">Peter.Lewis@tewkesbury.gov.uk</a>, 01684 272695</b>
<b>HR implications (including learning and organisational development)</b>	The Council continues to monitor vacancies and recruitment. All recruitment activity decisions are 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. In addition, the Council also continues to monitor its capacity to deliver on key projects with regular updates being provided to the Operational Programme Board on a quarterly basis.  <b>Contact officer: Julie McCarthy , <a href="mailto:julie.mccarthy@cheltenham.gov.uk">julie.mccarthy@cheltenham.gov.uk</a>, 01242 264355</b>
<b>Key risks</b>	As outlined in Appendix 1.

<b>Corporate and community plan Implications</b>	Key elements of the budget are aimed at delivering the corporate objectives within the Corporate Business Plan.
<b>Environmental and climate change implications</b>	None.

## 1. Background

- 1.1 This report provides the second monitoring position statement for the financial year 2015/16. The purpose of this report is to notify members of any known significant variations to budgets for 2015/16 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 2015/16 agreed by Council on 13<sup>th</sup> February 2015, 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.

<b>Significant budget variances</b>	Overspend / (Underspend)£	para. ref:
<b>Deputy Chief Executives Directorate</b>		
Recycling – shortfall in income	330,000	2.11
Trade refuse – shortfall in income	62,000	2.12
Ubico – cost savings & efficiencies	(117,000)	2.13
Ubico – 2014/15 underspend	(163,600)	2.14
<b>Total Deputy Chief Executives Directorate</b>	<b>111,400</b>	
<b>Environment &amp; Regulatory Services</b>		
Joint Core Strategy	40,000	2.8 – 2.10
Off Street Car Parking – surplus on income	(128,000)	2.3 – 2.6
Off Street Car Parking – Business Rates	(64,800)	2.7
<b>Total Environment &amp; Regulatory Services</b>	<b>(152,800)</b>	
<b>Treasury</b>		
Interest – net surplus General Fund	(25,200)	3.1
<b>Total projected under spend for year</b>	<b>(66,600)</b>	

## **Savings from employee costs**

- 2.2** The 2014/15 base budget included a target of £350,000 from employee related savings to be made throughout the Council during the year. This target has been embedded within individual service budgets, as part of the 2015/16 original budgets, allocated in proportion to existing service salary budgets. This improves accountability and budget monitoring within council services. An assessment of vacant posts (i.e. staff turnover) and restructures in the first six months of the year indicate that this target is likely to be achieved for the financial year. The detail of any significant employee variances is reported at a service level throughout this report, if required.

## **Off-street Car Parking Income**

- 2.3** The income position for off-street car parking to the end of September is overachieving by around £86k, which equates to around 6% of target. This relates to off-street car parking income only; fine income is on target and anticipated to achieve its annual budget.
- 2.4** A target of £200k per annum for displaced car parking income following the sale of North Place and Portland Street Car Parks was included in 2015/16 base budgets. At this time it was not possible to make any more scientific estimation as to how parking trends may be affected but it was anticipated this would be monitored and amended accordingly as more data became available. Forecasting current trends at each car park using the last six months performance, it is estimated that overall car parking income should over achieve by £128k (net of the £200k displacement target).
- 2.5** This will continue to be monitored across the financial year and consideration given as to whether or not base budgets in future financial years can be realigned on the basis this reflects a sustainable ongoing trend in car park usage across the town.
- 2.6** The Council is funding £337,800 of car parking income in 2015/16 from its Car Parking Equalisation Reserve which was set up to cover the shortfall in car parking income arising from the delay between North Place Car Park closing for redevelopment and the developers, Augur Buchler, returning a 300 space public car park to the Council. As members are already aware, the site development has been delayed and the outcome is pending following the outcome of Augur Buchler's legal dispute with Morrisons.

## **Off Street Car Parking – Business Rates**

- 2.7** A historical Rateable Value (RV) review of North Place Car Park has been undertaken resulting in a reduction in the RV and a backdated one-off refund of £64,800 (net of agents' fees) following the Valuations Office Agency assessment.

