

REVENUE BUDGET MONITORING REPORT Q3 2019/20

SUMMARY:

This report sets out the anticipated financial position for 2019/20, based on monitoring exercise carried out with budget officers during February.

RECOMMENDATIONS:

Members are requested to note the latest Revenue forecasts.

1 INTRODUCTION

- 1.1 This report provides the monitoring position statement for the financial year 2019/20. The purpose of this report is to notify members of any known significant variations to budgets for the current financial year, highlight any key issues, and to inform members of any action to be taken if required.
- 1.2 Due to the volume of information contained in the report, it would be helpful where members have questions on matters of detail if they could be referred to the report author or the appropriate Head of Service before the meeting.

2 EXECUTIVE SUMMARY

- 2.1 The financial position set out in this report indicates that the General Fund budget in line with the revised estimate approved by Council in February 2020. The forecast variation on the budget is £12k.
- 2.2 Whilst the overall level of variation reported can be seen as not material, this t masks some significant variations across the portfolios that members should consider. These are set out in more detail in Section x and Appendix B of this report.
- 2.3 It is worth noting that there are a number of factors that are highlighted in the section below that are likely to have a material impact on the final outturn position which is due to be considered by Cabinet in June 2020. The uncertainty around the forecast in this report is largely due to the impact of Covid-19 (also known as Coronavirus).

3 RISKS AND UNCERTAINTIES

3.1 Whilst this budget monitor can be seen as a draft outturn report, there is a degree of uncertainty in the outturn forecasts provided by budget holders as the majority of the estimation was undertaken in late February 2020.. There are a number of risks and uncertainties in the outturn forecasts, which are set out below.

Covid-19

3.3 At the time of writing, there was an increasing risk from the impact of the Covid-19 on the county and more locally across the Borough. It is likely there will be a financial impact from Covid-19 but it is too early to estimate the extent or the service area budgets. In all likelihood, over the coming weeks the Council will incur additional expenditure as it mitigates the impact of the virus outbreak on essential Council services. This may not initially lead to a significant level of unplanned/additional spend in 2019/20 but will continue into 2020/21. It is also likely that income from services will see a downturn.

3.4 The Council will need to consider the financial impact of Covid-19 and how to protect the revenue budget in 2020/21. Whilst the Council would be able to draw upon the Stability and Resilience Reserve in the short-term, it is recommended that a priority for any additional year end surplus should be to set aside further funds to mitigate the financial risks.

3.5 At this early stage, the following financial risks have been identified, although further financial pressures may materialise over the coming weeks and months.

- Council Tax and Business Rates – Financial pressures on Council Tax and Business Rates payers may reduce the level of income collected in 2019/20, although it is more likely to come through in 2020/21. The Council will need to understand the impact on the Collection Fund during the year and update assumptions within the medium-Term Financial Strategy (MTFS).
- Commercial Rents – The Council holds a variety of commercial investment properties and has become increasingly reliant on rental income to support the budget. Given the impact on the economy of Covid-19, the Council will need to take additional steps to ensure rental income due is collected, whilst at the same time being aware of the longer-term impact on the MTFS. The Council established a Commercial Reserve during the year to provide mitigation against fluctuations in income and expenditure across the commercial property

portfolio. Whilst this can provide some short-term smoothing of rental income, the reserve will need to be maintained across the MTFFS period at a level commensurate to the risk within the portfolio.

- Income – (e.g. Princes Hall, Car Parks) – Given the Government’s advice around social activities, the level of income from fees and charges is likely to be lower than the budgeted level over the coming weeks. It is too early to provide any assessment of the impact, but the revenue budget is supported by around £9m of income from fees and charges.
- Expenditure – additional expenditure may be required across a variety of services in order to support vulnerable groups or to maintain vital Council services.
- Treasury Management activities – there has been considerable volatility in financial markets during March. This may impact on the level of returns the Council is able to achieve on its Treasury Investments. The reduction in the Bank of England Base Rate to 0.1% and volatility in the PWLB rates also presents a challenge in terms of managing the Council’s debt portfolio over the longer-term. The recent consultation on PWLB lending adds further uncertainty.

ESSO Pipeline

- 3.6 As part of the Council’s response to the proposed route for the ESSO Pipeline, the Council may incur additional expenditure over and above that set out in this report. The Council is finalising its submission of evidence to the Examination in Public and will seek additional legal counsel/expert opinion over the coming few weeks. It is estimated that the additional cost for this will be in the region of £10k. It is likely that some additional costs will arise in 2020/21 due to the need for legal/expert advice relating to matters that may not be resolved by the planned closure of the EiP on 02 April 2020 and in dealing with potential consideration of discharge of requirements in due course.

