

 Executive 4th November 2015		Agenda Item No. 4
Title	Budget Review to 30 th September 2015	
For further information about this report please contact	Mike Snow Andy Crump	Tel 01926 456800 Tel 01926 456810
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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?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	February 2015 Executive – Budget Setting	
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)	Yes
Equality Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	12/10/15	Andy Jones
Head of Service	12/10/15	Mike Snow
CMT	12/10/15	
Section 151 Officer	12/10/15	Mike Snow
Monitoring Officer	12/10/15	Andy Jones
Finance	12/10/15	Andy Crump
Portfolio Holder(s)	16/10/15	Cllr Peter Whiting
Consultation & Community Engagement		
Final Decision?		Yes/No
Suggested next steps (if not final decision please set out below)		

1. Summary

- 1.1 This report updates Members on the Council's latest financial position. This includes details of the 2015/16 estimated outturn, the Council's Medium Term Financial Strategy, the Housing Revenue Account and the Capital Budget.

2. Recommendations

- 2.1 That the Executive notes the latest projected variance for the General Fund for 2015/16 of £14,500 adverse and thereby agrees to the budget changes detailed in paragraph 3.1 in respect of the General Fund and that funding for the 2015/16 estimated shortfall will be addressed as part of the 2016/17 Base Budget Report.
- 2.2 That the Executive notes the amounts returned to the Contingency Budget and agrees to the additional calls on it made in this report so that the net effect is to increase the Contingency Budget balance by £42,300 to £142,000.
- 2.3 That the Executive notes the Earmarked Reserves of £75,500 that are no longer required and that they have been used to reduce the adverse balance as shown in paragraph 3.1.2.
- 2.4 That the Executive agrees the changes to the HRA budget outlined in paragraph 3.5 thereby reducing the contribution to the Housing Revenue Account Capital Investment Reserve.
- 2.5 That the Executive agrees to the slippage in the Other Services Capital Programme as outlined in paragraph 3.6.1.
- 2.6 That the Executive agrees the changes to the Housing Investment Programme outlined in paragraph 3.6.2, financed from the Major Repairs Reserve.
- 2.7 That the Executive notes the updated Medium Term Financial Strategy (MTFS), and that this is reliant on the forecast savings being achieved.
- 2.8 That the Executive notes the table of projects as set out in Appendix C. The table includes the Leisure Options project which is the subject of a separate report on this agenda and its recommendations are considered by officers not to fetter future decisions to be made on the other projects.

3. Reasons for the Recommendations

3.1 General Fund 2015/16

- 3.1.1 An unfunded adverse variance of £19,800 was reported in July's Executive report. The variances below (net £5,300 favourable) reduce this to £14,500.
- 3.1.2 The latest variances that have been identified by managers are shown below. Where they are not self-explanatory, more detail is provided.

	£
Parking income , identified as part of Fees and Charges, element relating to 2015/16	50,000 (F)
Vending income at Leisure Centres	9,000 (F)
Street name and numbering income	5,000 (F)
Maternity Cover – Pump Rooms	3,600 (A)
Business rates changes – St Mary’s Lands car parks	164,600 (A)
Business rates changes – East Lodge Jephson Gardens	3,500 (A)
Business rates refund – SNPLC	5,100 (F)
Business rates changes – Castle Farm	16,400 (A)
Business rates refund – Pageant House	8,000 (F)
Business rates refund – Court Street Creative Arches	11,800 (F)
Minor Business rates changes	4,300 (A)
Business rates refund – Spa centre	£12,900 (F)
Business rates refund – Pump Rooms	£5,800 (F)
Business rates refund – Newbold Comyn L.C.	£14,500 (F)
W2 legal Fees	£ 8,700 (F)
Electoral Registration Computer equipment costs	£ 5,600 (A)
Cleaning Materials Leisure Centres	£ 3,000 (A)
Earmarked Reserves no longer required (see paragraph 3.4.2)	£75,500 (F)
Total additional variances September 2015	£ 5,300 (F)
Total forecast position at 31st March 2016	£14,500 (A)

3.1.3 The overall position is that the Council is currently forecasting an adverse outturn position of a £14,500 by March 2016.

