Cheltenham Borough Council

Cabinet – 12 October 2021

Budget Monitoring Report 2021/22 – position as at 31 August 2021

Accountable member	**Councillor Peter Jeffries, Cabinet Member for Finance and Assets**
Accountable officer	**Gemma Bell, Head of Property, Finance and Assets (Deputy s151 Officer)**
Accountable scrutiny committee	**All**
Ward(s) affected	**All**
Key Decision	**No**
Executive summary	To update Members on the Council's current financial position for 2021/22 based on the monitoring exercise at the end of August 2021. The report covers the Council's revenue, capital and treasury management position. The report identifies any known significant variations (minimum £50,000) to the 2021/22 budget which was approved by Council on 22 February 2021.
Recommendations	**Cabinet note the contents of this report including the key projected variances to the 2021/22 budget approved by Council on 22 February 2021 and the actions to ensure delivery of services within budget.**

Financial implications	As detailed throughout this report. **Contact officer: Gemma Bell, gemma.bell@cheltenham.gov.uk , 01242 264124**
Legal implications	None specific directly arising from the recommendations. **Contact officer: Sarah Farooqi, sarah.farooqi@tewkesbury.gov.uk, 01684 272012**
HR implications (including learning and organisational development)	None specific directly arising from the recommendations. ***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 monitoring position statement for the financial year 2021/22 against the budget approved by Council on 22 February 2021. The purpose of this report is to notify members of any known significant variations to the revised budgets for 2021/22 and highlight any key issues.

1.2. Regular budget monitoring exercises for services are carried out in liaison with Directors and cost centre managers. The budget is also regularly discussed with the Lead Member for Finance and Assets and the Cabinet. One of the key purposes of this exercise is to identify any major variations from the current approved budget that are anticipated to occur in the financial year. Any variations of more than £50,000 to revenue budgets identified at 31 August 2021 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, details of which are provided in paragraphs 2.2 to 3.7 below.

2.2. We have received confirmation that the GMB, Unite and Unison have all rejected the 1.75% national pay award in their respective ballots. At present we have not received any further information in relation to further negotiations but will continue to monitor progress and report any additional budget implications to Cabinet and Council.

Significant budget variances	Overspend /	Para. Ref.

	(Underspend) £	
Finance & Assets Directorate		
Treasury Management – Credit Card Charges	59,000	3.1
Treasury Management – Cost of Borrowing	(63,000)	3.2
Treasury Management – Investment Income	(64,000)	3.3
Place & Growth Directorate		
Waste and Recycling	176,000	3.4
Impact of COVID-19		
Net irrecoverable losses due to COVID-19	817,000	2.2-2.8
Cross Council Variances		
Electricity and Water	(100,000)	3.5
MTFS Savings Target – Modernisation Programme	150,000	3.6
Savings Target – Waste and Recycling	100,000	3.7
Net of Other Variances less than £50,000	**(35,000)**	
Total projected overspend for the year	**1,044,000**	

Impact of COVID-19 – Income Losses

2.3. The lifting of the most recent national lockdown began on 12 March 2021 and the final step four of the Government's lockdown being implemented in England on 19 July 2021. Within this roadmap, non-essential retail was closed until 12 April 2021 and indoor hospitality was closed until 17 May.

2.4. The length of the re-opening obviously had a huge impact on our key income streams which support our base budget. The restrictions meant less demand for off street car parking and trade waste and also limited our ability to provide professional services due to social distancing and self-isolation requirements.

2.5. The Government's income compensation grant was available for the period to 30 June 2021 where we were able to reclaim 71p for every £1 of income lost and a claim has been submitted for compensation of £567,000 of irrecoverable losses. However, this clearly doesn't cover all losses and from 1 July 2021 no additional support has been provided by Government.

2.6. The following table shows the actual irrecoverable losses to the end of August 2021, and projected for the full financial year. The losses to 31 August 2021 include the proportion of income compensation grant allocated to each individual service.