4 REVENUE BUDGET FORECAST

- 4.1 The revised Service Revenue Expenditure budget of £10.430m was approved by Council at their meeting on 20 February 2020. Taking into account Corporate Income and Expenditure, Movements in Reserves and planned Savings, the Revised General Fund budget is £8.893m.
- 4.2 Therefore, a planned surplus of £2.903m was allocated to a number of earmarked reserves reflecting the key priorities of the Council and to mitigate future financial risk.

- 4.3 The expected forecast outturn for the current financial year is based on the Council's actual financial position for Quarter 4 with budget holders projecting their year-end position based on known commitments and an estimate of income and expenditure for the remainder of the financial year.
- 4.4 The forecast outturn on the General Fund revenue budget is £9.465m; a variation of £965k when compared to the latest budget of £10.430m, as shown in Table 1 below.

Table 1: Portfolio variance summary

	2019/20 Original Budget (£'000)	2019/20 Revised Budget (£'000)	2019/20 Outturn Forecast (£'000)	2019/20 Outturn Variation (£'000)
General Fund Revenue Budget				
Corporate & Democratic Services	5,707	5,422	5,328	(94)
Customer Experience & Improvement	174	41	38	(3)
Major Projects & Property	(2,292)	(4,353)	(4,444)	(91)
Operations	8,661	8,011	7,460	(551)
Planning & Economy	2,752	2,830	2,765	(65)
ICE Programme	0	468	307	(161)
SUBTOTAL	15,002	12,419	11,454	(965)
Less: Reversal of Accounting entries	(2,460)	(1,989)	(1,989)	0
Net Service Revenue Expenditure	12,542	10,430	9,465	(965)

- 4.5 Whilst the overall variation at Portfolio level can be viewed as reasonably positive (net £965k underspend on £10.430m budget or -9.25%), there are several offsetting budget variations and significant transfers to earmarked reserves. Therefore, Table 2 shows the outturn forecast taking into account non-service income and expenditure (as detailed in the MTFS).
- 4.6 The net variation of £935k on Non-Service income and expenditure (Corporate Income & Expenditure, Movement in Reserves, Savings Plan) is largely due to the transfer of additional income across the portfolios to earmarked reserves.
- 4.7 The impact of the projected £12k variation on the Core Surplus/(Deficit) is minimal. This report does not propose any changes to the additional transfer to reserves. It is worth highlighting the value of carry forwards that have been requested by budget holders to date. This report makes no decision on the treatment of these year-end balances given both the requests and outturn forecast are provisional.

Table 2: General Fund Revenue Summary

	2019/20 Original Budget (£'000)	2019/20 Revised Budget (£'000)	2019/20 Outturn Forecast (£'000)	2019/20 Outturn Variation (£'000)
General Fund Revenue Budget				
Net Service Revenue Expenditure	12,542	10,430	9,465	(965)
Corporate Income & Expenditure	1,153	(635)	(586)	49
Movement in Reserves	(667)	(458)	355	813
Savings Plan	(4,256)	(444)	(353)	91
Net General Fund Revenue Budget	8,772	8,893	8,881	(12)
Funded by:				
Council Tax	6,409	6,409	6,409	0
Business Rates	3,836	3,836	3,836	0
New Homes Bonus	1,010	1,010	1,010	0
Other	432	541	541	0
TOTAL Funding	11,687	11,796	11,796	0
Core Surplus or (Deficit)	2,915	2,903	2,915	12

4.8 However, if all carry-forward requests were approved, this would result in a further transfer to earmarked reserves of £387k resulting in a net deficit on the General Fund of £375k. This would have to be financed from the Stability and Resilience Reserve. Therefore, it is important that carry-forwards are only requested that support the delivery of the Council's key priorities and Council Business Plan.

5 REVENUE BUDGET VARIATIONS

5.1 Table 3 below shows the material variations that Heads of Service have provided commentary for in this report. Appendix B sets out in significant detail the individual service variations across each portfolio.

5.2 The outturn estimates a net favourable variance (underspend) of £965k against the revised budget. Major variances are set out in **Appendix B**.