3.1.4 Work is progressing on the 2016/17 Base Budget which will be presented to members in December, alongside the updated 2015/16 position. At this stage members will need to consider how to fund the 2015/16 shortfall.

3.1.5 Legal fees for the W2 partnership (with Waterloo Housing Association) are forecast to be lower than originally budgeted for.

3.2 Contingency Budgets

3.2.1 Details of the current year Contingency Budget (£401,000) and the balance remaining (£159,700), after calls on this budget, are shown in Appendix A. The balance on the Contingency Budget reflects allocations now being returned as not required. These are:-

Kites Nest Lane Reinstatement	£10,000
Combined Authority Contribution	£50,000
Total	£60,000

However, additional calls on the Contingency Budget are now being made to cover for long-term sickness in Financial Services (£10,000) and £7,700 for a Health check/review of Electoral Services. If these amounts are approved, the balance on this budget would be reduced to £142,000.

3.2.2 The 2015/16 Training Contingency Budget of £4,900 has been allocated.

- 3.2.3 The Contingency Income Budget had a balance of -£74,000 that has to be achieved. In 2014/15, this was more than achieved. The Fees and Charges report recently presented to Executive identified how this Contingency Budget could be met in full, resulting in a zero balance.
- 3.2.4 Other Contingency Budgets for items such as price Inflation (£42,000) , Contract Cleaning (£51,000) – both not used in 2014/15 – and the new Salary Underspend Contingency (-£30,000) will be regularly reported upon during the year. There have been no changes to these budgets so far this year. The status of these budgets for future years is being considered as part of the 2016/17 Budget process currently underway.

3.3 Salaries and the Salary vacancy factor

- 3.3.1 An adverse variation (£3,600) for Maternity Cover in Culture had been identified in August.
- 3.3.2 Currently the 2.5% salary vacancy factor is forecast to be achieved, although all Service Areas need to monitor this. As part of the Budget Exercise for 2016/17 that is now underway, this vacancy factor will be built into the salary budget line as opposed to having its own separate budget line. This will also now apply to 2015/16. This should ensure tighter monitoring of the vacancy factor within the overall salary budgets.

3.4 Revenue Slippage- Earmarked Reserves

- 3.4.1 As part of agreeing the recommendations in the Final Accounts report, the Executive agreed that £407,300 of earmarked reserves be carried forward to 2015/16.
- 3.4.2 Recent detailed consideration by officers has confirmed that the following allocations totalling £75,500 are no longer required:-
- Bowls equipment £2,000
 - Overtime re: 2015 Election £5,300
 - Council Development Company £48,000
 - WDC Assets Feasibility Study (£20,200 – overprovided for, by Finance, during Final Accounts)

These allocations being removed have been allowed for within the figures and table in section 3.1 above.

- 3.4.3 At the end of September, £111,000 has been spent or committed, although £36,000 of this has to be transferred elsewhere. Taking into account the allocations no longer required £256,800 remains to be spent in the remaining six months of the financial year. Details can be seen in Appendix B.

3.5 Housing Revenue Account (HRA)

- 3.5.1 HRA day-to-day and void repairs have been a particular issue since 2013/14 when as part of a new approach, Council pre-inspections were removed and the contractor given the power to decide what repairs are required, subject to an open book framework where their profit depends upon beating target unit costs and performance measures.

