CABINET **HEAD OF FINANCIAL SERVICES**
1 SEPTEMBER 2015 **REPORT NO. FIN1515**

REVENUE BUDGET MONITORING & FORECASTING 2015/16 POSITION AT JULY 2015

1. INTRODUCTION

1.1 This report informs Members of the Council's anticipated financial position for 2015/16, based on the monitoring exercise carried out during July 2015.

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. The current approved budget is the Original Budget for 2015/16 as approved by Council on 26 February 2015 plus any subsequently approved supplementary estimates and virements. It also includes budget carry-forwards from 2014/15 approved by DMB under their delegated power.

2.2 A salary monitoring exercise is also carried out in order to identify any salary variances, while the level of government grants and interest receivable from the Council's investments are reviewed and updated where necessary.

2.3 This information is consolidated to produce an updated forecast of the revenue position at the end of 2015/16 at Appendix A.

3. OPENING BALANCES AND BUDGET ADJUSTMENTS

3.1 The provisional outturn report FIN1511, approved by Cabinet on 2nd June, showed a reduction in net expenditure compared with the revised budget of approximately £250,000. General Fund balances were estimated to be £1.89m for the end of the financial year, falling within the range set out in the medium term financial strategy (£1m - £2m).

3.2 Subsequent accounting entries in respect of the Business Rates Retention Scheme altered this position, with the draft Statement of Accounts now reporting year-end balances of £1.6m, as estimated at Revised Budget setting. This remains above the mid-point of the agreed range of balances and provided a sound starting point for 2015/16.

3.3 The changes were due to timing of business rates data and accounting regulations that require certain figures to be accounted for in the year in which they are due while other figures are statutorily prescribed to be recorded in the subsequent year. This led to a scenario whereby, having improved our business rates position, we were required to show the surplus generated above the original estimate in the 2015/16 financial year, while the levy payable on growth in rates above the baseline had to be accounted for in 2014/15. Previous estimates had shown the net effect of these two figures within 2015/16.

3.4 The outcome was a requirement to provide for an additional £2.9m of expenditure in 2014/15. In order to accommodate this and maintain revenue balances at an appropriate level, £1.8m of the Stability and Resilience Reserve was utilised, which had been set up for exactly this type of situation (i.e. short-term fluctuations in income and expenditure). Revenue contributions to capital outlay were significantly reduced and transfers to reserves and general fund balance levels were adjusted. The now significantly increased surplus for business rates appearing in 2015/16 (no longer offset by the levy payment) will be used to replenish reserves and this is outlined later in the report.

3.5 As indicated in paragraph 2.1, the current approved budget includes carry-forwards of unspent budgets from 2014/15 of £322,000, of which £172,000 is to be met from grants received in prior years, with the remainder being funded from underspends in 2014/15, which were set aside in an earmarked reserve. This means that this expenditure will have no effect on balances in the current year.

3.6 A number of supplementary estimates have been approved for both income and expenditure during the first quarter of 2015/16 resulting in a net reduction of £76,000 as set out in Appendix B.

3.7 £167,000 of virements have been requested in the first quarter of the year all of which simply move costs between detailed budget lines or between cost centres in order to better manage the budgets. There is no change to the purpose of the expenditure from that approved in the original budgets. The two most significant virements are £98,500 moved from the Highways cost centre to Public Open Spaces as this expenditure relates to Grounds Maintenance within Parks and Open Spaces rather than Highways and £31,500 moved from Princes Hall to Town Centres as part of the allocation of staffing costs of the Town Centre Cultural Officer. These have no effect on overall balances.

4 REPORTED VARIANCES - QUARTER 1

4.1 As part of the overall budget for 2015/16, and in order for the Council to maintain a sound position, savings and efficiencies of £500,000 are required for the year, in addition to staff turnover savings of £315,000.

4.2 In this first quarter monitoring exercise, budget officers identified a net overspend of approximately £43,000 against their non-salary budgets as set out in Appendix C of this report.

4.3 The staff monitoring exercise would normally identify a figure for estimated savings based on regular turnover of staff, resulting in variances caused by short-term vacancy, recruiting above or below estimated pay points, entry into pension scheme etc. The current exercise has identified a net projected underspend of £156,000 from turnover savings, based on existing or known up-coming vacancies which would normally suggest that the budgeted figure of £315,000 by the year end would be achieved.

