

# Cheltenham Borough Council

## Cabinet – 9 February 2016

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

<b>Accountable member</b>	<b>Councillor John Rawson, Cabinet Member for Finance</b>
<b>Accountable officer</b>	<b>Paul Jones, Section 151 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 December 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>	<ol style="list-style-type: none"><li><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></li><li><b>2. Cabinet approve the budget virements to the 2015/16 budget, as detailed in Appendix 6.</b></li></ol>

<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 third 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 4.1

Significant budget variances	Overspend / (Underspend)£	para. ref:
<b>Deputy Chief Executive's Directorate</b>		
Recycling – shortfall in income	279,400	2.13
Trade refuse – shortfall in income	62,000	2.14
Ubico – cost savings & efficiencies	(114,000)	2.15
Ubico – 2014/15 underspend	(163,600)	2.16
<b>Total Deputy Chief Executive's Directorate</b>	<b>63,800</b>	
<b>Environment &amp; Regulatory Services</b>		
Joint Core Strategy	40,000	2.10 – 2.12
Off Street Car Parking – surplus on income	(330,000)	2.4 – 2.7
Transfer to Reserves – Car Parking Equalisation	330,000	2.8
Off Street Car Parking & Crematorium – Business Rates	(141,800)	2.9
<b>Total Environment &amp; Regulatory Services</b>	<b>(101,800)</b>	
<b>Business Rates Retention</b>		
Net increase in Business Rates	(586,000)	2.21
Transfer to Reserves- Business Rates Retention	586,000	2.22
<b>Total Business Rates</b>	<b>-</b>	

Savings from employee costs	(210,900)	2.2
Tourism Strategy – transfer to Economic Development & Tourism Reserve	50,000	2.3
<b>Total Employee Savings</b>	<b>(160,900)</b>	
<b>Treasury Management</b>	<b>(31,500)</b>	3.1
<b>Surplus 2014/15 carry forwards</b>	<b>(41,000)</b>	4.1
<b>Other – net over spends</b>	<b>(36,500)</b>	Appendix 6
<b>Total projected under spend for year</b>	<b>(307,900)</b>	
<b>Transfer to Budget Strategy Support Reserve</b>	<b>307,900</b>	
<b>Total Forecast Outturn</b>	<b>-</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 ten months of the year indicate that this target is likely to be over-achieved for the financial year with £210.1k achieved in excess of the overall £350k target in the period up to 31<sup>st</sup> January 2016.
- 2.3** Included within the £210.1k is a £62k staff turnover saving from the Business Improvement team. It is proposed to earmark £50k of this for the required Tourism Strategy work and as such will be transferred to the Economic Development & Tourism Reserve.

### Off-street Car Parking Income

- 2.4** The income position for off-street car parking to the end of December is overachieving by around £295k, which equates to 13% in excess of profiled budget. This relates to off-street car parking income only; fine income is marginally down against target to date and this is forecast to result in a shortfall against budget of £4.6k by year end.
- 2.5** 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 nine months performance, it is estimated that overall car parking income should over achieve by £330k (net of the £200k displacement target).
- 2.6** This is a significant improvement on the original forecast of £128k surplus reported to Cabinet in

October. The average car parking fees collected across October to December exceeded the average across April to September by c. £52k each month. Furthermore the original forecast had made allowance for any poor weather conditions across the Christmas period which can heavily impact on car parking revenue. However, as the weather during this period has been mild, car parking fees have remained buoyant.

- 2.7 Using prudent forecasting to the end of the financial year, it is estimated the current £295k surplus will extend to c.£330k inclusive of unbudgeted parking permit income generated by Chelt Walk Car Park.
- 2.8 The Council had intended to fund £335,800 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. However, based on the current forecasts the amount to be funded from the Car Parking Equalisation Reserve will be reduced to £5,800 in 2015/16 allowing £330k to remain in the reserve which will provide a cushion for future fluctuations in car parking revenue.

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

- 2.9 Historical Rateable Value (RV) reviews of North Place Car Park and Cheltenham Crematorium have been undertaken resulting in a reduction in the RV and a backdated one-off refund of £141,800 (net of agents' fees) following the Valuations Office Agency assessment.

### **Joint Core Strategy**

- 2.10 The budget monitoring report to 30<sup>th</sup> September identified an 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 had resulted in a further request for funding of £40,000 per Council being made.
- 2.11 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.
- 2.12 With delays to transport modelling evidence, the latter stage of the examination and the subsequent consultation will now continue into 2016/17 which has resulted in further budgetary provision being made available in the final budget for 2016/17.