- 3.5.2 In line with most Council budgets, it has been assumed that efficiencies and savings will offset any inflationary increases in unit costs until 2016/17. Additionally on analysing performance for the first six months of open book cost consultants produced an updated forecast of costs. Overall this projected expenditure of £2.00m, 15% lower than the existing budget of £2.35m. Budgets from 2014/15 were reduced accordingly, by £353,100.
- 3.5.3 These savings have not been achieved; expenditure has been significantly above both the level budgeted for and historical costs under the previous system up to 2012/13. In 2014/15 expenditure was £3.29m, a 64% overspend on the approved budget of £2.00m.
- 3.5.4 An additional £1.06m is requested for 2015/16, including the part year effect of reintroducing in September 2015, pre-inspections of properties requiring repairs and restricting the ability of contractors to place repairs without reference to the Council.
- 3.5.5 These measures are part of efforts made during 2015/16 to reduce costs, ideally to the approved budget. The re-introduction of Council pre-inspections and specification/approval of works to be carried out are, from early data, beginning to reduce costs to something close to the historic expenditure, uplifted for buildings inflation. However it is now clear that the previously projected savings are not possible, and it has also proved impossible to absorb inflationary costs.
- 3.5.6 Allowing for inflationary increases since then, an additional £820,000 is requested for 2016/17 and each year thereafter. This would equate to an annual Responsive and Void Budget of £2,824,000.
- 3.5.7 This recommendation has been informed by an assessment of expenditure to date excluding items that should be charged to other budgets (for example capital works), adjusted for projected savings to be secured from the measures detailed above in section 3.5.5 and an increase of 5% for inflation.
- 3.5.7 The effect of these changes upon repairs costs will continue to be monitored and any updated projections reported to Executive as part of Budget Review.
- 3.5.8 The rate of Right to Buy applications and sales has significantly increased since 2014/15; 27 were sold during 2014/15, but 22 have already been sold in the first six months of 2015/16. Based on an updated projection of 42 sales, valuation and legal fees are projected to cost an additional £28,700; however the admin allowance retained from each sale would increase income by £26,000. The small difference can be absorbed by reducing other HRA budgets. Updated projections for 2016/17 will be included in the December Base Budget report.
- 3.5.9 The structural survey of HRA high rise and non-traditional homes is expected to commence early 2016/17, it is therefore requested that the budget of £120,000 is moved to 2016/17.

3.6 Capital

- 3.6.1 The following other services capital slippage and savings have been reported:

Capital Scheme	£	Reason for variation
Replacement PCs and Printers	-92,000	Slippage to 2016/17 & 2017/18 @ £46,000 each.
Broadband UK	-46,257	Budget re-profiled to later years.
Victoria Park Bowling Green & Ancillaries Improvements	-8,625	Saving as project complete.
Recycling & Refuse Containers	120,000	Budget from 2017/18 brought forward to 2015/16.
Jubilee House Phase 2	-331,000	Budget slipped to 2016/17.
Play Area Improvement Programme	-70,000	Budget slipped to 2016/17.
Partnership Funding for HLF Grant re Pump Rooms Gardens Restoration	-100,000	Removed from Capital Programme and moved to Revenue (along with funding).
Total 2015/16 variation	-527,882	

3.6.2 The following Housing Investment Programme slippage and savings have been reported:

Capital Scheme	£	Reason for variation
Sayer Court Development (site of Fetherston Court)	-2,810,000	Slippage to 2016/17 based on latest programme
HRA Garage maintenance	-26,000	No capital works required
Total 2015/16 variation	-2,836,000	

Please note that due to the scale of the Sayer Court development and the level of expenditure projected around year end (over £1m per month) relatively small changes in the project timetable may change this slippage figure significantly without affecting the overall cost of the project.

3.6.3 For members' information, progress on the major schemes within the 2015/16 Capital Programme is included within Section 8.

3.7 Medium Term Financial Strategy (MTFS)

3.7.1 The Medium Term Financial Strategy(MTFS) reported to members in July included the following savings profile.

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Ongoing savings required						
Additional savings	0	977	-195	228	-15	92
Cumulative savings	0	977	782	1,010	995	1,087

3.7.2 In September, members agreed projects which should generate savings so as to make the Council's MTFS sustainable (based on current assumptions for such things as Revenue Support Grant, Business Rates Retention, investment receipts).

3.7.3 Accordingly, the MTFS has now been updated to reflect the following:-

- The "Savings plan" agreed by members in September

- Variances subsequently identified by officers
- Fees and Charges review presented to Executive September 2015.

