

Cheltenham Borough Council
Cabinet – 12 July 2022
Council – 18 July 2022
Financial Outturn 2021/22

Accountable member	Councillor Peter Jeffries, Cabinet Member for Finance and Assets
Accountable officer	Gemma Bell, Director of Finance & Assets (Deputy s151 Officer)
Accountable scrutiny committee	All
Ward(s) affected	All
Key Decision	No
Executive summary	<p>In accordance with financial rule A11.3, the Section 151 Officer is responsible for providing regular reports to the Cabinet on the Council's finances and financial performance. This report highlights the Council's financial performance and sets out the General Fund and Housing Revenue Account (HRA) revenue and capital outturn position for 2021/22. The information contained within this report is being used to prepare the Council's Statement of Accounts for 2021/22.</p> <p>Financial rule B10.1 states that carry forward of planned underspend of revenue budgets into the following financial year will only be allowed with the agreement of the Section 151 Officer, in order to meet the needs of approved service delivery. Financial rule B10.3 states that all other carry forward requests, including budget underspends that have been carried forward in previous financial years, will be subject to full Council approval at the financial outturn meeting held after the year end.</p> <p>The Council's Treasury Management Policy requires the Section 151 Officer to report to members annually, by the 30 September, on the treasury management activities and treasury management indicators for the previous financial year. This report also seeks to meet this requirement.</p>
Recommendations	<p>I therefore recommend that Cabinet approve the following recommendations to Council:</p> <ol style="list-style-type: none"> 1. That Council receives the financial outturn performance position for the General Fund, summarised at Appendix 2, and notes that in delivering services in 2021/22, there was an underspend of £229,116 against the budget approved by Council on 21 February 2021 2. Notes £656,218 of carry forward approved by the Section 151 Officer under delegated powers at Appendix 5 and approves £48,500 of carry forward which require Member approval. 3. Approves the proposal for the use of the underspend after the carry forward requests outlined in Section 3 of this report and delegates authority to the Executive Director of Finance and Assets in consultation with the Lead Member for Finance and Assets to ensure the underspend is used in line with this

proposal in Section 2.8.

4. Notes the annual treasury management report at Appendix 7 and note the actual 2021/22 prudential and treasury indicators.
5. Notes the capital programme outturn position as detailed in Section 6 and Appendix 8, approve the carry forward of unspent budgets into 2022/23 and the inclusion of two new projects in the 2022/23 capital programme with a funding commitment of £50k.
6. Notes the year end position in respect of Section 106 and CIL agreements and partnership funding agreements at Appendix 9.
7. Notes the outturn position in respect of collection rates for council tax and non-domestic rates for 2021/22 in Appendix 10.
8. Receives the financial outturn performance position for the Housing Revenue Account for 2021/22 in Appendix 11 and approves the carry forward of capital budgets in 2022/23 as set out in Appendix 12.

Financial implications	As detailed throughout this report. Contact officer: Gemma Bell, gemma.bell@cheltenham.gov.uk, 01242 264124
Legal implications	None directly arising from the report recommendations. Contact: One Legal E-mail: legal.services@onelegal.org.uk Tel no: 01684 272691
HR implications (including learning and organisational development)	<i>None directly arising from the report recommendations.</i> Contact officer: Julie McCarthy, julie.mccarthy@publicagroup.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 in the Corporate Plan, including the climate change and net zero carbon priorities.
Environmental and climate change implications	

1. Background

- 1.1 In assessing the adequacy of reserves and balances for 2021/22 the Section 151 Officer used a risk based approach to assess the appropriate level of general balances which calculated the optimum level to be £1.416m. At the year end, the General Fund Balance stands at £1.382m and therefore is below the optimum level recommended by the Section 151 Officer at year end – an impact of the pressures

experienced through 2021/22 as the economy re-opened and we began the recovery from the pandemic.

