# Cheltenham Borough Council

# Cabinet – 11 February 2020

# Budget Monitoring Report 2019/20 – position as at December 2019

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|---|---|
| **Accountable member** | **Councillor Rowena Hay, Cabinet Member for Finance** |
| **Accountable officer** | **Paul Jones, Executive Director Finance and Assets** |
| **Accountable scrutiny committee** | **All** |
| **Ward(s) affected** | **All** |
| **Key Decision** | **Yes** |
| **Executive summary** | To update Members on the Council's current financial position for 2019/20 based on the monitoring exercise at the end of December 2019. The report covers the Council's revenue, capital and treasury management position. The report identifies any known significant variations (minimum £50,000) to the 2019/20 original budget and areas with volatile income trends. |
| **Recommendations** | **1. Cabinet note the contents of this report including the key projected variances to the 2019/20 budget and the expected delivery of services within budget.**<br>**2. Cabinet recommend that Council approve the budget virements to the 2019/20 budget, as part of the revised budget 2019/20, as detailed in Appendix 4.** |

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| **Financial implications** | **As detailed throughout this report.**<br>**Contact officer: Andrew Knott, andrew.knott@publicagroup.uk , 01242 264121** |
| **Legal implications** | **None specific directly arising from the recommendations.**<br>**Contact officer: Sarah Farooqi, sarah.farooqi@tewkesbury.gov.uk, 01684 272012** |
| **HR implications (including learning and organisational development)** | ***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.***<br>***Contact officer: Julie McCarthy julie.mccarthy@cheltenham.gov.uk, 01242 264355*** |
| **Key risks** | **As outlined in Appendix 1.** |

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| **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.** |

## Background

**1.1** This report provides the third monitoring position statement for the financial year 2019/20. The purpose of this report is to notify members of any known significant variations to budgets for 2019/20 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 2019/20 agreed by Council on 18th February 2019, 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.

| **Significant budget variances** | Overspend / (Underspend) £ | para. ref: |
|---|---|---|
| **Saving from Employee costs** | (30,000) | 2.2 |
| | | |
| **Place & Growth Directorate** | | |
| Car Parking | (355,000) | 2.3 |
| Cemetery & Crematorium | 230,000 | 2.4 |
| Ubico Limited | (162,000) | 2.5 - 2.8 |
| Waste & Recycling | 275,000 | 2.9 - 2.15 |
| Planning | 87,000 | 2.16 |
| Arle Nursey | 127,000 | 2.17 |
| **Total Place & Growth Directorate** | 202,000 | |
| MRP Savings | (194,000) | 2.18 |
| Non Domestic Rates – Levy and Section 31 | 90,000 | 2.19 - 2.20 |
| | | |
| Other Small Transactions under £50,000 | 49,000 | |

| | | |
|---|---|---|
| | | |
| **Total projected overspend for the year** | **117,000** | |
| | | |
| Contribution from Cemetery income Equalisation reserve | (117,000) | 9.1 |
| | | |
| **Total Forecast Outturn** | **-** | |
| | | |

**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 of £30k 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 Outturn report.

**Off-street Car Parking**

**2.3** It is estimated that we will have an additional £355k from Car parking within this financial year. This is split by an additional £545k in car parking income due to greater demand across all car parks. However staffing resource costs have increased by £114k along with additional expenditure of £76k for pay by phone and card charges due to the way that the car parks are now operating.

**Cemetery & Crematorium**

**2.4** It is anticipated that the Cemetery, Crematorium will be in deficit by around £230k by the end of the financial year 2019/20. This is due to lower income than budgeted by £200k and £30k of additional expenditure. Income has fluctuated throughout the year but demand for the services provided isn't at the budgeted levels. We usually expect a slightly increased demand for services through the final quarter of the year.

**Ubico Limited**

**2.5** Ubico Limited estimate an outturn position of £162k underspend against current budget for 2019/20 based on the period to the 31st December 2019.

**2.6** Corporate Ubico support services are anticipating a deficit of £60k. "Previous finance reports presented have focussed on the contract specific costs, overlooking the corporate costs of the business and the potential cost of these to our shareholder councils at the end of the year." The grounds maintenance service is anticipating a surplus of £95k, due to lower than budgeted staffing costs. Waste Tipping charges are expected to be in deficit by £38k due to the service not tipping as efficiently as it could. These issues have been addressed and no further unbudgeted costs will be incurred for the remainder of the financial year.

