CABINET
23 AUGUST 2016

HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1615

REVENUE BUDGET MONITORING & FORECASTING 2016/17 POSITION AT JULY 2016

1. INTRODUCTION

1.1 This report informs Members of the Council's anticipated financial position for 2016/17, based on the monitoring exercise carried out during July 2016.

2. BACKGROUND

2.1 During July, budget officers carried out a regular budget monitoring exercise for their services, identifying any variations from the current approved budget that they anticipate will occur in the financial year.

2.2 The current approved budget is the Original Budget for 2016/17 as approved by Council on 25 February 2016 plus any subsequently approved supplementary estimates, virements and budget carry-forwards from 2015/16.

2.3 This information is consolidated to produce an updated forecast of the revenue position at the end of 2016/17 at Appendix A.

3. OPENING BALANCES AND BUDGET ADJUSTMENTS

3.1 The final outturn position for 2015/16 showed a marked improvement in the general fund balance of over £0.5 million, taking the balance from the budgeted £1.492 million to £2 million, which is at the top of range (£1 million - £2 million) set out in the Medium Term Financial Strategy. In addition, a significant transfer was able to be made to the Stability and Resilience reserve of £428,500.

3.2 This level of variance was due to a combination of factors including continued spending restraint by budget officers; additional income achieved by services; reduced revenue contributions towards Improvement Grants and additional grant funding.

3.3 Whilst this level of variance provided an improved starting point for 2016/17, it was not identified which variances might be on-going permanent reductions in net spend rather than one-off occurrences. The budget challenge exercise carried out by the Director's Management Board sought to address this by identification of realisable, permanent savings to be reflected in the budget for 2016/17, thereby lessening the extent of future variances at each subsequent year-end.

3.4 That exercise has identified £357,000 of net reductions (a combination of both reduction in expenditure headings and increases in income budgets) that have now been removed from the 2016/17 budget. This net reduction has been set against the £860,000 savings required in the current year, leaving around £503,000 to be achieved during 2016/17 (before any variances reported for the current year).

3.5 The other key factor in improving the outturn position for 2015/16 was the reduced levy payable to government on growth in business rates. Business Rates income for 2015/16 declined largely due to a significant award of Part-Occupational relief and an increase in the provision for appeals against business rate valuations. This meant that the payment to government reduced by around £483,000. However, it must be noted that the reduction in business rates income is yet to flow through to the general fund as this is reported through the collection fund surplus or deficit in future years.

3.6 As indicated in paragraph 2.2, the current approved budget includes carry-forwards of unspent budgets from 2015/16 of £176,000, of which £85,000 is to be met from grants received in prior years, with the remainder being funded from underspends in 2015/16, which were set aside in an earmarked reserve. This means that this expenditure will have no effect on balances in the current year.

3.7 A number of supplementary estimates have been approved for both income and expenditure during the first quarter of 2016/17 resulting in a net increase of £126,000 as set out in Appendix B.

3.8 A small number of virements have been requested in the first quarter of the current year, all of which simply move costs between detailed budget lines or between cost centres in order to improve budget management.

4 REPORTED VARIANCES - QUARTER 1

4.1 As part of the overall budget for 2016/17, and in order for the Council to maintain a sound position, savings and efficiencies of £860,000 were required for the year, in addition to staff turnover savings of £315,000.

4.2 The target of £860,000 has already been reduced by the £357,000 identified during the budget challenge exercise, leaving £503,000 to be achieved.

4.3 In this first quarter monitoring exercise, budget officers have identified a net overspend of approximately £429,000 against their non-salary budgets offset by additional income from 8-Point Plan projects of £540,000 giving a net favourable variance of £111,000 as set out in Appendix C of this report.

4.4 Significant adverse variances should be noted within the Environment and Service Delivery portfolio for both on- and off-street parking including a shortfall of around £114,000 on penalty charge income (PCN), £178,000 on smartcard sales and £60,000 for pay and display income in car parks. PCN income for the year was based on a full complement of eight Civil Enforcement Officers – estimates have been revised down to reflect recruitment and retention problems.

4.5 Within the Business, Safety and Regulation portfolio, variances of some £103,000 have been reported for markets and car-boot sales due to changing footfall in the town centres and increased levels of competition during the summer. A report will be made to the September Cabinet meeting to recommend variation to the pricing and service operation to bring the service back on track.

4.6 Some of the variances identified within services by budget holders will be offset by changes to the level of transfers to or from reserves. For example, a reduction in income or an increase in costs for on-street parking will reduce the amount of surplus generated for the Civil Parking Enforcement (CPE) Account and therefore reduce the transfer to the CPE account shown in transfers to reserves. This provides a favourable variance of £63,000 to the general fund. There will also be a greater drawdown on other reserves and grants of an additional £48,000.

