Cheltenham Borough Council

Cabinet Meeting – 5 December 2023

Budget Monitoring Report 2023/24 – position at 30 September 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 September 2023 are outlined in this report.

The position for the 2022/23 outturn was that £2.6m was required to balance budget. Moving into 2023/24 it was budgeted that £152,258 would be added to general balances by the 31 March 2024. This monitoring report shows that we are currently reporting estimated overspend of

£702,000.

As detailed within this report there are a number of external factors that are outside of the Councils control: interest rates, inflation, higher than budgeted Payaward. Our focus as a council is on measuring everything and controlling the controllable. The measures agreed with Service Managers to mitigate the forecasted overspends in the budget are detailed in Section 3 of this report.

Recommendation: 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), 01242 264124

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 julie.mccarthy@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: Maizy McCann, Climate Emergency Programme Officer, 01242 264263

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 September 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 £702k compared to a figure of £475k at the end of the first quarter of the year. Of this total, £349k relates to a net overspend on the base budgets and £353k 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	(492,000)	4.1
Communities & Place Directorate		
Waste & Recycling	60,000	4.2
Finance, Assets & Regeneration Directorate		
Housing & Communities	(100,000)	4.3
Property – Business Rates	80,000	4.4
Property – Repairs and Maintenance	94,000	4.5
Energy	250,000	4.6
Economic Pressures		
Borrowing & Investment Interest	587,000	5.1 – 5.4
At Risk Savings	353,000	6.1 – 6.5
Net impact of all other budget variances < £50k	(132,000)	
Total projected overspend for the year	**702,000**	

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 £492k. This variance has been adjusted to reflect the 2023/24 pay award which has now been agreed with NJC Unions.

4.2. Waste and Recycling overall is anticipating net overspend of £60,000. This is made up of a number of difference variances:

4.2.1. The Ubico contract is expected to be underspent by £309k due to a number of factors including delays in vehicle replacements. (£309k represents around 3% of the contract between CBC & Ubico).

4.2.2. Tonnages of recycling material collected has dropped in the financial year to date. As a result, net income for sales of material and recycling credits has been impacted adversely by £353k against budget. As kerb side recycling has dropped when compared to the amounts collected during the pandemic, the number of rounds delivered through our current contract will be reviewed to reduce the cost base in the final quarter of the year.

4.2.3. At this point in the year there is a £16k 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 has reduced this shortfall from the £45k reported in Q1.

4.3. 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.

4.4. We have a large portfolio of properties which are subject to business rates, calculated using a rateable value provided by the Valuation Office Agency. The last revaluation of the rateable value was published on 1 April 2023 and this has increased the amount of business rates we are liable to pay. Work is underway to appeal a number of these, in particular for car parks where income has fallen since the last valuation.

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 and work required in order that the Pittville Pump Room can re-open. We estimate that these budgets will be overspent by £94k by 31 March 2024 but will continue to review the work commissioned to determine whether it is providing value for money for the Council.

4.6. In the same way that energy costs have increased for households across the borough, the council saw a significant increase in costs throughout 2022/23. As part of the 2023/24 budget setting process, additional budget capacity was built in to withstand continued pressure particularly in some of our large buildings open to the public. However, with consideration to our net zero ambitions there was a stretch target included to reduce our usage year on year.

4.7. In order to achieve this target, 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, facilitated by a building management system.

4.8. The overall target is to reduce our winter energy usage by 20% when compared to the same period in 2022/23. The pressure has arisen in buildings occupied by our partners where we can control the unit price but cannot currently directly control the amount of energy used. These buildings are also those that have the highest energy demands where the costs fall on the Council to cover. As well as interventions from the property and climate team, we also made an application to the Government's Swimming Pool Support Fund to offset some of this pressure but were unsuccessful.

4.9. Work is currently ongoing with the Interim Director of Climate Change to review all areas of our energy management, from purchasing to bill validation and there is significant scope to reduce this pressure in year.

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 is 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. Since the Q1 budget monitoring report, this forecast has held and the Bank of England have maintained the base rate of 5.25%.

5.3. The impact of this, given the level of borrowing is £587k 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		-	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		122,000	218,000
Total	**1,300,000**	**705,000**	**242,000**	**353,000**

6.2 Action has already been taken by officers and Members on the £947k of savings categorised as green or amber. The decision to wind up Cheltenham Borough Homes and bring the housing service back in house has meant that £222k of the amber rated savings have a greater certainty of delivery than when the Q1 position was reported in September.

6.3 This decision also strengthens the 2024/25 savings position which will be reported to Cabinet in the draft budget on 19 December 2023 and provides a mechanism to cover the forecast £285k of red rated savings which are likely to slip to the next financial year.

6.4 To further 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. Again, proposals and options have been discussed and will also be reported in the draft budget papers later this month.

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.

8 Housing Revenue Account

Revenue Budget

8.1 The forecast revenue position after the first six months of the year shows a negative variance of £117,000 from budget, reducing the operating surplus for 2023/24 to £27,000.

8.2 The following significant variations have been identified:

- Renewal of insurance premiums show an increase of £62,000 over budget.
- Forecast for interest payable has been increased by £45,000 to reflect higher rates on existing temporary borrowing to fund HRA capital expenditure.

Capital Budget

8.3 Following a substantive review of the programme the current forecast shows a reduction in anticipated spend of £10.6m to £24.2m. for the year.

8.4 This primarily arises from the new build and acquisition programme which reduces by £10.2m. to £11.8m. .The original budget anticipated works to commence on schemes at the Swindon Road and Monkscroft School sites as well as a contingent sum for new s106 schemes and a higher level of acquisitions.

8.5 The revised forecast now includes the completion of 21 LAHF property acquisitions with a further 16 acquisitons funded by retention receipts. It also includes completion of the Shurdington Road s106 scheme (5 homes), Kidnappers Lane s106 scheme (9 homes) and a start on site of the Swindon Farm s106 scheme.

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 and the focus on the medium term savings programme, 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 actions outlined in this report to reduce the projected overspend by the end of the year will minimise the balances and reserves required to bridge the gap which should be considered a short-term solution only. 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, the financial benefits of decisions taken to change the delivery of services will need to be used to replenish and strengthen our reserves. This will need to considered as part of the approval of the 2024/25 budget and medium term financial plan.

10 Consultation

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

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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 19 December Cabinet with the 2024/25 draft budget proposal. The Budget Scrutiny Working Group met in early

November to discuss the position and will meet in January once the 2024/25 budget goes out to consultation.

Report author:

Jon Whitlock, Chief Accountant

Appendices:

i. Risk Assessment
ii. Capital Programme Monitor to 30 September 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 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.						The Gloucestershire S151 Officers continue to monitor business rates income projections and the performance and membership of the pool / pilot. Work with members and Gloucestershire LEP to ensure Cheltenham grows its business rate base.		
	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 judgement is used in the setting / delivery of income targets. Greater focus on cost control and	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