

# Cheltenham Borough Council

## Cabinet – 8 November 2016

### Budget Monitoring Report 2016/17 – position as at September 2016

<b>Accountable member</b>	<b>Councillor Rowena Hay, 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 2016/17 based on the monitoring exercise at the end of September 2016. The report covers the Council's revenue, capital and treasury management position. The report identifies any known significant variations (minimum £50,000) to the 2016/17 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 2016/17 budget and the expected delivery of services within budget.</b></li><li><b>2. Cabinet note the reduction in the use of the Car Parking Equalisation Reserve, approved in accordance with B11.4 of Financial Rules where the Section 151 Officer has delegated authority to approve in year transfers to and from earmarked reserves to support the activities of the council.</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 , julie.mccarthy@cheltenham.gov.uk, 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 2016/17. The purpose of this report is to notify members of any known significant variations to budgets for 2016/17 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 2016/17 agreed by Council on 12<sup>th</sup> February 2016, 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>	<b>Overspend / (Underspend)£</b>	<b>para. ref:</b>
<b>Commissioning Directorate</b>		
Ubico Limited – additional costs	50,000	2.11-2.12
<b>Total Commissioning Directorate</b>	<b>50,000</b>	
<b>Environment &amp; Regulatory Services</b>		

Off Street Car Parking – surplus on income	(200,000)	2.4 – 2.9
Car Parking Equalisation Reserve – contribution to	200,000	2.10
<b>Total Environment &amp; Regulatory Services</b>	-	
<b>Resources Directorate</b>		
Investment Property – overachievement on income	(99,000)	2.14
Audit Cotswolds – Internal & Corporate Fraud Unit	(50,700)	2.15
<b>Total Resources Directorate</b>	<b>(149,700)</b>	
<b>Treasury</b>		
Interest – net surplus General Fund	(6,800)	3.1
<b>Total projected under spend for year</b>	<b>(106,500)</b>	

### Savings from employee costs

- 2.2** A target of £350,000 from employee related savings to be made throughout the Council during the year is embedded within individual service budgets, allocated in proportion to existing service salary budgets to improve 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 achievable for the financial year.
- 2.3** However, it is worth noting that during 2016/17 £124k from existing salary vacancies was approved for virement to support the Regulatory & Environmental Services Transformation Programme. As a result the delivery of the target has become more pressured. Its delivery will continue to be monitored and will be further reviewed in the budget monitoring report to 31<sup>st</sup> December 2016.

### Off-street Car Parking Income

- 2.4** The income position for off-street car parking to the end of September is overachieving by around £118k, which equates to around 3% of target. This is broken down to a £127k net overachievement budget on parking fees and permits, less £9k under achievement on parking fine income.
- 2.5** The £118k over achievement the first 6 months takes account of in-year budgetary increases totalling £110k. These budgetary increases have been approved to firstly provide funding to cover the costs of a car parking strategy (£60k) and secondly to provide external legal support with regards to a property matter (£50k).
- 2.6** Further costs to be incurred in the year are likely to reduce the final overachievement position. These mainly arise due to essential maintenance on parking machines in advance of the new £1 coin being introduced in March 2017 and as a result of increasing credit card charges arising from the ongoing trend towards pay-by-phone / online. It is estimated that the parking machine maintenance will cost around £10k and credit card charges are estimated to be overspent by up to £15k by year end. An in-depth review of car parking provision is being undertaken which will incorporate consideration of ongoing revenue costs.
- 2.7** Following the changes in car park provision over the last few years with the closure of North Place

and Beechwood Arcade, and redevelopment of Synagogue Lane, it is difficult to forecast with accuracy how car park usage will continue for the next six months. However, based on last year's October to March trends and the actuals achieved to date, it is likely that car parking income will be around £200k over budget, after allowing for the additional costs discussed under 2.6..

- 2.8** The MTFs submitted for approval in October 2016 includes an uplift to budget on car parking income for 2017/18 of £200k, as it is considered that this forms a consistently achievable increase in income.
- 2.9** The council is supporting £200,000 of car parking income in 2016/17 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 following the outcome of Augur Buchler's legal dispute with Morrisons.
- 2.10** It is therefore recommended that the forecast over achievement be offset against the contribution to the reserve as it is no longer considered necessary in light of current estimations. Should these estimations not come to fruition in the current year should, for example, the town suffer a bad winter, the car parking equalisation reserve will still be available to drawdown upon.

#### **Ubico Limited – additional costs**

- 2.11** Current charges from Ubico are in line with the budgeted contract value. However an additional vehicle is currently being employed as a result of a growth in property numbers, inefficient round arrangements and the separate collection of food waste. Service redesign in 2017 will include optimisation of rounds and take account of the forecast increase in property numbers over the next 3 to 5 years.
- 2.12** The additional vehicle referred to above coupled with the use of older vehicles which are becoming less efficient and incurring higher operating and maintenance costs has the potential to give rise to an additional contract charge from Ubico of approximately £50k. Work on options for replacing these vehicles (for which a capital budget has been allocated) is in hand. It may be possible to contain these costs within the overall service contract, particularly through mitigating running costs once the vehicles are replaced, and this matter will be kept under review throughout the second half of the financial year.

#### **Waste & Recycling Income**

- 2.13** Income from waste and recycling continues to be monitored on a regular basis in conjunction with the Joint Waste Committee. A further update on the current year position will be brought forward as part of the budget monitoring report to the end of December 2016.

