



Title	Budget Review to 30 th September 2019 and other financial matters.
For further information about this report please contact	Andy Crump (01926 456810) Andrew Rollins (01926 456013)
Wards of the District directly affected	N/A
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No
Date and meeting when issue was last considered and relevant minute number	21 st August 2019 Executive – Budget Review to 30 th June 2019
Background Papers	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No
Equality Impact Assessment Undertaken	No)

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	29/10/19	Chris Elliott
Head of Service	30/10/19	Mike Snow
CMT	29/10/19	
Section 151 Officer	30/10/19	Mike Snow
Monitoring Officer	29/10/19	Andrew Jones
Finance	30/10/19	Finance Report
Portfolio Holder(s)	30/10/19	Councillor Hales
Consultation & Community Engagement		
Not applicable		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1. SUMMARY

- 1.1 Since the Budgets were set in February of this year, various changes have been identified and are now presented to Members, for the second time in this financial year, for their consideration and to inform them of the latest financial position for both 2019/20 and in the medium term.
- 1.2 The report also proposes that Members agree to amend the Section 123 list to enable Community Infrastructure Levy contributions to be made to the Whitnash Civic Centre and Library scheme in 2019/20.

2. RECOMMENDATIONS

- 2.1 That Executive recommends to Council that it notes the latest variances for the General Fund budget and the projected outturn for 2019/20 and how these will be included within the Base budget report to be considered by Executive in December 2019 as per paragraph 3.1.1.
- 2.2 That Executive recommends to Council that it notes the latest variance for the Housing Revenue Account for 2019/20 as per paragraph 3.2.
- 2.3 That Executive recommends to Council that it agrees to transfer £125,000 from the 2019/20 General Fund forecast surplus to the Contingency Budget as per paragraph 3.3.
- 2.4 That Executive recommends to Council that it notes the Major Income projections within Appendix B and how these continue to be closely monitored as per paragraph 3.4.
- 2.5 That Executive recommends to Council that it agrees to changes to the Capital Programme, including the slippage to 2020/21, the increases in budgets for 2019/20 from S106 or revenue funding and movement of budgets between schemes as per paragraph 3.5 below.
- 2.6 That Executive recommends to Council that it agrees to amend the Section 123 List to include Whitnash Civic Centre and Library, with £410,000 allocated in 2019/20, and amend the Capital Programme to reflect the forecast expenditure and funding as discussed in section 3.6.
- 2.7 That Executive recommends to Council to agree to release up to £60k from the Contingency Budget for the work described at paragraph 3.7.

3. REASONS FOR THE RECOMMENDATIONS

- 3.1 This is the second Report, updating Members on the 2019/20 Budgets since they were last informed in August of this year based on quarter one.
 - 3.1.1. Recommendation 2.1

The Accountancy Team have worked with Budget Managers and the following Variations have been identified, with Budget being amended

accordingly. The following table shows those for the General Fund reported for quarter two.

