

Cheltenham Borough Council

Cabinet Meeting – 19 September 2023

Budget Monitoring Report 2023/24 – position at 30 June 2023

Accountable member:

Cllr Peter Jeffries – Cabinet Member for Finance and Assets

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 2023/24 against the budget approved by Council on 20 February 2023. The purpose of this report is to notify members of any known significant variations to the budget for 2023/24 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 June 2023 are outlined in this report.

The position for the 2022/23 outturn was that £2.6m was required to balance the budget. Moving into 2023/24 it was budgeted that £152,258 would be added to general balances by the 31st March

2024. This monitoring report shows that we are currently reporting estimated overspend of £475,000. This means that if the forecast remains in this position by the end of the financial year we will require a further £322k from balances and reserves to bridge our budget gap.

As detailed within this report there are a number of external factors that are outside of the Council's control: interest rates, inflation, higher-than-budgeted Pay award. Our focus as a council is on measuring everything and controlling the controllable. The measures we are taking to mitigate the forecasted overspends in the budget are detailed in Section 3 of this report.

Recommendations: That Cabinet:

- **notes the contents of this report including the key projected variances to the general fund and Housing Revenue Account ("HRA") 2023/24 revenue and capital budgets approved by Council on 20 February 2023 and the actions to ensure overspends are reduced as far as possible by the end of the financial year.**
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1. Implications

1.1. Financial implications

As detailed throughout this report.

Signed off by: Gemma Bell, Director of Finance and Assets (Deputy s151 Officer), gemma.bell@cheltenham.gov.uk

1.2. Legal implications

None arising from the report recommendations.

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

1.3. HR implications

No direct HR implications arising from the report at this time.

Signed off by: Julie McCarthy, HR Consultant, juliemccarthy@cheltenham.gov.uk

1.4. 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: Mike Redman, Director of Climate Change and Place Services, Environmental and Regulatory Services, mike.redman@cheltenham.gov.uk

1.5. Property/asset implications

None specifically directly arising from the recommendations.

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

1.6. 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 2023-2027 Corporate Plan.

2. Background

2.1. On 20 February 2023, Council approved the budget for 2023/24, including setting the Council Tax. The 2023/24 approved budget identified ambitious savings target of £1.3m.

2.2. This report draws together the Council's budget forecast for 2023/24 at 30 June 2023 against the budget approved on 20 February 2023. It also summarises the Housing Revenue Account (HRA) revenue and capital budgets.

3. Net Revenue Budget Position

3.1. The current net forecasted overspend for 2023/24 is £475k, of which £190k relates to a net overspend on the base budgets and £285k relates to slippage in the delivery of savings and efficiencies. 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.
All Directorates		
Staffing Vacancies	(625,000)	4.1
Communities & Place Directorate		
Waste & Recycling	175,000	4.3
Finance, Assets & Regeneration Directorate		
Car Parking	50,000	4.5
Housing & Communities	(100,000)	4.6
Property – Repairs & Maintenance	50,000	4.7
Property – Vacant Properties	190,000	4.8
Economic Pressures		
Borrowing & Investment Interest	450,000	5.1 – 5.4

At Risk Savings	285,000	6.1 – 6.5
Total projected overspend for the year	475,000	

4. Base Budget Variances

4.1. The organisation is still working through phase two of the organisational review. Vacancies are currently being carried across the organisation either due to team changes being implemented more gradually than expected or because services are having difficulty recruiting. The financial impact for 2023/24 is that there will be an estimated underspend of £625k. This will be reviewed for revised budgets in Autumn, this variance has also been adjusted to reflect the opening 2023/24 pay award which is still yet to be agreed with NJC Unions. The latest offer made to Unions has been factored into the forecast however is subject to change, depending on the outcome of negotiations between the NJC and Unions.

4.2. Waste and Recycling overall is anticipating net overspend of £175,000. This is made up of a number of difference variances:

4.2.1. The Ubico contract is expected to be underspent by £200k due to a number of factors including delays in vehicle replacements. (£200k represents around 2% of the contract between CBC & Ubico).

4.2.2. Tonnages of recycling material collected has dropped for the first three months of financial year to date. As a result, income for sales of material and recycling credits has been impacted adversely by £375k against budget. Similar trends have been seen across Gloucestershire, this will be monitored closely over the next few months.

4.2.3. At this point in the year there is a £45k shortfall on trade waste income forecast which may be due to the cost of living crisis reducing the customer base combined with less waste being produced. Marketing of the service to businesses in the town is planned in Q2 and Q3 of 2023/24 in preparation for the Christmas period.

4.2.4. Garden Waste income is performing above budget by £45k as at 30 June 2023.

4.3. As part of the 23/24 budget setting a target of £100k was included for car parking permits in car parks throughout the borough, as it stands the expectation is that £50k of this target will not be achieved within 23/24.. This shortfall can be attributed to the lack of expected take-up of the Town Centre East business permit which has been launched in conjunction with Cheltenham BID. There are plans to investigate the viability of extending to scheme to accommodate businesses that fall outside of the BID zone. The current pricing model for Town Centre East will also be reviewed to ascertain whether a more competitive model can be sustained.

4.4. Housing & Communities received a windfall grant of £210k for the 2023/24 financial

year, part of the work to meet the conditions of the grant is being covered within existing services and funded by our base budget. As a result, we estimate that £100k of this grant will be available to support general balances at year end.

- 4.5. Repairs and maintenance budgets across our property portfolio have cost pressures due to the impact of inflation on suppliers along with the age of our properties. There were also a number of incidents of vandalism at Town Centre East car park in the first quarter. We estimate that these budgets will be overspent by £50k by 31 March 2024, assuming reactive repairs remain constant throughout the year.
- 4.6. The base budgets include a rental income target from across the buildings we own in our property portfolio. This income is generated from third parties who have rented space in these buildings. We currently have a number of vacancies across the portfolio, in particular in office premises which have seen a fall in demand after the pandemic and forecast a shortfall against this target for 2023/24. Advertisement of these vacancies is ongoing and we are utilising our network of agents across the town to match tenants with our available space.

