

AGENDA ITEM No. 2(1)

CABINET
15 NOVEMBER 2016

HEAD OF FINANCIAL SERVICES
REPORT NO. FIN1622

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

SUMMARY AND RECOMMENDATIONS:

SUMMARY: This report informs Members of the latest forecast of the Council's Revenue budget for 2016/17, based on the monitoring exercise carried out during October.

RECOMMENDATION: Members are requested to note the latest Revenue Budget monitoring position.

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 October 2016.

2. BACKGROUND

2.1 During October, 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 As reported in Quarter 1, the final outturn position for 2015/16 showed a marked improvement in the general fund balance, taking the balance from the budgeted £1.492 million to £2 million, after allowing for a significant transfer to the Stability and Resilience reserve of £428,500 to provide additional mitigation against short-term fluctuations in income and expenditure.

3.2 Whilst this level of variance provided an improved starting point for 2016/17, not all of the improvement resulted from on-going permanent reductions in net spend as opposed to one-off occurrences. The budget challenge exercise carried out by the Directors' 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.

- 3.3 That exercise 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 originally required in the current year, leaving around £503,000 to be achieved during 2016/17 (before any variances reported for the current year).
- 3.4 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. As the growth in rates income above the baseline was less than estimated, so too was the 50% levy payable on this growth. 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.
- 3.5 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.
- 3.6 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 £74,780 as set out in Appendix B. This figure is lower than reported in Quarter 1, largely due to a reduction in budgets now that the shared Building Control Partnership budgets have been agreed with Hart District Council.
- 3.7 A number of virements have also been requested in the first half 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

- 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 second quarter monitoring exercise, budget officers have identified a net underspend of approximately £534,000 against their non-salary budgets which includes additional income from 8-Point Plan projects of £476,000. The majority of this additional income will be realised through rental returns on the acquisition of commercial property, a key project within the 8-point plan. The Council has had considerable success in delivering this important project, which will see approximately £950,000 of gross income delivered to the general fund from

approved acquisitions to date.

- 4.4 Significant adverse variances continue to be reported within the Environment and Service Delivery portfolio, for off-street parking, including £203,000 on smartcard sales and £63,000 for pay and display income. However, there has been a marked improvement in the previously reported variance in relation to Penalty Charge Notices. In the last quarter, estimates reflected recruitment and retention problems and indicated a shortfall of £114,000 for the year – this has now been revised upward to a shortfall of just £13,000.
- 4.5 Within the Business, Safety and Regulation portfolio, variances reported for markets and car-boot sales have also been revised upwards. At its meeting in September, Cabinet approved amendments to the pricing and service operation to bring the service back on track by 2017/18.
- 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, the income reported by services in respect of SANG contributions of £239,000 will be transferred to a reserve to support management of the greenspace over the longer-term. There will also be a greater drawdown on other reserves and grants to support applicable costs within services, of an additional £55,000.
- 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 4.88%. 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 £82,000.
- 4.8 In addition, the increased size of the capital programme for 2016/17 as discussed in report no. FIN1623 later on this agenda, will result in the Council needing to borrow funds during the year with estimated costs of £12,000. This figure is lower than previously reported due to the exceptionally low interest rates the Council has been able to access for short-term borrowing from other Local Authorities.
- 4.9 Other variances reported in the current quarter for corporate income and expenditure relate to income from advertising and for feed-in tariffs from photovoltaic cells installed on Council-owned buildings (£22,000). However, an unfavourable variance is also reported in relation to an increase in the provision for doubtful debts and some adjustments to debtors following the recent external audit. These create an unfavourable variance of £126,000.
- 4.10 Additional grants have been received of around £54,000 while once again the operation of the business rates retention scheme has resulted in a favourable variance of £111,000. 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. 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 £160,000 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 £317,000. When this is offset against the remaining saving requirement of £503,000, it can be seen that a further £186,000 saving needs to be identified and achieved in the current year.
- 4.13 The reported increase in general fund balance of £433,000 is largely 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 RISKS AND RESERVES

- 5.1 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.
- 5.2 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.
- 5.3 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.
- 5.4 However, unfavourable variances within existing services must be corrected if the long-term sustainability of the organisation is to be achieved. The £476,000 of on-going 8-Point Plan savings should be contributing to the overall reduction in service budgets rather than offsetting underachievement of existing income streams or additional costs.
- 5.5 In addition, the reduction in business rates estimates will require additional savings in future years. These have now been included in the updated medium-term financial forecast and revised delivery targets for the 8-Point Plan.
- 5.6 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. The current estimates include a draw-down from the Stability and

Resilience reserve, which would leave the projected balance on that reserve at just over £3 million.

5.7 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

5.8 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.

6 CONCLUSIONS

- 6.1 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.
- 6.2 This quarter's budget monitoring cycle includes some significant income generation as a result of projects in the 8-Point Plan, which builds towards this sustainable position.
- 6.3 In addition, the budget challenge exercise removed £357,000 of sustainable savings from the budget.
- 6.4 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.