- 1.2 Accepting that the long-term impact from COVID-19 could leave the Council exposed without clear decision-making in delivering a balanced budget, the level of reserves is lower than optimal at year end and action has been taken in the 2022/23 budget to increase the robustness of the reserves through a transfer of £2.189m to general balances. This brings the expected general balance reserve to £3.571m.
- 1.3 This report draws together the financial outturn position for 2021/22 for the General Fund against the budget approved on 21 February 2021. It also summarises the Housing Revenue Account (HRA) revenue and capital budgets, details reserve movements and summarises requests for carry forward of budgets approved by the Section 151 Officer under delegated powers.

2. General Fund Revenue Outturn 2021/22

- 2.1 The outturn position at 31 March 2022 reports an under spend of £229,116 against the revised budget approved by Full Council on 21 February 2022. A summary of the General Fund outturn position by service is contained in Appendix 2 and by cost centre within each service is contained in Appendix 3. Information is presented in the same format as used in the draft statement of accounts, in accordance with the CIPFA Code of Practice 2021/22.
- 2.2 Whilst this is a pleasing outturn position it should be noted that considerable financial resources have been required to support the emergence from the pandemic. The revised budget included Government grant income support of £540k to support our COVID-19 response and £551k of grant to compensate for lost income in quarter one of the year.
- 2.3 Following the end of the Government's Income Compensation on 30 June 2021, income generated from fees and charges recovered slower than anticipated and in October 2021 a budget monitoring report was presented to Council which forecast an overspend of £1,044k against the budget approved in February 2021. Of this overspend, £817k related to income streams such as car parking forecasted to be significantly below budgeted levels.
- 2.4 Action was taken by Officers and Members to implement a savings strategy in the 2022/23 Medium Term Financial Strategy which reduced the council's reliance on some of these income streams and provide greater stability in post pandemic years. During this time, and due to initiatives such as the Christmas events hosted by the council and the Cheltenham BID over the winter, income began to recover and at February 2022 the revised budget reported the overspend reducing to £556k. Continued improvement in income streams along with prudent financial management has resulted in a significant improvement in the council's financial position at outturn.
- 2.5 At the point that changes to customer behaviour and the way our services are accessed began to be understood, we are now faced with the most significant cost of living crisis in a generation. Since the 2021/22 revised budget was presented, inflation has increased from 6.2% to 9.1% and interest rates have been subject to three Bank of England increases.
- 2.6 It is expected that throughout 2022/23, inflation will continue to increase to 11% by the autumn of 2022 leading to spiralling wages, energy and other costs. At the date of this report, the unbudgeted pressures we expect through 2022/23 include:
 - Based on energy usage across our portfolio at April 2022, an estimated additional £400-500k of spend on gas and electricity **above** our base budget;
 - Based on the current and predicted interest rates, an estimated additional £200k of spend on the cost of our temporary borrowing **above** our base budget;
 - Based on current communications on the national pay award, up to an estimated additional £900k pressure on staffing costs across the council and our partner organisations **above**

our base budget assumptions;

- Based on current predictions on inflation rising to 11%, an estimated additional £300-400k on other operational costs based on outturn spend in 2021/22 **above** our base budget.
- This reaches a total of £1.8m-£2m pressure above our base budget.

2.7 These pressures are in addition to the £1.507m of savings which were approved by Full Council as part of the 2022/23 budget and pose a once in a generation challenge to officers and members in order that the council can continue to deliver our core services for residents and communities.

Use of the underspend

2.8 At the date of this report, it is not clear for what period these financial pressures will continue and this creates huge uncertainty when taking decisions which require additional financial resources. It is therefore highly recommended that the majority of the under spend reported in the 2021/22 budget is used to support general balances. This will provide the Council, and the 2022/23 budget, with additional resilience to support inflationary pressures in the year and beyond. An assessment of the optimum level of reserves has been included in Section 7 which summarises the potential reliance the council may have on these balances in 2022/23.

