 <b>Executive 3 December 2014</b>		<b>Agenda Item No.</b>  <b>3</b>
<b>Title</b>	General Fund base budgets latest 2014/15 and original 2015/16	
<b>For further information about this report please contact</b>	Marcus Miskinis <a href="mailto:Marcus.miskinis@warwickdc.gov.uk">Marcus.miskinis@warwickdc.gov.uk</a> 01926 456804	
<b>Wards of the District directly affected</b>	None	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>		
<b>Background Papers</b>	Executive 30 July 2014 – Budget Review to 30 June 2014; Executive 1 October 2014 – Fees and Charges 2015/16; Executive 5 November 2014 – Budget Monitoring to 30 September 2014	

<b>Contrary to the policy framework:</b>	No
<b>Contrary to the budgetary framework:</b>	No
<b>Key Decision?</b>	Yes
<b>Included within the Forward Plan? (If yes include reference number)</b>	Yes Ref 586
<b>Equality Impact Assessment Undertaken</b>	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	12/11/14	Andrew Jones
Head of Service	12/11/14	Mike Snow
CMT	12/11/14	
Section 151 Officer	n/a	Finance Report
Monitoring Officer	12/11/14	Andrew Jones
Finance	n/a	Finance Report
Portfolio Holder(s)	13/11/14	Cllr Cross
Consultation & Community Engagement		
None		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

## Summary

- 1.1 This report sets out the latest projections for the General Fund revenue budgets in respect of 2014/15 and 2015/16 based on the current levels of service, and previous decisions, along with the projections to 2019/20. There are further matters that will need to be reviewed in order to finalise the base position as part of the 2015/16 budget setting process as set out in paragraph 8.5.
- 1.2 The 2014/15 latest budgets show a forecast surplus of £217,200 before any appropriations.
- 1.3 The proposed 2015/16 Base Budget currently shows the Council's budget is in balance which means currently estimated expenditure equals estimated income in the provision of current service levels and meeting the Council's commitments.

## 2. Recommendations

- 2.1 Members note the latest Medium Term Financial projections especially the £0.912 million deficit by 2019/20 if savings to the same magnitude cannot be identified and achieved. Section 9 contains more details.
- 2.2 To recommend to Council:
  - (a) the latest base budget for the General Fund services in respect of 2014/15 as outlined in Appendix 'C';
  - (b) the base budget for the General Fund services in respect of 2015/16 as outlined in Appendix 'C'.
- 2.3 The Executive approve the purchase of a back-up generator for the Crematorium at a cost of £20,000 in 2014/15 funded from the forecast surplus for the year;
- 2.4 That the Executive approve funding of £40,500 p.a. in respect of temporary Property Services' posts for both 2015/16 and 2016/17 from the Service Transformation Reserve.
- 2.5 £55,000 estimated costs of Individual Electoral Registration in 2015/16 are met from the Service Transformation Reserve.
- 2.6 The Executive approve that an additional £4,300 is allocated from the General Fund Early Retirements Reserve for additional national insurance and pension costs in respect of the Head of Corporate and Community Services.
- 2.7 That the Executive approve expenditure to a maximum from the Contingency Budget of £9,900 to fund Warwick District Council's contribution towards the setting up of an electric car share scheme in Leamington and Warwick.
- 2.8 That the Executive approve expenditure to a maximum from the Contingency Budget of £8,900 to replace the public address system at the Assembly Rooms in the Royal Pump Rooms.

### **3. Reasons For The Recommendations**

- 3.1 The Council is required to determine its budget requirements in order to set the Council Tax for 2015/16.
- 3.2 In setting its Base Budget and Council Tax for the following financial year, members need to be aware of the medium term financial implications which take into account changes to the budgets for both 2014/15 and 2015/16. Section 9 informs Members of the latest assumptions incorporated into this forecast.
- 3.3 Should the final 2015/16 Tax Base figure become available prior to the meeting on the 3<sup>rd</sup> December, members will be informed of this and how it impacts on the medium term projections at that meeting. An estimated Tax Base has been allowed for within the figures for this report.
- 3.4 Oakley Wood crematorium has identified the need for a back-up generator through the risk management process. There are frequent, often short interruptions to the electricity supply which have catastrophic impact on the dignity of funeral services. Aside from the chapel being plunged into darkness, essential elements of the celebration; music, organ and curtains cannot be operated. In addition with no power the cremation itself is uncontrollable. Fans that introduce air into the cremators to manage effective combustion cannot operate, this results in pollutant emissions which are in breach of environmental protection legislation and because the build-up of volatile gases cannot be controlled the situation is potentially dangerous. A generator is estimated to cost £20,000 which has been allowed for within the latest 2014/15 Budgets, funded from the overall net surplus projected for the year.
- 3.5 Property Services is currently in the process of being restructured with a report to Employment Committee expected in January 2015. At this stage, proposed changes have been built into the 2015/16 base budgets. The proposals include the costs of temporary posts for 2015/16 and 2016/17 at £40,500 per annum for the General Fund. As with other restructures throughout the Council it is proposed that these costs are met from the Services Transformation Reserve.
- 3.6 Individual Electoral Registration was introduced this year. Whilst the Government provided funding to cover this year's costs, this will not be recurrent. The £55,000 estimated costs to this Council in 2015/16 are being recommended to be met from the Service Transformation Reserve. Ahead of 2016/17, it will be necessary to assess what further future resources are required.
- 3.7 Earlier in 2014/15 the Head of Corporate and Community Services left the Council's service and a termination package was agreed by the June 2014 Executive to be funded from the General Fund Early Retirements Reserve. Subsequently additional national insurance and pension adjustment costs have been incurred and it is recommended that these additional costs amounting to £4,300 are also met from the same reserve.
- 3.8 Warwickshire County Council is in the process of applying for funding from the Car Club Challenge Fund, which allows organisations to bid for up to £25,000