	Irrecoverable (losses)/gains to 31 August 2021 £'000	Projected Irrecoverable (losses)/gains for the year 2021/22 £'000
Off-street Car Parking	(379)	(740)
Trade Waste	(137)	(185)
Sponsorship and Advertising Income	(73)	(176)
Development Control	(59)	(143)
Regulatory Services	(47)	(59)
Cremation, Cemetery and Mortuary services	(52)	(52)
Other	(10)	(28)
Recreation and Sport	(28)	(2)
Central services to the public	(3)	16
Building Control	24	24
Green Waste	75	54
Recycling	106	474
Total cost to the Council from lost SFC in 2021/22	**(583)**	**(817)**

2.7. The projected irrecoverable loss in income for financial year 2021/22 is mainly due to a lower than budgeted income generated through four activities: off-street car parking income, trade waste, marketing and development control and this is partially offset by an increase in income from recycling. The sections 2.7 -2.11 below outline the main drivers behind the variances.

2.8. Off-Street Car parking – There was a loss of £691k against the budget for the five months to August 2021 – this was partly negated by the income compensation grant of £313k making the net loss £379k. The gross loss represents 63% of the pro-rated budget which has been caused by delayed reopening following lockdown and three of our car parks being closed, in two instances these were used as Covid-19 testing centres. Whilst we are confident there will be some recovery of car parking income, the "new normal" of flexible working and shopping online as opposed to on the high street means that the recovery will not be immediate. We forecast a total loss of the year of £740k – this represents recovery to 83% of budget which is consistent with the performance in August and September 2021.

2.9. Trade Waste – The shortfall in forecast income of £185k is due to the continued impact of COVID-19 on businesses. Some businesses have not re-opened after lockdown, some have closed permanently without paying their final invoice and majority of customers are seeing a lower footfall requiring less frequent visits to empty bins. This means their monthly invoice costs were lower than forecast for the first five months of the year. As businesses are now fully re-opened we have seen a return to pre-pandemic levels and this is reflected in the forecast.

2.10. Recycling – Recycling income is currently exceeding budget, a surplus of £474k above budget is forecast by year end. Sale of recycling materials is forecast to achieve an additional £304k against budget. This is due to increased prices and tonnages from our recycling services. Further good news could be achieved if this trend continues with commodity prices and collection rates however for the purposes of a prudent estimate this has not been assumed to be the case. Given the volatility of the commodity market we will continue to monitor closely. Recycling credits from the County Council are currently achieving an additional £170k against budget, this is because of increased tonnages being collected at the kerbside.

2.11. Sponsorship and Advertising Income – Advertising and membership revenues generated by

Marketing Cheltenham generally come in from businesses that are in the hospitality, tourism and events industries which have been severely hit by the pandemic. We have managed to maintain some key clients (such as the Jockey Club and Cheltenham BID) but revenues are still tracking at 50% of budget which has been reflected in the forecast.

2.12. Development Control – Whilst the number of planning applications are up year on year, these are predominantly homeowner applications which are low value. Our income has historically been supported by large, developer applications which have been scaled back due to economic uncertainty of the last twelve months. That said, we expect to make up some ground towards the end of the financial year with the planning applications for the Golden Valley site and a number of other sites which are expected to be brought forward for development in the town.

3. Other Significant Revenue Variances

3.1. Treasury Management - Credit Card Charges – It is expected that credit card charges will exceed the annual budget by £59,000 in 2021/22. Costs have averaged around £9,000 per month since April 2021. This continues the trend from last year when the annual costs exceeded budget by £36,000 and reflects rising transaction costs and increased use of paperless methods of payment. The base budget for credit card charges will be reviewed as part of the 2022/23 budget setting process to re-align costs against post pandemic activity levels.