### **Recycling Collection Schemes**

- 2.13 As previously reported, income levels continue to be lower than anticipated. This is due partly to significant fluctuations in the prices received for recyclates because of global events such as the drop in the price of crude oil and the slowdown in the Chinese economy. Another factor is 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 2.15 below. Total income shortfall for recycling is estimated at £279.4k for the year.

### **Trade Refuse**

- 2.14** Income levels are lower than estimated as volumes have continued to decline due to fewer businesses taking up the service. As a result, a potential income shortfall of £62k for 2015/16 continues to be reported.

#### **Ubico Limited – efficiencies**

- 2.15** 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 £114k.

#### **Ubico Limited – 2014/15 underspend**

- 2.16** 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 of the last two financial years.
- 2.17** 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.

#### **Business Rates Retention**

##### **Pre-pool position:**

- 2.18** The budget for 2015/16 included net retained income for business rates of £3.770 million. A revised mid-year estimate of the non-domestic rating income has been undertaken which shows a reduction in the Council's estimated share of the income of £809,000. This is due to temporary retail closures arising from town centre redevelopments and to large reductions made by the Valuation Office (VO) in the rateable values of purpose-built doctors' surgeries and health/medical centres (which are backdated several years), as a result of a change in the valuation methodology. Due to government regulations, this reduction will impact in 2016/17.
- 2.19** However, the levy payable to government is reduced by an estimated £383,000. Section 31 grant, which compensates the Council for additional reliefs introduced by the government, is also estimated to increase by around £41,000, giving total additional income of £424,000 receivable in 2015/16.
- 2.20** Therefore it is proposed that the additional income of £424,000 in 2015/16 is transferred to the Business Rates Retention Reserve in 2015/16 to help offset the reduction of £809,000 in 2016/17, as per paragraph 2.22 below.

##### **Post-Pool position:**

- 2.21** The reduced estimated income is likely to be compensated by the Gloucestershire Business Rates Pool, which should reduce the levies payable to the government in 2015/16. These potential levy reductions have not previously been included in the budget due to their being dependant on the income generating performance of the other authorities in the Pool, which is very difficult to predict and over which this Council has no control. Assuming the Pool performs as expected, however, it could reduce the levies payable in 2015/16 by around £162,000. This reduction, together with the £424,000 reduction detailed in paragraph 2.20, results in a total reduction of £586,000 in 2015/16 which is recommended to be transferred to the Business Rates Retention Reserve, to offset the reduction in income in 2016/17.

## **Use of Reserves**

- 2.22** Financial rule B11.4 provides the Section 151 Officer with delegated authority to approve in year transfers to and from earmarked reserves to support the activities of the Council. In light of the above, the Section 151 Officer recommends that a transfer of the £586,000 additional retained business rates income in 2015/16 to the Business Rates Retention Reserve, to part fund the reduction in income in 2016/17, as detailed in paragraph 2.21.

## **3. Treasury Management**

- 3.1** Since the budget monitoring report to 30th September, investment income has marginally improved further and is likely to show a surplus of £31.5k against the 2015/16 budget.

## **4. 2014/15 Carry Forwards**

- 4.1** Executive Board have undertaken a thorough review of the 2014/15 approved carry forwards and have proposed that carry forwards totalling £41,000 are no longer required and should be used to further strengthen the Council's Budget Strategy Support Reserve.

## **5. Capital**

- 5.1** 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 31st December is included as Appendix 2 to this report.

- 5.2** An update on the capital schemes focussed on public realm improvements has been provided to show how the delivery of the schemes has progressed since the capital budgets were initially approved.

### **5.3 Creative Hub (St. Mary's Churchyard)**

This project was originally conceived as holistic although it was always recognised that it would need considerable partnership funding to deliver the whole ambition. The £50k allocation could only ever deliver specific elements and act as a matched funding pot. Some delays, occasioned by longer than anticipated, but successful negotiations to find a resolution to the collapsed wall to the North West and the car parking needs meant that attention was diverted to a subset of the project, the Minster alleyways scheme which is live and scheduled to start on site in May 2016. This will account for c£25k and it is proposed that the remainder be retained as the hook for exploring funding with partners such as Heritage Lottery Fund and Gloucestershire Environmental Trust.

### **5.4 Sherborne Place Car Park**

When it became clear that North Place Car Park was to be closed, an allocation of £100k was made in case adjustments were needed to support coach parking in the town. There was a concern that out-of-town coaches would cease visiting the town, although it was also noted that local service buses also regularly used the North Place facility. Sherborne Place as one of the surface car parks closest to the High Street was the subject of various remodelling exercises but as a result of site constraints and the configuration of the car park, bus parking would have resulted in the loss of nearly half of the existing capacity so it was decided to better manage and utilise the existing capacity at Royal Well for both out-of-town and local services, with support from the town centre manager.