towards the setting up of new car share schemes in small towns and rural areas. Warwick District Council and the South Warwickshire NHS Trust have been invited to participate in the project as partners. This Council's contribution would be £9,900 for year one. This includes set-up costs. The two vehicles assigned to Warwick District Council would be available for use by our staff for business purpose and also by members of the public who have signed up as members of the scheme. In future years, income from the general public for use of the cars and savings on existing budgets are expected to cover the on-going costs. Should this not be the case, other resources within other budgets would need to be identified to cover the shortfall.

- 3.9 The public address equipment is in part of the Royal Pump Room building operated by Kudos catering and, consequently, is not provided for within the Art Gallery and Museum budgets. Recognising this, when the operation of the assembly rooms was transferred to the caterer, a separate budget was created to meet the cost of items of equipment like the public address system that remained the responsibility of the Council. This budget was subsequently deleted with the expectation that this type of item would be covered within the Cultural Improvement budget. However, as part of the initial budget saving exercises this budget was also deleted. Consequently, the Contingency budget seems the only option to finance the replacement. The replacement is now urgent as, after all these years and several repairs, the public address system is now failing, leading to the loss of potential bookings. The prospect of lost income to Kudos and the Council is the rationale for the urgent replacement of the system.

## **4. Policy Framework**

### **4.1 Policy Framework**

The General Fund latest base budget 2014/15 and original budget 2015/16 report forms part of the Budgetary Framework which is the resource strategy for implementing Fit for the Future. This report is in accordance with the Council's Financial Strategy as last approved by the Executive in February and Budget Reviews in August and November.

### **4.2 Fit For the Future**

One of the key elements of Fit For the Future is ensuring that the Council achieves the required savings to enable it to set a balanced budget whilst maintaining service provision. This report updates members on the financial projections for future years, savings required to be found and some of the key issues needed to be considered in preparing the 2015/16 budget and beyond.

- 4.3 In April 2012, members approved Fit for the Future Savings targets by 2014/15 (£834,000). The revised predicted savings from Fit for the Future were later revised to £810,000 all but £38,000 of this has delivered. Those achieved have now been built into the budgets presented to Members for

their approval. Section 12.12 expands upon the reasons for the £38,000 shortfall.

#### **4.4 Impact Assessments**

The Council's Budget covers the community throughout the District. It is a statement of fact and officers will have considered any impact prior to amending their budgets.

### **5. Budgetary Framework**

- 5.1 Securing savings and balancing its Budget will enable the Council to deliver its aspirations and priorities as well as core services. The Financial Strategy underpins all of its other strategies.
- 5.2 Members are reminded that the 2015/16 Council Tax will be set in February after budgets are finalised and that for next year, the Government has offered to extend the Council Tax Freeze Grant to a fifth year, for Councils that do not increase the 2015/16 Tax when setting next year's Council Tax. Members are asked to note that the grant will match a 1% increase in Council Tax. The Executive has previously stated that it intends to set a zero council tax increase for 2015/16.
- 5.3 The Council's Medium Term Financial Projections include net inflation for most services for 2015/16 at 0%. An inflation allowance of 2.5% has been included for National Non-Domestic Rates, 1.4% for the major contracts, 1% p.a. for salaries and a general contingency of £50,000 allowing for other unavoidable price increase.
- 5.4 As part of formulating the 2014/15 budget last year, "non-contractual" budgets were reduced by 2.5%, with similar increases to apply for the subsequent 3 years, so reducing these budgets by 10%, and thereby releasing budget savings of £735,000 by the end of the process. These reductions are intended to encourage budget managers to make best use of their budgets, and make innovative use of procurement opportunities. Whilst budget holders have mostly been able to accept the 2.5% reduction for 2015/16, the position will need to be carefully monitored and reviewed ahead of preparing the 2016/17 Budget. If it is not possible to continue to make these savings, this will present an additional budget pressure for the Council.
- 5.5 Within this report, and elsewhere on the Executive agenda, there are requests for Service Transformation Reserve funding. These are detailed below:
  - £81,000 (2 years at £40,500) in respect of temporary Property Services' posts
  - £55,000 estimated costs of Individual Electoral Registration 2015/16
  - £34,400 HR/Payroll Project Manager

Assuming these requests are agreed, the unallocated balance on the Service Transformation Reserve will reduce from £1,109,000 to £939,000.

The Contingency Budget currently has an unallocated balance of £65,000. The use of this Budget to fund the Electric Car Share Scheme (£9,900) and the Assembly Rooms public address system (£8,900) will reduce this to £46,200

## **6. Risks**

- 6.1 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.
- 6.2 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 provision of services;
  - Rent income;
  - Investment interest.