3.2. Treasury Management –Cost of Borrowing - Borrowing costs for 2021/22 are forecast to come under budget by £63,000. Interest rates for temporary borrowing were budgeted at 0.20%, however for the first two quarters has averaged 0.13% and this is likely to continue to decrease for the second half of this financial year. In line with our Treasury Management strategy, we have used surplus cash to reduce the amount of temporary debt which has also reduced the budget required to fund the cost of borrowing.

3.3. Treasury Management – Interest Income - Investment income is forecast to exceed the current budget by £64,000 based on the performance of the Pooled Funds to date this year. The capital values of all the funds have increased in line with stock market increases this year, and dividend returns are likely to be higher than they were in 2020/21.

3.4. Waste & Recycling - The waste and recycling expenditure budgets are forecast to be overspent by £176,000 this year. Of this total, £116,000 of additional expenditure is anticipated to be incurred by Ubico Limited. This is to provide the same increased levels of service as operated during the pandemic for the remainder of the financial year which requires additional staffing and vehicle costs to be incurred. With the national shortage of HGV drivers additional salary costs are also being incurred to retain our existing drivers and an estimated £60,000 of additional costs are expected for the remainder of the financial year.

3.5. Electricity and Water – Although working patterns have changed slightly since the opening up of the economy following the most recent national lockdown, the Council is not currently operating with all staff in the office and many of our buildings are still closed or partially open. As a result, water and electricity consumption are expected to be £100,000 lower than budget for the year after an uplift has been applied for increased usage over the winter. Utility budgets are expected to be stable and unaffected by the recent crises as current providers are not at risk. The budgets will be reviewed as part of the 2022/23 budget setting process as adjustments will need to be made for both the new ways of working but also possible increases when electricity contracts are re-tendered next year.

3.6. MTFS Saving – Modernisation Programme – In the Medium Term Financial Strategy 2021/22 there is a total of £400,000 of savings targets required in order to balance the budget. At present, £250,000 of this has been either delivered or is in progress. The remaining £150,000 relates to a Modernisation Programme with the objective of streamlining processes and service delivery pathways. This has been delayed due to long reopening period after the most recent national lockdown which has resulted in staff and customer behaviour changing and meant initiatives in the pipeline to deliver the saving have needed to be reviewed and realigned to reflect this.

3.7. Savings Target – Waste and Recycling – as part of the delivery of waste and recycling services a savings target of £100k had been agreed for 2021/22. Due to the challenges outlined in 3.4 above the services provided by the Council and through Ubico have faced increasing pressures due to social distancing requirements and increased collections as households are spending more time at home and generating more waste. As part of the 2022/23 budget setting process, the budgets for waste and recycling will be reviewed and re-aligned to reflect these changes in behaviour.

4. The Capital Programme

4.1. A monitoring exercise has been carried out to ensure that capital programme, approved by Council on 22 February 2021, are being delivered as planned within allocated capital budgets, some of which are timetabled to straddle two or more financial years. The 2021/22 capital programme approved as part of the 2020/21 outturn report totals £34.55m.

4.2. In July 2021 Cabinet, a decision was taken to approve an increase in the budget for the Minister Innovation Exchange project. The revised 2021/22 capital programme is now £35.544m The spend to date against the budget and forecast variances are included in Appendix 3.

4.3. At present, an underspend of £8.392m is forecast based on the activity incurred to date and the planned activity until 31 March 2022.