2019-20	Service	Variance £	
Variance reported August 2019 Executive (Q2)		148,500 (A)	
Major Variations			
Newbold Comyn masterplan legal fees	Culture	5,000 (A)	Non-Rec
Relocation Kenilworth Wardens – Legal fees	Chief Exec	5,000 (A)	Non-Rec
Stratford Road Legal Fees	Chief Exec	5,000 (A)	
Kenilworth School Legal Fees	Chief Exec	5,000 (A)	
Trade effluent charges ST Nix Pool Sept 16 to June17	Culture	7,400 (A)	Non-Rec
Development control – Consultants Fees	Development	29,900 (A)	Non-Rec
Kenilworth PSC – Fuel Oil	Development	15,000 (F)	Rec
Land Charges income (£39k adv last month, now £33k adverse)	Development	6,000 (F)	Rec
Events income – commercial orgs.	Development	10,000 (F)	Rec
Christmas Lights contract	Development	7,100 (A)	Rec
Burial Income	Neighbourhood	65,000 (A)	Rec
Cremator Maintenance	Neighbourhood	40,000 (A)	Rec
Cremation Fees	Neighbourhood	25,000 (F)	Rec
LPG	Neighbourhood	10,000 (F)	Rec
Commercial property Energy Performance certificates, Valuations, Extractor fan Report	Strategic Leadership	48,100 (A)	Non-Rec
Earmarked Reserves not needed	Several	218,000 (F)	check
M6			
Earmarked Reserve not fully needed Strat Housing Mark Assess	Housing General Fund	30,000 (F)	One off
Salary Changes	Chief Exec	69,300 (F)	One off
Salary Changes	Culture	4,500 (F)	One off
Salary Changes	Development	31,100 (A)	One off
Salary Changes	HCPU	2,300 (A)	One off
Salary Changes	Finance	40,500 (F)	One off
Salary Changes	Neighbourhood	57,700 (F)	One off
Rent free period–Hamilton Terrace	Chief Exec	21,400 (A)	One off
Building Control Rugby Office Rent	Development	11,500 (F)	Recurring
Advertising Fees delayed due to secondment	Development	15,000 (A)	One off
Planning Fees (net of contribution to Planning Investment Reserve) see para 3.4 and appendix B	Development	250,000 (A)	On-off
Insurances		50,000 (F)	Recurring
Interest on borrowing		100,000 (F)	
Investment receipts		200,000 (F)	
Total Minor Variations		2,000 (F)	
Total Major & Minor Variations		163,700 F	

Work is currently on-going in preparing the Base Budget report. As part of this, more detailed work is carried out of many Budgets. This is notably in respect of:-

- Insurances – Insurances have recently been re-procured. This has generated some notable savings. Work is still on-going in determining the precise implications for the General Fund and Housing Revenue Account. The saving reported above is believed to be prudent, with the more accurate figure to be reported in December.
- Interest on Borrowing – The original estimates assumed that the Council would take at new borrowing during the year. £12m has recently been secured at 1.8%. This is below the rate included within the 2019/20 Estimates. More details have been included in the half year report to Finance and Audit Scrutiny Committee.
- Investment Receipts – the favourable variance reflects the Council holding higher balances and the non-treasury loans that the Council has made over the last year.

The Base Budget report to Executive in December will present the 2020/21 Base Budgets (prior to the inclusion of any discretionary service and budget changes. Alongside the 2020/21 Budget, more detailed 2019/20 projections will be included. It is also intended to present an update of the Medium Term Financial Strategy.

3.2 Recommendation 2.2

HRA Revenue – currently a forecast underspend of **£109,200**, made up of the variations below:-

2019-20	Service	Variance £	
Major Variations		8,500 (F) b/f	
Business Transformation Officer post now GF.		£17,000 (F)	Rec
Sayer Court water metered - budget not provided for.		£15,000 (A)	Rec
Open spaces grounds maintenance grass cutting contract Sayer Court – less than previously reported.		£2,100 (F)	Rec
Earmarked Reserve not needed		5,000 (F)	One off
Sayer Court bio-mass boiler		14,500 (A)	Recurring
Commercial rent – 1 Warwick St		16,500 (F)	Recurring
Salary changes	Lifeline	22,400 (F)	One off
Salary changes	Tenancy Mgmt	5,000 (F)	One off
Salary changes	Housing Income	7,200 (F)	One off
Insurances (see paragraph earlier)		50,000 (F)	Recurring
EMR – Survey procurement costs		5,000 (F)	One off
Total		109,200 (F)	

3.3 Recommendation 2.3

Contingency Budget – Appendix A gives details of the allocations out of this budget with the budget having been fully allocated in the current year. It is proposed to allocate £125,000 from the current year General

Fund surplus to the Contingency Budget. It should be noted that there are other requests to make use of this Budget within other reports on this Executive meeting agenda, along with recommendation 2.7. The Contingency Budget will also be reviewed as part of December's budget report.

3.4 Recommendation 2.4

Major Income – Appendix B shows a detailed breakdown over several years of the Council's Major Income Budgets. The first 6 months' actuals have been profiled to project the potential out-turn for 2019/20, based upon prior year. Where available, the Manager's projections are also included. It should be borne in mind, that whilst we are 6 months into the new financial year, these projections may fluctuate with various other factors impacting upon income.