The latest projections for 2014/15 onwards allow for additional income from Fees and Charges (£200,000 income contingency newly created) and also assumed increases in investment interest. There is a risk if this income is not generated that further savings will need to be found.

- 6.3 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.
- 6.4 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.
- 6.5 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, regular 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 Reports, and the financial implications of all proposals brought to them for consideration.
- Within the 2014/15 budgets there is a Contingency Budget with an uncommitted balance of £65,000 for any unplanned unavoidable expenditure. This would reduce to £46,200 should the funding for the Electric Car Share Scheme (section 3.6) and the Assembly Rooms public address system (section 3.7) be approved.
- Reserves – whilst much of these Reserves have already been earmarked for specific projects, it is important that Reserves are held for any unforeseen demands.
- In addition to the Reserves, the Council holds the General Fund Balance of £1.5m. This is available to accommodate any unplanned expenditure, or to make up any shortfall in income. However, the Council should seek to maintain the balance at this level.
- The specific causes of reductions to income or increased expenditure should continue to be managed by the relevant Service Area as part of managing risks within each Service Risk Register. Individual Service Area Risk Registers are brought to Finance and Audit Scrutiny Committee every two years.
- Inflation provision - £50,000 inflation provision is held in the Budgets. This may be used where budget managers can demonstrate that they are unable to accommodate the limited inflationary uplift being incorporated within budgets.

## **7. Alternative Options Considered**

- 7.1 The purpose of this report is to produce budgets as determined under the requirements of the Financial Strategy. Any alternative strategies will be the subject of separate reports.

## **8. Background**

- 8.1 At its meeting on 18 April 2012 the Executive agreed that the management of the Council's Fit For the Future change programme would be through the delivery of the Service Area Plans.
- 8.2 Options for finalising and balancing the budget will be brought forward in February 2015.
- 8.3 This report presents the proposed Base Budget for 2015/16. These figures reflect the costs of maintaining the current level of service, any unavoidable changes in expenditure (for example, where the Council is contractually or statutorily committed to incur additional expenditure) and any other commitments that members have previously agreed to be incorporated within the 2015/16 Budget. The report also considers the current year's budget, and includes details of latest proposed changes to the 2014/15 Budget.
- 8.4 Any recent changes that need to be resolved that have not been included in the budgets at this stage will be fed into the February report.

8.5 In February all the following information should be available:

- 2015/16 Base Budget
- 2015/16 Revenue Support Grant Settlement.
- Updated Business Rates Retention projections
- 2015/16 New Homes Bonus

8.6 The Council will be in a position to agree the 2015/16 Budget and the District Council element of the Council Tax. In addition, the total Council Tax for the District will be set, including the elements set by the County Council, the Police and Crime Commissioner and the parish and town councils.

8.7 The report is broken down into the following sections and appendices:

- Section 9 - Financial Projections
- Section 10 - Savings
- Section 11 - Base Budgets
- Section 12 - 2015/16 Base Budgets
- Section 13 - Latest Budgets 2014/15
- Section 14 - Capital Financing and Reserves
- Section 15 - General Grants
- Section 16 - Conclusion
- Appendix A - Medium Term Financial Strategy
- Appendix B - Analysis of Budget Movements from 2014/15 to 2015/16
- Appendix C1 - Revenue Budgets Summary
- Appendix C2 - Detailed Revenue Budgets – available on the Executive Meeting page on the Council’s website ([www.warwickdc.gov.uk](http://www.warwickdc.gov.uk))
- Appendix D - Capital and Reserve Financing Variations
- Appendix E - Glossary of Terms

## 9. Financial Projections

9.1 Members were last updated on the Medium Term Financial Strategy in July of this year. At that point, it was forecast that £1.01 million in savings needed to be identified by 2019/20. The projections have now been updated to reflect the changes identified in sections 12 and 13 below (including recurrent revisions to 2014/15 and the Base Budget for next year).

<b>Savings</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>Profile</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>July</b>	-63	433	830	989	1,010
<b>Now</b>		663	1,278	871	912
<b>Change</b>	63	230	448	-118	-98

9.2 Alongside this other known changes for future years have also been incorporated. The significant ones are discussed in more detail below.

9.3 Business Rate Income retained under the Business Rate Retention scheme introduced in 2013/14 has been revised to include the impact on the level of outstanding appeals from last year’s financial accounts and the temporary downturn in rateable income during the Tollbar Island road works. It also reflects the estimated projections for the year (known as the “NNDR1”)



submitted in January of this year which will inform the closure of this year's accounts. Members should note the favourable "surplus" on Business Rates of £2.092m for 2014/15 which will be transferred to the Business Rates Volatility Reserve. Funds from this Reserve are then required to smooth the impact of future year's deficits due to the outstanding Appeals and Toll Bar development. Effectively, the Reserve, which has adequate resources to cover the 5 year period, will smooth the impact of the deficit, netting these to zero, whilst still providing an inflationary uplift to the net Retained Business Rates supporting the General Fund.