2.9 The council also recognise that the cost of living emergency which was tabled as a Motion in Full Council on 20 June 2022 has also impacted our residents and communities. In the 2020/21 we committed £250k to supporting the economic recovery of our borough and this has been used to improve the Clarence Fountain area of the town centre, support the delivery of the ice rink in Imperial Gardens and been used to launch a Jubilee Community Fund for residents to commemorate the Queen's Jubilee.

2.10 In 2022, we recognise that a different approach is needed to support residents and communities whilst also ensuring that the council protects sufficient resources to manage the increased costs of delivering our own services. With this in mind, £60,000 of the reported underspend will be committed to supporting Cheltenham food networks.

	Amount £
Support to the Cheltenham food network	£60,000
Contribution to General Balances	£169,116
Total	£229,116

2.11 Work is also ongoing to determine other mechanisms available to the council to support our residents and communities in the most effective way to target those with the greatest need and support them through the financial challenges they may be facing.

3. Budget carry forward requests

3.1 At the year end, a number of budget holders requested 'carry forward' of unspent budgets. Requests fall into two categories and have been dealt with as follows:

- Some requests are in respect of goods and services ordered but not received by 31 March 2022.
- Some relate to items of expenditure not yet incurred due to slippage in work programmes but still planned to be spent in line with the original intention of the budget.
- Others are amounts of grant funding which have been allocated but not yet been taken up by their intended beneficiaries.

- 4.2. In line with previous practice, these have been reviewed by the Executive Leadership Team and approved by the Section 151 Officer, under delegated powers (financial rule B10.1). A list of the approved carry forward of budgets totalling £656,218, for which expenditure is in line with the original approved purpose, is contained in Appendix 5.
- 4.3. A list of carry forward budgets totalling £48,500 which require member approval, for which expenditure has previously been carried forward or where the purpose of the expenditure is different to the original approved purpose is also contained in Appendix 5.
- 4.4. In accordance with the Service Reporting Code of Practice (SeRCOP), a transfer was made to a 'carry forward' reserve in 2021/22 (Appendix 6) and transfers will be made from the 'carry forward' reserve in 2022/23 to the appropriate cost centres in order that members and officers have a clear indication of the total budget, including carry forwards, available for 2022/23.

4. Treasury Management / Prudential Indicators

- 4.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services. This Council has adopted the code and complies with its requirements, one of which is the receipt by Cabinet and Council of an Annual Review Report after the financial year end. The detailed treasury report, as approved by the Treasury Management Panel at its meeting on 27 June 2022, is attached at Appendix 7.

5. Business Rates Retention Scheme (BRRS)

- 5.1 One of the key documents in the budget setting process is the estimate of business rates yield which is reported in the National Non Domestic Rates return (NNDR1) which is submitted to the Department for Levelling Up, Housing and Communities (DLUHC). The NNDR1 return was submitted to DLUHC by the deadline of 31 January 2021 and the budget was based on the figures within that return.
- 5.2 The table below reflects the actual performance against the revised budget with an overall variance for the year of £58,517 when taking into account the Gloucestershire Business Rates pooling arrangement.

	2021/22 Original Budget £	2021/22 Revised Budget £	2021/22 Actual £	2021/22 Variance £
Retained business rates	21,944,973	17,041,206	16,974,939	(66,267)
Tariff payable to government	(19,244,897)	(19,244,897)	(19,244,897)	-
Grant to compensate for government decisions	1,417,489	6,790,945	6,781,745	(9,200)
Estimated levy payable to government after Pool surplus/deficit	(91,537)	(388,286)	(349,309)	38,977
Net retained business rates	4,026,028	4,198,968	4,162,478	(36,490)
Less Baseline Funding (target level of net retained rates)	(2,841,443)	(2,841,443)	(2,841,443)	
Net surplus on business rates against baseline funding	1,184,585	1,357,525	1,321,035	(36,490)
Deficit adjustment re 2019/20	(128,170)	(128,170)	(128,170)	-

Deficit adjustment re 2020/21	(13,966,426)	(13,966,426)	(13,966,426)	-
Deficit Adjustment re 2021/22	-	4,903,767	4,970,034	66,267
One-off adjustments re previous years' deficits	(14,094,596)	(9,190,829)	(9,124,562)	66,267
Net retained business rates (after one-off deficit adjustments & LIGS)	(10,068,568)	(4,991,861)	(4,962,084)	29,777
Transfer to/(from) BRR earmarked reserve	13,810,279	8,762,782	8,791,522	28,740
Net income included in outturn	3,741,711	3,770,921	3,829,438	58,517

5.3 A transfer of £9.1m has been made from the Business Rates Retention (BRR) earmarked reserve at year end as per revised budget agreed at February 2022 Full Council.