4.4. The following forecast variances have been reported by budget managers in respect of the 2021/22 budget:

- An underspend of £4.647m is forecast on the investment in the West Cheltenham site. This was originally proposed to fund infrastructure on the site which is now wrapped up for delivery under the development agreement awarded on 30 July 2021.
- An underspend of £3.232m is forecast on the investment in regeneration capital funding which was originally proposed in the 2019/20 capital programme. Delays in regeneration activity have been caused due to the pandemic and the use of this funding has yet to be determined. It is deemed prudent to report some spend although Cabinet and Council will be presented with individual decisions on how this is recommended to be used if opportunities arise. The amount to be carried forward will be reviewed as part of the 2022/23 budget setting process.
- An underspend of £250K relating to funds earmarked to develop commercial opportunities identified by The Cheltenham Trust - £527K will be spent in 2021/22 and £250K carried forward to 2022-23. This is to provide contingency for any health and safety issues which may be identified aat the Council properties operated by the Trust and require urgent remediation action.
- An underspend of £196k is earmarked to be carried forward on the budget providing assistance under the council's Housing Renewal Policy as work has been delayed as access to residents homes has been limited for the first part of the year.
- An underspend of £66k is earmarked to be carried forward on the provision of building work, equipment or modifying a dwelling to restore or enable independent living, privacy, confidence and dignity for individuals and their families. Again, this is due to limitations to the access to residents homes for the first part of the year.

5. Council tax and Business rates collection

5.1. 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 2021 and the projected outturn for 2021/22.

5.2. Appendix 2 shows that collection rates of both Council Tax and NNDR are both currently above target and are expected to be higher than those in 2020/21.

6. Housing Revenue Account

Revenue Budget

6.1. The forecast revenue position after the first five months of 2021/22 shows an overspend of £100,000 from budget, reducing the operating surplus for the year from £1,196,300 to £1,096,300.

The following revenue variations have been identified:

- An increase in the forecast for repairs and maintenance expenditure of £250,000 (original budget £4,481,000). This reflects the lifting of COVID restrictions and the need to clear the repairs backlog; demand from customers is significantly higher than the previous 'normal' level of activity. There are also increasing cost pressures and on materials, labour and sub-contract works, as well as supply issues with certain material products.
- Interest Payable has been reduced by £120,000 to reflect a lower borrowing requirement following delays to the Capital Programme.
- Additional rent income of £30,000 reflecting lower than anticipated Right to Buy sales – only 5 properties were sold to the end of August compared to the original forecast of 20 for the year.

Capital Programme

6.2. The HRA capital programme shows a reduction in forecast spend of £4m, now at £21.176m compared to the adjusted budget of £25.176m. The following significant variations have been identified:

£'000	Note	Adjusted Budget * 2021-22	Forecast 2021-22	Variation
		£,000	**£'000**	**£'000**
Major voids incl. Option Appraisal Voids	a	680	580	100
Warden Call Replacement	b	800	500	300
Lift Replacements	c	175	75	100
Paths, Fences & Walls	d	741	641	100
Windows and Doors	e	2,021	1,921	100
External Improvements	f	1,452	1,652	(200)
HRA New Build & Acquisitions	g	15,000	11,500	3,500
				4,000

***includes budget rollover from 2020/21**

6.3. The construction and maintenance sector is currently experiencing significant material and labour shortages which can be partially mitigated through more robust contract administration, but may have further impacts on the programme in the second half of the year.

a) Option appraisal void - certain works now scheduled for next year due to additional work required in obtaining listed building consent.
b) Warden call – procurement delays and an extended lead in period due to current shortages in the market will result in works running into 2022/23.
c) Lift replacement – due to manufacturing lead times being extended in the current environment certain replacement works are expected to be rescheduled to next year.
d) Neighbourhood works – the level of work that can be delivered in the current year is being reassessed based on what will be deliverable by contractors in the current environment.
e) Windows & Doors – manufacturing and fitting interruptions are being experienced by the contractor due to labour supply shortages.
f) External Improvements – necessary roof replacement works at Unwin Road are in addition to the budget.
g) Although forecast completions of new build and acquisitions remain on target for the year there have been additional challenges in progressing new schemes due to planning, material and labour supply shortages and financial viability issues. These challenges are being faced by a number of different contractors on s106 schemes and developer led schemes. The overall pipeline of new properties remains strong however the timings within the programme are likely to change.

7. Conclusion

7.1. The impact on the general fund of the variances reported above is that there is a forecast net overspend against the budget of £1,044,000 for 2021/22. The variances will continue to be monitored through the year, in particular the assumptions underpinning the recovery of income budgets which make up the large part of the forecast overspend.