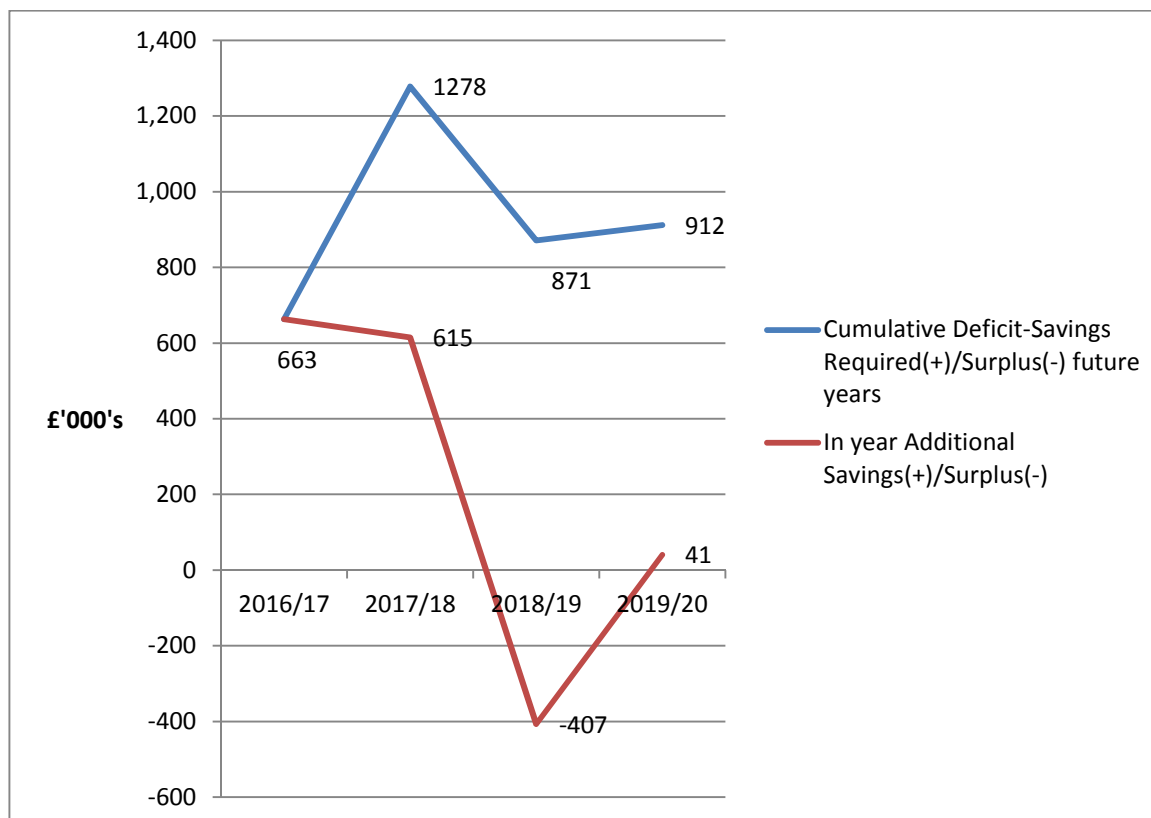
- 9.4 Members' attention is drawn to the fact that the profile of savings has now changed from a £63,000 surplus to breakeven for 2015/2016.
- 9.5 Housing and Property Services have completed their Restructure, part of which was reported to Employment Committee in June 2014 and Executive in September of this year with the Property Services Element to be reported to Employment Committee in January 2015. This has resulted in an additional on-going cost of £34,000, plus Fit For the Future target savings of £38,000 which are not likely to be met, totalling £72,000, excluding the cost of the temporary posts to be funded from the Service Transformation Reserve. This is also discussed in Section 12.2 below.
- 9.6 Individual Electoral Registration was introduced this year. Whilst the Government provided funding to cover this year's costs, this will not be recurrent. The £55,000 estimated costs to this Council in 2015/16 are being recommended to be met from the Service Transformation Reserve. Ahead of 2016/17, it will be necessary to assess what further future resources are required. The projections from 2016/17 onwards assume that any further additional costs can be accommodated within existing budgets.
- 9.7 Legal Services charges were increased by £44,000 in 2014/15 as reported in the November Budget Review report and this is re-current in future years. It had previously been assumed that savings could be made to alleviate the impact of the loss of the Decriminalisation of Parking Enforcement Contract with the County. This has now proven not to be possible. Accordingly, the 2014/15 Budgets reflect a part year additional cost from the changed arrangements of £104,600 and 2015/16 onwards of £136,600. However, some £50,000 of this will be offset by the reduction in this Council's contribution to the Customer Service Centre in relation to the changed parking enforcement arrangements.
- 9.8 These significant increases in Budgetary pressures have in part been offset by various smaller Budget Amendments (both favourable and adverse) the , larger variations being:
  - additional Car Park income of £112,000;
  - a reduction in the Inflation provision Budget of some £125,000;
  - savings on all Service Area Salaries £113,000;
  - deletion of the Head of Corporate and Community Services £74,000.
- 9.9 The Council will need to re-tender its Cleaning Contract. There will be an increased cost to enable services to be provided to the same level and quality as written into the Tender and Contract Documentation. It is forecast there will be an annual cost to the General Fund of £100,000 per annum. The procurement process is expected to have been completed by September 2015.

As savings have been identified (£40,000) within the Office Accommodation Budget, it will reduce to a shortfall of £60,000. Utilising the full £40,000 saving from 2015/16 means there will only be a shortfall of £10,000 in 2015/16 with the residual £50,000 required the following year. The Office Accommodation Relocation project, which is a separate item on this agenda, has been delayed a further year to 2018/19. Whilst this will not alter the underlying savings required, it will mean additional savings (£400,000) are now needed in 2017/18.