5.4 The Government's policy of phasing out revenue support grant and in due course allowing councils to benefit from a higher share of business rates created a need for this Council to develop a long-term strategy which was significantly different from that followed in past years. Since 2013 the Council has had a direct financial interest in economic and business growth in the borough, and will have a larger stake in it under the Government's proposals for reforming business rates.

5.5 The impact on business rates from COVID-19 and the implications for the economy, are matters that will challenge the medium term financial strategy. It was therefore, critical that the Council implemented a targeted approach to supporting businesses throughout the pandemic and our approach is further articulated in Section 9 below.

6. Capital Outturn 2021/22

6.1 The outturn position in respect of General Fund capital is contained in Appendix 8. Members are asked to note the outturn position and, where there is slippage, approve the carry forwards into 2022/23 requested by officers.

6.2 Since the approval of the 2022/23 budget in February 2022, funding for two new projects has been requested. These projects had previously been discussed as part of the 2022/23 budget setting process but at the time of approval, the resource requirement had not been confirmed. The projects are outlined below and it is proposed that these will be funded from capital receipts:

- Naunton Park - Contribution of £25,000 to pathways and drainage work in the park
- The Burrows – Contribution of £25,000 to the construction of a storage building in the park to support Leckhampton Rovers to maintain the newly developed site

7. Reserves and Section 151 Officer Advice

7.1 The Section 151 Officer has, under delegated powers (financial rule B11.4), authority to make transfers to and from these operational reserves in accordance with the intention of the reserve as determined by the Council's Reserves Policy and Protocol. The transfers approved by the Section 151 Officer for 2021/22 are set out in the outturn performance position schedules at Appendix 2 and 3.

7.2 Appendix 6 also details the reserves held by the Council, states their purpose and indicates the balance at 31 March 2022. In setting the budget for 2022/23 a review of reserves was undertaken to assess whether the levels were appropriate and in line with the policy for reserves and

balances; and also whether they took into account the needs and risks of the organisation and the prevailing economic conditions as we emerge from the COVID-19 pandemic.

- 7.3 In assessing the adequacy of reserves and balances for 2021/22 the Section 151 Officer used a risk based approach to assess the appropriate level of general balances which calculated the optimum level to be £1.416m. At the year end, the General Fund Balance stands at £1.378m and therefore is below the optimum level recommended by the Section 151 Officer at year end – an impact of the pressures experienced through 2021/22 as the economy re-opened and we began the recovery from the pandemic.
- 7.4 Accepting that the long-term impact from COVID-19 could leave the Council exposed without clear decision-making in delivering a balanced budget, the level of reserves is lower than optimal at year end and action has been taken in the 2022/23 budget to increase the robustness of the reserves through a transfer of £2.189m to general balances. This brings the expected general balance reserve to £3.567m.
- 7.5 With the cost of living emergency increasing financial pressures on the Council, as part of this outturn the Deputy Section 151 Officer has re-assessed the optimum level of general balances to be £3.256m. This assessment includes new assumptions for increase in inflation, interest rates, and savings delivery. Although our forecast general balance is above this level, this only provides a contingency of 9% against these assumptions.
- 7.6 Members will need to be mindful that there may be an expectation to further strengthen these reserves in order that the Council is robustly covered against further financial pressures which may emerge through recovery or future changes to local government financial support. With diminishing central government support in the form of direct grant and New Homes Bonus, uncertainty over the long term impact of the cost of living crisis, and the impact on individual's ability to pay council tax or business rates, it may be the case that that some difficult choices need to be made in respect of service provision.
- 7.7 Members should acknowledge that using the under spend against the 2021/22 budget to further support general balances will increase the Council's resilience to the financial pressures we may face through 2022/23 as inflation and interest rates are both forecast to increase. It is also recommended that the long term sustainability of the costs and funding associated with delivery of new projects are considered and reviewed before commitments are made to ensure the scarce resources available are able to generate the maximum value.

