Cheltenham Borough Council
Cabinet – 18th October 2011
Budget Monitoring Report 2011/12 – position as at August 2011

Accountable member	**Councillor John Webster, Cabinet Member for Finance and Community Development**
Accountable officer	**Paul Jones, Head of Financial Services**
Accountable scrutiny committee	**All**
Ward(s) affected	**All**
Key Decision	**Yes**
Executive summary	To update Members on the Council's current financial position for 2011/12 based on the monitoring exercise at the end of August 2011. The report covers the Council's revenue, capital, treasury management and the housing revenue account. The report identifies any known significant variations (minimum £10,000) to the 2011/12 original budget and a position statement on major schemes.
Recommendations	1. **Note the contents of this report including the key projected variances to the original 2011/12 budget identified at this stage and the potential projected overspend of £476,400 for the financial year 2011/12.** 2. **The current freeze on spending against supplies and service expenditure budgets, where possible, is continued until further notice. This will be factored into the revised 2011/12 budget.** 3. **If, following the more detailed monitoring process currently being undertaken as part of the budget setting process for 2012/13, the potential overspend is confirmed, take corrective action to ensure that the Council delivers services within the overall net budget for the year.**

Financial implications	As detailed throughout this report. **Contact officer: Paul Jones, paul.jones@cheltenham.gov.uk, 01242 775154**
Legal implications	None directly arising from the recommendations. The current legal position regarding Icelandic Banks is referred to in the report. **Contact officer: Peter Lewis, Peter.Lewis@tewkesbury.gov.uk, 01684 272695**

HR implications (including learning and organisational development)	Service Managers and the HR Advisors are continuing to work together to ensure vacancies are managed effectively. A request to recruit to a new or vacant post must be approved by the divisional Director. The decision to approve or reject the recruitment request is based on the business case outlining the impact on the service delivery and/or loss of income generation if the post were to remain unoccupied. **Contact officer: Julie McCarthy , julie.mccarthy @cheltenham.gov.uk, 01242 264355**
Key risks	As outlined in Appendix 1.
Corporate and community plan Implications	Key elements of the budget are aimed at delivering the corporate objectives within the Corporate Business Plan.
Environmental and climate change implications	None.

1. Background

1.1 This report provides the second monitoring position statement for the financial year 2011/12. The purpose of this report is to notify members of any known significant variations to budgets for 2011/12 and highlight any key issues, allowing Members to take action if required.

1.2 Financial Services carry out a regular budget monitoring exercise for services in liaison with Directors and cost centre managers. This identifies any variations from the current approved budget that are anticipated to occur in the financial year. The current approved budget is the original budget 2011/12 agreed by Council on the 8th February 2011, 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.

1.3 There is currently a freeze on spending against supplies and services budgets, where possible. This freeze should continue until further notice and any savings generated be incorporated into the 2011/12 revised budget, to partially offset the potential overspend detailed in table 2.1 below.

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 £10,000. A more detailed explanation of budget variances in excess of £50,000 are provided in paragraphs 2.2 to 3.10.

Significant budget variances (> £10,000)	Overspend / (Underspend) £	para. ref:
Employee costs		
Shortfall in salary savings target	80,000	2.2
Customer Services restructure savings	(50,000)	2.3
Resources		
Misc. Properties – Additional Regent Arcade income	(37,500)	
Wellbeing & Culture		
Town Hall – net shortfall in income	11,400	
Pump Rooms – net shortfall in income	13,100	
Built Environment		
Off Street car parking – shortfall of income	104,000	2.4
Building Control – shortfall of income	50,000	2.5
Strategic Planning – shortfall of income	15,500	
Operations		
Refuse Collection – shortfall of income	110,000	2.6

Recycling Centre/CA Site – surplus income	(100,000)	2.7
Garden Waste Scheme – shortfall of income	306,000	2.8
Miscellaneous		
Utilities – savings from contract extension	(50,000)	2.9
Treasury		
Interest – net surplus General Fund	(23,000)	3.8
Interest – Item 8 General Fund shortfall	46,900	3.9
Total projected overspend	**476,400**	

2.2 Savings from employee costs
The 2011/12 original budget included a target of £480,000 from salary savings to be made throughout the council from vacant posts arising during the year. An initial assessment of vacant posts (i.e. staff turnover) and restructures in the first five months of the year indicates that there is likely to be a net shortfall in this budget target of £80,000. This is partially offset by the employee savings from the Customer Services restructure detailed in paragraph 2.3. The projection includes a saving of £59,800 in respect of a budget allocation to fund early retirement costs in 2010/11 where a change to the pension rules meant this contribution to the superannuation fund was not required.