- 9.10 Reserve Balances and Investment Rate Returns have been revised, leading to an increase of some £60,000 investment income.
- 9.11 Using the Business Rates Volatility Reserve to fund the years when Business Rates Income falls behind the Baseline has reduced the overall deficit by £63,000 for 2019/20.
- 9.12 The rest of the changes emanating from 2014/15 and 2015/16 are covered in the rest of this report.
- 9.13 Factoring in these changes now leads to a revised forecast deficit of £0.912 million. Members are asked to note the latest forecast should savings of the same magnitude not be achieved.
- 9.14 The Table below highlights the main changes:-

	£'000's
<b>July Executive</b>	<b>1,010</b>
Reduced Business Rate Income funded from Reserve	63
Loss of Decrim Contract	137
Housing & Property Restructure	72
Legal Services Increases (2014-15 recurrent)	42
Investment Interest	-60
Cleaning contract to be re-tendered	61
Salary Savings-All Service Areas	-113
Inflation Provision reduced	-125
Head of Service- Corporate & Community	-74
Increased number of license applications	-55
2 CSC posts removed re. Decrim	-50
Net Impact of various smaller changes	5
<b>Latest Projections</b>	<b>913</b>

The savings profile is depicted in Graphical format below:



## 10. Savings

- 10.1 Much work has already been undertaken to address the forecast budget deficit in future years.
- 10.2 There has been a significant amount of procurement activity on-going across the Council ensuring good procurement practices are well embedded.
- 10.3 The 2015/16 Budget and the Medium Term Financial Strategy assume that the following savings will be achieved:
- 2.5% "non-contractual budget savings have been devolved to Service Areas. Some have been identified against Budgets whilst others are for future years and yet to be identified. The situation is to be monitored. Further savings from this of £416,000 have been included in the projections for the following 2 years.
  - £300,000 savings in running costs from the proposed office relocation project now deferred one year to 2018/19.
  - £100,000 savings from Different Ways of Working, as staff change their practices as part of Fit For the Future, now deferred one year to 2018/19.
  - Salary savings from Vacant Posts of some £30,000 over and above those already built into Service Budgets.
  - Individual Electoral Registration will be met from existing budgets after 2015/16 (£55,000).

## 11. Base Budgets

- 11.1 The proposed Base Budgets for 2015/16 and the Latest Budgets for 2014/15 are shown below. These figures include all financing charges (which are dealt with in Section 14 later). Section 12 of this report considers the 2015/16 Base Budget, with Section 13 looking at the Latest 2014/15 budget figures.

	<b>Base Budget 2014/15 £000</b>	<b>Latest Budget 2014/15 £000</b>	<b>Base Budget 2015/16 £000</b>
<b>Net Expenditure for District Purposes</b>	16,044	17,929	14,979

## 12. 2015/16 Base Budget

- 12.1 In preparing the 2015/16 Base Budget the over-riding principle is to budget for the continuation of services at the existing level. The following adjustments need to be made to the 2014/15 Original Budget.

Removal of any one-off and temporary items  
Addition of inflation  
Addition of previously agreed Growth items  
Addition of unavoidable Growth items  
Inclusion of any identified savings

- 12.2 The table below summarises how the 2015/16 base budget has been calculated. Appendix 'B' gives more details to support this.

	<b>£</b>	<b>£</b>	<b>£</b>
<b>NET EXPENDITURE FOR DISTRICT PURPOSES 2014/15 ORIGINAL</b>			<b>16,043,744</b>
Plus Inflation			157,000
Plus Committed Growth:			
- Staffing	76,300		
- Increases in expenditure	502,500		
- Reduced income	164,100	742,900	
Less Savings:			
- Reduced expenditure	(843,800)		
- Increases in income	(558,500)	(1,402,300)	
<b>CHANGES IN SERVICE INCOME and EXPENDITURE</b>			<b>(659,400)</b>
Changes in Interest			(180,098)
Changes in Contributions to Capital			8,600
Changes in non-service specific contributions to reserves			(390,530)
<b>NET EXPENDITURE FOR DISTRICT PURPOSES 2015/16 ORIGINAL</b>			<b>14,979,316</b>

## 12.3 Inflation

No inflation has been applied to most budgets. The only exceptions are in respect of National Non-Domestic Rates (NNDR), which has been inflated at 2.5% and equates to £30,000, the major contracts at 1.4% (£69,300) and

salaries at 1% p.a. (£132,700). In addition, the general inflation allowance has been reduced by £75,000 down to £50,000.

#### 12.4 Staffing

Staffing costs will increase in 2015/16. The main changes:

- Increase in employer's Local Government Pensions Scheme contribution (£87,800 adverse). This is in accordance with the financial projections previously presented to members.

#### 12.5 Growth / Income Reductions

Only previously committed growth and unavoidable changes have been included in the Base Budget. This totals £666,600 of which £502,500 relates to increased expenditure and £164,100 relates to reduced income. Appendix 'B' lists the main items, the largest being:

- The loss of the Decriminalisation of Parking Enforcement contract (£136,600);
- One-off Private Sector Stock Condition Survey and Housing Market Assessment (£135,000);
- Reduced Housing Benefits Subsidy (£67,900);
- Loss of rents for Riverside House (£60,100).

