

Cheltenham Borough Council

Cabinet – 15 February 2022

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

Accountable member	Councillor Peter Jeffries, Cabinet Member 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	Yes
Executive summary	To update Members on the Council's current financial position for 2021/22 based on the monitoring exercise at the end of December 2021. The report covers the Council's revenue and capital 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	<ol style="list-style-type: none">1. 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 expected delivery of services within budget.2. Cabinet note that these variances have been incorporated into the final budget for 2022/23 for approval by Full Council on 21 February 2022.

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)	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. 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, including the goal to be a net carbon zero organisation by 2030.
Environmental and climate change implications	

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. This identifies 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 are outlined in this report.

2. Net revenue position

- 2.1. The previous budget monitoring report was presented to Cabinet in October 2021 and reported the general fund revenue position against the approved budget for 2021/22 at 31 August 2021. At this stage, the economy had only just fully opened and there was significant uncertainty about the long term impacts on the town and on the ways in which we generate income to support the delivery of services.
- 2.2. The monitoring report forecast that the approved budget would have a net overspend of £1,044k in 2021/22 and this set the tone for the re-setting and re-alignment of the budget for 2022/23 and beyond

which is presented in the final budget proposal paper for Full Council on 21 February 2022.

- 2.3.** This report presents an updated position to Cabinet at 31 December 2021. This is informed by activity in the Autumn and Winter of 2021 which has provided better evidence to underpin the assumptions made about the impact of the pandemic on our commercial income streams in the longer term and more certainty over costs which are sensitive to customer activity levels.
- 2.4.** The forecast for the 2021/22 budget at 31 December 2021 is now an overspend of £615k. Although this is encouraging, our budgets continue to be impacted by increases in inflation. When these numbers were collated in December 2021 inflation sat at 4.2% but at the date of Cabinet this has now increased even further to 5.4%. This significant impacts the cost of energy, wages and fuel and further increase the pressures on our budget.
- 2.5.** 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 2.6 to 3.1 below. These variances have been reflected in the final budget proposals for 2022/23 in addition to the expected new pressures which will impact our budget moving forward.

Significant budget variances	Overspend / (Underspend) £	Para. Ref.
Finance and Assets		
Housing Benefit Rent Allowances	142,953	2.6
Place & Growth Directorate		
Waste and Recycling – contract cost pressures	131,000	2.7
Waste and Recycling – waste disposal saving	(73,000)	2.8
Waste & Recycling – Ubico contract underspend	(222,580)	2.9
People & Change Directorate		
Legal Services	60,000	2.10
HMO Licences – income transferred to equalisation reserve	58,667	2.11
Homelessness Prevention Grant	(173,000)	2.12
Impact of COVID-19		
Net irrecoverable losses due to COVID-19	743,052	2.13
Cross Council Variances		
MTFS Savings Target – Modernisation Programme	150,000	2.14

Savings Target – Waste and Recycling	100,000	2.15
Net Impact of other variances less than £50,000	(301,127)	
Total projected overspend for the year	615,965	

- 2.6.** Housing Benefit Rent Allowances – Local housing allowance is a housing benefit scheme for people who rent their homes from a private landlord, who are on a low income and need help to pay their rent. The Council have an expenditure budget to pay out the allowance and an income budget for the subsidy received from the Government to cover some, but often not all, the payments made to residents. The base budget includes income for local housing allowance subsidy at a much higher level than has been received for a number of years. As more and more benefit claimants move onto Universal Credit, fewer are eligible to claim local housing allowance as their benefits are assessed as a whole under the new system. In addition, residents are often housed in private accommodation with higher rents. This means that often the subsidy we receive is less than the expenditure incurred to pay the benefit creating a budget pressure. We have reduced the income budget line and increased the expenditure budget line to be aligned with current activity levels. This has resulted in a pressure of £142k in 2021/22 which has also been reflected in the 2022/23 final budget proposal.
- 2.7.** Waste and Recycling Contract Cost Pressures - The waste and recycling expenditure budgets are forecast to be overspent by £131,000 this year. Of this total, £115k of additional expenditure relates to the increase in demand for recycling receptacles which is consistent with the trends we have noted in residents recycling larger volumes of waste. Additionally, there is an additional £16k inflationary cost increase in the contract to dispose of sharps and needles.
- 2.8.** Waste and Recycling Waste Disposal Savings – in September 2021 the Ubico contract was changed to remove the disposal of trade waste which is now undertaken directly by the Council. The £73k saving is a result of a combination of the change in service delivery reducing costs of disposal but also a lower level of trade waste activity in year which has reduced the demand for the service.
- 2.9.** Waste and Recycling Ubico Contract Underspend – the most recent financial forecast received from Ubico for 2021/22 reports a £222k underspend against the core contract cost. Of this total, £142k relates to asset charges where vehicles have not been replaced at the rate that was budgeted, this has also meant spend on vehicle insurance is lower than budgeted. Other underspends relate to staffing vacancies which have not been filled.
- 2.10.** Legal Services – the budget monitor for One Legal received in January 2022 forecasts an overspend of £178k against the approved budget. This is predominantly due to lower than forecast income being generated from third parties which was expected to provide a contribution and reduce the total net spend funded by the three Councils. To balance the budget, an additional contribution of £60k may be required from CBC.
- 2.11.** Housing of Multiple Occupancy (HMO) Licencing Income – as part of the monitoring of income from fees and charges over 2020/21 and 2021/22 it has been identified that HMO licences cover a three year period. Over that three year period we expect to generate £350k from our HMO landlords but with a large spike in one year and then lower levels of licence renewal in year two and three. The current annual income target is set at £144k which leads to significant fluctuations in over and under achievement of this target in each three year cycle.