4.7 Estimates for interest receivable have been reduced in part due to the reduction in rate of return on our property fund, which has fallen slightly since the UK's decision to exit the European Union, although it should be noted that returns are still significant at around 4.99%. The use of funds for commercial property acquisition and other capital schemes also impacts on the funds available for investment and therefore reduces the overall interest received during the year. This has resulted in a total reported variance of £68,000.

4.8 In addition, and as described in greater detail in the section below, the increased size of the capital programme for 2016/17 will result in the Council needing to borrow funds during the year with estimated costs of £37,000.

4.9 Additional grants have been received of around £48,000 while once again the operation of the business rates retention scheme has resulted in a favourable variance of £123,000. This has arisen for the same reasons as reported in 2015/16 i.e. while business rates estimates are falling against the original budget, this cannot be reported in the current year but will be shown in subsequent years' deficit figures. In the meantime, the reduction in expected levy payment (50% of growth achieved in the year) has to be shown in the year in which it is incurred.

4.10 This misleading position pushes balances up again in the current year with the certain knowledge of a shortfall to be found in future years.

4.11 The staff monitoring exercise has identified a net projected underspend of £78,000 from turnover savings, based on existing or known up-coming vacancies, recruitment above or below estimated pay points, entry into pension scheme etc. which would normally suggest that the budgeted figure of £315,000 by the year end would be achieved.

4.12 The sum of the variances identified above is £288,000. When this is offset against the remaining saving requirement of £503,000, it can be seen that a further £215,000 savings needs to be identified and achieved in the current year.

4.13 The reported increase in general fund balance of £508,000 is entirely due to the improved outturn position at the start of the year. This provides a buffer so that if the remaining savings were not found in the current year, the general fund balance would fall to £1.7 million, which would still be above the mid-point of the approved range.

5 INCOME GENERATION – PROPERTY ACQUISITIONS

5.1 Exploring new income generation or investment opportunities is a key part of the Council's 8-Point Plan, in order to create additional income that will substantially ease the Council's revenue position, taking due regard of minimising risk whilst promoting long-term financial sustainability.

5.2 A significant project within this stream is the acquisition of commercial property to boost rental income and the Solicitor to the Council has been reporting to Cabinet on the progress of this initiative. At the time of writing this report, the Council has been successful in bidding for five properties, within various commercial sectors including industrial units and town centre retail.

5.3 The income generated from these acquisitions will amount to £943,000 in a full year and £527,000 in the current year (as included in Appendix C to this report).

5.4 All of the properties have tenants with repairing leases meaning that there are no substantive additional revenue costs associated with owning these properties, other than on-going management fees. These management costs relate to the on-going requirement to monitor property conditions and risks and the general administration involved with rent assessment and collection. Estimates of these costs have been included in Appendix C to this report.

5.5 Cash will need to be raised to fund each of the acquisitions shortly, and the Council's net investments are expected to decline from the current average of £34 million down to around £19 million by October 2016. This decline in investment holdings will mean that the Council's net interest income yield will reduce in the current year and for all future years. Further cash will also be required to finance an element of the remainder of the capital programme in the months leading up to the end of the current financial year.

5.6 Prevailing market conditions determine that the optimum solution with regard to raising cash to fund the five property acquisitions, and an element of the remaining capital programme costs in the current year can be undertaken by raising some short-term borrowing from other Local Authorities. The Council's estimated position on investments net of borrowing in the current year is provided in the table that follows:

Position on Investments net of Borrowing for the year 2016/17	**1st April 2016**	**1st October 2016**	**31st March 2017**
	£000	**£000**	**£000**
Long term investments	27,563	27,600	27,600
Short term investments/ Money Market Funds	11,980	6,000	3,000
Borrowing (LEP)	(4,121)	(3,700)	(3,600)
Borrowing (Short term)	(579)	(10,900)	(11,000)
Net total of all	**34,843**	**19,000**	**16,000**

5.7 The effect of these significant changes in investment, cash and borrowing balances for the full year 2016/17 is estimated to be a modest decrease in interest receivable coupled with an interest payable charge of around £37,000 as referred to in section 4 above.

5.8 The investment property acquisitions will be capitalised and financed by Prudential Code borrowing, in the current year. For future years, this capital borrowing will require a non-cash transaction to be made in the General Fund

Revenue Account, linked to each asset financed by borrowing and known as minimum revenue provision or MRP. While MRP is a statutory requirement, there is some flexibility for the Council in selecting the methodology for calculating MRP. There is no requirement for MRP to be applied in the current financial year.