3.5 Recommendation 2.5

Capital –The following proposed changes to the Capital Budget have been identified :-

1. Castle Farm Pitch Drainage - £73,000 slippage to 2020/21 as connected to the Kenilworth Leisure Centre Phase 2 projects.
2. Leisure Centre Refurbishment Phase 1- £1,600 additional Section 106 contributions being used towards final items of scheme expenditure.
3. Leisure Centre Refurbishment Phase 2 - £44,100 increase in capital budget due to funds being transferred from revenue earmarked reserve. The earmarked reserve was initially intended for work to RIBA stage 1 (revenue) but is now required for RIBA 3 onwards (capital).
4. St Peters Pay on Foot Parking Machines
Following the installation of new Pay and Display machines in Council car parks, it is now proposed to upgrade the Pay on Foot Machines within St Peters car park. This will include number plate recognition and payment by bank card facilities. This is estimated to cost £76,000. It is proposed to fund this from:-
 - £40,000 underspend on the new Pay and Display machines.
 - £36,000 from the Parking Displacement Budget. The requirement and timing for parking displacement in Leamington related to the proposed redevelopment of Covent Garden Multi Storey is still uncertain. However, the new Station Approach car park is operational from November. The proposed use of grounds at Edmonscote Track for further parking are not now thought feasible. Consequently, it is proposed to utilise £36,000 of the parking displacement budget.

3.6 **Whitnash Civic Centre & Library CIL request (Recommendation 2.6)**

- 3.6.1 Warwick District Council has previously agreed to support the Whitnash Town Council project through the provision of grant and officer time to build a new Civic Centre and Library in Acre Close Playing Fields (see Executive minutes 28/11/18 minute 100 and 28/6/17 minute 21).

3.6.2 The project to build a new community centre seeks to fulfil the wish of the Whitnash community (Neighbourhood Plan Referendum November 2015). Incorporating a community sports hall, this project is closely aligned with the District Council's Leisure Development Programme, which seeks to upgrade and modernise the District Council's leisure facilities in Warwick, Leamington and Kenilworth. The Civic Centre and Library will see the delivery of modern leisure facilities in Whitnash town. In doing so, all four of the District's town will offer quality leisure facilities to meet the growing needs of the area's local populations.

3.6.3 Following a procurement process, tender prices have been received which has resulted in the most competitive bidder, Deeley Construction Limited, undertaking a value engineering exercise to reduce the construction cost of the scheme. The current estimated total project cost, including pitch works and client contingency is now £2,110,541. Please note: there remains uncertainty about the costs for storm drainage. This is the last major risk factor with regards to construction cost. Surveys have been instructed which will help to inform this risk. However, it is advised that an additional allowance of £100k should be included to cover the risk that a costlier drainage solution needs to be implemented.

Source	Previous budget Nov 18	Current position
WDC Grant	£1,000,000	£1,000,000
Sport England	£150,000	£150,000
WCC library	£150,000	£150,000
WTC loan	£250,000	£250,000
External grants	£60,000	£20,000
S106 money previously agreed*	£231,400	£234,768
Assumed S106	£380,607	£0
Total	£2,222,007	£1,801,400

*W/13/0858 (off site, indoor and our door sports) and W/13/1207 (£231k)

3.6.4 The assumed S106 refers to funding from sites allocated in the Local Plan, East of Whitnash and Golf Lane anticipated for this project as follows:

- East of Whitnash - H03 (S106 site specific) - £172,640
- Hazelmere and Little Acre, Golf Lane - H45 (Town Council proportion of Community Infrastructure Levy (CIL)) - £155,317
- Windfalls (WTC proportion of CIL) - £52,650

3.6.5 In 2017, Executive were advised of the risk that this S106 funding would not materialise. Unfortunately, this risk has been realised and it is accepted that the funding will not now come forward within an appropriate timeframe as explained below.

3.6.6 Ongoing access issues to the East of Whitnash site have delayed progress with the development, meaning that it will not be possible to agree a S106 agreement within appropriate timescales.