5. Interest Rate Pressures

- 5.1. While inflation has started to ease over the first few months of the financial year interest rates are still rising. Bank Of England base rate rose to a new high of 5.25% on the 3 August 2023.
- 5.2. This has led to a substantial rise in the cost of both short- and long-term borrowing over the last six months. CBC as a net borrower will see increased cost in interest payable for borrowing. The council's treasury management advisors forecast that rates are forecast to peak around 5.75% and remain at this level for the next 9-12 months before being forecast to reduce.
- 5.3. The impact of this, given the level of borrowing is £450k against the budget set in February 2023, this is the net impact when including the increased income generated on our investments.
- 5.4. Our finance team along with our treasury advisors are reviewing options to reduce the impact of the high interest rates on our revenue budgets.

6. Delivery of the 2023/24 Savings Strategy

- 6.1. As part of the 2023/24 approved budget, a four-year savings strategy was approved which was weighted towards delivering £1.3m of base budget savings in 2023/24. This is an incredibly ambitious target, particularly in the current economic environment. Below is a table categorising the progress to date.

Description	TARGET 2023/24 £	ACHIEVED 2023/24 £	FORECAST/ON TARGET £	CURRENT GAP £
Re-alignment of resourcing with Corporate Priorities	125,000		40,000	85,000
Commercial income generation opportunities	100,000	30,000	20,000	50,000
Reduction in the Cheltenham Trust management fee	100,000	100,000		
Maximise opportunities to strengthen CBC-CBH partnership	100,000		100,000	
Pension tri-annual review	575,000	575,000		
Review of budget allocations against new Corporate Plan	300,000		150,000	150,000
Total	1,300,000	705,000	310,000	285,000

6.2. Action has already been taken by officers and Members on the £1.015m of savings categorised as green or amber and these will continue to be monitored through the rest of the financial year.

6.3. To build on this work, Senior Officers have been working with the Cabinet to review discretionary budget spend across all service areas against the Corporate Plan to determine whether services can be delivered differently and ensure our resources are aligned with key priorities. Proposals and options will be discussed through September and October with action taken in advance of the 2023/24 revised budget being produced.

7. The 2023/24 Capital Programme

7.1. A monitoring exercise has been carried out to ensure that the capital programme, approved by Council on 20 February 2023, are being delivered as planned within allocated capital budgets, some of which are timetabled to straddle two or more financial years. The approved 2023/24 capital programme totals £13.904m. See Appendix 2 attached to this report for a breakdown of the individual capital projects.

7.2. 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 2024.

7.3. During the 2023/24 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.

7.4. The total of the capital programme approved for 2023/24 as part of the outturn report in July 2023 was £13.824m. Since this date an annual capital budget for play area enhancements including health and safety of play areas which was originally approved by Full Council in 2020/21 has been re-instated. Since 2020/21, the work has been undertaken within CAP101 and funded by s106 capital contributions which have now been exhausted. In the revised appendix 2 it is CAP102 Play Areas Enhancement £80k which will revert back to being funded by capital receipts.

8. Housing Revenue Account

Revenue Budget

8.1. The forecast revenue position after the first three months of 2023/24 shows a negative variance of £109,000 from budget, reducing the operating surplus for the year from £144,000 to £35,000.

8.2. The following significant variations have been identified:

8.2.1. Renewal of insurance premiums show an increase of £70,000 over budget.

8.2.2. Forecast for interest payable has been increased by £37,000 to reflect higher interest rates on temporary borrowing required to fund the HRA Capital Programme.

Capital Budget

8.3. The HRA capital programme currently shows no significant variation to the forecast spend of £12.6m on existing stock and £22m. on new build and acquisitions. However, the market continues to be uncertain, and the financial viability of schemes is under pressure from rising interest rates. A progress review is underway which will establish likely spend in the year.

9. Conclusion

9.1. The current monitoring position of the 2023/24 budget demonstrates that even with the financial planning decisions taken by Officers and Members over recent 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 balances and reserves will provide the council with a short term solution. However, with pressures such as interest rates and high levels of inflation this is not a sustainable funding mechanism.

9.3. Balances and reserves have reached their lowest levels in years. In particular, after using £2.6m of general balances to support the budget in 2022/23 we cannot continue to rely on finite resources to meet the budget gap. To continue providing high-quality services to residents, decisions need to be taken about savings and efficiencies in order to replenish the resources used since 2020/21.

10. Consultation

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

11. Performance management – monitoring and review

11.1. 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 2024/25 draft budget proposal. The Budget Scrutiny Working Group will also meet in the Autumn before the 2024/25 budget process begins.

Report author:

Jon Whitlock, Chief Accountant

Appendices:

1. Risk Assessment
2. Capital Programme Monitor to 30 June 2023

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 / programs 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	ED Finance and Assets	5	4	20	Accept & Monitor	The Council joined the Gloucestershire pool to share the risk of fluctuations in business rates	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
	and the constrained ability to grow the business rates in the town then the MTFS budget gap may increase.						<p>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>		
	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	Robust forecasting is applied in preparing budget targets taking into account previous income targets, collection rates and prevailing economic conditions. Professional	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
							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.		
	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

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 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	<p>The Council will continue to lobby for additional resource, as promised by Central Government from the outset of the pandemic.</p> <p>Work programmes are underway to review service provision, capital programmes and rationalisation of assets.</p>	ED Finance and Assets	Ongoing