

Cheltenham Borough Council

Cabinet Meeting – 8th November 2022

Budget Monitoring Report 2022-23 – position at 30 September 2022

Accountable member:

Cllr Peter Jeffries – Cabinet Member Finance, Assets and Regeneration

Accountable officer:

Gemma Bell – Director of Finance and Assets (Deputy Section 151 Officer)

Accountable scrutiny committee:

Budget Scrutiny Working Group

Ward(s) affected:

All

Key/Significant Decision:

No

Executive summary:

This report provides the monitoring position statement for the financial year 2022/23 against the budget approved by Council on 21 February 2022. The purpose of this report is to notify members of any known significant variations to the budget for 2022/23 and highlight any key issues.

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 30 September 2022 are outlined in this report.

Recommendations:

1. **It is recommended that Cabinet note the contents of this report including the key projected variances to the 2022/23 budget approved by Council on 21 February 2022 and the actions**

to ensure overspends are reduced as far as possible by the end of the financial year.

1. Background

- 1.1. On 21 February 2022, Council approved the budget for 2022/23, including setting the Council Tax. The 2022/23 approved budget identified ambitious efficiency savings and additional income of £1.507m and was set at a time of huge financial uncertainty over the long term impact of the pandemic on customer behaviour and the emergence of the Omicron variant in the winter of 2021. Only at the point that changes to customer behaviour and the way our services are accessed has started to be understood, we are now faced with the most significant cost of living crisis in a generation.
- 1.2. This report draws together the Council's budget forecast for 2022/23 at 30 September 2022 against the budget approved on 21 February 2022. It also summarises the Housing Revenue Account (HRA) revenue and capital budgets.
- 1.3. The monitoring report presented to the Cabinet for the first quarter of the year forecast an overspend of £2.834m against the budget. At the end of the second quarter of the year this has reduced to £2.390m. A reconciliation of the movement is presented in the table below:

Forecast overspend – July 2022	£2,834,000
Reduction in net Base Budget Variances	(£279,000)
Reduction in overspend on energy – impact of Government support	(£200,000)
Net increase in pressures from re-calculation of forecast interest rate increases and inflationary pressures on commercial activity	£35,000
Forecast overspend – October 2022	£2,390,000

2. Net Revenue Budget Position

- 2.1. The current forecast overspend for 2022/23 is £2.390m, of which £1.985m is estimated to relate to economic pressures as a result of rising inflation and interest rates. The table below details the breakdown of the variances against the approved budget with further explanation provided in Sections 3, 4 and 5.

Significant budget variances	Overspend / (Underspend) £	Para. Ref.
Finance, Assets and Regeneration Directorate		
Municipal Offices	100,000	3.1
Cemetery and Crematorium	100,000	3.2
People and Communities Directorate		
Environmental Health	(70,000)	3.3
Built Environment	(75,000)	
Other Net Budget Variances < £50,000	-	

Net Base Budget Variances	55,000	
Wider Economic Pressures		
Est. Rise in Interest Rates	135,000	4.3
Est. Inflationary pressures on commercial activity	350,000	4.4 – 4.6
Est. Inflationary Increase in energy costs	800,000	4.7 – 4.10
Est. Pay Award Increase	700,000	4.11 – 4.12
Total Economic Pressures	1,985,000	
At Risk Savings	350,000	5.1 – 5.5
Total projected overspend for the year	2,390,000	

3. Base Budget Variances

- 3.1. The base budget for the Municipal Offices includes a £150k budget for rental income generated from third parties who have rented space in the building. A tenant who previously rented the entire second floor of the building has moved out and the space remains vacant. New tenants have been moved into other smaller areas in the building but there has been no interest from the market post pandemic in occupying space on the scale of the previous tenants. To offset this pressure, work is ongoing to condense the space used on the third floor by council officers to reduce the overall running costs of the building.
- 3.2. This variance is made up of a £50k pressure on the income budget and a £50k pressure on the expenditure incurred by the service. Income generated from sales and fees was significantly impacted by the pandemic when services were limited and included much fewer mourners. The council are still experiencing a reduction in this income which hasn't recovered post pandemic. In addition, the costs of tools, equipment, grounds and vehicle maintenance have all been subject to inflationary increases which has placed pressure on the expenditure budgets. Work is ongoing under the recently appointed Head of Commercial and Income Generation to undertake a detailed review of the service and identify opportunities to mitigate these pressures.
- 3.3. Both the Environmental Health and Built Environment teams have had a greater than expected staff turnover in the first six months of 2022/23. This has meant that the services have carried vacancies and have accumulated underspend against the staffing budgets for this period. These posts have either now been filled or are being advertised and it is not expected that the underspend will significantly increase any further.