3.6.7 With regards to the Golf Lane site, there is a strong potential for this site to come forward for 100% affordable housing. Affordable housing is CIL

exempt meaning that when this scheme does come forward it would not create a CIL receipt to the Town Council.

3.6.8 The evolving position with these two sites has meant that it was not possible to anticipate these issues when previous WDC support for this scheme was agreed by Executive.

3.6.9 Similarity with regard to the windfalls no windfall money has been received to date. This funding is inherently difficult as it is by definition unexpected. It is therefore considered unwise at this point to include windfall CIL receipts within the income profile for this project.

3.6.10 The impact of these issues has led to a current project budget shortfall as follows:

Total income	£1,804,768
Total expenditure	£2,110,541
Shortfall	£305,773

3.6.11 The District Council has previously agreed an in-principle loan for the Town Council to provide cash flow to the Town Council until receipt of the S106/CIL was received. However, the difficulties with the development sites (H03 and H45), now means that it is likely that no S106/CIL from these sites will be agreed for the Whitnash Project. The District Council is prepared to review the proposed loan arrangement but recognises that the loan period would need to be extended over a considerable period. In line with required accountancy practices, and specifically allowing for Minimum Revenue Provision, the interest rate on the loan would remain at 2% plus base rate however the Town Council would also be required to make an additional annual repayment of the loan principal at 4%.

3.6.12 If the Town Council were to borrow all of the current shortfall of £305,773, this would result in annual payment of approx. £20,640 which WTC have confirmed would be unaffordable to their Council. Not only is there currently no realistic prospect for significant amounts of S106 contributions or Town Council CIL to come forward, but also the Town Council does not have available alternative income streams to repay the loan principal.

3.6.13 It is therefore considered that the most feasible and timely solution to address the project shortfall is to utilise the District Council's CIL funding. This would enable the project to be adequately funded and limit the Town Council's borrowing to a level that would be affordable to the Town Council and acceptable to the local residents in terms of the increase to the precept.

3.6.14 It is therefore recommended that up to £410,000 of District Council CIL funding is allocated to this scheme to ensure that the community centre can be delivered. This sum allows for the current shortfall and an additional allowance to cover the drainage risk.

3.6.15 Members will recall that in March 2019 Executive agreed the projects that would be supported by CIL contributions in 2019/20 (the "CIL Regulation

123 list”). In conjunction with infrastructure providers the Council had identified a number of schemes which, taken together, will fully spend anticipated CIL contributions over the next 5 years. These schemes are:-

- Improvements to Destination parks (St Nicholas, Warwick and Abbey Fields, Kenilworth)
- Bath Street improvement scheme (WCC scheme)
- Emscote Road Multi Modal Corridor Improvements (WCC scheme)
- Warwick Town Centre Improvement works (WCC scheme)
- Kenilworth Leisure (Phase 2): Castle Farm Recreation Centre
- Medical facilities - N Leamington (Cubbington/Lillington) (South Warwickshire CCG)
- Wayfinding in Leamington, Kenilworth and Warwick

3.6.16 In order for £410,000 to be allocated from CIL it needs to be diverted from one of these projects. The Council has already entered legal agreements to fund the contributions to WCC and the CCG and so this money needs to be found from other WDC-led projects. It is proposed that the CIL contribution is taken from the “Improvements to Destination parks” project for which £3 million has been earmarked for 2019/2023. The total allocated to the Destination parks will therefore reduce to £2,590,000.

3.6.17 In March 2019, Executive also agreed the apportionment of CIL contributions in 2019/20. Not all CIL schemes required contributions in 2019/20, and a total of £958,000 was allocated. The Destination parks project was not one of these, however sufficient CIL contributions have been received in 2019/20 to allow this additional payment to be made this financial year.