2.3 Customer Services restructure
The Bridging the Gap programme identified savings of £115,000 in 2012/13 from the systems thinking work highlighting opportunities to encompass the front-office service provided to Revenues and Benefits by Customer Services. The restructure has been put in place from 1st April 2011, a year prior to the planned saving, on the basis that any 2011/12 saving would be required to fund the decommissioning costs. However, decommissioning costs are significantly less than anticipated. As a result it is anticipated that around £50,000 of savings will be brought forward and delivered in 2011/12.

2.4 Off-street Car Parking Income

2.4.1 The current projections show that off-street parking revenue continues to fall, Cheltenham is not alone on this front, as national indicators show a general fall in local authority off-street parking and fine revenues. Prices have not increased in 2011/12 and the VAT rise has also been absorbed within income targets. Off-street car parking income has also been impacted by the introduction of new parking zones by Gloucestershire County Council. This has had an effect on customer choice as there is more opportunity to park closer to their destination using on-street spaces at a competitive rate.

2.4.2 The income position for off-street car parking to the end of August is falling short of target by around £35k, which equates to around 2.3% of the target. A corresponding shortfall in fine income is also being generated, with income being around £8k down against target. This equates to around 32% of target demonstrating a marked drop in fine income. Should these trends continue as currently anticipated, car parking income is likely to be £84,000 short of target, and fine income down by around £20,000. This will leave a total forecasted shortfall against income targets of around £104,000. Future budget monitoring reports will provide updated positions with a greater degree of accuracy.

2.5 Building Control fees

The income figures for the first five months of the financial year show the level of income to be £25,000 behind the budgeted target. If this trend continues throughout the year the annual shortfall would be in the region of £50,000.

2.6 Refuse collection

This cost centre is overspent by £45,800 as at the end of August due to a reduction in Trade Waste income which can be attributed to the current economic conditions. It is anticipated that this trend will continue until the year end with a projected shortfall in income of £110,000

2.7 Recycling Centre/CA Site

This cost centre is anticipated to be underspent by £41,700 at the end of August due to additional recycling income. It is anticipated that this trend will continue until the year end with a projected over recovery in income of £100,000.

2.8 Garden Waste Scheme

This cost centre is anticipated to be overspent by £150,000 at the end of August. This is attributable to a shortfall in Garden Waste bin sales. If this trend continues until the year end it is anticipated that there could be a projected shortfall in income of £306,000, which represents an anticipated sale of 11,500 Garden waste bins based on current sales data. However, a promotional campaign and operational reorganisation is underway to address this position. The anticipated savings on employee costs of £34,000 are incorporated in the global employee cost figure in Table 2.1 above. The net over spend on this cost centre is therefore anticipated to be £272,000 at the year end.

2.9 Utilities

Gas and electricity contracts were due for renewal at the end of October 2011. However due to issues within the wholesale energy market in respect of timings, the council has opted for a six month contract extension up to April 2012, with a view that optimum prices will be better achievable next year. The gas extension prices are around 13% cheaper than the existing contract and so in-year savings are anticipated. Work is ongoing to establish the full extent, although a prudent estimate of £50k is currently forecast.

3. Treasury Management

3.1 Icelandic Banks

Members will be aware that on 1st April 2011 the Reykjavik District Court in Iceland ruled that local authority deposits in Glitnir Bank Hf have priority status, resulting in a 100% likely recovery rate for the council's £3 million investment (plus interest due up until the date the bank collapsed). The council had previously assumed such deposits did not have priority status, in line with the decision of the winding up board, giving a recovery rate of just 29%.