4. Wider Economic Pressures

- 4.1. We are faced with the most significant cost of living crisis in a generation. In the six months between the 2021/22 outturn report being presented to Cabinet in July 2022 and the report deadline for this committee, inflation has increased from 6.2% to 10.1% and is expected to hit 13% in the winter of 2022. The Bank of England base rate has also increased again since the quarter one budget monitor to 2.25%.
- 4.2. The previous monitoring report presented to Cabinet in September 2022 included an estimate

of the level of pressures we were likely to face due to the economic outlook for 2022/23. These have been revised again after the second quarter of the year and are summarised below. This takes into account both the Government support for non-domestic energy announced in mid-September and also the economic impact of the more recent mini-budget presented in Parliament on 23 September 2022.

- 4.3. The Bank of England has increased interest rates seven times since December 2021 in an effort to tame runaway inflation. It is now 2.25%, with another rate announcement due on 3 November. The council's treasury management advisors have forecast that the Bank Rate will rise to 2.75% by December 2022. This will impact the expenditure required to service our current borrowing levels, with a subsequent pressure of £372k on the cost of borrowing. Partly this will be offset against an increase in investment income of £237k, leaving a net pressure of £135k on our 2022/22 budget position.
- 4.4. Following the implementation of Government austerity policy since 2010, the council have worked towards being financially self-sufficient through the implementation of a commercial strategy. The objective of this policy is to meet the reduction in funding pressure through generating income from commercial ventures and investments in a risk aware manner.
- 4.5. The council have a number of large contractual commitments, both impacting expenditure budgets but also generating income across a number of services and commercial investments. The impact of inflation and interest rates have increased the base cost of key elements of these contracts; from fuel in waste and recycling vehicles to rental income generated through our property portfolio.
- 4.6. The variance of £350k is an estimate of the inflationary increase we expect to be passed onto the council through these contracts for 2022/23. This is currently based on the figures at July 2022, and may be subject to change throughout the financial year, which will be monitored for fluctuations.
- 4.7. In the same way that energy costs have increased for households across the borough, the council have also seen a significant increase in costs and until September there was no price cap to mitigate the inflationary increases. Since April 2022, we have purchased our energy on the day ahead market (a financial market where market participants purchase and sell electric energy at financially binding day-ahead prices for the following day) on the advice of our broker. This has proved cheaper than it would have been to lock into a fixed term contract and we have been purchasing gas at 6-10p per kWh and electricity at 25-35p per kWh. This is against a budgeted unit cost of 6p per kWh for gas and 15-20p per kWh for electricity.
- 4.8. The budget monitoring report presented in September assumed that we would pay between 50-60p per kWh for electricity through the winter period of 2022/23. The Government's announcement that a price cap would be introduced for the unit cost of non-domestic energy has reduced this to 40.21p.
- 4.9. In order to try to mitigate these costs as much as is feasible, energy usage targets have been set for all our major buildings and this is monitored using the recently installed sub meters. The focus is on working with our partners and staff who operate from our buildings to reduce overnight energy usage. To facilitate this there is re-procurement activity to implement a more efficient building management system which can be used to automatically set where energy is used to run operationally systems and set limits for when these are switched off.
- 4.10. The overall target is to reduce our winter energy usage by 20% when compared to the same

period in 2021/22. Despite this work and the cap on the unit cost, it is currently expected that the total cost of electricity and gas for buildings operated by the council in 2022/23 will be close to £1.8m, against a budget of £978k.

4.11. The 2022/23 approved budget included a provision for a 2% Local Government pay award with an additional 1% contingency if needed. As inflation has increased since the original budget was approved, it has become clearer that this is unlikely to be sufficient to cover both council officer and partner pay increases for 2022/23.

4.12. On 25 July 2022, the National Employers put an offer to the NJC Trade Unions. At the report deadline date, this pay offer has not yet been fully balloted by all the recognised Trade Unions, a pressure of £700,000 has been included in the monitor for prudence. This is estimated to cover the additional cost of a pay award for council officers and the contract cost increase of our partner organisations which will be required to cover a pay award.

5. Delivery of the 2022/23 Savings Strategy

5.1. As part of the 2022/23 approved budget, a four year savings strategy was approved which was weighted towards delivering £1.5m of base budget savings in 2022/23. This is an incredibly ambitious target, particularly in the current economic environment. The detail of these savings have been included in Appendix 3 of this report and have been risk rated as follows:

Risk Rating	% Delivery Confidence	£'000
Green	> 90%	375
Amber	> 60%	782
Red	< 20%	350
		1,507

5.2. Action has already been taken by officers and Members on the £1.157m of savings categorised as green or amber and these will continue to be monitored through the rest of the financial year. Explanations have been provided below for the three savings strategies which have been categorised as at risk for 2022/23.