## **Joint Core Strategy**

- 2.8** Continuing into 2015/16 there is increasing pressure on the Joint Core Strategy Programme costs. The ongoing need to further support the process with consultancy advice, legal support as well as the extension of the examination has resulted in a further request for funding of £40,000 per Council being made.
- 2.9** The original budget was based upon a 2 stage examination process which has now become 4 stages and the Inspector has asked for further work, including an updated retail study, further OAN analysis, an economic strategy and needs analysis, and Strategic Housing Market Assessment. This has the impact of all costs increasing – consultancy support, legal support and Inspector's costs.

- 2.10** Also it is to be noted that the examination process will continue into the 2016/17 financial year. With delays to transport modelling evidence, the latter stage of the examination and the subsequent consultation will now continue into 2016/17. Further details of this schedule and costs are to be finalised and presented to the JCS Programme Board for consideration. However, the requests for additional funding will be subject to a separate report.

### **Commissioning**

**2.11 Recycling Collection Schemes**

Income levels are lower than anticipated due to significant fluctuations in the prices received for recyclates due to global events such as the drop in the price of crude oil and the slowdown in the Chinese economy, and the withdrawal of the County Council contribution to the food waste transfer as this now goes to Bishops Cleeve instead of Dymock – however, the costs of transfer have conversely been reduced as a result of this change and this is referenced in 2.14 below. Total income shortfall for recycling is estimated at £330k for the year.

**2.12 Trade Refuse**

Income levels are lower than estimated as volumes have continued to decline due to fewer businesses taking up the service. This has resulted in a potential income shortfall of £62k for 2015/16.

**2.13 Ubico Limited - efficiencies**

There is a forecast reduction in costs for Ubico on fuel and food waste disposal, together with other cost efficiencies and likely surplus redistribution to the commissioning partner authorities. Total savings are estimated at £117k.

**2.14 Ubico Limited – 2014/15 under spend**

A late adjustment to the 2014/15 audited accounts for Ubico Limited has resulted in one-off income of £163.6k being due to Cheltenham Borough Council in 2015/16, in respect of its remaining share of the Ubico surplus for 2014/15. This has arisen from the treatment of pensions over the last two financial years.

- 2.15** The budgetary pressures on waste and recycling services have been captured in the Council's revised Medium Term Financial Strategy 2015/16 to 2019/20 as this reflects a permanent downturn in achievable income levels and must be addressed as such.

## **3. Treasury Management**

- 3.1** Delta Place was purchased in June 2015 for £13.75m, financed by capital receipts of £2.5m, internal borrowing (using current investments and temporary borrowing) of £6.5m and the taking out of three new Public Works Loans Board (PWLB) loans of £4.75m at an average rate of 2.7% for between 10 and 20 years. The lost investment income from using internal borrowing and the additional borrowing costs arising from the PWLB loans were identified as part of the financial modelling presented to Council for approval in April 2015.
- 3.2** Outside of the Delta Place arrangement, investment income has improved and is likely to show a surplus of £25,200 against the 2015/16 budget.

## **4. Capital**

- 4.1** A detailed exercise has been carried out to ensure that capital schemes, approved by Council on 13th February 2015, are being delivered as planned within allocated capital budgets. The monitoring position at 30th September is included as Appendix 2 to this report.

## **5. Programme maintenance expenditure**

- 5.1** A detailed exercise has been carried out to ensure that programme maintenance work, approved by Council on 13<sup>th</sup> February 2015, is being delivered as planned within the allocated budgets. The monitoring position at 30<sup>th</sup> September is included as Appendix 3 to this report. Any slippages in schemes or underspend against budget will be transferred to the Programme Maintenance reserve at the year end, to fund future programme maintenance expenditure.

## **6. Housing Revenue Account (HRA)**

- 6.1** The HRA budget for 2015/16, approved in February 2015, showed a surplus of £1,176,300 for the year which would result in a balance of £3,535,100 to be carried forward in revenue reserves at 31<sup>st</sup> March 2016.
- 6.2** Variations to the budget for the current year following completion of the final accounts for 2014/15 were reported to Cabinet in July:
- The outturn position for 2014/15 showed an increased level of reserve at 31<sup>st</sup> March 2015 of £3,656,100 (previously estimated at £2,358,000).
  - Capital expenditure totalling £304,000, originally programmed for 2014/15, was delayed into 2015/16 increasing the budget for current year to £6,992,000 (excluding new build). Funding for that expenditure was carried forward in the revenue reserve.

