

Cheltenham Borough Council

Cabinet – 13 December 2011

Budget Monitoring Report 2011/12 – position as at November 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 November 2011. The report covers the Council's revenue, capital, treasury management and the housing revenue account. The report identifies any known significant variations (minimum £50,000) to the 2011/12 original budget and a position statement on major schemes.
Recommendations	<ol style="list-style-type: none">1. Note the contents of this report including the key projected variances to the original 2011/12 budget which have enabled the council to deliver a balanced revised budget.2. The current freeze on spending against supplies and service expenditure budgets, where possible, is continued until further notice. This has been factored into the revised 2011/12 budget.
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)	<p>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.</p> <p>Contact officer: Julie McCarthy , julie.mccarthy @cheltenham.gov.uk, 01242 264355</p>
Key risks	<p>As outlined in Appendix 1.</p>
Corporate and community plan Implications	<p>Key elements of the budget are aimed at delivering the corporate objectives within the Corporate Business Plan.</p>
Environmental and climate change implications	<p>None.</p>

1. Background

- 1.1 This report provides the third 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. This report has been used to construct the revised budgets for 2011/12, included within the separate report on the interim budget proposals for 2012/13.
- 1.2 The previous budget monitoring report to the end of August 2011 projected an overspend for the year of £476,400. As a result of that projection, officers have been instructed to reduce spend on supplies and services to essentials for the remainder of the financial year.
- 1.3 It is therefore pleasing to report that these measures have enabled the council to address the potential in year budget deficit and deliver a balanced budget which does not require a contribution from general balances.

2. Net revenue position

- 2.1 The table below summarises the net impact of the variances identified on the overall 2011/12 revised budget position. A detailed explanation of budget variances in excess of £50,000 are provided in paragraphs 2.2 to 3.8.

Significant budget variances (> £10,000)	Overspend / (Underspend) £	para. ref:
Net reduction in employee costs	(224,950)	2.2 – 2.6
Net increase in service costs	101,150	2.7 – 2.10
Net increase in income	412,500	2.11– 2.25
Net saving in Minimum Revenue Position (MRP) / leasing	(364,100)	2.26 – 2.29
Net reduction in investment income	75,400	3.4 - 3.8
Total projected variance to original budget	-	

2.2 Employee costs 2011/12

There is a projected net saving in employee costs of £224,950 for 2011/12. This has been incorporated into the revised 2011/12 budget and includes the following variances to the original budget:

- 2.3 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 assessment of vacant posts (i.e. staff turnover) in the first seven months of the year indicate that this budget saving is likely to be exceeded by £85,350 in 2011/12. This includes £69,600 anticipated savings to be generated in the remainder of the financial year.
- 2.4 There is a saving of £59,900 in respect of a budget allocation to fund the early retirement costs of a former employee made redundant in 2010/11 where a change to the pension rules meant this contribution to the superannuation fund was not required.
- 2.5 The Bridging the Gap programme savings identified from a restructure of the front-office service provided to Revenues and Benefits by Customer Services has been put in place from 1st April 2011, a year prior to the 2012/13 planned saving. As a result £51,400 of savings (net of decommissioning costs) has been delivered in 2011/12 and is built into revised budgets.

- 2.6** There is a forecast saving in employee costs at leisure@ of £28,300 as a result of restructures undertaken during the year within the operations team. These savings have been built into the revised budget and the 2012/13 base budget.
- 2.7 Net reduction in service costs / operational expenditure**
There is an expected net reduction in service expenditure of £101,150 for 2011/12. This has been incorporated into the revised 2011/12 budget and includes the following main variances to the original budget:
- 2.8 Fuel costs**
There is a projected increase in fuel related costs of £77,400 for 2011/12. This is primarily due to the Refuse Collection and Dry Recycling services which have experienced additional costs following the reorganisation of services in the Spring of 2011.
- 2.9 Utilities**
There is a net saving in gas and electricity budgets for 2011/12 of £55,100 as a result of a six month contract extension negotiated up to April 2012. The gas extension prices are around 13% cheaper than the existing contract and it is anticipated that optimum prices will be achievable when the contract is re-tendered in April 2012, maintaining savings in 2012/13.
- 2.10 NNDR**
There is an increase in NNDR budgets of £86,100 for the year due to the rateable values increasing mainly on Regent Arcade car park and the Crematorium. Consideration is being made to appeal against the rateable values set by the valuation office on some of the council's buildings and an update will be provided to members later on in the financial year if the appeals are successful.
- 2.11 Net reduction in income**
There is an expected net reduction in income of £412,500 for 2011/12. This has been incorporated into the revised 2011/12 budget and includes the main variations to the original budget:
- 2.12 Off-street Car Parking Income**
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 were not increased in 2011/12 however, off-street car parking income has been further 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.
- 2.13** The projected income position for off-street car parking for 2011/12 is a shortfall of £80,000, which equates to around 2.11% of the target. A corresponding shortfall in fine income is also being generated, with income projected to be £20,000 down against the original budget. This equates to around 30.7% of target demonstrating a marked drop in fine income. This reduction in income has been incorporated into the revised 2011/12 budget.
- 2.14 Cemetery & Crematorium income**
There is a projected shortfall in cemetery and crematorium income of £81,200 for 2011/12. This is due to a shortfall in cremation and burial numbers. Demographic statistics indicate that a decline in the mortality rate is resulting in reduced annual deaths per 1,000 population.