5.9 The following table summarising the financial effects for the current and next financial year in order to demonstrate the significant net contribution that this initiative is already contributing to the Council's revenue position.

Investment property acquisitions approved to date during 2016/17	**Revenue effect**	**Revenue effect**
	2016/17	**2017/18**
	£000	**£000**
Management costs	17	26
Interest cost	37	171
Minimum revenue provision	-	71
Income	(527)	(943)
Net total of all	**(473)**	**(675)**

6 RISKS AND RESERVES

6.1 Due to the level of known financial risk, flexibility has been built into the Council's financial plans by setting aside reserves to be used to manage fluctuations in expenditure or income, to mitigate against other known risks and to support key projects such as invest-to-save schemes, which underpin the Council's 8-Point Plan for a sustainable organisation.

6.2 This enables the Council to weather fluctuations in its net expenditure while consideration is given to longer-term plans for meeting the funding gap. This means that actions are thought-through and well-considered rather than relying on quick fix, unsustainable solutions.

6.3 As has been identified above, considerable progress has been made in the implementation of income generation plans such as those from commercial property acquisition. Other income generation projects such as the in-house delivery of markets and car-boot sales have been embedded into service delivery and are being pro-actively managed to maintain significant income streams, while others such as digital advertising initiatives are being progressed over the medium-term.

6.4 However, major unfavourable variances within existing services must be corrected if the long-term sustainability of the organisation is to be achieved. The £540,000 of on-going 8-Point Plan savings should be contributing to the overall reduction in service budgets rather than offsetting significant underachievement of existing income streams or additional costs.

6.5 In addition, the reduction in business rates estimates will require additional savings in future years, which are not yet included in the medium term forecast.

6.6 When considering the 8-Point Plan and the projects within it that need to be progressed, some consideration must be given to the resources required to complete the projects and achieve the savings in a timely manner. The plan is supported by both the Service Improvement Fund and the flexible use of capital receipts. An update on the use of these will be reported to a future meeting of Cabinet. The current estimates include a draw-down from the Stability and Resilience reserve which would leave the projected balance on that reserve at £3,007,500.

6.7 Other down-side risks that should be considered are:

- The playing out of the consequences of the UK's decision to leave the European Union. This may include implications for pension schemes and the Council's future contributions to the Hampshire Scheme, the value of properties including those recently purchased, the interest earned on the Council's investments or payable on its borrowings.
- Risks that projects will not deliver efficiency savings to timescale
- Deterioration in income streams due to the economic climate including planning fees, parking income and rents
- The potential centralisation of land charges
- Pressure on services from demographic change
- Pressure on services due to legislative changes. For example, Welfare reform, Housing and Planning Act
- Further reductions in central government funding and risk around the continuation of New Homes Bonus in its current format
- Increasing issue of street homelessness

6.8 Up-side risk includes the fact that the current reporting shows £200,000 revenue contribution towards Improvement Grants (Disabled Facilities Grants) which are a statutory duty for the Council. For 2016/17, funding towards this from the Better Care Fund has considerably increased from £425,000 to £816,000. It is therefore very possible that the top up usually provided from the Council's own revenue resources will not be required in the current year. Officers are monitoring the position while working with partners to assess the likely spend in this area and whether any additional responsibilities will be incorporated due to the increase in resources.

7 CONCLUSIONS

7.1 There will always be variances reported in-year against budgets due to the Council adapting its priorities to manage inevitable changes in demand pressures and having a flexible approach to changing circumstances. While we would not want financial constraints to hamper this responsive approach, which works well for residents, the Council does need to reduce its net cost of services (by reducing costs or increasing income) to achieve financial sustainability.

7.2 This first quarter budget monitoring cycle includes some significant income generation as a result of projects in the 8-Point Plan, which builds towards this sustainable position.

7.3 In addition, the budget challenge exercise removed £357,000 of sustainable savings from the budget.

7.4 This provides confidence that the savings required over the medium-term are achievable, through a combination of quick wins as delivered via the budget challenge as well as longer-term changes to the delivery of services and the introduction of new income streams, which reduce net costs on an on-going basis.

7.5 However, we are currently experiencing a number of significant downturns to current income streams, which need to be addressed. In addition, the operation of the business rates retention scheme continues to cause annual fluctuations in budgets that are disjointed from their eventual effects due to the operation of the surplus/deficits on the collection fund.

7.6 The current monitoring position shows general fund balances close to the top end of the range for balances at £1.915 million, assuming the achievement of an additional £215,000 of savings during the year.