This approach has been further bolstered by the decision and funding to remove the last of the concrete shelters and replace with light weight shelters, potential coffee pod and tourist information point – work scheduled to begin early in 2016.

For this reason the £100k allocation linked to Sherborne Place is no longer required. However, now that the Cheltenham Transport Plan and other resultant decisions e.g. John Lewis have become clear, it is proposed to bring forward a bid to redeploy this funding to support works associated with these major projects.

## **5.5 Promenade Upgrade**

There have been various components to this upgrade. The Southern Promenade was split into several phases. Phase 1 saw the Queens Hotel to Quadrangle area improved, Phase 2 LK Bennett to Beards, Phase 3 the outer element of the Long Gardens, with the exception of the area fronting Neptune's Fountain, which was subject to contractor delay and then caught up in the change of term contractor by GCC, although CBC has purchased the York stone for this section.

The last phase (4) from Neptune's Fountain back to the Queens is currently in abeyance as it has been agreed with GCC to focus attention on other elements of the public realm as the opportunity has arisen, so the summer/autumn 2015 saw the extension of the works delivered by Brewery II extended up to (but not including) Boots Corner.

The pedestrianised Promenade has a scheme prepared and an early result has been the refurbishment of the phone boxes (with additional funding from the public art panel). Funding remaining is to be retained in order to match GCC funding for non-maintenance items when the opportunity arises; thus GCC will fund items such as slab replacement and repointing while CBC will fund seating and tree pit improvements.

## **6. Programme maintenance expenditure**

- 6.1** 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 31<sup>st</sup> December 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.

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

- 7.1** 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.
- 7.2** Variations to the budget for the current year following completion of the final accounts for 2014/15 were reported to Cabinet in July:
- 7.3** 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 £2,358,800).
- 7.4** 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 31<sup>st</sup> December 2015 are detailed below:



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

- 7.5** Expenditure on repairs and maintenance for the year is currently forecast at £3,975,000 a reduction of £175,000 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 still be impacted by severe weather issues in the final quarter.
- 7.6** Provision for bad debts can be reduced by £50,000 to £150,000 – rent arrears are lower than anticipated reflecting delays in the implementation of welfare reform and the allocation of additional resources to mitigate the impact.

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

- 7.7** As detailed above the revised budget for capital expenditure for the year is £6,992,000. The current forecast for expenditure is £5,459,000, a potential reduction of £1,533,000 against that budget. This is primarily due to the revision of three projects, namely:

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

- 7.7.1** 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)

- 7.7.2** 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 Doors & Alarms – Sheltered Schemes (£200,000)

- 7.7.3** Works to commence in 2016-17 as part of the major contract described in 7.7.1 above.
- 7.7.4** The revenue consequence of the reduction in capital expenditure is that the revenue contribution of £754,000 in the original budget is now no longer required in 2015/16. These resources will be carried forward in reserves to fund the projects in 2016/17.

## **HRA General Reserve**

- 6.8** The impact of the variations detailed above (and other minor variations) is to increase the forecast surplus for the year by £1,024,500 to £2,200,800 leaving a balance of £5,856,900 in reserves at 31<sup>st</sup> March 2016.

## **8. Council tax and Business rates collection**

- 8.1** 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 December 2015 and the projected outturn for 2015/16.

## **9. Sundry debt collection**

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

## 10. Conclusion

10.1 The net effect on the general fund of the variances reported above is that there may be a net underspend against the budget of £307,900 for 2015/16. It is proposed that a contribution of £307,900 be made to the Budget Strategy (Support) Reserve, based on the position at the end of December 2015. It is recommended that Cabinet make this formal request for Council approval as part of the budget setting process for 2016/17 at its meeting on 12th February 2016.

10.2 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.

10.3 It will be for Cabinet and Council to decide in July 2016, when outturn is finalised, how to apply any further potential savings. However it is recommended that any further underspend identified on outturn be 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 future budget funding gaps, as outlined in the Council's Medium Term Financial Strategy and the Cabinet budget setting report dated 9th February 2016 .

## 11. Consultation

11.1 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 31<sup>st</sup> December 2015</li><li>3. Programme Maintenance Budget Monitoring to 31<sup>st</sup> December 2015</li><li>4. Council Tax and NNDR collection to 31<sup>st</sup> December 2015</li><li>5. Aged Debt Report as at 31st December 2015</li><li>6. Budget Virements for approval – 2015/16 budget</li></ol>
<b>Background information</b>	<ol style="list-style-type: none"><li>1. Section 25 Report – Council 123<sup>th</sup> February 2015</li><li>2. Final Budget Proposals for 2015/16 – Council 13th 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 2016	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

**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.