2.15 Planning Fee Income

This income stream was showing a positive variance of £50,000 at the end of October. On current trends, this could result in a full year income surplus of up to £80,000. This position is somewhat surprising in view of prevailing economic conditions and a downturn in the current trend cannot be ruled out.

2.16 Building Control fees

There is a projected shortfall in the building control income figures of £66,900 income figures for 2011/12. Limited growth and available finance has impacted significantly on the local construction industry. The overall result appears to be that although the same number of applications are received the income from those applications has reduced. Domestic works are generally smaller in size than they were two or three years ago.

2.17 A Planning application usually precedes a Building Regulation application and so the fact that income for the Planning team is currently quite good suggests that when money is more freely available there may be a return to more acceptable levels of income for the Building Control Service.

2.18 GCC schools contract income

There is a projected surplus in the Gloucestershire County Council schools contract of £47,100 for 2011/12. This is represented by additional income generated of £11,600, savings on employee costs of £15,500 (which are reported on globally in Table 2.1 above) and on savings on transport costs of £20,000 (see paragraph 2.26 below).

2.19 Recycling

There is a projected net over recovery of income on recycling activities of £158,800 in 2011/12. This is due to higher than anticipated tonnages processed and higher than anticipated recycle prices.

2.20 Garden Waste Scheme

It is anticipated that there could be a projected shortfall in income of £306,000 in 2011/12, 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 £42,000 are incorporated in the global employee cost figure in Table 2.1 above. Savings on Transport costs of £78,000 are anticipated for 2011/12. The net over spend on this cost centre is therefore anticipated to be £186,000 at the year end. This has been incorporated into the revised 2011/12 budget.

2.21 Refuse collection – Trade Waste

There is a projected shortfall in income of £108,200 for 2011/12 due to a reduction in Trade Waste income which can be attributed to the current economic conditions. This has been incorporated into the revised 2011/12 budgets.

2.22 Town Hall and Pump Room income

There is a projected shortfall in net income at the Town Hall and Pump Rooms entertainments venues of £49,700 for the year due to the current economic climate. Local businesses that have previously booked the venues for away days, Annual General Meetings and Christmas parties are now looking at cheaper options or cancelling events now deemed inappropriate when making redundancies within their organisation. There is also a decline in weddings being held this year and a lack of private hire during the recession.

2.23 There is a projected increase of income of £10,000 in 2011/12 through the introduction of a transaction fee with the new box office system. The Entertainments team is currently undertaking work to increase future hall hire income through the promotion of the venues, a new wedding license for the Town Hall and enhanced facilities at the Pump Rooms.

- 2.24** Through prudent management of salaries and wages there is a projected underspend of £39,700 for employee costs which should reduce the shortfall in income targets. This has been used towards the achievement of the central budget for salary savings included in paragraph 2.3 above.
- 2.25** It is therefore anticipated that the overall Entertainments service will be in line with original budgets for 2011/12.
- 2.26 MRP / Leasing costs**
There is a one-off net saving of £364,100 in 2011/12 in respect of MRP and leasing costs, as follows:
- 2.27** The adoption of International Financial Reporting Standards (IFRS) necessitated the need to review all council leases to determine whether they should be classified as operational or finance leases. The review concluded that leases drawn for the purchase of vehicles and recycling bins are deemed to be finance leases and as such must be represented on the council's balance sheet as external borrowing.
- 2.28** As a consequence of the above, officers reviewed and compared the costs associated with leasing against prudential borrowing and concluded that whilst the gains from prudential borrowing were marginal in the early years, it gave the council more flexibility in terms of ownership. Council, at its meeting on the 11th February 2011, agreed to fund the replacement of vehicles and recycling bins through prudential borrowing where it was deemed appropriate.
- 2.29** The decision to fund the replacement of vehicles and recycling bins through prudential borrowing has resulted in a one-off saving of £364k in leasing costs. This is due to the accounting entries surrounding the financing of assets from prudential borrowing in so much that they equate to the depreciation charge levied on that asset. The depreciation policy for CBC is that newly acquired assets are depreciated from the year following that in which they are acquired. Consequently the financing costs via Minimum Revenue Provision (MRP) are also deferred by one year which results in a one-off saving.

3. Treasury Management

3.1 Icelandic

3.2 Recently the Icelandic Supreme Court has upheld the District Court decision that the test cases involving Local Authority deposits with Landsbanki and Glitnir banks as having priority creditor status. This means that local authority deposits will be at the front of the queue when the Winding Up Boards (WUB's) of the two banks start to make the repayments. Although we are still awaiting ratification from the court involving our case, it is expected that we will receive back 98% of the Landsbanki deposits and 100% of the Glitnir deposits.