3.2 The court decision enabled the council to reverse previous write downs (impairments) in the value of the investment, resulting in a credit to revenue of £2.4 million in 2010/11. As the decision is subject to appeal to the Icelandic Supreme Court, the credit was transferred to an earmarked reserve in 2010/11, for use in case the appeal is successful and the credit has to be reversed. The results of the appeal are not expected until late October 2011.

3.3 Should the appeal not be successful and the ruling remain, the reserve will be used to repay the borrowing taken out when the original losses were capitalised, using the Capitalisation Direction received in 2009/10. This will reduce budgeted borrowing repayments (Minimum Revenue Provision) by £120,000 per annum from 2012/13.

3.4 The court decision does not affect the impairment charge made for the Landsbanki deposits, as the council had in this case already assumed priority status would be achieved, in line with the view taken by that bank's winding up board. For the 2010/11 accounts the council had assumed a recovery rate of 94.85% for these deposits, based on the best available information at the time. Very recent indications from the bank's administrators, however, suggest that the recovery rate could now be around 98%, resulting in a possible further credit to revenue of £100-150,000. Used to repay the borrowing, this would reduce budgeted repayments by £5-7,000 per annum, from 2012/13.

3.5 The decision of the appeal court in the Glitnir case is likely to have implications for the recoverable amount for the Landsbanki deposits, however, since the decision as to whether local authority deposits have priority status is ultimately expected to be the same for both banks. If such deposits do not have priority status then the recovery rate for the Landsbanki deposits is estimated to be around 38%, resulting in an increased impairment charge, possibly in 2011/12, of £2.4 million, for which a further Capitalisation Direction would be sought. If such a direction is received in 2011/12 then borrowing repayments (Minimum Revenue provision) would need to increase by £120,000 per annum from 2012/13.

3.6 The likely recovery rate for the Kaupthing, Singer & Friedlander (KS&F) deposits continues to be between 78% and 86%, with a mid point of 82% assumed for the Statement of Accounts 2010/11.

3.7 The table below shows the overall likely recovery rates *for the original £11 million* invested in Icelandic banks under three different scenarios. It must be stressed there are still a number of uncertainties, for example the effect of exchange rates on the banks assets, and the rates shown are based on the best available information at present.

Scenario	**Likely Recovery Rate**	**Likely Recoverable amount**	**Estimated effect on revenue account 2012/13**
	%	**£m**	**£m**
Worst Case – Glitnir appeal is successful, Landsbanki no longer priority status, KS&F 78%	46	5.1	+0.123*
Middle Case – Glitnir appeal unsuccessful, Landsbanki at 94.85%, KS&F 82% (as per Statement of Accounts 2010/11)	93	10.2	-0.120
Best Case – Glitnir appeal is unsuccessful, Landsbanki rate increases to 98%, KS&F at 86%	95	10.5	-0.130

* Assumes capitalisation direction received

The middle case shows the position assumed in the Statement of Accounts for 2010/11, however the recovery rate could be as high as 95% if local authority deposits continue to have priority status and the recovery rates for the Landsbanki and KS&F deposits increase further.

3.8 Treasury Management Activity
There is a predicted surplus of interest of £23,000 to report on Treasury Management within the general fund for 2011/12. Lending interest is forecast to be around £30,400 better off compared to the original budget due to receiving better rates for one year deposits compared with that estimated in late 2010. Temporary borrowing interest is predicted to be around £7,400 adverse compared with the 2011/12 original budget.

3.9 The calculation for the HRA Item 8 Debit last February estimated the consolidated rate of interest to be 3.08% on all borrowing for this financial year. However due to the council's weighted average borrowing estimated to be lower than the Capital Financing Requirement (CFR), which is a measure of the authorities underlying need to borrow for capital purposes, a different formula is required to calculate the HRA Item 8 Debit than what was used previously. This has reduced the consolidated rate of interest to around 2.80%. This could result in £46,900 less interest being payable by the HRA to the General Fund for 2011/12.

4. Capital expenditure

4.1 Possible significant variances to the 2011/12 original capital budgets and a position statement on major capital schemes are detailed below:

4.2 A budget of £104,800 has been allocated for CCTV in Car Parks in 2011/12. The scheme is currently out to tender on the parking management and software solution for the Regent Arcade. The chosen system will become the platform for future upgrades including CCTV at car parks. Until we have determined our choice of operating system we are not able to progress the CCTV upgrades.