#### 12.6 Savings

Various savings have been allowed for within the Budget. These total £1,402,300 which comprises £843,800 reductions in expenditure and £558,500 increases in income. Appendix 'B' lists the main items, the largest being:

- Removal of one-off / time limited items (-£565,400);
- Fees and Charges annual review increases (-£351,300);
- General Fees and Charges Contingency (-£74,000);
- Discretionary budget reductions review (-£196,800);
- A reduction to contributions to 2 posts in Customer Service Centre following the change in parking enforcement arrangements (-£50,000).

12.7 Having taken the above into account, there is a forecast surplus of £659,400 in net service expenditure.

12.8 In addition to the above there are also various other, general, financing adjustments required to arrive at the demand for Council Tax. Taking all these items into account produces a balanced budget.

12.9 The Medium Term Financial Strategy presented to Members in July showed a surplus of £63,000 for 2015/16. The latest figure of a balanced budget is an adverse change of £63,000. Whilst there are various positive and negative changes now being identified the two main drivers for this change is the effect of the restructuring of Housing and Property Services (£72,000, as discussed in paragraphs 9.5, 12.2 and within the HRA Base Budget Report elsewhere on this agenda, excluding any temporary posts being funded from the Service Transformation Reserve) and the loss of the Decriminalisation of Parking Enforcement (£136,000) offset by a salary underspend contingency (-

£30,000), a reduction in Customer Service Centre staffing (-£50,000) and a further transfer from the Business Rates Volatility Reserve (-£55,000).

- 12.10 However, as outlined in section 10, the final Revenue Support Grant and other unforeseen events mean the final position will not be known until early 2015. There is still an underlying £0.912 million ongoing savings required by 2019/20. Hence it is all the more imperative that these and further savings are achieved for both 2015/16 and future years.

12.11 Appendix 'C'

Appendix 'C' is broken down into two parts – Appendix 'C1' and Appendix 'C2'. Both appendices provide details of service expenditure and income in portfolio order. Appendix 'C1' is a summarised version of Appendix 'C2'.

The analysis in Appendix 'C2' is divided into two sections – expenditure and income under the direct control of the budget manager (e.g. salaries, fees and charges income, etc.) and those items for which they have little or no control over (support service allocations and capital financing charges).

Explanations are provided where significant variations have been identified.

- 12.12 Housing and Property Service staffing costs are now based upon the latest structure of the service, taking into account all temporary arrangements whilst awaiting the completion of the service redesign. The service redesign changes have already been approved and implemented for the Sustaining Tenancies and Housing Strategy & Development teams, (September 2014 Executive) and the initial projections for the proposed new structure for the Asset Management Team is to be presented to Employment Committee in January 2015.

The net changes between the original 2014/15 base budgets to the Service Redesign costs (excluding all temporary posts) are shown below. This apportions the impact between funds based on the latest assessment of workload:

	Prior to Redesign £	Current Projection £	Change £
HRA	2,293,300	2,250,800	-42,500
General Fund	780,600	814,100	+33,500
Other Funding	21,800	65,400	+43,600
<b>Total</b>	<b>3,095,700</b>	<b>3,130,300</b>	<b>+34,600</b>

It should be noted that the increase in General Fund is also driven by changes to workload, due to the current priority of corporate work such as planned corporate maintenance. In addition the workload estimates reflect the initial position; as the new structure becomes business as usual it is anticipated that support to the HRA will be strengthened.

Members will be notified should there be any changes to the initial forecasts

In light of the new costs arising from the Redesign, the remaining £38,000 General Fund Fit for the Future savings target cannot be achieved and , therefore this target has been removed from 2014/15 and 2015/16 budgets.

### 13. Latest Budget 2014/15

13.1 Under the new Budget Review process, amendments to budgets are presented to members, for approval, on a regular basis rather than waiting until this report. Consequently, many changes have already been approved. This report continues that process and provides details of the latest budgets for the current year. Appendices 'C1' and 'C2' provide detailed analysis of net expenditure by service in Portfolio groupings.

13.2 The Latest Budgets total £17,928,937 which is an increase of £1,885,193 compared with the originally approved budget for 2014/15 of £16,043,744. The major items for this are:

- Contribution to Business Rates Volatility Reserve (£2,092,800 adverse);
- The part year effect of the loss of the Decriminalisation of Parking Enforcement contract (£104,600 adverse);
- Business Rates refunds (£114,700 favourable);
- Temporary Crematorium closure deferred to 2015/16 (£104,000 favourable);
- Increased Planning income (£100,700 favourable);
- Other fees and charges income (£146,000 favourable);
- Reduction in general inflation allowance (£75,000 favourable);
- Reduced Rental Income (£180,000 adverse).