5.3. Modernisation Programme Saving 2022/23 – the modernisation programme was delayed in 2021/22 due to resource being redeployed to support the response to the pandemic which has pushed back the profiling of savings the programme is expected to deliver. The implementation of the digital platform is now progressing and it is expected to deliver savings from 2023/24.

5.4. Existing Investment portfolio income generation – within our investment and overall property portfolio a number of our assets are leased or let by third parties. At the point that the budget was approved, a number of rent reviews were being undertaken and there was opportunity to also lease what was being held as vacant space to maximise the benefit these assets were bringing to the general fund. However, the escalating economic situation has adversely impacted the market and there are fewer opportunities to implement this strategy. Once the economy has stabilised this strategy will be reviewed again and it is expected that in future a saving will be delivered. However, this will not crystallise in 2022/23.

5.5. Energy usage review across asset portfolio – at the point that the budget was proposed there had been significant investment in installing sub meters into council buildings which was providing much more accurate data to monitor energy usage across our portfolio. It was expected that using this data to change operational practices would help reduce usage and deliver a £100k saving energy costs against a £978k budget, equivalent to a 10.2% reduction. However, due to the inflationary pressures outlined in section four above the efficiencies generated have now been subsumed by the rising price of energy. Again, once the economy has stabilised and energy prices reduce the ground work undertaken may generate a saving in future years.

6. The 2022/23 Capital Programme

6.1. A monitoring exercise has been carried out to ensure that the capital programme, approved by Council on 21 February 2022, are being delivered as planned within allocated capital budgets, some of which are timetabled to straddle two or more financial years. The approved 2022/23 capital programme totals £21.669m.

6.2. At present, the capital projects are all forecast to be delivered on or under budget with only a small overspend variance based on the activity incurred to date and the planned activity until 31 March 2023. However, the current instability in the market in respect of inflationary pressures, supply chains and labour, may impact a number of our developer led projects moving forward.

6.3. During the 2022/23 financial year, other projects and schemes may come to light which require investment by the Council. These proposals will be considered by the Cabinet and approval will be requested through the relevant channels in line with the Council's Budget and Policy Framework Rules.

7. Housing Revenue Account

Revenue Budget

7.1. The forecast revenue position after the first six months of 2022/23 shows a negative variance of £567,000 from budget, reducing the operating surplus for the year from £1,042,400 to £475,400.

7.2. The following significant variations have been identified:

- In April 2022 the HRA Commercial Properties (shops and other commercial leases) were appropriated to the Council's General Fund. As a consequence, non-dwelling income will reduce by £292,000.
- Additional costs arising from the pay award (other than maintenance) are expected to be £116,000.
- Repairs and Maintenance expenditure is anticipated to increase by £200,000 to reflect both the pay award and inflation on materials and subcontractor costs.
- Interest Payable has been reduced by £116,000 to reflect a lower borrowing requirement to finance the reduced Capital Programme (see below).
- The provision for bad debts has been reduced by £50,000 to reflect improved rent collection in the first half of the year.

Capital Budget

7.3. The HRA capital programme shows a marginal reduction in forecast spend on existing stock, down by £317,000 to £11.6m.

7.4. The new build programme is anticipated to reduce by £11m to £6m. The economic outlook continues to be uncertain and identified opportunities have been delayed due to planning issues and material and labour shortages experienced by developers. Market purchases are also lower than planned due to current market conditions. The pipeline remains strong but timings of the programme will be dependent on resourcing and financing volatility.

8. Funding of the Projected Overspend and preparation for 2023/24

8.1. The assessment of the adequacy of reserves and balances in the 2021/22 outturn report used a risk based approach to determine an optimum level of general fund balance of £3.256m. Following the 2021/22 outturn report, the council currently hold £3.421m in general balances which was considered sufficient in line with this assessment. The 2022/23 budget proposal also assumed that a £312k contribution would be made to general balances which also provides additional contingency against forecast overspend.

8.2. The current projected overspend of £2.390m clearly demonstrates the validity of this assessment and the potential need to use a large proportion of our general balances to support the budget in 2022/23, despite the Government scheme to support the cost on non-domestic energy being introduced.