3.7.4 Alongside the savings requirement shown in paragraph 3.7.1, the following “unfunded” items were also discussed in the September report, with consideration of their future funding being incorporated within the “Savings plan”:-

- ICT Reserve £250k pa
- Equip Reserve £100k pa
- RUCIS £150k pa
- Historic Buildings £50k pa

3.7.5 Taking into account the items discussed above, the overall position for the Council’s finances is as follows:-

Ongoing savings required	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Additional annual savings/(surplus)	0	218	(408)	(170)	(442)	92
Plus currently unfunded recurring items						
ICT Reserve					250	
Equip Reserve					100	
RUCIS				150		
Historic Buildings			50			
Total currently unfunded recurring items	0	0	50	150	350	0
Annual shortfall/(surplus)	0	218	(358)	(20)	(92)	92
Cumulative savings (surplus)	0	218	(140)	(160)	(252)	(160)

3.7.5 Overall the profile of “cumulative savings (-surplus)” at the bottom of the above table shows a slightly worse position to the figures reports in September due to the inclusion of increased business rates liabilities (the on-going costs some of the items within the table in paragraph 3.2). The table still shows that for 2016/17, even if all the savings planned materialise, there will still be a shortfall for 2016/17. To enable the Council to set a balanced budget, either further savings/ increased income will be necessary, or the use of reserves.

3.8 Projects

3.8.1 Members will be aware that officers are working on a number of projects at the current time. A list of the projects being worked upon is detailed in Appendix C. The list includes the Leisure Options study which is considered elsewhere on

this agenda but the recommendations of which do not fetter the decisions that members are able to take on the remainder of the projects.

- 3.8.2 The priority status for the other projects will ultimately be a decision for members but is likely to be influenced by:-
- Whether the project is needed to ensure on-going service provision (e.g. corporate asset work, athletics track, Spa Centre operational works)
 - Whether the project is needed to protect an on-going income stream (e.g. multi storey car parks)
 - Whether the project is due to make planned savings (e.g. HQ relocation)
 - Whether the project is a service enhancement
 - Whether the project meets other corporate priorities (e.g. as part of the Local Plan).
- 3.8.3 In considering these projects officers will ensure that they are fully funded, ideally recovering their capital costs and not causing an additional revenue cost, although it is recognised that to arrive at this position choices about service provision elsewhere may need to be made .
- 3.8.4 Each of the projects will have its own risk. The risks will influence the likelihood of each project achieving its projected financial profile. Whilst each project will a risk log, this does not prevent the financial profile from changing, and the costs/income from varying. Such changes may vary in significance and timing.
- 3.8.5 The Council holds various reserves for specific purposes, as detailed in the February Budget report. As at 31 March 2015, the General Fund Reserves totalled £15.498m. However, much of the balances on these reserves have been previously committed to specific projects. This means the available uncommitted reserves are greatly reduced. An updated schedule showing the uncommitted General Fund Revenue Reserves is included as Appendix D.
- 3.8.6 In the past much of the Council's capital programme has been met from the Capital Investment Reserve. The Council's policy is for this reserve to maintain a minimum balance of £2m as risk mitigation for any potential capital liabilities. However, the current uncommitted balance of the Capital Investment Reserve is only £1.358m. Until 2013/14, annual contributions were made to this reserve from revenue to assist with providing funding for future capital projects. Such contributions have now stopped. The Council's policy for this reserve will be reviewed as part of the Budget/Council Tax Setting reports in February when all of the Council's reserves are reviewed.
- 3.8.7 The Service Transformation Reserve has provided funding for many Fit For the Future projects, including those that will result in service improvements or to release future revenue spending. The uncommitted balance on this reserve stands at £216,000.
- 3.8.8 The financial projections are based on what are believed to be prudent assumptions with regards to future Revenue Support Grant and Business Rates Retention. However there is the possibility that the assumptions within the MTFS are too optimistic. Within the Spending Review 2015 due to be announced in November, alongside the Chancellor's Autumn Statement, it is anticipated that more information will be available over local government funding from 2016/17.
- 3.8.9 Within the forthcoming Government spending announcements, it is anticipated that there will be confirmation about the future of the New Homes Bonus. For

2015/16 this amounted to £1.6m. Given the uncertainty over the future of this funding, unlike many authorities, the Council does not use this funding to support the main revenue budget, but to support specific projects or allocation to reserves. If this funding is to cease or be phased out, it will, without doubt curtail some of the Council's aspirations.