13.3 The main reasons responsible for the decrease are included within Appendix 'C', which can be summarised as follows:

	£	£	£
<b>NET EXPENDITURE FOR DISTRICT PURPOSES 2014/15 ORIGINAL</b>			<b>16,043,744</b>
Plus Committed Growth:			
- Increases in expenditure	431,900		
- Reduced income	271,800	703,700	
Less Savings:			
- Staffing	(46,300)		
- Reduced expenditure	(326,700)		
- Increases in income	(514,500)	(887,500)	
<b>CHANGES IN SERVICE INCOME and EXPENDITURE</b>			<b>(183,800)</b>
Changes in Interest			(50,863)
Changes in Contributions to Capital			27,021
Changes in non-service specific contributions to reserves			2,092,835
<b>NET EXPENDITURE FOR DISTRICT PURPOSES 2014/15 LATEST</b>			<b>17,928,937</b>

13.4 The first part of the table above shows that the total net expenditure on services has decreased by £183,800. This is the result of a mixture of

changes, the most notable ones being detailed in paragraph 13.2 above.

- 13.5 The comments made in paragraph 12.3 concerning the content of Appendix 'C' are equally applicable to the information provided in respect of the Latest Budgets for 2014/15.
- 13.6 Budget Review to the Executive in November 2014 identified, and reported on, budget reductions totalling £213,900. The Budgets included in this report have identified a surplus of £217,200 which is an increase of £3,300 to the previously reported figure referred to above. The main items for this change are:
- Building Control income (£40,000 adverse);
  - Insurance premiums (£17,000 favourable);
  - Rent incomes (£27,000 adverse);
  - Fees and charges income (£26,000 adverse);
  - Crematorium Generator (£20,000 adverse);
  - Gateway Public Inquiry (£32,000 adverse);
  - Reduced demand from Insurance Provision (£57,000 favourable);
  - Decrease in general inflation allowance (£75,000 favourable).

## 14. Capital Financing and Reserves

- 14.1 In order to arrive at the position for the Council's overall net expenditure it is necessary to take account of the effects of the Council's capital financing arrangements and any transfers to and from reserves. These are summarised below:

Line Ref	BASE BUDGET 2014/15 £'000	LATEST BUDGET 2014/15 £'000	BASE BUDGET 2015/16 £'000
<b>1 Net Cost Of General Fund Service Expenditure</b>	<b>18,984</b>	<b>22,292</b>	<b>18,980</b>
<b>Capital Financing and Reserves</b>			
2 Depreciation & Intangible Assets in Service Estimates	(3,447)	(4,985)	(3,922)
3 Loan Repayments, Revenue Contribs & Interest Paid	33	35	35
4 Revenue Contributions to Capital	313	340	322
5 Contributions to / (from) Reserves	950	1,036	482
6 External Investment Interest	(181)	(234)	(363)
7 IAS19 Pension Adjustments	(608)	(555)	(555)
8 Contributions to / (from) General Fund	-	-	-
<b>9 TOTAL CAPITAL FINANCING and RESERVES</b>	<b>(2,940)</b>	<b>(4,363)</b>	<b>(4,001)</b>
<b>10 TOTAL ESTIMATED NET EXPENDITURE</b>	<b>16,044</b>	<b>17,929</b>	<b>14,979</b>
<b>Change from Base Budget</b>		<b>1,885</b>	<b>(1,065)</b>

- 14.2 Detailed explanations of the changes to items 2 to 8 are within Appendix 'D'.
- 14.3 Most of the changes to the Capital Financing and Reserves figures reflect changes in specific items within the cost of General Fund service expenditure,



whereby many increases in service expenditure are met by a contribution from a specific reserve which would be included here.

14.4 Depreciation and Intangible Assets in Service Budgets (line ref 2 above).

Similarly, the notional Capital Financing Charges reflect the change in capital charges within the cost of individual services. These changes occur as a result of variations such as slippage between years and new schemes within the Council's capital programmes.

14.5 Loan Repayments, Revenue Contributions and Interest Paid (line ref 3 above).

This is made up of the interest element of finance leases which the Council has entered into as well as interest on the bank overdraft. Other than the finance lease interest relating to photocopiers and the Dog Wardens van and potential bank overdraft interest, there is no external interest payable by the General Fund in 2014/15 or 2015/16.

14.6 Revenue Contributions to Capital (line ref 4 above).

The increase in 2014/15 is due to the following contributions from the Corporate Property Repair and Maintenance and Flood Alleviation budgets towards the following capital schemes:

- £7,000 from the Corporate Property Repair and Maintenance budget towards the refurbishment of 26 Hamilton Terrace to create a gaming hub;
- £1,400 from the Corporate Property Repair and Maintenance budget to complete the renovation of the Abbey Fields Gatehouse roof;
- £10,000 from the Flood Alleviation budget towards the Cubbington Flood Alleviation capital project;

The increase in 2015/16 results from an increase in the amount of Disabled Facilities Grant that this Council receives from the DCLG. This grant is included in the revenue service budgets and then appropriated "below the line" to finance capital expenditure.

14.7 Contributions to / (from) Reserves (line ref 5 above).

The 2015/16 original budget shows a decrease in contributions to reserves of £467,400 when compared to the 2014/15 original budget. This is mainly accounted for by the falling out of £1,466,000 in respect of one off contributions to reserves in 2014/15 and a contribution of £602,000 from the Business Rates Volatility Reserve offset by a one off contribution of £450,000 to the Capital Investment Reserve in 2015/16 from that year's New Homes Bonus which has been earmarked for the proposed Bishops Tachbrook Community Centre. At this stage the balance of the expected 2015/16 New Homes Bonus (£1,150,000) has also been allocated to reserves.