3.6.18 It is therefore recommended that the list of CIL projects contained in appendix 1 to the Executive report in March 2019 be amended to include the Whitnash Civic Centre and Library. It is furthermore recommended that £410,000 be allocated to this project and that this contribution is made available (if required in full) in 2019/20. The apportionment of CIL contributions in 2019/20 is therefore to be revised (amending the table in paragraph 3.13 of the March Executive report) as follows:-

Infrastructure Project	Proposed 19/20	Percentage
Destination Parks	Nil	-
Bath Street Improvement Scheme	£195,000	14.3
Emscote Road Multi Modal Corridor Improvements	£200,000	14.7
Warwick Town Centre Improvement works	£373,000	27.2
Kenilworth Leisure (Phase 2): Castle Farm Recreation Centre	Nil	-
Medical facilities - N Leamington (Cubbington/Lillington)	£60,000	4.3
Wayfinding in Leamington, Kenilworth and Warwick	£70,000	5.1
Whitnash Civic Centre and Library	£410,000	30
PLUS CIL Administrative charge	£60,000	4.3
Total	£1,368,000	

3.6.19 Other options considered by WTC to address the shortfall, but discounted, include:

- An additional PWLB loan funded by an increase to the Town Council precept
- Request for additional grant from WDC
- Request for additional development contribution from Warwickshire County Council

3.6.20 The Town Council have previously agreed to limit the increase to the Town Council precept to £5pa for a Band D property. The current PWLB loan currently results in a £4.95 increase to Whitnash residents and any further loans or precepts would result in exceeding this limit. The options to take an additional loan and/or increase the precept are therefore discounted.

3.6.21 With regards to an additional grant from WDC funded from the Community Project Reserve, the District Council has already contributed funding up to £1million from this source and is therefore unlikely to consider a further request for funding from WTC for this project.

3.6.22 Likewise, Warwickshire County Council have confirmed that there is no additional funding available for this project over and above the £150k that has previously been agreed.

3.7 Masters House, Warwick (Recommendation 2.7)

3.7.1 During the undertaking of urgent works to protect the Listed Masters House building, the contractors acting for the Council have identified that the previously proposed installation of a tarpaulin as the final element of the building's protection would be unsuitable in the particular circumstances that have now come to light. The principle reasons for this arise from:-

- i. The potential impact on the existing tiles on the building, the condition of which has now become clearer, and the risk of them being dislodged.
- ii. The recent continually damp conditions, resulting in the need to provide a breathable feature, unlike a tarpaulin, which will provide the optimum opportunity for the building timbers to dry out or at a minimum not become more wet.

3.7.2 Consequently, the Council's advisors are now indicating that the most appropriate solution is a freestanding canopy feature which will not be in contact with the structure itself and provide a breathable solution for the reason summarised above.

3.7.3 Officers are currently seeking tenders for that work which provide the optimum solution at an appropriate cost, however the estimates so far are in the region of £50 - £60k.

3.7.4 Members should note that the expenditure will be secured by way of a charge on the land. The report covering this matter at the October Executive addressed the risks and risk mitigation associated with the urgent repair process.

4. POLICY FRAMEWORK

4.1 **Financial Strategy** This report is in accordance with the Council’s Financial Strategy as last approved by the Executive in February.

4.2 **Fit for the Future**

“The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council’s FFF Strategy.”

FFF Strands		
People	Services	Money
External		
Health, Homes, Communities	Green, Clean, Safe	Infrastructure, Enterprise, Employment
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/ productivity of local economy Increased employment and income levels
Impacts of Proposal		
The general fund and HRA budgets provide the necessary resources to achieve these outcomes	The general fund and HRA budgets provide the necessary resources to achieve these outcomes	The general fund and HRA budgets provide the necessary resources to achieve these outcomes
Internal		
Effective Staff	Maintain or Improve Services	Firm Financial Footing over the Longer Term
<u>Intended outcomes:</u> All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	<u>Intended outcomes:</u> Focusing on our customers’ needs Continuously improve our processes Increase the digital provision of services	<u>Intended outcomes:</u> Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
Impacts of Proposal		
The general fund and HRA budgets provide the	The general fund and HRA budgets provide the	The general fund and HRA budgets provide the necessary resources to

necessary resources to achieve these outcomes	necessary resources to achieve these outcomes	achieve these outcomes
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4.3 **Community Engagement**

4.3.1 Not applicable

4.4 **Changes to Existing Policies**

4.4.1 There are no changes proposed to existing policies.

4.5 **Impact Assessments**

4.5.1 Not applicable

5. **BUDGETARY FRAMEWORK**

5.1 Officers review current year budgets on a monthly basis at the same time as considering implications for the medium term. Members are updated on a quarterly basis.