Table 3: Material Portfolio variations

Portfolio	Service Heading 2	Expenditure Variations (£'000)	Income Variations (£'000)	Net Variation (£'000)
Corporate & Democratic Services	Electoral Registration	(64)	0	(64)
Corporate & Democratic Services	Community Leisure	(15)	0	(15)
Corporate & Democratic Services	HR Support Service	(18)	0	(18)
Customer Experience	IT (Application/Service Desk/Technical support)	12	0	12
Major Projects & Property	Farnborough Regeneration Strategy	(30)	0	(30)
Major Projects & Property	Aldershot Regeneration Strategy	(30)	0	(30)
Major Projects & Property	Rushmoor Properties (Housing Company)	(43)	0	(43)
Major Projects & Property	Commercial Investment Properties	20	29	49
Operational Services	Housing Advice	(48)	0	(48)
Operational Services	Parks and Recreation Grounds	47	(490)	(444)
Operational Services	Crematorium	(13)	99	86
Operational Services	Street Cleansing	(34)	0	(34)
Operational Services	Leisure Services	(38)	0	(38)
Planning & Economy	Princes Hall	57	(37)	21
Planning & Economy	Town Centre (part)	(10)	(10)	(20)
Planning & Economy	Development Control	26	6	32
Planning & Economy	Economic Development	0	(100)	(100)
N/A	ICE Programme	(161)	0	(161)
	All other variations	39	(159)	(120)
TOTAL		(303)	(662)	(965)

Corporate and Democratic Services

- 5.3 Electoral Registration – Government grants have been built up to facilitate the implementation of the process review of the electoral service. The project has now been incorporated in the ICE programme. The carry forward will support the implementation and allow targeted work with the military (£6,000) and the Nepalese Community (£6,000).
- 5.4 Cycle track feasibility (Community Leisure) – There has been a delay in identifying a viable site option. A site has now been identified and the carry forward will enable the detailed feasibility study to be undertaken.

Customer Experience

- 5.5 IT Expenditure – Whilst the overall variation on IT shown in Table 3 is a £12k overspend, it is projected that IT staffing-related budgets will overspend by £44k. Largely, the additional expenditure is due to difficulty in recruiting IT staff given the shortage of suitably qualified and experienced IT professionals and the proximity of the Council to the competitive London recruitment market.
- 5.6 IT Service Desk – has seen an increase in expenditure on temporary staff, additional resource required to cover sickness absence and to raise the level of technical expertise required to support an increasing number of complex system work and to improve delivery. Whilst successfully recruiting a Team Leader, work will be undertaken during 2020/21 to recruit two new permanent members of the team, therefore reducing the need for contract resource.

Major Projects and Property

- 5.7 Appendix B sets out in some detail the income and expenditure variations associated across the Portfolio. The key variations in Table 3 can be seen in terms of Regeneration Strategy and Commercial Investment Properties.
- 5.8 Improvement funds for Aldershot and Farnborough (£60k underspend) have not been utilised in current financial year and will be carried forward into 2020/21.
- 5.9 There are a number of income and expenditure variations across the Commercial Investment Property portfolio. There is not one common reason for variations, but this does reflect the volatility in expenditure and income from holding a significant and diverse portfolio of properties:
- Belle Vue Enterprise Centre (£85k additional income) - Net improvement to date in rental income as leases have been renewed. Not all renewals have been completed due to legal difficulties in negotiations.

- Wellesley House (£30k income shortfall) – First floor of the property remains vacant leading to an adverse variation.

Operational Services

- 5.10 Table 2 shows a number of key variations across Operational Services. The most significant is in relation to Parks and Receptions Grounds where the Council has received £463k of SANG contributions in-year that will be transferred to the relevant Earmarked reserve.
- 5.11 The Crematorium is forecasting an under achievement of income for the year of around £99k. This is due to a lower number of cremations over the period reflecting the national reduction in the death rate of around 10%. This had an impact on the Council's direct cremation fee income and subsequent memorial sales as the two are linked.