4.3 There is an anticipated under spend of £250,000 on Private Sector Renewals (PSR). The under spend is due to a tightening of eligibility criteria following the cessation of PSR funding. The priority is now to make this money last in order to help meet our statutory duties in respect of vulnerable householders. In addition this capital pot may also be legitimately used to fund the difference between costs and receipts where the council pursues compulsory purchase and can therefore be used to facilitate bringing empty properties back into use. Any under spend should be carried forward at year end for these purposes. The Private Sector Renewal Policy is due for amendment this year and although it currently covers all aspects of suggested spend, it will be recommended that eligibility criteria for grants/loans be substantially narrowed.

5. Programme maintenance expenditure

5.1 All the work that has been planned for completion in 2011/12 remains as scheduled. However, a detailed exercise will be undertaken in putting together the revised budgets to ensure that the priorities in place remain appropriate.

6. Housing Revenue Account (HRA)

6.1 HRA Capital Programme
The HRA budget for 2011/12, approved in February 2011, estimated a deficit of £1,092,300 for the year resulting in a balance of £1,896,700 to be carried forward in revenue reserves at 31st March 2012.

6.2 The outturn position for 2010/11 showed an increased level of reserve at 31st March 2011 of £3,673,200 (previously estimated at £2,989,000) resulting from delays to projects within the capital programme. Budgets for the transformational improvements in St Pauls and neighbourhood works at Scott and Edward Wilson House were transferred to the current year, increasing capital spend to £5,600,000 (previously £4,828,000) and revenue contributions to capital to £2,078,000.

6.3 The net impact of these variations will be to increase the forecast deficit to £1,583,200 but leave an enhanced balance of £2,090,000 in reserve at 31st March 2012.

6.4 No other significant variations have been identified at this time.

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 August 2011 and the projected outturn for 2011/12.

8. Sundry debt collection

8.1 The monitoring report for the collection of sundry debt income is shown in Appendix 3. This shows the position at the end of August 2011. There are no significant matters to report.

9. Section 151 Officer advice

9.1 The council has a sound track record for delivering services within budget. Members will recall that the budget monitoring position to the end of August 2010 projected an overspend for the year of £801,700. Measures were put in place which enabled the council to address the potential in year budget deficit and delivered services within the resources available resulting in a budget saving of £174,086 in 2010/11.

9.2 The monitoring report is clearly an estimated position and there are many variables which may result in a more favourable outturn for the year than currently predicted. The position is not unexpected given the impact of the current economic climate on investment interest and car parking income.

9.3 If, following the more detailed monitoring process currently being undertaken as part of the budget setting process for 2012/13, the potential overspend is confirmed the Cabinet will need to take corrective action to ensure that the Council delivers services within the overall net budget for the year. There is a strong possibility that this will require a contribution from General Balances and this is identified within the risk assessment at Appendix 1.

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 continued impact of the economic recession and the uncertainty in the banking system present particular concerns for the council's budgets. It is clearly important to ensure that budgets are more 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 a wide number of services and cost centre managers.

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Appendices	1. Risk Assessment 2. Council Tax and NNDR collection 3. Sundry Debt collection
Background information	1. Section 25 Report – Council 8th February 2011 2. Final Budget Proposals for 2011/12 – Council 8th February 2011

Risk Assessment

Appendix 1

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.	Unable to take corrective action in respect of reduced income streams.	Cabinet	June 2010	3	6	18	Reduce	In preparing the revised budget for 2011/12, SLT to consider the options for offsetting reduced income streams by analysing and reducing the level of expenditure across the Council.	December 2011	SLT	Corporate Risk Register
2.	Requirement to fund projected overspend from General Balances would result in General Balances falling below the minimum range of £1.5m to £2m set by the Chief Finance Officer.	Cabinet	June 2010	3	6	18	Reduce	In preparing the revised budget for 2011/12, an exercise to realign earmarked reserves will be undertaken in order to strengthen the level of General Balances.	December 2011	Chief Finance Officer	Corporate Risk Register