In order to stabilise this budget, an equalisation reserve has been set up following approval from the Deputy S151 Officer. This flatlines the budget down to £117k per year, equal to a third of the £350k expected over each three year cycle. Any surplus income above this target will be transferred to the reserve at year end and used to fund any shortfall in future years, rather than being transferred into

general balances. Based on current income generated in 2021/22, £58,667 will be transferred to the reserve at the end of the year and then £29,333 will be released annually for the next two years to deliver the flatline budget. The reserve creates a pressure in year but the re-alignment of the income target in year two and three will prevent artificial budget pressures being reported in future years.

- 2.12. Homelessness Prevention Grant – funding is received from DLUHC to support work on homelessness prevention. The variability of this funding means it is usually committed the year following its receipt (for example, monies received in 2021/22 would be carried forward and spent in 2022/23) to ensure there is sufficient amounts available to support the strategic nature of the work undertaken. Correspondance has been received from DLUHC which confirms that the £438k of funding received in 2021/22 needs to be fully utilised in this year and any residual monies repaid to the Government. In order to maximise the benefit of the money, additional work has been commissioned to support homelessness prevention using the monies but it is estimated that £173k of the grant will still be unspent at year end and will need to be repaid. We have subsequently clarified that the grant can be used to fund other statutory services and the remaining £173k will instead be used to fund the housing options contract sums for 2021/22 which will create an underspend on the existing base budget.
- 2.13. 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.
- 2.14. 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. 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.

Impact of COVID-19 – Income Losses

- 2.15. 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.
- 2.16. 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.
- 2.17. 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.
- 2.18. In the budget monitoring report for the period to 31 August 2021, the irrecoverable income losses for the year were forecast at £817k. Since then, work has been undertaken to understand the longer term impacts of the pandemic and data has been received on a weekly basis to inform the assumptions and income targets for 2022/23 on beyond.
- 2.19. The net income lost in 2021/22 is now forecast to be £743k. This reflects the re-opening of the economy in the autumn with the literary festival being held in person and the events hosted by the town in the run up to Christmas.

2.20. The following table shows the full year projected irrecoverable losses to the end of December 2021 compared to the projection at 31 August 2021. The losses include the proportion of income compensation grant allocated to each individual service. Explanations of movements or balances greater than £50,000 are provided in 2.19 to 2.25 below.

	Projected Irrecoverable (losses)/gains for the year at 31 August 2021	Projected Irrecoverable (losses)/gains for the year at 31 December 2021
	£'000	£'000
Off-street Car Parking	(740)	(725)
Trade Waste	(185)	(122)
Sponsorship and Advertising Income	(176)	(135)
Development Control	(143)	(98)
Regulatory Services	(59)	(23)
Cremation, Cemetery and Mortuary services	(52)	(52)
Other	(28)	-
Recreation and Sport	(2)	(24)
Central services to the public	16	-
Building Control	24	-
Green Waste	54	54
Recycling	474	334
Total cost to the Council from lost SFC in 2021/22	(817)	(743)

2.21. Car parking income – the recent events held in the town in the lead up to Christmas 2021 saw car parking income hit budgeted levels in December. This is the first time the budget has been achieved since March 2020. In the four month period September to December 2021, the average monthly income from car parking fees is £328k which represents 91.9% of budget and is slightly above the estimates we made for recovery in August 2021. These assumptions have also been used to inform the re-setting of the income budgets for 2022/23 and beyond.