Planning and Economy

- 5.12 Princes Hall very successfully managed to increase its lettings income through effective marketing and promotion. It also revamped its monthly evening offer for young teens which was relaunched as Vibe. This has exceeded expectations attracting up to 700 young people. However, these positive increases have been offset by the ticket sales for autumn shows being below target reflecting uncertainties in the economy and reductions across the economy in this type of discretionary spending.
- 5.13 Town Centres – The additional £10k for Aldershot Town Centre arose from income from Shopwatch and there is an agreement with the retailers that this will be spent in the Town Centre.
- 5.14 Development Control –The shortfall in Planning pre-application income is due to a combination of lower number of applications and that the balance of smaller and larger applications. It highlights the need to review pre-application charges in 2020/21.
- 5.15 Economic Development – Gulfstream have plans to drawdown the training support agreed as part of their relocation. However, they wished to wait until the process of identifying the numbers and roles redeploying from Luton has been completed. This is now concluding and spend is likely to commence in 2020/21. Therefore, the budget of £100k will be carried forward into the new financial year.

- 5.16 A significant element of the variations shown in Table 3 and explained in the narrative above are due to changes in income that are either ring-fenced for use outside of the general fund or have been received in advance for future years' funding and reduction in expenditure due to delays in projects. These amounts are not available for spending on general activities and will be transferred to various reserves as follows:
- £463k net additional income in respect of s106 developers' contributions for Suitable Alternative Natural Green Space (SANGS) which is ring-fenced for spending on SANGS provision and maintenance at Southwood Woodlands and Rowhill Nature Reserve.
 - £6k increase in expenditure as a result of consultancy on SPA project. Transfer from Planning Delivery Fund
 - A reduction in transfer to Civil Parking Enforcement (CPE) surplus due to a net decrease in revenue cost of £35k (£14K non-salary expenditure decrease and £21K salary saving)
 - £58k net income in respect of A331 Air Quality Projects
 - £60k reduction in Service Improvement Fund requirement.
 - £176K reduction in draw on ICE reserve due to underspend within the ICE programme
 - £41K of underspend/increased income generation impacting other earmarked reserve transactions
- 5.17 As highlighted in para 3.6, provisional carry forward requests of £387k have been made by budget holders and will be subject to formal review by Corporate Leadership Team in accordance with the Financial Procedure Rules.
- 5.18 As a result of the variations referred to above, the general fund forecast shows a projected year-end balance of £2m after reviewing the level of transfers to or from major reserves such as the Stability & Resilience Reserve, the Service Improvement Fund and Commercial Reserve.
- 5.19 The potential effect of both the revenue and capital variances upon on each balance/reserve/funding source is shown in the table below.

Table 4: Summary Reserve Movements

Balance and Reserves (excluding specific earmarked reserves)	Balance as at 01 April 2019 (£'000)	Planned transfer to / (from) Reserves (£'000)	Additional Transfers to / (from) (£'000)	Forecast Balance at 31 March 2020 (£'000)
General Fund Balance	2,000	0	0	2,000
Commercial Property Reserve	475	2,000	15	2,490
Stability & Resilience Reserve	4,869	0	0	4,869
Service Improvement Fund	1,001	(342)	60	719
Regeneration Reserve	0	450	0	450
Due Diligence Reserve	0	250	0	250
Workforce Reserve	0	200	0	200
Other Earmarked Reserves	5,719	(115)	752	6,356
Subtotal	14,064	2,443	827	17,334

6 INCOME/SAVINGS TARGETS

6.1 The original budget for 2019/20 identified the need for £3.931m of savings/income generation. During the year to date £3.364m of net cost reductions have been built into the approved budget. Resulting in a current approved budget savings target of £0.97m and an outturn target of £0.114m. Table 4 below shows the savings movement by area. Detail savings per portfolio are given in **Appendix C**.

Table 5: Savings Movement Summary

	2019/20 Original Target (£'000)	2019/20 Revised Target (£'000)	Achieved against Revised Target (£'000)	Forecast (£'000)	(Under) / Over against Revised Target (£'000)
Savings Plan progress					
Organisational Redesign	300	0	0	0	0
Major contract renewal - Leisure	230	0	0	0	0
Commercial Property Investment	3,191	250	97	114	(136)
Reduction in service costs	151	0	0	0	0
Reviewing fees, charges and concessions	59	0	0	0	0
Total Savings Plan	3,931	250	97	114	(136)
Vacancy Monitoring	325	194	194	239	45
Total Savings	4,256	444	291	353	(91)

Note: Change between original and revised target - savings transferred to Portfolio budgets

- 6.2 The staff monitoring exercise has identified a net projected outturn of £239k from salary savings, which is above the £194k expected to be delivered against the revised budget.