7.7 Should the additional savings not be achieved there is flexibility within the current projections to amend the general fund balance, alongside flexibility to amend the contributions to improvement grants and the current estimated contribution from the Stability and Resilience reserve.

7.8 While this report provides reassurance for the current financial year, the scale of the challenge over the medium-term is considerably greater and efforts should be concentrated on moving forward the 8-Point Plan to achieve a sustainable financial future.

8 RECOMMENDATIONS

Members are recommended to note the contents of the report

AMANDA FAHEY
HEAD OF FINANCIAL SERVICES

GENERAL FUND REVENUE BUDGET SUMMARY

APPENDIX A

		Original Estimate 2016/17 £000	Current Approved Estimate 2016/17 £000	Forecast Outturn 2016/17 £000
	PORTFOLIO EXPENDITURE			
1	Corporate Services	1,158	1,048	543
2	Environment and Service Delivery	3,456	3,595	3,933
3	Concessions and Community	1,922	1,890	1,862
4	Health and Housing	1,696	1,697	1,697
5	Business, Safety and Regulation	2,709	2,712	2,812
6	Leisure & Youth	4,574	4,531	4,515
7	**PORTFOLIO NET EXPENDITURE**	15,515	15,473	15,362
8	Capital Accounting Charges - reversed	(2,285)	(2,285)	(2,285)
9	IAS 19 Pension costs - reversed	298	298	298
16	**NET EXPENDITURE AFTER ADJUSTMENTS**	13,528	13,486	13,375
11	Reductions in Service Costs/Income Generation	(860)	(503)	(215)
12	Vacancy Monitoring	(315)	(315)	(315)
13	Corporate Income and Expenditure	(580)	(580)	(475)
14	Contributions to/(from) Reserves	136	(53)	(164)
15	Central Government Funding	(6,286)	(6,286)	(6,457)
16	**NET TOTAL EXPENDITURE**	5,623	5,749	5,749
17	Contribution to/(from) balances	41	(85)	(85)
18	**COUNCIL TAX REQUIREMENT**	5,664	5,664	5,664

	REVENUE BALANCES			
19	1 April	1,492	1,492	2,000
20	General Fund Transfer	41	(85)	(85)
21	31 March	1,533	1,407	1,915

Notes:

13	**Corporate Income and Expenditure**			
	Interest Receivable	(850)	(850)	(782)
	Interest Payable			37
	Collection Fund (Surplus)/deficit - CTax	(91)	(91)	(91)
	Collection Fund (Surplus)/deficit - NNDR	361	361	361
	Total	(580)	(580)	(475)

14	**Contributions to/(from) Reserve Accounts**			
	Revenue Contributions to Capital Programme	550	550	550
	Revenue Contributions to Improvement Grants	200	200	200
	Transfer to CPE Surplus Account	266	266	203
	Contributions to/(from) earmarked reserves/prior year grants	(80)	(269)	(317)
	Transfer to/(from) Stability and Resilience Reserve	(800)	(800)	(800)
	Total	136	(53)	(164)

15	**Central Government Funding**			
	New Burdens Grant/Other non ring-fenced funding	(46)	(46)	(94)
	New Homes Bonus	(1,994)	(1,994)	(1,994)
	Revenue Support Grant	(1,104)	(1,104)	(1,104)
	RBC share of rates collected	(19,018)	(19,018)	(19,018)
	Tariff payable	15,305	15,305	15,305
	Levy payable	904	904	762
	S31 grants in relation to business rates	(333)	(333)	(314)
	Total	(6,286)	(6,286)	(6,457)

APPENDIX B

Supplementary Estimates for Quarter 1 2016/17 of £126,000 are shown below:

Corporate Services Portfolio		**£000**
	IT Application Support	
-	Six month contract extension re regularising electronic data held by the authority	**13**
	Personnel Support	
-	Hampshire Apprentice Partnership subscription	**2**
	Corporate Policy	
-	Heart of Hampshire Devolution ideas (PWC to carry out further assessment of structural models, Basingstoke and Deane to procure and share costs with other Local Authorities)	**20**
Environment and Service Delivery Portfolio		**£000**
	Recycling	
-	RBC contribution to the Hampshire (Project Integra) Review of Recycling Systems	**5**
-	Garden Waste Collection Service – Container Choice.	
-	For the purchase of paper sacks(see line below for funding)	**5**
-	Income re new charges for single use sacks (see line above)	**(5)**
	Town Centre Management	
-	Installation of high gate and railings in Union Street, Aldershot	**7**
-	Contracts Team staffing restructure for Domestic Refuse, Recycling, Street Cleansing and Abandoned Vehicles	**22**
Concessions and Community		**£000**
	Major Grants	
-	Funding to CAB for 2016/17 to support Nepali speaking customer advisor	**13**
-	Funded from Earmarked Reserve)	**(13)**
	Leisure Grants	**20**
-	Grants to Organisations – Education Attainment	