- 6.5 However, we are currently experiencing a limited 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. (It is hoped that the new 100% Business Rates Retention Scheme will address these perverse accounting rules.)
- 6.6 The current monitoring position shows general fund balances close to the top end of the range for balances at £1.966 million, assuming the achievement of an additional £186,000 of savings during the year.
- 6.7 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.
- 6.8 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.

7 RECOMMENDATIONS

Members are recommended to note the contents of the report

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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	1,064	621
2 Environment and Service Delivery	3,456	3,595	3,846
3 Concessions and Community	1,922	1,890	1,844
4 Health and Housing	1,696	1,717	1,684
5 Business, Safety and Regulation	2,709	2,640	2,649
6 Leisure & Youth	4,574	4,531	4,259
7 PORTFOLIO NET EXPENDITURE	15,515	15,437	14,903
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	13,450	12,916
11 Reductions in Service Costs/Income Generation	(860)	(503)	(186)
12 Vacancy Monitoring	(315)	(315)	(315)
13 Corporate Income and Expenditure	(580)	(580)	(382)
14 Contributions to/(from) Reserves	136	(68)	115
15 Central Government Funding	(6,286)	(6,286)	(6,450)
16 NET TOTAL EXPENDITURE	5,623	5,698	5,698
17 Contribution to/(from) balances	41	(34)	(34)
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	(34)	(34)
21 31 March	1,533	1,458	1,966

Notes:

13 Corporate Income and Expenditure			
Interest Receivable	(850)	(850)	(768)
Interest Payable			12
Collection Fund (Surplus)/deficit - CTax	(91)	(91)	(91)
Collection Fund (Surplus)/deficit - NNDR	361	361	361
Other corporate income and expenditure			104
Total	(580)	(580)	(382)
14 Contributions to/(from) Reserve Accounts			
Revenue Contributions to Capital Programme	550	550	550
Revenue Contributions to Improvement Grants	200	185	185
Transfer to CPE Surplus Account	266	266	263
Contributions to/(from) earmarked reserves/prior year grants	(80)	(269)	(83)
Transfer to/(from) Stability and Resilience Reserve	(800)	(800)	(800)
Total	136	(68)	115
15 Central Government Funding			
New Burdens Grant/Other non ring-fenced funding	(46)	(46)	(100)
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	781
S31 grants in relation to business rates	(333)	(333)	(320)
Total	(6,286)	(6,286)	(6,450)

Supplementary Estimates for Quarter 2 2016/17 of £74,780 are shown below:

<p>Corporate Services Portfolio</p> <p>IT Application Support</p> <ul style="list-style-type: none"> - Six month contract extension re regularising electronic data held by the authority <p>Personnel Support</p> <ul style="list-style-type: none"> - Hampshire Apprentice Partnership subscription - Training for implementation of payroll system upgrade <p>Corporate Policy</p> <ul style="list-style-type: none"> - 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) <p>Legal Support</p> <ul style="list-style-type: none"> - Preparation of landscape evidence for Hollybush Lane Planning Inquiry 	<p style="text-align: right;">£000</p> <p style="text-align: right;">13</p> <p style="text-align: right;">2</p> <p style="text-align: right;">5</p> <p style="text-align: right;">20</p> <p style="text-align: right;">11</p>
<p>Environment and Service Delivery Portfolio</p> <p>Recycling</p> <ul style="list-style-type: none"> - RBC contribution to the Hampshire (Project Integra) Review of Recycling Systems - Garden Waste Collection Service – Container Choice. - For the purchase of paper sacks(see line below for funding) - Income re new charges for single use sacks (see line above) <p>Town Centre Management</p> <ul style="list-style-type: none"> - Installation of high gate and railings in Union Street, Aldershot - Ice rink at Princes Gardens for the Christmas period (£15k expenditure, £10k income from potential ticket sales, sponsorship and hiring of Christmas huts) <ul style="list-style-type: none"> - Contracts Team staffing restructure for Domestic Refuse, Recycling, Street Cleansing and Abandoned Vehicles 	<p style="text-align: right;">£000</p> <p style="text-align: right;">5</p> <p style="text-align: right;">5</p> <p style="text-align: right;">(5)</p> <p style="text-align: right;">7</p> <p style="text-align: right;">5</p> <p style="text-align: right;">22</p>