#### **Investment Property**

- 2.14** The rental income generated by the council's investment property portfolio is anticipated to exceed budget by £99k in 2016/17 as a result of backdated billing arising from a review of lease arrangements at the Enterprise Centre. Whilst this sum is considered one-off at this time further work is being undertaken to establish if the base budget for investment income can be increased to accommodate an increased anticipated annual rent roll.

#### **Audit Cotswolds – Internal Audit and Corporate Fraud Unit**

- 2.15** Following a review of the council's audit requirements for 2016/17, Audit Cotswolds have delivered an in year saving of £20,700. Further to this, the Corporate Fraud Unit has supported an under

spend of £30,000 in the current year pending the decision to agree the formal business case for the future of the service. This has resulted in a total one-off underspend of £50,700.

### **3. Treasury Management**

**3.1** Investment interest is likely to be around £6,800 in surplus against the expected budget of £123,200 for the financial year. In the first half of the financial year the council has held an average balance of £23.7m investments achieving an average rate of 0.54%. However due to the Bank of England cutting the Base Rate to 0.25% in August 2016, the second half of the financial year is expected to fall slightly.

**3.2** No new borrowing has taken place this year and borrowing costs are expected to remain on target.

### **4. Capital**

**4.1** A detailed exercise has been carried out to ensure that capital schemes, approved by Council on 12th February 2016, are being delivered as planned within allocated capital budgets. The monitoring position at 30th September is included as Appendix 2 to this report.

### **5. Developer Contributions**

**5.1** Detailed work is in progress to ensure that all developer contributions are being properly utilised and that members are informed of expenditure. An update on developer contributions is included in this report at Appendix 3. This information is presented at summary level apart from any areas where spend has occurred in the first half of this year.

### **6. Programme maintenance expenditure**

**6.1** A detailed exercise has been carried out to ensure that programme maintenance work, approved by Council on 12<sup>th</sup> February 2016, is being delivered as planned within the allocated budgets. The monitoring position at 30<sup>th</sup> September is included as Appendix 4 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 2016/17, approved in February 2016, showed a surplus of £330,500 for the year which would result in a balance of £6,187,400 to be carried forward in revenue reserves at 31<sup>st</sup> March 2017.

**7.2** Variations to the budget for the current year following completion of the final accounts for 2015/16 were reported to Cabinet in July 2016:

- The outturn position for 2015/16 showed an increased level of reserve at 31<sup>st</sup> March 2016 of £6,041,100 (previously estimated at £5,856,900).
- Capital expenditure totalling £143,000, originally programmed for 2015/16, was delayed into 2016/17 increasing the budget for current year to £8,362,000 (excluding new build). Funding for that expenditure was carried forward in reserves.

Further significant variations to revenue and capital budgets identified to 30<sup>th</sup> September 2016 are detailed below:

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

- 7.3** Expenditure on repairs and maintenance for the year is currently forecast at £3,839,000 a reduction of £300,000 in comparison to budget. This reduction is due to a number of factors including lower demand following mild weather, improvements in working processes and procurement and investment in new technology.
- 7.4** 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.
- 7.5** Rent income is now anticipated to increase by a further £55,000 on the budget of £18,922,000 following the completion of two new build schemes within the year.

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

- 7.6** There is no significant variance to the overall capital expenditure budget on the existing stock (£8,362,000). Within that figure there have been the following project variations:

External Works (Budget increased from £725,000 to £1,035,000)

- 7.6.1** Additional roofing works have been brought forward to complement the window replacement contract and make best use of scaffolding. This is being financed by a virement of £137,000 from the internal works budget and a further £173,000 allocated from the contingency contained in the programme.

Internal Works (Budget reduced from £352,000 to £215,000)

- 7.6.2** Works have been rescheduled to provide a virement of £137,000 for the additional roofing works detailed above. There is no detriment to the decent homes target for the year.
- 7.6.3** Expenditure on HRA new build and acquisitions for the year is now forecast at £3,850,000, a reduction of £181,000 against the budget of £4,031,000. Planned schemes are progressing satisfactorily and within budget.

## **HRA General Reserve**

- 7.7** The impact of the variations detailed above is to increase the forecast surplus for the year by £405,000 to £735,000 leaving a balance of £6,776,600 in reserves at 31<sup>st</sup> March 2017.

## **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 5. This shows the position at the end of September 2016 and the projected outturn for 2016/17.

## **9. Sundry debt collection**

- 9.1** The monitoring of the aged sundry debts and recovery is shown at Appendix 6.

## **10. Conclusion**

**10.1** 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.

**10.2** The next detailed budget monitoring report in January 2017 may result in the identification of further projected net variances. It will be for Cabinet and Council to decide in July 2017, 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.

**10.3** 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.

## 11. Consultation

**11.1** The work undertaken to produce this report has involved consultation with 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 30<sup>th</sup> September 2016</li> <li>3. Developer Contributions and Expenditure at 30<sup>th</sup> September 2016.</li> <li>4. Programme Maintenance Budget Monitoring to 30<sup>th</sup> September 2016</li> <li>5. Council Tax and NNDR collection to 30<sup>th</sup> September 2016</li> <li>6. Aged Debt Report as at 30<sup>th</sup> September 2016</li> </ol>
<b>Background information</b>	<ol style="list-style-type: none"> <li>1. Section 25 Report – Council 12<sup>th</sup> February 2016</li> <li>2. Final Budget Proposals for 2016/17 – Council 12<sup>th</sup> February 2016</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 2017/18, SLT to consider the options for offsetting reduced income streams by analysing and reducing the level of expenditure across the Council.	March 2017	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 2017/18 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.	March 2017	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.