3.3 The council to date has received 63p in the pound for deposits held with Kaupthing Singer & Friedlander. The administrators currently estimate that total distributions should be in the range of 79p to 86p in the pound.

3.4 Treasury Management

3.5 There is a predicted shortfall of interest of £75,400 to report on Treasury Management within the General Fund for 2011/12. The 2011/12 revised budget will now be adjusted to reflect these likely outcomes.

3.6 The cost of borrowing is expected to be £4,100 adverse to the original 2011/12 budget as the average rate on temporary borrowing to meet temporary cash flow is expected to be 0.40% against a forecast of 0.38% for the year.

- 3.7** Security of capital has remained the Council's main investment objective. Since the last report in August 2011 the council has suspended a number of UK banks from its lending list as banks have had their credit rating downgraded below the Council's minimum criteria of A+ or equivalent in October 2011. The Council's strategy is now to repay temporary debt with maturing investments. This will assist in keeping borrowing costs down but investment income is forecast to be £3,800 adverse to the Original 2011/12 budget.
- 3.8** 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 £48,200 less interest being payable by the HRA to the General Fund for 2011/12. Also HRA revenue balances are expected to be higher than first estimated in February 2011 due to slippage in capital expenditure. This will result in a further £19,300 being paid to the HRA for investment income.

4. Capital expenditure

- 4.1** Significant variances to the 2011/12 original capital budgets are as reported in the previous budget monitoring report. Although it is likely that the timing of payments for the replacement of the cremators will see around £131k of the £655k budget paid at the beginning of 2012/13. These revisions are reflected in the revised capital programme for 2011/12 which is included within the separate report on the interim budget proposals for 2012/13.

5. Programme maintenance expenditure

- 5.1** All the work that has been planned for completion in 2011/12 remains as scheduled, except resurfacing work to the running track at the Prince of Wales Stadium which has been deferred to 2012/13. The revised programme maintenance budgets include some additional works that have been identified in year as required. These are included in the separate report on the interim budget proposals for 2012/13 and will be scrutinised by the Asset Management Working Group.

6. Housing Revenue Account (HRA)

- 6.1** 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 increase in all reserves at 31st March 2011 of £965,300 primarily resulting from delays to projects within the capital programme.
- 6.3** Variations identified in the year to date are:-

Changes to the calculation of interest payable by the HRA will reduce the charge in 2011/12 by £48,200 compared to the original estimate. In addition higher revenue balances held in the HRA will increase interest receivable by £19,300.

Revenue contributions to capital expenditure will reduce by £120,100 to £1,467,000 following changes to the capital programme detailed below.

These variations will reduce the deficit for the year to £904,700 and increase revenue reserves held at 31st March 2012 to £2,768,500.

HRA Capital Programme

- 6.4 Following slippage in 2010/11 budgets for the transformational improvements in St Pauls and neighbourhood works at Scott and Edward Wilson House were transferred to the current year (total £772,000)
- 6.5 The transformational improvements are now expected to complete in the early part of 2012/13 with £290,000 being transferred to next year. The neighbourhood works scheme at Hobart House will also transfer to 2012/13 to allow time for a more effective procurement process.
- 6.6 These changes will produce a net increase of £161,000 in 2011/12 expenditure giving a revised net total of £4,989,000 (original estimate £4,828,000).

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 October 2011 and the projected outturn for 2011/12.

8. Sundry debt collection

- 8.1 In preparation for the GO shared service and the implementation of the council's new financial management system, additional resource within the Debtors function has been utilised to review the council's outstanding debt. A fresh emphasis has been placed on debt recovery and new procedures have been put in place that allow for more active monitoring of debts and closer communication with debtors and service departments.
- 8.2 The impact of these changes has seen the % of current year invoices outstanding over one month drop from 12% at the end of August 2011 to 3.7% at the end of October. It is hoped this level of recovery will continue, if not be improved upon. The team have been retargeting their efforts over the last two months to reduce the level of outstanding "old" year debt. Their efforts have resulted in 12% of outstanding invoices being paid, which equates to 35% of the total value of 2010/11 debts outstanding at 31st August 2011.
- 8.3 The team has an aspiration to only migrate onto the new financial management system "good" collectable debts, and so extra effort is being made to "tidy up" the debts outstanding in preparation for this transfer.

9. Conclusion

- 9.1 The net effect on the general fund of the variances reported above is neutral and it is encouraging to report that the immediate response to the last monitoring report by Cabinet and SLT and the actions put in place result in the council still being on track to deliver services within budget.
- 9.2 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 continue to be 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. 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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Appendices	<ol style="list-style-type: none">1. Risk Assessment2. Council Tax and NNDR collection3. Sundry Debt collection
Background information	<ol style="list-style-type: none">1. Section 25 Report – Council 8th February 20112. Final Budget Proposals for 2011/12 – Council 8th February 20113. Budget Monitoring Report to August 2011 – Cabinet 18th October 2011

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	2	6	Reduce	In preparing the revised budget for 2011/12 a balanced budget has been delivered, which does not require a contribution from general balances.	December 2011	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