5.2 The Budget Review Process provides a planning tool to ensure resources are directed to the Council's priorities. Alongside the Council's own activities, external factors influencing its finances are also taken into consideration, for example Central Government Financing, the Business Rates Retention scheme, changes in legislation and the economy.

5.3 The Council maintains its Reserves to deliver Capital and other projects, and to ensure that there are sufficient resources available to manage unforeseen demands and continue to deliver its services. Close monitoring of these Reserve balances and Capital Programme, together with plans to replenish them will preserve the financial stability of the organisation for future years.

5.4 The forthcoming December Base Budget Report present a major milestone in terms of the Council setting its Budget and reviewing the current year's budget and forecast net expenditure.

6 **RISKS**

6.1 Should it not be possible to accommodate the forecast General Fund variances from the net agreed overall Budget, it will be necessary for this to be funded in 2019/20 from the General Fund Balance which has an agreed balance of £1.5m, with it being Council's policy for it to be retained at this level. Future years would need to be funded from the Medium Term Financial Strategy, so increasing the savings to be found.

6.2 The Council's Significant Business Risk Register contains several risks which are finance related. Shortage of finance will impact upon the Council's plans for the provision of services. Reduced income or increased expenditure will reduce the funding available.

- 6.3 The main sources of income which may be subject to reductions include:-
- Government grant (e.g. Revenue Support Grant, Benefits Administration Grant)
 - Business Rates Retention
 - Fees and charges from the provision of services
 - Rent income
 - Investment Income
- 6.4 Increased expenditure in service provision may be due to:-
- Inflation and price increases for supplies and services.
 - Increased demand for services increasing costs
 - Changes to taxation regime
 - Unplanned expenditure
 - Assumed savings in budgets not materialising
- 6.5 Triggers for increased costs or reduced income include:-
- Economic cycle – impacting upon inflation, interest rates, unemployment, demand for services, Government funding available
 - Unplanned expenditure, e.g. Costs from uninsured events, Costs of planning appeals or other legal process
 - Project costs – whereby there are unforeseen costs, or the project is not properly costed, or the risks related to them are not properly managed.
 - Changes to assumptions underpinning the Medium Term Financial Strategy – these assumptions are closely monitored.
- 6.6 Many controls and mitigations are in place to help manage these risks. These include:-
- The comprehensive Budget Review process. This entails all budget managers reviewing their budgets on at least a monthly basis, considering previous, current and future years, along with any possible issues that may impact upon their budgets. As part of this process, Budget Review reports are issued to the Executive and Senior Management Team.
 - Financial Planning with the Medium Term Financial Strategy/financial projections, bringing together all issues that will impact on the Council's finances in the medium term.
 - Financial controls, including the Codes of Financial and Procurement Practice, system controls, reconciliations, audit (internal and external).
 - Project Management and associated controls.
 - Trained staff and access to appropriate professional advice (e.g. WCC Legal, Local Government Futures for advice on local government funding).

- Risk Management process across the Council, including the on-going review and maintenance of risk registers.
- Scrutiny by Members of the Council's finances, including Budget and Treasury Management Reports, and the financial implications of all proposals brought to them for consideration.
- Reserves – Whilst much of these Reserves have already been earmarked for specific projects, it is important that Reserves are held for any unforeseen demands.
- The specific causes of reductions to income or increased expenditure should continue to be managed by the relevant Service Area as part of managing the risks within each Service Risk Register. Individual Service Area Risk Registers are brought to Finance & Audit Scrutiny Committee on a rolling programme every 2 years.

7 ALTERNATIVE OPTION CONSIDERED

- 7.1 It would be possible to adjust budgets for the variances identified now. However, being early in the financial year, officers are considering how these variances can be accommodated ahead of taking this possible course of action.