2.22. Trade waste – the increase in activity in November and December of this year means trade waste losses are now forecast to be £63k less than in August 2021. More businesses were open and retail and hospitality were prioritised in Government grant funding administered by the Council. Although the weeks prior to Christmas were slightly suppressed due to the increase in prevalence of the Omicron variant, activity was still significantly more increased than had been anticipated.

2.23. Sponsorship and advertising – this includes the irrecoverable losses of £35k from highways sponsorship and £100k of income losses from Marketing Cheltenham. There has been no change in the forecast for highways sponsorship. The forecast for Marketing Cheltenham in August 2021 did not include any potential income from the ice rink event hosted in the winter of 2021 and for the purposes of consistent this has not been included in the comparative in December 2021. Although resource was diverted from the service to deliver the ice rink and associated events, advertising and sponsorship income was still generated and this is expected to continue into the spring as more events return to the town.

2.24. Development control - this income is in the most part generated through fees and charges for planning applications. In August 2021 it was estimated that this income stream would generate 80% of budget for the remainder of the year however for the four months up to December 2021 the budget was fully achieved. This income is often subject to fluctuations throughout the year but based on historical

trends there are no long term implications expected to service income into 2022/23.

- 2.25. Regulatory Services – this income is generated through licencing, pest control and pollution control. The events held in the town over the Christmas period have supported a full recovery of street trading and premises licence income and the budget targets for the year have almost been met. The remaining losses relate to animal control and pollution control which have generated very little income in 2021/22. These budgets have been re-based in the 2022/23 draft budget proposal presented to Cabinet in December 2021.
- 2.26. Cremation, Cemetery and Mortuary - the income generated from the service since September 2021 has recovered to pre-pandemic levels. The restrictions on the number of attendees at services has relaxed and many of the relatives of those who died during the pandemic are choosing to honour them with memorials, plaques and other commemorations. This has meant activity has increased and there are no long term implications expected to service income into 2022/23.
- 2.27. Recycling – in the August 2021 budget monitor the income generated from recycling was forecast to exceed the budget by £474k. This was largely made up of £300k from the bulking facility and £168k from recycling collections. In the four months to December 2021, income generation slowed but is still forecast to exceed our budgetary target. Lower activity indicates that through the autumn more residents were out of their homes and producing less waste as the vaccination programme moved into the second phase and social mixing became more commonplace.

3. The Capital Programme

- 3.1. 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 £34.45m.
- 3.2. 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 £35.44m The spend to date against the budget and forecast variances are included in Appendix 3.
- 3.3. There have been no changes to the forecast since the capital programme was presented to Cabinet in December 2021 as part of the draft budget proposal.
- 3.4. The full four year capital programme, including the forecast spend in 2021/22 is also presented as part of the final budget proposal for 2022/23 at February Cabinet and Council.

4. Council tax and Business rates collection

- 4.1. 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 2021 and the projected outturn for 2021/22.

5. Conclusion

- 5.1. The impact on the general fund of the variances reported above is that there is a forecast net overspend against the budget of £616k for 2021/22. These variances, in particular the recovery of our commercial income, will continue to be monitored in quarter four and any overspend will be met from a contribution from General Fund balances at year end.

- 5.2.** 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. 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.
- 5.3.** 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. Additionally, the Climate Change Mitigation Pathway and Strategy due to go before Council in February 2022 will also inform future budget and budget monitoring reports and enable greater investment in projects related to tackling climate change.
- 5.4.** The results of this review and the impact on reducing the in-year overspend are reported to Cabinet and Council in our final 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.

6. Consultation

- 6.1.** 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 Assessment 2. Council Tax and NNDR collection to 31 December 2021 3. Capital Programme Monitor to 31 December 2021
Background information	<ol style="list-style-type: none"> 1. Section 25 Report – Council 22 February 2021 2. Final Budget Proposal for 2021/22 – 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	<p>The Council joined the Gloucestershire pool to share the risk of fluctuations in business rates revenues retained by the Council.</p> <p>The Gloucestershire S151 Officers continue to monitor business rates income projections and the performance and membership of the pool / pilot.</p> <p>Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.</p>	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	<p>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</p>	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