

# Cheltenham Borough Council

## Cabinet – 12 February 2019

### Budget Monitoring Report 2018/19 – position as at December 2018

<b>Accountable member</b>	<b>Councillor Rowena Hay, Cabinet Member for Finance</b>
<b>Accountable officer</b>	<b>Paul Jones, Executive Director Finance and Assets</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 2018/19 based on the monitoring exercise at the end of December 2018. The report covers the Council's revenue, capital and treasury management position. The report identifies any known significant variations (minimum £50,000) to the 2018/19 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 2018/19 budget and the expected delivery of services within budget.</b></li><li><b>2. Cabinet recommend that Council approve the budget virements to the 2018/19 budget, as part of the revised budget 2018/19, as detailed in Appendix 4.</b></li></ol>

<b>Financial implications</b>	As detailed throughout this report.  <b>Contact officer: Sarah Didcote, <a href="mailto:sarah.didcote@publicagroup.uk">sarah.didcote@publicagroup.uk</a> , 01242 264125</b>
<b>Legal implications</b>	<i>None specific directly arising from the recommendations.</i>  <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>	<i>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.</i>  <b>Contact officer: Julie McCarthy (Publica Group Ltd) <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.

## Background

- 1.1 This report provides the third monitoring position statement for the financial year 2018/19. The purpose of this report is to notify members of any known significant variations to budgets for 2018/19 and highlight any key issues, allowing Members to take action if required.
- 1.2 Publica 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 for 2018/19 agreed by Council on 12<sup>th</sup> February 2018, 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 2.3 to 3.1 below.

<b>Significant budget variances</b>	Overspend / (Underspend)£	para. ref:
<b>Place &amp; Growth Directorate</b>		
Car Parking – additional income	(280,000)	2.3
Cemetery & Crematorium - shortfall in income	447,100	2.4
Ubico Limited – additional costs	344,000	2.5
Recyclate waste wood disposal – additional costs	50,000	2.6
Waste & Recycling – additional income	(108,000)	2.7
Green Waste – additional income	(55,000)	2.8
<b>Total Place &amp; Growth Directorate</b>	<b>398,100</b>	
<b>Leisure &amp; Culture Service - contract savings</b>	(65,300)	2.9
<b>National Domestic Rates - additional Section 31 grant</b>	(124,300)	2.10

<b>Other - Various – net additional costs</b>	(29,600)	Appendix 4
<b>Property investment - net additional income</b>	(222,000)	3.1
<b>Total projected underspend for the year</b>	<b>(43,100)</b>	
Contribution to Budget Deficit (Support) Reserve	<b>43,100</b>	9.1
<b>Total Forecast Outturn</b>	-	

### **Saving from Employee costs**

- 2.2** A target of £372.8k 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 three quarters of the year indicate that there will be a likely surplus against this target for the financial year. This will continue to be monitored during the remainder of the year and any surplus reported at service level as part of the July Outturn report.

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

- 2.3** The council reported a shortfall of £40k in Car Parking income to the end of September 2018. However this position has recovered and income targets have been exceeded during the quarter to 31<sup>st</sup> December 2018, with the new Regent Arcade system now in place, a higher peak Christmas season and greater interest in the Town Centre due to the opening of John Lewis & Partners, Urban Outfitters and the reopening of Next. It is now anticipated that there will be surplus income of an estimated £280k for the year against the current 2018/19 budget.

### **2.4 Cemetery & Crematorium Income**

Following the phased closure of the Crematorium in October, there is an expected deficit of £447.1k for the service for 2018/19. This is due to no cremations taking place between the middle of October 2018 and the start of March 2019. This reduction takes into account any costs that would be saved from the closure and any other / new income streams that may come in place of the cremations, i.e. chapel services, scattering of ashes, etc. Part of this £447.1k (£63k) has been caused by the reduced services performed so far this year against the expected budgeted services due to the continued issues with the cremators.

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

- 2.5** The Ubico estimate of the outturn position for 2018/19, based on the period to 31<sup>st</sup> December 2018, shows a forecast overspend of circa £344K against the current budget. However, further detailed work is currently being undertaken by Ubico to improve this position during the remainder of the financial year. Any overspend at the year end will be partially offset by additional waste and recycling income, as below.

### **Waste & Recycling Income**

- 2.6** The cost of recycling waste wood is expected to cost an additional £50k in 2018/19. This may be reduced in 2019/20 as a result of a current retendering exercise. Income from waste and recycling continues to be monitored on a regular basis in conjunction with the Joint Waste Committee.
- 2.7** Recycling credits from Gloucestershire County Council are expected to deliver a net surplus of £108k for the year as a result of increased kerbside recycling tonnages.

## **2.8 Green Waste Income**

There is an expected surplus in green waste income for the year of £55k as a result of increased volume of subscription take up during the year.

### **Leisure & Culture**

- 2.9** There is a net saving of £65.3k in the management fee payable to The Cheltenham Trust, mainly equating to pension costs for ex council employees tupe transferred to the Cheltenham Trust in October 2014. The saving represents a higher than expected turnover within the Trust and therefore reduced numbers of Trust staff eligible to participate in this closed pension scheme.

### **Non Domestic Rates – Section 31 compensation grant**

- 2.10** It is anticipated that section 31 business rates compensation grant receivable in 2018/19 will be £124k higher than originally estimated. The grant compensates authorities for loss of business rates income due to additional reliefs introduced by the Government. The increase in estimated grant is due to higher than originally estimated business rate reliefs being awarded by the council and a technical change made by the Government in the formula for compensating authorities.

## **3. Treasury Management**

There is an expected net surplus for the year of £222k, generated from new rental income streams of £960k arising from the purchase of 4 commercial properties during the year, net of one off costs of £120k and short term and long borrowing costs of £618k. See Appendix 4 for full breakdown.