4.4 The salary monitoring for the current quarter unusually includes a number of other key variances.

- There is a saving against budget of £88,000 due to the actual pay award for the year being marginally different to that budgeted.
- There is an additional £46,500 of salary costs that are to be met from grant funding, which therefore do not create pressure on the budget
- £116,000 of savings for the year have been identified as part of the Council's restructure, for example, removal of Head of Customer Services post, amalgamation of 2 posts in Revenues and Benefits to create a new Revenues and Benefits Manager post, some additional costs around skills and employment. These changes were outlined in the Cabinet report of 31 March 2015 (CEX1501).

4.5 When considering the total amount of likely savings against the salary budget for the year, it should be noted that not all arrangements had been finalised during this first quarter monitoring period. Consequently, some additional costs may well not be accounted for in the above variances or indeed any further savings that might come occur during implementation of the new structure. At this stage, therefore, it would not be prudent to reflect any savings from the review in the current estimates. The combined effect of the remaining variances would be to allow for expected total salary savings of around £360,000.

4.6 Other favourable variances include additional interest receipts (£20,000), additional grant income from central government (£34,000), new corporate income from advertising (£10,000), additional drawdown of funding from earmarked reserves (£74,000) relating to grant funded expenditure and staffing costs and a reduction in transfer to the Civil Parking Enforcement Surplus account (£72,000).

4.7 By far the greatest variances affecting the first quarter position are in relation to the operation of the Business Rates Retention Scheme. If we consider the issues raised in points 3.3 and 3.4 above, the playing out of this in 2015/16 changes the reported NNDR surplus figure from £1.983m to £4.354m. This is because the original figure consisted of the projected rates surplus in January 2015 (when the NNDR2 returns are completed) of £4.354m off-set by the estimated change from safety net to levy position of £2.247m and a reduction in expected s31 grants relating to business rates of £0.124m. Now that the final levy payments and grant position have been reported in 2014/15, just the estimated surplus figure remains in 2015/16.

4.8 While this has increased 2015/16 balances by £2.37m, including the costs in 2014/15 was only possible by reducing Revenue Contributions to Capital Outlay and utilising reserves. It is therefore recommended that these funds are used to replenish those reserves. The operation of the scheme can cause major fluctuations in individual years due to the timing of estimates and the final reporting of business rates outturn. Accounting regulations further complicate matters by stipulating which figures may be reported in each year. However, the overall position for business rates has not changed, and the outlook remains positive for local growth.

4.9 The latest estimates for 2015/16 business rates income are broadly in line with the initial forecast although with figures of this magnitude (i.e. gross rates payable of around £52m) there will inevitably be some movement in these figures. At this stage however, there is no material variance to report. This means that the levy position should also remain substantially as currently reported. There is however, a tariff adjustment of approximately £221,000 that will reduce the amount of s31 grants payable in the year. In addition, we have recently been notified that DCLG are making a change to the levy and safety net calculations that could affect the 2014/15 final outturn position. While this is currently expected to be of no material value, Cabinet will be kept informed should this turn out be significant.

5 TRANSFERS TO RESERVES

5.1 In the Original Budget, Members agreed a transfer of £1.577m to the Stability and Resilience Reserve to mitigate risks of fluctuations in income and expenditure while reinvigorating the 8-point plan and moving forward on major savings and efficiencies projects to provide a more sustainable financial future for the Council. Due to the business rates position outlined above it is now recommended to transfer a further £1.8m to the fund to replenish the amount utilised last year.

5.2 Mindful of the Council's capital expenditure commitments and its income generating proposals within the 8-point plan around property investment, for example, it would be prudent to increase the revenue contributions towards capital expenditure from £550,000 for the current year to £959,000 in order to replace the contributions that were not made in 2014/15.

5.3 In addition, it is requested that £446,000 is set aside in an earmarked reserves to cover future mercury abatement measures at the Council's crematorium. In 2005, DEFRA introduced a requirement for the cremation industry to remove mercury from 50% of cremations. A principle of 'burden-sharing was introduced whereby operators who could install abatement plant do so and the cost is shared with those who could not install such equipment, thereby working towards the target reduction while sharing the cost across the sector.

5.4 CAMEO (Crematoria Abatement of Mercury Emissions Organisation) was created in 2006 to run the burden-sharing scheme. Cameo sets the charge (currently £52) which the Council collects as part of its cremation fees. The Council has previously held this money in a provision in expectation of passing it on to Cameo as part of the burden-sharing scheme. Cameo currently only invoice for 50% of the annual receipts and have confirmed that they will not be charging for monies collected in the early years of the scheme. It is recommended that monies charged for mercury abatement but not collected by Cameo as part of the burden-sharing scheme, are ring fenced for the future replacement of plant at the crematorium. These works should enable the Council to provide its own mercury abatement measures, which could mean that it will no longer need to pay in to the burden-sharing scheme, and could therefore cease charging for the levy. These works are likely to take place in approximately 3 – 5 years' time at an indicative cost of £750,000.