8. Section 106 receipts

- 8.1 A position statement in respect of the activity of Section 106 receipts is contained in Appendix 9.
- 8.2 The following summarises the activity in respect of Section 106 for 2021/22, compared to 2020/21.

	2020/21	2021/22
Balance of unused Section 106 receipts	2,529,368	1,685,456
Net additional receipts in year	39,637	18,237
Receipts used to finance projects in year	(883,549)	(520,988)
Balance outstanding at year end	1,685,456	1,182,704

9. Council tax and business rates collection and support

- 9.1 The monitoring report for the collection of council tax and business rates (NNDR) income is shown in Appendix 10. This shows the position at the end of March 2022.
- 9.2 It is encouraging to see that the collection rate for Council Tax has increased from 97.53% in 2020/21 to 98.31% in 2021/22. It is even more pleasing to note that the collection rate for Business Rates has recovered from 90.72% to 97.43% in the same period. Not only does this surpass the target of 93% for 2021/22 but also brings the rate of collection back in line with pre pandemic levels.
- 9.3 This recovery stems from the work of the business rates team who have worked tirelessly to distribute over £100m of support to over 1,000 Cheltenham businesses over the last two years. The Council's targeted approach through the use of its discretionary grants scheme will ensure those businesses that support the leisure, tourism and hospitality sector are around for many years to come.

10. Housing Revenue Account (HRA)

HRA Income and Expenditure

- 10.1 The HRA revised forecast for 2021/22 (based on performance to December 2021) anticipated an operating surplus of £985,800 for the year, which after appropriating revenue contributions to capital of £985,800, would leave a balance of £1,500,000 in revenue reserves at 31 March 2022.
- 10.2 The outturn statement at Appendix 11 shows a net reduction of £159,900 in the operating surplus to £825,900 for the year. Revenue contributions to capital were reduced to £2,200 leaving a balance of £2,323,700 in revenue reserves at year end.
- 10.3 An explanation of variances exceeding £50,000 is shown below:

Detail	Forecast £'000	Actual £'000	Variation £'000
General & Special Management – additional corporate recharges and abortive fees on potential new build schemes that could not proceed.	2,283	2,486	(214)
Bad Debts – income recovery above target	292	160	132
Service Charges – reduced charges to leaseholders	912	858	(54)
Other variations less than £50,000 - net			(24)
Decrease in Operating Surplus			(160)

Major Repairs Reserve

- 10.4 In accordance with regulations this reserve is funded by sums equivalent to the depreciation provision and has been used to finance HRA capital expenditure.

HRA Capital Programme

- 10.5 Actual expenditure for the year was £14,065,600, an under spend of £1,757,200 compared with the forecast of £15,822,800.
- 10.6 The programme includes projects where expenditure plans span more than one financial year and are delivered through more than one contract. Where delays occur, for example through extended consultation with leaseholders or procurement issues, Cheltenham Borough Homes seek opportunities for advancing other projects within overall funding. Costs are controlled at both contract and project level.
- 10.7 Significant project variations from forecast (exceeding £250,000) are shown below:-

Project	Forecast	Actual	Variation
	£'000	£'000	£'000
Major void refurbishment – increased proportion of higher value void work	680	991	(311)
Window & Door replacement – contractor delayed by staff shortages	953	621	332
Warden Call Upgrade – contract will commence in 2022/23	400	0	400
Acquisitions – additional opportunities to repurchase stock	3,097	3,687	(590)
New Build Schemes – primarily due to potential Section106 developer led schemes being cancelled or delayed	5,457	3,849	1,608
Other net variances			318
Total variance to forecast			1,757

10.8 Changes to the projected financing of the capital programme have arisen from the reduction in overall spend (£1.757m.) and the availability of additional capital receipts.