7.2. The pandemic has had a significant effect on the Council and the full impact of the re-opening of the economy on our longer term financial position is still being understood. To support this, work has been ongoing to review our current budgets to reflect the changes in activity and behaviour and reduce the dependency on income streams which may never fully recover to pre-pandemic levels.

7.3. This is also an opportunity to reset our fiscal position against our Corporate Priorities and prepare a Medium Term Financial Plan for 2022/23 and beyond which ensures we continue to be financially sustainable whilst continuing to support growth and our carbon neutrality ambitions for the town.

7.4. The results of this review and the impact on reducing the in-year overspend will be reported to Cabinet and Council in the December 2021 monitor and draft budget proposal. This will also include any proposals or recommendations for the application of reserves against any residual overspend, 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.

8. Consultation

8.1. 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 to 31 August 2021 3. Capital Programme Monitor to 31 August 2021
Background information	1. Section 25 Report – Council 22 February 2021 2. Final Budget Proposal for 2021/22 – Council 22 February 2021 3. Medium Term Financial Strategy 2021/22 – 2024/25 – Council 22 February 2021

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**
CR3	If the Council is unable to come up with long term solutions which close the gap in the medium term financial strategy then it will find it increasingly difficult to prepare budgets year on year without making unplanned cuts in service provision.	Cabinet	01/09/2010	5	3	15	Reduce	The budget strategy projection includes 'targets' for work streams to close the funding gap which aligns with the council's corporate priorities.	Ongoing	ED Finance and Assets	01/09/2010
CR105	If the Budget Strategy (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 Section 151 Officer in the council's Medium Term Financial Strategy	ED Finance and Assets	01/04/2016	5	4	20	Reduce	The MTFS is clear about the need to enhance reserves and identifies a required reserves strategy for managing this issue. In preparing the budget for 2020/21 and in ongoing budget monitoring, consideration will continue to be given to the use of fortuitous windfalls and potential future under spends with a view to strengthening reserves whenever possible.	Ongoing	ED Finance and Assets	01/04/2016

1.02	If income streams from the introduction of the business rates retention scheme in April 2013 are impacted by the loss of major business and the constrained ability to grow the business rates in the town then the MTFS budget gap may increase.	ED Finance and Assets	14/09/12	5	4	20	Accept & Monitor	The Council joined the Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by the Council. The Gloucestershire S151 Officers continue to monitor business rates income projections and the performance and membership of the pool / pilot. Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.	Ongoing	ED Finance and Assets	14/09/12
1.03	If the robustness of the income proposals is not sound then there is a risk that the income identified within the budget will not materialise during the course of the year.	ED Finance and Assets	15/12/10	4	4	16	Reduce	Robust forecasting is applied in preparing budget targets taking into account previous income targets, collection rates and prevailing economic conditions. Professional judgement is used in the setting / delivery of income targets. Greater focus on cost control and income generation will be	Ongoing	ED Finance and Assets	15/12/10

								prioritised to mitigate the risk of income fluctuations.			
1.07	If the assumptions around government support, business rates income, impact of changes to council tax discounts prove to be incorrect, then there is likely to be increased volatility around future funding streams.	ED Finance and Assets	13/12/10	5	3	15	Reduce	Work with Publica and countywide CFO's to monitor changes to local government financing regime including responding to government consultation on changes Business Rates and the Fair Funding review. The assumptions regarding government support have been mitigated to a certain extent by the acceptance of a multi-year settlement agreement.	Ongoing	ED Finance and Assets	13/12/10
New corporate risk	If government support to compensate this Council for the impact of COVID-19 is insufficient, greater reliance will be placed on the use of reserves, service reduction and asset sales.	ED Finance and Assets		5	3	15	Reduce	The Council will continue to lobby for additional resource, as promised by Central Government from the outset of the pandemic. Work programmes are underway to review service provision, capital programmes and rationalisation of assets.	Ongoing	ED Finance and Assets	To be added to the risk register