8.3. At the date this report was published, no additional Government support to Local Authorities to manage the financial pressures caused by the current economic conditions has been announced and, in line with the 2021/22 outturn report, we are currently reliant on the resilience of our general balances to balance the 2022/23 budget.

8.4. Work has also begun on preparing the budget strategy for 2023/24 and beyond, and a significant element of this is understanding the extent of the economic pressures that will need to be built into the base budget moving forward. It is expected that the pay award and some of the inflationary pressures will require base budget increases which means that within the stand still budget setting process at least £900k will need to be built in.

8.5. There are a number of initiatives currently being implemented, including the renewal of the lease arrangements with Ubico at the Depot, the installation of a new building management system across the property portfolio and review of the business rates for our buildings which are expected to already provide approximately £250k of efficiencies in 2023/24. These will be reviewed as part of the savings strategy for 2023/24 and beyond to identify whether there are other initiatives which could be brought forward and implemented earlier.

8.6. With diminishing long term 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.

8.7. It is recommended that the long term sustainability of the costs and funding associated with delivery of new projects are also considered and reviewed before commitments are made to ensure the scarce resources available are able to generate the maximum value.

9. Conclusion

9.1. The current monitoring position of the 2022/23 budget 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.

9.2. The proposal to fund the projected overspend using general balances will provide the council with short term resilience through a cost of living crisis where inflation has now reached 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.

9.3. 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.

10. Consultation

10.1. Appropriate members and officers were consulted in the process of preparing the monitoring position and associated reports and appendices.

11. Implications

11.1. Financial implications

As detailed throughout this report.

Signed off by: Gemma Bell, Director of Finance and Assets (Deputy s151 Officer), 01242 264124

11.2. Legal implications

None arising from the report recommendations.

Signed off by: One Legal legalservices@onelegal.org.uk

11.3. HR implications

As detailed in the report.

Signed off by: Julie McCarthy, HR Manager, julie.mccarthy@publicagroup.uk

11.4. Environmental and climate change implications

The mitigating actions, in particular in relation to the increasing cost of energy, are in line with our Climate Emergency Action Plan. A reduction in energy consumption spawns a reduction in overall greenhouse gas emissions, and therefore aligns with our Climate Emergency Action Plan. The mitigating actions, in particular, the winter energy usage reduction target of 20-25% and the exploration of a more efficient building management system will expedite our progress towards becoming a net zero Council.

Signed off by: Laura Tapping, Climate Emergency Programme Officer, 01242 264263

11.5. Property/asset implications

None specific directly arising from the recommendations.

Signed off by: Gemma Bell, Director of Finance and Assets, 01242 264124

11.6. Corporate policy framework implications

Taking action to ensure overspends are reduced as far as possible by the end of the financial year will help ensure that the council can continue to deliver its corporate objectives as set out in the 2019-2023 Corporate Plan.

Signed off by: Richard Gibson, Head of Communities, Wellbeing and Partnerships, 01242 264280

12. Performance management – monitoring and review

- 12.1. The budget position will continue to be monitored by the Finance team throughout the year and a revised budget will be presented to the December Cabinet with the 2023/24 draft budget proposal.
-

Report author:

Gemma Bell, Director of Finance and Assets (Deputy s151 Officer), Gemma.Bell@cheltenham.gov.uk

Appendices:

1. Risk Assessment
2. Capital Programme Monitor to 30 September 2022
3. Savings Strategy 2022/23

Appendix 1: Risk Assessment

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
347	If energy costs keep rising / fluctuating as per the current market then it impacts on our ability to accurately budget/forecast expenditure and may impact on our the investments we can make in projects / programmes whilst still being able to achieve our MTFS	Gemma Bell, Director of Finance and Assets	4	4	16	Reduce	This policy and the associated action plans.	Gemma Bell, Director of Finance and Assets	Ongoing
	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	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.	ED Finance and Assets	Ongoing

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
	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	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.	ED Finance and Assets	Ongoing
	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	ED Finance and Assets	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.	ED Finance and Assets	Ongoing

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
	ability to grow the business rates in the town then the MTFS budget gap may increase.						<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>		
	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	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</p>	ED Finance and Assets	Ongoing

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
							income generation will be prioritised to mitigate the risk of income fluctuations.		
	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	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.	ED Finance and Assets	Ongoing
	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	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.	ED Finance and Assets	Ongoing

Risk ref	Risk description	Risk owner	Impact score (1-5)	Likelihood score (1-5)	Initial raw risk score (1 - 25)	Risk response	Controls / Mitigating actions	Control / Action owner	Deadline for controls/ actions
	asset sales.						Work programmes are underway to review service provision, capital programmes and rationalisation of assets.		