5.5 The net effect of these transfers on general fund balances is broadly neutral, replacing funds that were allocated in 2014/15 to offset the timing differences of business rates levy payments and business rates surpluses.

5.6 General Fund balances after these proposed transfers to reserves are £1.624m, which falls within the approved range of £1m - £2m and provides for a sound revenue position. In addition, this provides for the replacement of funds into the Stability and Resilience Reserve, essential to mitigate against the fluctuations which can be caused by the operation of the business rates retention scheme (as seen in 2014/15) and to allow some flexibility while additional income or cost savings are generated by the 8-point plan.

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. The Stability and Resilience Reserve will stand at £3.377m after the transfer to the General Fund indicated above.

6.3 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. Hence, budget officers have also been asked for an estimate of the resources they may need from the Service Improvement Fund. This fund has been set aside to support Invest-to-save schemes, service reviews and other major projects that will aid sustainability. The current estimates for spending in 2015/16 are set out below:

Service Improvement Fund	£000	£000
Opening balance as at 1st April 2015		**887**
Estimated Expenditure during 2015/16:		
System Thinking Reviews	30	
Service Improvement (Property & Estates/Contracts/Financial Services/Procurement/Transparency code/Personnel)	212	
Organisational Development	37	
Channel Shift	46	
Forecast balance as at 31st March 2016		**562**

6.4 While these funds provide an element of protection for the Council, there are still some key financial risks facing the Council in 2015/16 and beyond including:

- Risk that the council will not achieve the savings targets required
- Risks that projects will not deliver efficiency savings to timescale (both of these are mitigated to an extent by the reserves mentioned already)
- Deterioration in income streams due to the economic climate including planning fees, parking income and rents
- Potential upside for interest receipts should interest rates rise in the short term

- The potential centralisation of land charges
- Pressure on services from demographic change
- Pressure on services due to legislative changes. For example, the Welfare reform measures announced in the July budget which could create demand pressures from our most vulnerable residents in addition to cost pressure within the Council Tax Reduction Scheme
- Further reductions in central government funding and risk around the continuation of New Homes Bonus in its current format
- Continued pressure on Bed &Breakfast costs due to the number of larger families requiring assistance and the lack of suitable available accommodation
- Increasing issue of street homelessness

7 SUSTAINABILITY

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 savings/income generation as a result of projects in the 8-point plan, which builds towards this sustainable position. Some projects have already delivered and are included in the base budgets e.g. treasury management receipts. Some projects have now been adjusted in the budgets via supplementary estimates e.g. the in-house provision of markets and car boot sales. Other corporate projects, such as better procurement, are flowing through to variances reported in-year, such as £30,000 saving for insurance services.

7.3 This provides confidence that the savings required in the short-term are achievable, through a combination of in-year savings as well as longer-term changes to the delivery of services, which reduce net costs on an on-going basis. However, we currently expect to see a significant financial challenge in 2016/17, the quantum of which cannot be clarified until after the autumn spending review and announcements within the Autumn Statement. In order to meet our tough targets for 2016/17, it will be essential that some of the more significant and potentially challenging to deliver projects within the 8-point plan are moved forward in sufficient time.

8 CONCLUSIONS

8.1 At the close of 2014/15, the Council was able to maintain General Fund balances at £1.6m and meet the costs of budget carry-forwards without affecting the 2015/16 budget. However, in order to manage the timing of income and expenditure within the business rates retention scheme, the remaining balance within the stability and resilience reserve was fully utilised. To maintain the adequacy of reserves and the robustness of the Council’s financial position, it is recommended that this reserve is restored and increased over time as balances allow.

8.2 Further, it would be prudent to replace the revenue contributions to capital outlay that were not made in 2014/15, in order to replenish capital funds, and to set aside the balance of CAMEO levy for future mercury abatement measures.

8.3 The outturn position reported assumes the achievement of the remaining £342,000 of the savings requirement during the year. Given the positive position reported and the progress to date against the 8-point plan, it seems likely that this will be achieved. This should result in general fund balances of £1.624m, within the range of approved balances and £376,000 below the original forecast. However, this is the first monitoring cycle of 2015/16 and as the year progresses a clearer picture of the outturn position will emerge. This level of variation from the estimates is still only a small proportion of the gross annual turnover of the Council (less than 0.5%) but has a large impact on the level of balances.