**2.7** A delay in procurement/purchase of vehicles operated by Ubico has resulted in a lower asset charge than budgeted to Ubico from CBC. Due to the significant value of the vehicles scheduled for replacement in 2019/20 that has been delayed a surplus of £215k will occur during 2019/20. This is simply down to timing of the vehicle purchases and will not continue into 2020/21. As a result of delays in the above vehicles purchases, expenditure on hire vehicles and maintenance is anticipating a deficit of £15k.

**2.8** Within the total contract sum with Ubico which is just over £8.9m there are a large number of small variances which total an anticipated deficit of £35k.

**Waste & Recycling**

**2.9** Waste and Recycling is anticipating an overspend of £275k.

**2.10** A savings target of £200k was included within the waste and recycling services budget to be achieved in 2019/20 through service redesign, efficiencies and investment in new vehicles. This is a joint target between CBC and Ubico; progress has been made to identify potential savings and great deal of work has been undertaken. Some efficiencies/service delivery changes have been made during the first two quarters of 2019/20. However any saving generated by these changes has been offset by an additional refuse round that was introduced in June 2019.

**2.11** Recycling Credits income which is received from Gloucestershire County Council is anticipated to have a surplus of 50k. This has reversed from the position at 30th September 2019 due to a number of vehicles not being included within the calculation of the recycling credits income which has now been corrected.

**2.12** Recycling wood disposal costs are anticipated to have a deficit of £60k. This is due to a higher than budgeted volume of wood disposals and delays in procurement of a new wood disposal contractor which has now been awarded to a contractor.

**2.13** Recycling material sales income is anticipated to be in deficit by £28k. Reducing prices per tonne across Steel, Cardboard, Glass, Paper and Textiles that are sold is negatively impacting on income. The only exception is the price per tonne of plastics which has increased throughout 2019/20.

**2.14** Income from garden and bulky waste collections is higher than budgeted due to more customers than budgeted taking up the service. This is resulting in a higher than budget surplus of £30k. However this is being offset by lower than budget income from the trade waste service, a shortfall of £57k against budget.

**2.15** The marketing and management team for Waste & Recycling are anticipating a deficit of £10k. The timing of leaving the JWT has caused additional expenditure.

**Planning**

**2.16** Planning applications are down on budget meaning a reduction of £141k, however we have grant income of £70k meaning that income is down by £71k. There are staff savings of £15k after the salary contingency however there are additional 3rd party costs on non-staff advertising and IT license meaning an overall overspend of £87k.

**Arle Nursery**

**2.17** Removal of Income and Costs that were included in the budget for 2019/20 as if the nursery was still open. This has been removed from the budget for 2020/21. This has caused an overspend of £127k in 2019/20.

**MRP Savings**

**2.18** It is anticipated that there will be an underspend of £194k within the MRP payable for 2019/20. This has been caused due to the delay in procuring vehicles for Ubico and the vehicles being purchased in 2019/20 and not 2018/19. This is just a timing issue and now that the vehicles are purchased then the MRP will be payable in 2020/21.

**Non Domestic Rates – Levy and Section 31 compensation grant (net effect +£90k)**

**2.19** Under the business rates system introduced in 2013, a levy is payable to the government on growth over the authority's baseline. The levy is reduced by the 'surplus' generated by any local business rates Pool. In year monitoring of the performance of the Gloucestershire Business Rates Pool indicates that the 'surplus' will not be as high as originally estimated, resulting in a likely increased net levy for the year.

**2.20** Offsetting the increased levy, it is anticipated that section 31 business rates compensation grant receivable in 2019/10 will be £121k 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

**3.1** Borrowing Costs are in line with the revised budget. This includes both short term (temporary borrowing), long term and brokerage costs.

**3.2** Investments as of 31st December are forecast to come in on budget based on performance so far. Average weighted investments for the three quarters of the year are £20.743m achieving a rate of return of 2.39%.