## **4. Capital**

- 4.1** A detailed exercise has been carried out to ensure that capital schemes, approved by Council on 12th February 2018, are being delivered as planned within allocated capital budgets, some of which are timetabled to straddle two or more financial years. The following variances to capital budgets are expected upon completion of the scheme:

### **4.2 Leisure centre – Sports & Play Hub**

The capital scheme for the provision of a new sports & play hub, including a new splashpad and changing rooms at Leisure@ has been completed within the build timescales. There is an underspend of £26k against the total scheme budget of £2.5 million which reduces the funding requirement for the scheme.

### **4.3 High Street Public Realm**

There is currently a projected £65k overspend against the scheme budget of £989k, as a result of delays to the completion of the works, due to hoardings and design issues. This is under review and may be mitigated by discussions with various parties, up to a value of £45k.

All risks around the utilisties have now been managed and removed following discussions between this council, Gloucestershire County Council and the utility companies. There will be no additional cost incurred for these works.

## 5. Programme maintenance expenditure

- 5.1 A detailed exercise has been carried out to ensure that programme maintenance work, approved by Council on 12<sup>th</sup> February 2018, is being delivered as planned within the allocated budgets. Some programme maintenance expenditure is not expected to be utilised in the current year and will be transferred back into the Property Maintenance reserve. However, there is a requirement for additional budget to meet higher than expected reactive repairs in the year, which will be funded from this reserve. Further details will be reported in the next budget monitoring report. Any slippages in schemes or underspend against budget at the end of the year will be transferred to the Programme Maintenance reserve to fund future programme maintenance expenditure.

## 6. Housing Revenue Account (HRA)

- 6.1 Significant variations to HRA revenue and Capital budgets identified to 31st December 2018 are detailed as below:-

### HRA Revenue:

Net operating surplus is currently forecast at £2,273,000 compared to the budget of £2,180,000. The increase of £93,000 is attributable to the following variations:-

	£
Additional rent income from new build properties (£35,000) offset by marginally higher void rent loss (£10,000)	25,000
Increase in interest receivable arising from both higher reserve balances and interest rate	110,000
Additional cost of IT licences and legal recharges	-47,200
Other net variations	5,200
Increase in Operating Surplus	93,000

### 6.2 HRA Capital (Existing Stock):

The forecast for capital expenditure on existing stock is £7,373,000, a reduction of £689,000 in comparison to the current budget including roll forward from 2017/18 (£8,062,000). Within that figure there have been the following significant project variations:-

- a) External Works (£329,000 reduction from budget of £543,000).

There will be a delayed start to this contract following the need to re-tender due to insufficient response to the original tender. It is expected that work will commence later this financial year, with a forecast spend of £214,000 in 2018/19 and the remainder of the works being carried out in 2019/20.

- b) Windows & Doors (£118,000 reduction from budget of £2,425,000)

Fire door replacement was paused while clarification was sought on possible changes to the required safety specification following the Grenfell fire. Expenditure in the current year is now forecast at £2,307,000.

- c) Door Entry Systems (£94,000 reduction from budget of £130,000)

Following legal issues with a potential waiver the contract has had to be retendered. It is expected that the work will commence later this financial year, with a forecast spend of £36,000 in 2018/19.

d) Communal Lighting (£218,000 reduction from budget of £1,003,000)

Contractors have been selected and contracts are being completed. There has been some delay so works will now be completed in 2019/20.

#### **HRA Capital (New build/ Acquisition):**

- 6.3 Expenditure on new HRA build and acquisitions for the year is now forecast at £2,402,000, a reduction of £1,098,000 against the budget of £3,500,000.
- 6.4 This primarily results from a lower forecast spend on acquisitions, now £933,000 against the contingency budget of £2,000,000. The acquisition of suitable properties is part of an overall strategy which, together with new build development, seeks to increase the number of affordable units to meet demand. It also ensures that the Council is able to use Right to Buy receipts before the three year deadline, after which they would have to be repaid to Government with interest. Good progress on new build development has reduced the pressure to identify properties for acquisition in the current year. Any unspent budget will be rolled over to 2019/20.

#### **HRA Reserves**

- 6.5 Revenue reserves at 31<sup>st</sup> March 2019 are now estimated at £8,785,200 compared to the original budget of £5,734,500. The increase is due to a higher balance brought forward from 2017/18 (£965,700), the additional operating surplus identified in paragraph 1.1 above (£93,000) and a reduction in the level of revenue contributions required to finance the capital programme (£1,992,000).

### **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 December 2017 and the projected outturn for 2017/18.

### **8. Sundry debt collection**

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

### **9. Conclusion**

- 9.1 The impact on the general fund of the variances reported above is that there is a forecast net underspend against the budget of £43,100 for 2018/19. This will be transferred to the Budget Strategy (Support) Reserve, under the delegated authority of the Chief Finance Officer.
- 9.2 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.
- 9.3 It will be for Cabinet and Council to decide in July 2019, when outturn is finalised, how to apply any 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.

## 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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<b>Appendices</b>	<ol style="list-style-type: none"> <li>1. Risk Assessment</li> <li>2. Council Tax and NNDR collection to 31<sup>st</sup> December 2018</li> <li>3. Aged Debt Report as at 31st December 2018</li> <li>4. Budget Virements for approval – 2018/19 budget</li> </ol>
<b>Background information</b>	<ol style="list-style-type: none"> <li>1. Section 25 Report – Council 10<sup>th</sup> February 2018</li> <li>2. Final Budget Proposals for 2017/18– Council 12th February 2018</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.	February 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	4	3	12	Reduce	In preparing the budget for 2018/19 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.	February 2018	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.