8.4 While this report provides reassurance for the current financial year, the scale of the challenge for 2016/17 is considerably greater and efforts should be concentrated on moving forward the 8-point plan to achieve a sustainable financial future.

9 RECOMMENDATIONS

Members are recommended to

a) Note the contents of the report and approve
b) the virements and supplementary estimates
c) the initial estimates for use of the Service Improvement Fund and
d) the creation of a reserve for mercury abatement measures and
e) the increase in revenue contributions to capital outlay (subject to the final outturn position)

AMANDA FAHEY
HEAD OF FINANCIAL SERVICES

APPENDIX A

GENERAL FUND REVENUE BUDGET SUMMARY

		Original Estimate 2015/16 £000	Current Approved Estimate 2015/16 £000	Forecast Outturn 2015/16 £000
	PORTFOLIO EXPENDITURE			
1	Corporate Services	986	1,005	932
2	Environment and Service Delivery	3,973	3,956	4,050
3	Concessions and Community	1,750	1,798	1,821
4	Health and Housing	1,677	1,735	1,749
5	Business, Safety and Regulation	2,690	2,729	2,730
6	Leisure & Youth	4,509	4,607	4,591
7	**PORTFOLIO NET EXPENDITURE**	15,585	15,830	15,873
8	Capital Accounting Charges - reversed	(2,588)	(2,588)	(2,588)
9	IAS 19 Pension costs - reversed	306	306	306
16	**NET EXPENDITURE AFTER ADJUSTMENTS**	13,303	13,548	13,591
11	Reductions in Service Costs/Income Generation	(500)	(500)	(342)
12	Vacancy Monitoring	(315)	(315)	(360)
13	**Corporate Income and Expenditure**	**(2,933)**	**(2,933)**	**(5,334)**
14	**Contributions to/(from) Reserves**	**2,358**	**2,036**	**4,547**
15	**Central Government Funding**	**(6,799)**	**(6,799)**	**(6,612)**
16	**NET TOTAL EXPENDITURE**	5,114	5,037	5,490
17	Contribution to/(from) balances	362	439	(14)
18	**COUNCIL TAX REQUIREMENT**	5,476	5,476	5,476
	REVENUE BALANCES			
19	1 April	1,638	1,638	1,638
20	General Fund Transfer	362	439	(14)
21	**31 March**	**2,000**	**2,077**	**1,624**
13	**Corporate Income and Expenditure**			
	Interest Receivable	(800)	(800)	(820)
	Collection Fund (Surplus)/deficit - CTax	(150)	(150)	(150)
	Collection Fund (Surplus)/deficit - NNDR	(1,983)	(1,983)	(4,354)
	Other Corporate Income and Expenditure	0	0	(10)
	Total	(2,933)	(2,933)	(5,334)
14	**Contributions to/(from) Reserve Accounts**			
	Revenue Contributions to Capital Programme	550	550	959
	Revenue Contributions to Improvement Grants	200	200	200
	Transfer to CPE Surplus Account	201	201	129
	Contributions to/(from) earmarked reserves/prior year grants	(170)	(492)	(120)
	Transfer to/(from) Stability and Resilience Reserve	1,577	1,577	3,379
	Total	2,358	2,036	4,547
15	**Central Government Funding**			
	New Burdens Grant/Other non ring-fenced funding			(34)
	New Homes Bonus	(1,696)	(1,696)	(1,696)
	Council Tax Freeze Grant	(61)	(61)	(61)
	Revenue Support Grant	(1,756)	(1,756)	(1,756)
	RBC share of rates collected	(18,620)	(18,620)	(18,620)
	Tariff payable	15,178	15,178	15,178
	Levy payable	848	848	848
	S31 grants in relation to business rates	(692)	(692)	(471)
	Total	(6,799)	(6,799)	(6,612)

APPENDIX B

Supplementary Estimates for Quarter 1 2015/16 are shown below:

Corporate Services Portfolio		**£000**
	Council Offices	
-	Essential works to office facilities and staff café (mainly health and safety)	**8**
Environment and Service Delivery Portfolio		**£000**
	Farnborough Town Centre Regeneration	
-	Review of Farnborough Town Centre development agreement and deed of variation – consultancy services	**8**
	Markets and Car Boot Sales	
-	Revised market and car boot sale expenditure budgets following move to in-house provision	**81**
-	Revised market and car boot sale income budgets following move to in-house provision	**(295)**
-	Removal of previous income budget for profit share licences at the markets	**35**
-	Removal of previous car boot sale income from car parks budgets	**13**
	Planning Policy	
-	Reduction in spend on consultancy costs as a result of in-house resourcing	**(10)**
Health and Housing Portfolio		**£000**
	Housing Advice	
-	Provision of support and advice to young homeless people from Step by Step	**10**
-	Extension of temporary Housing Officer post	**34**
Business, Safety & Regulation Portfolio		**£000**
	Planning Policy	
-	Removal of income budget re s106 administration and monitoring costs as no longer levying charge due to recent legal challenge	**24**
	Community Patrol Team	
-	Appointment of apprentice in the Community Patrol team	**6**
Leisure and Youth Portfolio		**£000**
	Aldershot Lido	
	Redecoration works	**10**

The savings identified by services during the July 2015 budget monitoring exercise and amounting to a net overspend of approximately £43k are shown below:

Corporate Services Portfolio		**£000**
	Retirement Pension Costs	
-	The budget assumed an increase in 2015/16 fixed superannuation pension contributions, which have not materialised.	**(89)**
	ICT and Facilities Services	
-	A forecast increase in costs due to network software costs associated with smarter/remote working and an upgrade to the service desk, together with an increased use of consultants working on a facilities project.	**14**
	Legal Services	
-	A forecast shortfall in rental income, as the budget contained assumptions regarding rent increases that did not materialise following rent reviews during 2014/15.	**41**
	Financial Services	
-	Savings generated following the re-tender of the Council's insurances, together with a reduction in charges levied by the Council's bank.	**(39)**
Environment and Service Delivery Portfolio		**£000**
	Parking Charges	
-	Forecast shortfall in on-street parking income primarily due to the decline in all-day ticket sales.	**95**
-	A reduction in Pay & Display income resulting from the cessation of the agreement to manage the PC World car park in April 2015, combined with the decline in all day and multi day ticket sales at Union Street.	**44**
-	Forecast additional income generated from smartcards (based upon 3-year average income) and other income streams.	**(25)**
-	A reduction in car parks expenditure following the cessation of the PC World management agreement (outlined above).	**(19)**
-	A one-off saving on licence fee expenditure resulting from the implementation of a new parking management system.	**(16)**

***Environment and Service Delivery Portfolio* (continued)**		**£000**
	Fine Income	
-	A shortfall in CCTV enforcement income generated as a result of changes in legislation with effect April 2015.	**72**
-	Anticipated additional income generated from penalty charge notices (PCN) on on-street parking.	**(52)**
-	Additional PCN fine income generated from parking charge notices issued in car parks.	**(15)**
	Recycling	
-	A shortfall in glass sales income based upon the price per tonnage decreasing on global markets for glass reprocessing.	**21**
-	Additional green waste income partially due to some households switching from bags to bins	**(17)**
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	Street Cleansing	
-	Reduction in expenditure on payments to contractors, together with additional income generated as a result of the extension to March 2016 of the cleansing agreement with First Wessex for Prospect Estate.	**(14)**
	Market and Car Boot Sales	
-	Additional expenditure on market rates, casual staffing and subscription costs.	**14**
Concessions and Community Portfolio		**£000**
-	Public Health Grant funded expenditure. The expenditure will be offset with a transfer from earmarked reserves.	**20**
Health and Housing Portfolio		**£000**
-	Additional bed and breakfast expenditure due to a combination of an increased number of larger family units (which are difficult to accommodate), together with delays associated with Oak Housing becoming available (scheduled for July 15).	**14**
Business, Safety & Regulation Portfolio		**£000**
-	Forecast additional premises and street trading consent licence fee income.	**(15)**

Leisure and Youth Portfolio		**£000**
	Parks and Recreation Grounds	
-	Forecast additional income generated from concessions operating in parks and recreation grounds.	**(11)**
	Community Leisure	
-	Expenditure on ESOL (English to speakers of other languages), which will be funded by a transfer from an earmarked reserve.	**14**
	Grounds Maintenance Contract	
-	Lower than budget expenditure on grounds maintenance costs following the removal of two cricket tables.	**(15)**
Other Portfolio Variances		
-	Other reported variances individually below £10k, across a number of portfolios	**21**
Total Non-Salary Portfolio Variances		**43**