10.9 Delays in three capital projects require the carry forward of unspent budget to complete outstanding works in 2022/23: -

Window & Door replacement £500,000

Sheltered Accommodation £115,000

Sustainability Works £60,000

11. Conclusion

12.1. The outturn position for 2021/22 demonstrates that even with the financial planning decisions taken by Officers and Members over the last two years, we are still facing significant uncertainty and volatility in managing the resources available to the Council to deliver services to our residents and communities.

12.2. Although the pandemic has still had a significant financial impact on the Authority, the income compensation and Government grants received have helped somewhat to mitigate this and avoid the Authority having to make damaging cuts to our service delivery.

12.3. The proposal for the use of the remaining under spend to support general balances will be used to provide the Council with resilience through a cost of living crisis where inflation is expected to reach the highest rate for 40 years. Available resources will also be reviewed to enable the Council to support the most vulnerable residents in our town through the financial pressures they will also be facing.

12.4. The long term impact of the pandemic and the extent of the cost of living crisis on our resources will continue to be closely monitored and reported to Members throughout 2022/23 together with frequent and proactive review of reserves to ensure the Council has robust arrangements in place to respond to any future impacts on our funding or resources.

12. Consultation

12.1 Appropriate members and officers were consulted in the process of preparing the outturn position and associated reports and accounts.

Report author	Contact officer: Gemma Bell, Director of Finance & Assets gemma.bell@cheltenham.gov.uk, 01242 264 124
Appendices	<ol style="list-style-type: none"> 1. Risk assessment 2. Summary outturn performance position - General Fund 3. Service level outturn performance position - General Fund 4. Significant variances 5. Carry forward requests 6. Movement on earmarked reserves and general balances 7. Annual Treasury Management review 8. Capital programme - General Fund 9. Section 106 receipts statement 10. Council tax and NNDR collection 11. HRA Operating account 12. HRA Capital programme and Major Repairs Reserve
Background information	<ol style="list-style-type: none"> 1. Section 25 Report – Council 21 February 2021 2. Final Budget Proposals for 2021/22 – Council 21 February 2021

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 implement 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 Medium Term Financial Strategy includes savings targets and funding strategies to ensure we continue to work towards financial sustainability whilst delivering the council's corporate priorities.	Ongoing	ED Finance and Assets	01/09/2010
CR105	If the Budget Strategy (Support) Reserve is not suitably resourced the use of General Balances will be required resulting in them falling 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 2021/22 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	
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	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	Ongoing	ED Finance and Assets	

	and the constrained ability to grow the business rates in the town then the MTFS budget gap may increase.							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, the BID and using recovery funding to ensure Cheltenham protects and supports businesses in the town.			
1.03	Income generated through sales, fees and charges may be reduced in future periods resulting in gaps in the funding required to support service delivery.	ED Finance and Assets	15/12/10	4	4	16	Reduce	Robust forecasting is applied in preparing budgets 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 prioritised to mitigate the risk of income fluctuations.	Ongoing	ED Finance and Assets	
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	ED Finance and Assets	13/12/10	5	3	15	Reduce	Regular review of the assumptions through the quarterly monitoring process. Being proactive in responding to	Ongoing	ED Finance and Assets	

	likely to be increased volatility around future funding streams.							Government consultations on changes to funding.			
New corporate risk	If government support to compensate the 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	23/03/2020	5	5	25	Reduce	<p>A recovery budget was approved by Council in November 2020 which included changes and funding proposals to bridge the forecast £2m budget gap caused by COVID-19.</p> <p>Work programmes are underway to implement the key changes to activity such as asset sales to secure the Council's future financial sustainability.</p>	Ongoing	ED Finance and Assets	