Further significant variations to revenue and capital budgets identified to date are detailed below:

### **Housing Revenue Account (HRA) - Revenue**

- 6.3** Expenditure on repairs and maintenance for the year is currently forecast at £4,000,000 a reduction of £150,000 in comparison to budget. There has been relatively mild weather in the year to date with a consequential reduction in demand. This revised estimate could be impacted by severe winter weather later this year.

### **Housing Revenue Account (HRA) – Capital**

- 6.4** As detailed above the revised budget for capital expenditure for the year is £6,992,000. The current forecast for expenditure is £5,442,000, a potential reduction of £1,550,000 against that budget. This is primarily due to the revision of three projects, namely:

Windows & Doors Replacement (£1,000,000)

- 6.4.1** This contract was originally anticipated to start in the second half of the financial year for a period of four years. Following the summer budget proposals announced by the Chancellor of the Exchequer a substantive review of the capital programme has been undertaken and it is now proposed to reschedule this major contract to six years. This has required a re-advertisement for expressions of interest to conform to European legislation. Although significant preparatory work has been completed, start on site will be delayed until the first quarter of 2016/17.

Energy Saving Measures (£300,000)

- 6.4.2** Work is ongoing to identify a cost effective solution for external wall insulation to Australia House and Canberra House. This also requires negotiations with leaseholders in the blocks. These works will not be started within this financial year.

Replacement Fire Alarms – Sheltered Schemes (£200,000)

6.4.3 Research is ongoing to identify the most appropriate technology to replace the existing systems.

6.5 Resources committed to finance the above projects will be carried forward in reserves to 2016/17.

## 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 4. This shows the position at the end of September 2015 and the projected outturn for 2015/16.

## 8. Sundry debt collection

8.1 The monitoring of the aged sundry debts and recovery is shown at Appendix 5.

## 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 The next detailed budget monitoring report in January 2016 may result in the identification of further projected net variances. It will be for Cabinet and Council to decide in July 2016, when outturn is finalised, how to apply any potential savings. However it is recommended that any such underspend is transferred firstly to the Budget Deficit (Support) Reserve and secondly to support general balances, bearing in mind the need to keep the level of reserves robust and the uncertainty surrounding possible future budget funding gaps as outlined in the Council's Medium Term Financial Strategy.

9.3 The continued impact of the changes in government funding arrangements and the economic climate 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.

<b>Report author</b>	<b>Contact officer: Nina Philippidis</b> <b>nina.philippidis@cheltenham.gov.uk, 01242 264121</b>
----------------------	---

<b>Appendices</b>	<ol style="list-style-type: none"> <li>1. Risk Assessment</li> <li>2. Capital Budget Monitoring to 30th September 2015</li> <li>3. Programme Maintenance Budget Monitoring to 30th September 2015</li> <li>4. Council Tax and NNDR collection to 30<sup>th</sup> September 2015</li> <li>5. Aged Debt Report as at 30<sup>th</sup> September 2015</li> </ol>
<b>Background information</b>	<ol style="list-style-type: none"> <li>1. Section 25 Report – Council 13<sup>th</sup> February 2015</li> <li>2. Final Budget Proposals for 2015/16 – Council 13<sup>th</sup> February 2015</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
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 2016/17, SLT to consider the options for offsetting reduced income streams by analysing and reducing the level of expenditure across the Council.	December 2015	SLT	Corporate Risk Register
2.	If the Budget Deficit (Support) Reserve is not suitably resourced insufficient reserves will be available to cover anticipated future deficits resulting in the use of General Balances which will consequently fall below the minimum required level as recommended by the Chief Finance Officer in the Council's Medium Term Financial Strategy.	Cabinet	October 2015	3	3	9	Reduce	In preparing the budget for 2016/17 and in ongoing budget monitoring, consideration will be given to the use of fortuitous windfalls and potential future under spends with a view of strengthening reserves whenever possible.	June 2016	Chief Finance Officer	Corporate Risk Register