The 2014/15 latest budget shows an increase in contributions to reserves of £86,000. This reflects the crediting back to the General Fund of a) £477,000 funding for revenue slippage in order to meet expenditure carried forward from 2013/14 b) an additional £2,093,000 credited to the Business Rate Retention

Volatility Reserve (see paragraph 9.3 above) and c) £1,530,000 in reserve funding of service expenditure when compared with the original.

#### 14.8 External Investment Interest (line ref 6 above).

When compared to the 2014/15 original, net external investment receipts are expected to increase by £53,000 in 2014/15 and by £183,000 in 2015/16. The positive variation in 2014/15 is partly due to additional interest of £51,000 earned on increased balances as a result of variations in the 2013/14 and 2014/15 revenue and capital programmes. In addition the improving economic situation has led to a more optimistic interest rate environment resulting in a higher than expected interest rate. This is expected to generate an additional £31,000 in investment income. The Housing Revenue Account balances form part of the increased balances available for investment and in recognition of this an additional £29,000 has been credited to the Housing Revenue Account.

With regard to 2015/16, the slippages in the revenue and capital programmes referred to above are expected to unwind to a degree thus lessening the balances available for investment. Consequently, the additional income over the 2014/15 original from increased investment balances is expected to reduce to £5,000. However, this is counterbalanced by an expected continued improvement in the interest rate environment. Although recent forecasts of the first increase in Bank Rate have been put back a quarter to June 2015 it is still expected that Bank Rate will be at 1% by the end of 2015/16.

Consequently, income from increasing investment rates is expected to realise an additional £199,000 when compared with the 2014/15 original. Although overall investment balances are anticipated to fall, the Housing Revenue Account balances are expected to remain a significant proportion of the Council's investments and as a consequence an additional £35,000 will be credited to the Housing Revenue Account when compared to the 2014/15 original. As part of its continuing partnership with Waterloo Housing Association, the Council disposed of two garage sites at Bourton Drive and Henley Road in 2014/15 under a deferred capital receipt arrangement and the General Fund has been credited with £14,000 in 2015/16 to reflect the foregone interest that it would have earned if the capital receipt had been received outright rather than deferred for a number of years.

#### 14.9 IAS 19 Adjustments (line ref 7 above).

IAS 19 requires an authority to recognise the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out. The figures included in the budgets are based on the latest budgets from the Pension Fund actuary.

#### 14.10 Contributions to / (from) General Fund (line ref 9 above).

There are no proposed contributions to or from the General Fund in either 2014/15 or 2015/16.

### 15. General Grants

- 15.1 In order to complete the picture the general grants position also needs to be considered.
- 15.2 Provisional Revenue Support Grant figures show a reduction of £1m in 2015/16.
- 15.3 Business rates retention figures show a reduction of £257,000 in 2015/16.
- 15.4 The Government has announced that it will continue the Council Tax Freeze Grant arrangements for 2014/15 which will result in an additional £78,000.
- 15.5 At this stage, £450,000 of the 2015/16 New Homes Bonus has been transferred to the Capital Investment Reserve to finance the Bishops Tachbrook Community Centre. The remaining £1,150,000 balance is assumed to be transferred to other reserves at this time.
- 15.6 It is expected that the Collection Fund will be in balance for 2015/16.
- 15.7 The net result of all these movements is shown below:

	<b>BASE BUDGET 2014/15 £'000</b>	<b>LATEST BUDGET 2014/15 £'000</b>	<b>BASE BUDGET 2015/16 £'000</b>
<b>TOTAL ESTIMATED NET EXPENDITURE</b>	16,044	17,929	14,979
Less: Revenue Support Grant	(3,514)	(3,515)	(2,514)
Less: Business Rates Income	(3,672)	(5,773)	(3,415)
Less: General Grants:			
- Council Tax Freeze Grant	(79)	(79)	(78)
- Council Tax New Burdens	(80)	(80)	-
- New Homes Bonus	(1,222)	(1,222)	(1,600)
- Right to Challenge - Service Provision	(8)	(8)	-
- Right to Bid - Community Assets	(8)	(8)	-
Collection Fund (Surplus) / Deficit	(142)	(142)	-
Council Tax	(7,319)	(7,319)	(7,372)
	<hr/>	<hr/>	<hr/>
<b>(Surplus) / Deficit</b>	<b>-</b>	<b>(217)</b>	<b>-</b>
	<hr/>	<hr/>	<hr/>

- 15.8 This shows that there is a forecast surplus of £217,200 in 2014/15 and a balanced budget in 2015/16. These figures are before appropriations to reserves.

## **16. Conclusion**

- 16.1 As part of the Service Planning Process and thorough Budget Reviews, Senior Management has identified significant savings as detailed in section 9 and 10 for 2015/16.
- 16.2 Taking the above factors into account has helped result in the proposed 2014/15 Latest Budget presenting a surplus over the Original Budget of £217,200. This is in line with the financial projection proposed as part of the financial strategy. As part of the February Budget report, recommendations will be made that consider the use of this surplus to replenish the various reserves that the Council holds.

- 16.3 This report, in considering the 2014/15 Latest Budget constitutes the third Budget Review (2014/15) report for the year presented to Members.
- 16.4 The proposed 2015/16 Base Budget presents an overall balanced budget in the Council's expenditure in continuing to provide its services and meet its commitments. Any changes to the overall position will be considered within the February Budget report.