## 4. Capital

**4.1** A detailed exercise has been carried out to ensure that capital schemes, approved by Council on 18th February 2019, 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** Following the purchase of land for the Cyber Hub, the Council has now spent £39.6m of the £44m capital budget for this programme of which £11.5m was charged to the HRA.

**4.3** The Council has also invested £1.42m in new Vehicles & recycling equipment so far this year against a budget of £2.8m. The target is for the remainder of this to be spent this financial year however if there are delays in procurement of these vehicles then they will be purchased in 2020/21, therefore any unspent money will need to be carried forward.

**4.4** There are no significant variance against any current capital programmes or projects.

## 5. Programme maintenance expenditure

**5.1** A detailed exercise has been carried out to ensure that programme maintenance work, approved by Council on 18th February 2019, 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.. 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 2019 are detailed as below:-

**HRA Revenue:**

The HRA Revenue Account has the following significant variances (over £50,000): -

| | | £'000 |
|---|---|---|
| Dwelling Rents | Additional rent arising from fewer Right to Buy sales and increased number of acquisitions | 94 |
| Bad Debt Provision | Reduction in budget based on current position. Arrears held constant despite growing number of tenants receiving Universal Credit. | 130 |
| Interest Payable | Loan interest payable on HRA share of land acquisitions. | (77) |
| Management | Includes additional recharges to HRA for revenue costs of land acquisition (£45,000) and professional fees for new build programme (£25,000) | (78) |
| Depreciation | Increased forecast for higher number of dwellings being retained through lower RTB and higher level of acquisitions. | (117) |
| Other net | | (45) |
| **Reduction in Operating Surplus (net)** | | **(93)** |

**6.2 HRA Capital (Existing Stock):**

The current forecast for capital expenditure on existing stock is £9,650,000, an increase of £67,000 in comparison to budget (£9,583,000). Within that figure there have been the following significant project variations: -

| | | £'000 |
|---|---|---|
| Major Voids | Increased expenditure on significant voids partially offset by listed building consent/planning delays on Belmont Lodge. | (86) |
| External Works | Roofing works are progressing well. Works previously scheduled for 2020/21 are being brought forward to offset underspend in the overall capital budget. Now forecast at £886,000 compared to | (257) |

| | | |
|---|---|---|
| | budget of £629,000. | |
| Internal Works | The shower installation programme will not start until later this year due to delays in staff recruitment. Now forecast at £498,600 compared to budget of £827,000. | 328 |
| Door Entry | This project will be delayed into 2020/21 so that Leaseholder consultation can take place. | 209 |
| Asbestos | Additional asbestos has been identified following works to roofing, non-traditional homes, lighting and paths works. Now forecast at £319,000 compared to budget of £190,000. | (129) |
| Energy Saving | Low level of work for upgrading loft and cavity insulation. Other improvements carried out within windows and boiler renewal budgets. | 70 |
| Communal improvements | Additional follow up electrical works have been required to maintain compliance. | (115) |
| Disabled Adaptations | A significant increase in demand. Costs are now forecast to be £550,000 for the year, budget originally £400,000. | (150) |
| Other net | | 63 |
| **Increase in Capital Forecast** | | **(67)** |

**HRA Capital (New Build/Acquisitions)**

6.3 Expenditure on new HRA build and acquisitions for the year is now forecast at £20,196,000, an increase of £12,565,000 against the original budget of £7,631,000. This primarily results from the HRA share of West Cheltenham land purchase (£11,495,000).

## 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 2019 and the projected outturn for 2019/20.

## 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 overspend against the budget of £117,000 for 2019/20. This will be met from the Cemetery income equalisation reserve due to the demand driven under achievement of Bereavement Services income.

**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 June 2020, when the financial outturn is finalised, how to apply any potential savings. However it is recommended that any 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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| **Report author** | **Contact officer: Andrew Knott**<br>**Andrew.knott@publicagroup.uk, 01242 264121** |
| **Appendices** | 1. Risk Assessment<br>2. Council Tax and NNDR collection to 31st December 2019<br>3. Aged Debt Report as at 31st December 2019<br>4. Budget Virements for approval – 2019/20 budget |
| **Background information** | 1. Section 25 Report – Council 18th February 2019<br>2. Final Budget Proposals for 2019/20 – Council 18th February 2019 |

## 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. | 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.