<p><i>Concessions and Community Portfolio</i></p> <p>Major Grants</p> <ul style="list-style-type: none"> - Funding to CAB for 2016/17 to support Nepali speaking customer advisor - Funded from Earmarked Reserve <p>Leisure Grants</p> <ul style="list-style-type: none"> - Grants to Organisations – Education Attainment 	<p>£000</p> <p>13</p> <p>(13)</p> <p>20</p>
<p><i>Health and Housing Portfolio</i></p> <p>Housing Advice</p> <ul style="list-style-type: none"> - Costs associated with setting up wet hostel - Grant relating to the costs associated with setting up wet hostel - Support of Night Shelter being run by the Vine Centre for winter 2016/17 	<p>£000</p> <p>35</p> <p>(35)</p> <p>5</p>
<p><i>Business, Safety & Regulation Portfolio</i></p> <p>Public Conveniences</p> <ul style="list-style-type: none"> - Contracts Team staffing restructure <p>CCTV</p> <ul style="list-style-type: none"> - Additional cameras etc at Union Street, Aldershot to assist in dealing with rough sleepers <p>Economic Development</p> <ul style="list-style-type: none"> - Payment to TECHStart - Payment to Rushmoor Schools Plus <p>Building Control</p> <ul style="list-style-type: none"> - Shared Building Control Service with Hart District Council <p>Economic Development</p> <ul style="list-style-type: none"> - Farnborough Christmas Events (DMB approved £10k however £5k met from salary savings) 	<p>£000</p> <p>1</p> <p>11</p> <p>10</p> <p>4</p> <p>(83)</p> <p>5</p>
<p><i>Leisure and Youth Portfolio</i></p> <p>Special Events</p> <ul style="list-style-type: none"> - Change to fireworks event 	<p>£000</p> <p>11</p>

APPENDIX C

The variances identified by services during the October 2016 budget monitoring exercise and amounting to a net underspend of approximately £534,000 are shown below:

Corporate Services Portfolio	£000
Industrial Estates	
Additional income resulting from the purchase of the Optrex Industrial Site (part of the 8 Point Plan)	(55)
Town Centres	
Reduction on expenditure on grounds maintenance	(10)
Additional expenditure on maintaining properties in relation to recent acquisitions (part of the 8 Point Plan)	19
Achievement of additional income as a result of additional properties purchases (part of the 8 Point Plan)	(411)
Legal Support Service	
Increase in use of temporary/specialist staff in order to accommodate staff sickness situation	23
Estates	
Increase in expenditure on valuation charges	10
Council Offices	
Procurement exercise carried out has resulted in a 50% reduction in the cost of boiler maintenance	(11)
Additional tenancy income relating to Farnborough Aerospace Consortium and Community Rehabilitation Company (part of the 8 Point Plan)	(10)
Increase in income relating to HCC room hire during previous year not invoiced until current year	(11)
I.T. Technical Services	
Increase in expenditure on I.T. network software to cover cost of a number of regulatory requirements	10
Other variances within this portfolio	3

<i>Environment and Service Delivery Portfolio</i>	£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	(50)
Car Parks	
Increase in cost of rebates for those using the Farnborough Leisure Centre due to increased usage of the car park	13
Reduction in payments to owners of managed car parks due to a decline in income taken at these sites	(24)
Shortfall in Pay & Display income	63
Shortfall in smartcard sales mainly relating to a reduction in smartcard purchases by one company	165
Reduction in smartcard purchases as the smartcard scheme ends in January 2017	38
Additional season ticket income	(29)
Parking Management	
Shortfall in the penalty charge notices income due to vacant Civil Enforcement Officer posts	13
Other Highway Services	
Additional temporary traffic regulation order income generation (part of the 8 Point Plan)	(15)
Maintenance Team	
Net income expected for skilled up projects	(15)
Planning Services	
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	26

<i>Concessions and Community Portfolio</i>	£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)
Increase in contributions for costs relating to Parliamentary and PCC elections	(17)
Other variances within this portfolio	(18)

<i>Health and Housing Portfolio</i>	£000
Housing Advice	
Reduction in costs related to housing issues, coupled with increased income in relation to accrual related to previous financial year	(15)
Houses in Multiple Occupation	
Additional income for renewal of HMO's in current year	(18)

<i>Business, Safety and Regulation Portfolio</i>	£000
Development Control	
Favourable variance in relation to S106 administration charges	(10)
Favourable variance in relation to a number of large planning applications	(50)
Building Control	
Reappraisal of external income expected to be received in the year relating to shared Building Control service	19
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	86
Other variances within this portfolio	15

<i>Leisure and Youth Portfolio</i>	£000
Lido and all Weather Pitches	
Lido profit share with Places for People	(20)
Community Leisure	
External contribution towards project costs carried out by Community Development team	(13)
Parks and Recreation Grounds	
Developers income received for Southwood Woodlands SANG *	(89)
Developers income received for Rowhill SANG *	(150)
<i>* (These SANG receipts will be transferred to the SANG earmarked reserve from the general fund at year end)</i>	

<i>All Portfolios</i>	£000
Total Non-Salary Portfolio Variances (all Portfolios)	(533)
<i>Of which:</i>	
8 Point Plan Variances	(476)
Other Variances	(57)