APPENDIX B

Health and Housing Portfolio	**£000**
Housing Advice	
- Costs associated with setting up wet hostel	**35**
- Grant relating to the costs associated with setting up wet hostel	**(35)**
Business, Safety & Regulation Portfolio	**£000**
Public Conveniences	
- Contracts Team staffing restructure	**1**
CCTV	
- Additional cameras etc at Union Street, Aldershot to assist in dealing with rough sleepers	**11**
Economic Development	
- Payment to TECHStart	**10**
- Payment to Rushmoor Schools Plus	**4**
Leisure and Youth Portfolio	**£000**
Special Events	
- Change to fireworks event	**11**

APPENDIX C

The variances identified by services during the July 2016 budget monitoring exercise and amounting to a net underspend of approximately £111,000 are shown below:

	Corporate Services Portfolio	**£000**
	Industrial Estates	
-	Additional income from properties purchased (part of the 8 Point Plan)	**(63)**
	Town Centres	
-	Additional income from properties purchased (part of the 8 Point Plan)	**(464)**
	Industrial Estates/Town Centres	
-	Management costs for properties purchased (part of the 8 Point Plan)	**17**
	Legal Support Service	
-	Engagement of external solicitors and other fees in order to service the legal workload	**10**
	Council Offices	
-	Reduced costs for maintenance of the Council Offices' boiler	**(11)**
-	Additional rental income from tenants (part of the 8 point plan)	**(8)**
	Other variances within this portfolio	**15**
	Environment and Service Delivery Portfolio	**£000**
	Domestic Refuse	
-	Additional bulky waste income	**(14)**
	Recycling	
-	Shortfall in Material Recovery Facility income	**47**
-	Shortfall in glass sales due to decline in value	**21**
-	Additional green waste income	**(30)**
	Environment and Service Delivery Portfolio - continued on the next page	

Environment and Service Delivery Portfolio **(continued)**		**£000**
	Car Parks	
-	Increase in cost of rebates for those using the Farnborough Leisure Centre due to increased usage of the car park	**18**
-	Reduction in payments to owners of managed car parks due to a decline in income taken at these sites	**(20)**
-	Shortfall in Pay & Display income	**60**
-	Potential shortfall in smartcard sales mainly relating to a reduction in smartcard purchases by one company	**178**
-	Shortfall in the penalty charge notices income due to vacant Civil Enforcement Officer posts	**45**
-	Additional season ticket income	**(25)**
	Parking Management	
-	Shortfall in the penalty charge notices income due to vacant Civil Enforcement Officer posts	**69**
-		
	Other Highway Services	
-	Additional temporary traffic regulation order income generation (part of the 8 Point Plan)	**(15)**
	Maintenance Team	
-	Net income expected from externally funded sources for skilled up projects	**(15)**
	Planning Conservation	
-	Reduction in Service Level Agreement with Hart DC for Arboriculture, Conservation & Biodiversity due to decrease in number of hours provided	**12**
Other variances within this portfolio		**6**

Concessions and Community Portfolio	**£000**
Rent Allowances - Reduction in rent allowance payments of around £1m due to refinement of caseload and benefit calculation changes, offset by directly related government grant reduction.	**(11)**
Local Elections - Increase in contributions for costs relating to Parliamentary and PCC elections	**(17)**

Business, Safety and Regulation Portfolio	**£000**
Building Control (Non Fee Earning) - Reappraisal of external income expected to be received in the year relating to shared Building Control service	**16**
Building Control (Fee Earning) - Reappraisal of external income expected to be received in the year relating to shared Building Control service	**36**
Development Control - Additional income for S106 administration charges related to planning permissions granted prior to recent legal ruling.	**(14)**
Crematorium - Additional income from cremation fees	**(50)**
Markets and Car Boot Sales - Shortfall in car boot income, together with additional casual staffing and other expenditure	**103**
Food, Health and Safety - Income from Health & Safety courses and from Food and Health & Safety consultancy (part of the 8 point plan)	**(7)**
Other variances within this portfolio	**16**

APPENDIX C

Health and Housing Portfolio	**£000**
None to report	**-**
Leisure and Youth Portfolio	**£000**
Community Leisure	
- External contribution towards project costs carried out by Community Development team	**(13)**
Other variances within this portfolio	**(3)**
	£000
Total Non-Salary Portfolio Variances	**(111)**
Of which:	
8 Point Plan Variances	**(540)**
Other Variances	**429**