7 RESERVES

- 7.1 The level of balances shown for the General fund is consistent with the minimum risk-based balance of £2m set out in the Budget Strategy report to Cabinet in October 2019.
- 7.2 Consideration should be given to balances across the three main working reserves – the General Fund, the Stability and Resilience Reserve and the Service Improvement Fund – to determine the appropriate levels to hold in each in accordance with the Financial Strategy.
- 7.3 The Stability and Resilience Reserve was set up to allow the Council to weather fluctuations in its net expenditure while consideration is given to longer-term plans for meeting any funding gap. This means that actions are thought-through and well-considered rather than relying on quick fix, unsustainable solutions. Given the volatility in our income streams, especially around the operation of the Business Rates Retention Scheme, it is prudent to hold a reasonable reserve for this purpose. This is particularly relevant as we move into a round of consultations on the future funding of local government (Fair Funding Review) which will review the funding allocations between local authorities from 2020/21.
- 7.4 The balance on the fund at the close of 2019/20 is estimated at £4.869m to cover short-term fluctuations in income due to the operation of the Business Rates Retention Scheme, for example.
- 7.5 The Service Improvement Fund is held to support key projects such as invest-to-save schemes, which underpin the Council's plan for a sustainable organisation. Table 5 below shows the use of the Fund as approved in the revised budget alongside the latest estimates of expenditure for both the current and future years.

Table 6: Service Improvement Fund

	Approved Budget 2019/20 (£'000)	Forecast Expenditure 2019/20 (£'000)
SERVICE IMPROVEMENT FUND		
Opening balance on Fund		(1,001)
Transfer from SIF to ICE Programme Reserve	618	618
Backfill for Finance improvement projects	4	4
Temporary Property Assistant	4	4
Regeneration Backfill	60	0
Organisational Redesign, Structure Review and Transitional Arrangements	205	205
Feasibility Studies	10	10
Council Offices Boiler Replacement	20	20
Investment Property Portfolio LSH Investment Management Review	39	39
Closing balance		(101)

7.6 The Council has the flexibility to use some of its Capital Receipts to support revenue spending in the pursuit of efficiency and service transformation.

7.7 The strategy for Flexible Use of Capital Receipts 2019/20 was approved at Full Council on 21 February 2019.

Table 7: Flexible Use of capital Receipts

Project	Total Approved Budget 2019/20 (£'000)	Forecast Expenditure 2019/20 (£'000)	Forecast Variance (£'000)
Opening Balance	187	187	
Additional Capital Receipt			
Income Generation & Commercial			
To support the delivery of the Housing and Regeneration Programme	17	17	0
To explore new ways of delivering services while maintaining or improving service standards and reducing costs	68	56	(12)
Customer & Digital			
A comprehensive IT approach to integrate the client and contractor systems	26	14	(13)
Feasibility and implementation of an expanded customer hub model	0	0	0
Unassigned	76	0	(76)
Total Expenditure	187	87	(101)
Closing Balance	-	101	

7.8 The overall effect on the main working balances is shown in Table 4 earlier in the report

8 CONCLUSIONS

8.1 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.

8.2 Given the potential impact of Covid-19 on the Council's budget and finances, further variations against budgets are expected.

8.3 However, there is a need for strong and robust budgetary control to ensure that services costs are managed effectively. As this report highlights, there are a number of offsetting variations across portfolio budgets. The projected net variation of £965k may provide some comfort that the financial performance of the Council is relatively strong. However, sections 3 and 4 of the report have highlighted, there are some material income and expenditure pressures that will need to be addressed to ensure long-term sustainability of the Council is to be achieved.

8.4 Budget and efficiency savings need to continue to be identified through the budget monitoring process to contribute to the overall reduction in service budgets. A proactive approach to savings is encouraged where budgets that are no longer required can be counted against the savings targets. In the event of in-year budgetary pressure, budget holders should ensure that additional costs or income shortfalls can be contained within existing resources. If this is not possible, options for corrective action should be considered and agreed with Heads of Service and Finance where appropriate.

8.5 There is a risk that the impact of Covid-19 may make it more difficult for the Council to achieve Savings Plan Targets over the MTFS Period. Should savings not be achieved there is short-term flexibility to support the general fund balance through use of the Stability and Resilience reserve but reductions in net expenditure must be achieved in the longer-term to avoid reliance on one-off funding.

8.6 While this report provides reassurance for the current financial year, the scale of the challenge over the medium-term remains considerable and efforts should be concentrated on moving forward modernisation and improvement plans in order to support delivery of the Council Business Plan and secure a sustainable financial future.

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