3.8.10 Based on the for-going, namely:-

- The Council needing to secure revenue savings
- The inability of the Council to be able to accommodate additional recurring financial liabilities unless budgets are reduced elsewhere
- The uncertainty over future Government financial support (RSG, NHB)
- The limited unallocated financial reserves of the Council
- The risks attached to specific projects,

the Council needs to be extremely prudent if agreeing any future commitments and to progress any specific projects. Whilst the Council may have the financial capacity to undertake a specific project based various projections, it needs to ensure that it retains sufficient capacity to accommodate deterioration in the MTFS projections and the specific projections for a project.

4. **Policy Framework**

4.1 This report is in accordance with the Council's Financial Strategy as last approved by the Executive in February. This provides the Council with the resources to deliver its other policies and strategies.

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 affecting the Council's Medium Term Financial Strategy up to 2020/21.

5. **Budgetary Framework**

5.1 The Council needs to find financial savings of £1.1m on the General Fund over the next five years, as previously reported to members. A plan to secure the relevant savings has been agreed. Officers review current year budgets on a monthly basis at the same time 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, together with plans to replenish them will preserve the financial stability of the organisation for future years.

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 the provision of services
 - Rent income
 - Investment Income
- 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, 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 2015/16 there is a Contingency Budget for any unplanned unavoidable expenditure.
- 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 the risks within each Service Risk Register. Individual Service Area Risk Registers are brought to F&A Scrutiny Committee every 2 years.

7. Alternative Option(s) considered

- 7.1 Monitoring expenditure and income and maintaining financial projections is good financial management and part of good governance. Accordingly, to propose otherwise is not considered.

8. Background

- 8.1 For members' information, below is a brief update on the progress of some of the Council's projects within the current year Capital Programme. The table below is self-explanatory.

	Description	Status of scheme
1	Rural & Urban Capital Initiative Schemes (including slippage)	Promotion of the scheme is being carried out over the next couple of months. Based on current draft and live applications there's around £101,000 remaining to cover the next few months of the financial year.
2	Enhancement of Car Parks	Awaiting further details of the full picture of the car parks scheme for Linen Street and Covent Garden.
3	Cublington Flood Alleviation	Awaiting final compensation payments before allocating the remaining budget to another flood alleviation scheme.
4	Recycling & Refuse Containers	All of 2015/16 budget is likely to be spent and is proposed to be supplemented by funding brought

Description		Status of scheme
		forward from future years. This budget is subject to a separate report on this agenda..
5	Jubilee House Phase 2	Awaiting decision from Talisman Theatre Company whether they participate in public service centre scheme, as it may take a few years to come to fruition. Budget proposed to be slipped to 2016/17
6	Oakley Wood Crematorium Improvements	Nearing the end of the project and expected to be on budget.
7	Play Area Improvements	Roxborough Croft complete, Eagle Rec almost complete and other schemes will be progressing this financial year.
8	Fen End- City Deal	Design of new roundabout being finalised with Warwickshire & Solihull highway authorities. Work will be tendered late Dec/early Jan with anticipated completion April/May 2016.
9	West Midlands Reserve & Cadets	No movement to date but hopeful of progression in 2015/16.
10	St Mary's Lands B. S	A detailed update of this scheme was reported to Executive on 3rd September 2015.
11	Bishop's Tachbrook Community Centre	Construction work has recently commenced and is due to be finalised March/April 2016.
12	King George's Playing Area, Barford	Work only just recently commenced with a target completion date of mid-December.