

 Executive –5th November 2014		Agenda Item No. 5
Title	Budget Review to 30 th September 2014	
For further information about this report please contact	Mike Snow Jenny Clayton Andy Crump	Tel 01926 456800 Tel 01926 456013 Tel 01926 456810
Wards of the District directly affected	None	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?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 2014 Executive – Budget Setting	
Background Papers	No	

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 & Sustainability Impact Assessment Undertaken	No

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	20/10/14	Chris Elliott
Head of Service	22/10/14	Mike Snow
CMT	20/10/14	
Section 151 Officer	22/10/14	Mike Snow
Monitoring Officer	20/10/14	Andrew Jones
Finance	22/10/14	Mike Snow
Portfolio Holder(s)	15/10/14	Stephen Cross
Consultation & Community Engagement		
Final Decision?		No
Suggested next steps (if not final decision please set out below)		
Budgets are reviewed quarterly by the Executive, further amendments will be presented to the Executive during the rest of the financial year		

1. Summary

Various changes to 2014/15 budgets have been identified and are now presented to Members for approval.

2. Recommendations

- 2.1 The Executive acknowledges the budget position for the current year for the General Fund, currently £213,900 surplus. (An improvement of £23,400 on August Executive's report).
- 2.2 The Executive approve the Budget Changes in paragraphs 8.1(General Fund) and 8.7 (Housing Revenue Account), the most significant of which are discussed in this report.
- 2.3 The Executive approve the capital slippage of £49,500 discussed in paragraph 8.8 and note the latest General Fund Capital Budget for 2014/15 of £4,537,400. Members also approve changes of Housing Investment Programme (HIP) Capital budgets as per paragraph 8.11. Details of both Capital programmes are shown in Appendices B1 and B2.
- 2.4 Members note there will be a cost in dealing with the Final Accounts Inspections and Objections.
- 2.5 The Executive agree that a new ICT Replacement Reserve is created, using £179,000 funding from the Capital Improvement Reserve (CIR) and £925,000 being transferred from the Equipment Renewals Reserve and at year end, any underspending from within the ICT Revenue Budget be transferred to this Reserve. Authority to spend from this new Reserve is delegated to the ICT Services Manager in consultation with the Head of Finance and relevant Portfolio Holders.
- 2.6 That the Executive note the position for the Service Transformation Reserve detailed in paragraph 9.1, and how this will be subject to the agreement of other recommendations to this Executive meeting.

3 Reasons for the Recommendation

- 3.1 This report brings to Members attention the latest budget position for the current financial year. Members receive quarterly budget reports and this is the second of these reports in the current financial year. The current General Fund service expenditure position is a projected £213,900 surplus compared to the original 2014/15 budget. Paragraph 8.1 lists the changes identified for which Member's approval is sought for these Budgets to be amended. Section 8 below discusses the main reasons for the surplus in more depth. The overall position will continue to be monitored so that there can be more certainty prior to the closure of this year's accounts.
- 3.2 Within the Housing Revenue Account there are some budget changes that need approval and these too are listed in the report and also discussed in Section 8.7.
- 3.3 Appendix B1 provides more details on the Capital Programme Budgets and changes to the programme since it was Last Reported to Members in August of this year.

- 3.4 Appendix B2 provides more details on the HRA Capital Programme and requests a net reduction of £476,300. The General Fund Related HIP also requests a saving of £107,100 giving a grand total of £583,400. More detail on both the General Fund and HRA Capital Programme is included within paragraphs 8.8 to 8.11.
- 3.5 As reported in the Audit Findings report to Finance and Audit Scrutiny Committee in September the audit of the 2013/14 Statement of Accounts has seen 4 separate requests to inspect the Accounts, with, subsequently there being 3 Objections to the Accounts. Not only has there been considerable "internal costs" of Officer time in supplying all of the information requested and dealing with queries, there will be charges from Warwickshire County Council Legal Services for their advice upon disclosures and confidentiality, and also the External Auditors who have to investigate and report back on their findings. At present, the Auditors have yet to complete their work. Warwickshire County Council Legal Services are in the process of calculating the cost of their work, as will the External Auditors once they have responded to the Objections. Once this has been finalised the results of which and external costs arising will be notified to Members.
- 3.6 In previous years, the Council built essential ICT replacements into the 5 year Capital Programme when Budgets were approved by Members in February of each year. There is now an Equipment Renewal Reserve" (ERR) to provide for all future equipment replacement purchases, approved annually by Members. There is then an approval process for Managers to draw down their scheduled items; hence the future ICT Replacement programme is wholly dependent upon this process.

As for all major organisations, this Council is heavily dependent on IT Systems and Hardware. A few hours down time can cause significant disruption and any long term failure presents a significant risk to the delivery of its services and especially to the Council's finances. However, the ICT Manager needs certainty in advance for future purchases. If an item was not approved, the increased maintenance costs would have to be built into future years budgets and there is an increased risk that the older equipment would fail. Prices are subject to Exchange Rate Fluctuations and quotes are usually only valid for 14 days. Similarly, the Council, both officers and members, need the re-assurance that the essential IT systems are available and that data held securely.

The Council does have some Reserves which are for specific Purposes-

- Gym Equipment
- Car Park Repair and Maintenance
- Elections
- Art Gallery
- Public Amenity Reserve

Managers have some discretion to manage these and it could be perceived it encourages prudent use of the monies as any savings/economies would be retained in the reserve for future needs. Given the importance of maintaining the Council's IT systems in delivering its services, it is essential that most, if not all, the IT items are replaced. The total forecast cost for IT expenditure over the period 2014/15 to 2018/19 is £1.104m but this is subject to some uncertainty due to the potential impact of the new offices on the requirement for future IT. It is recommended that a separate ICT Equipment Reserve is set up to fund this expenditure by transferring the existing "Ear Marked" Capital Improvement

Reserve (CIR) monies amounting to £0.179m, currently within the Capital Programme to fund ICT equipment, with the balance of £0.925m being transferred from the ERR. This would leave £0.795m uncommitted in the CIR and £0.507m in the ERR.

To maintain this reserve at an appropriate level for future requirements, it is recommended that at year end, when Final Accounts are being produced, any underspending from within the ICT Revenue Budget be transferred to this reserve, members may also make other appropriations when funds are available as deemed necessary.

It is also recommended that the authority to spend from the new ICT Equipment reserve is delegated to the ICT Services Manager in consultation with the Head of Finance and relevant Portfolio Holders. A schedule of forecast ICT spending future years will accompany the ERR schedule when presented to Members as part of the Budget Setting Process. This will preserve existing Governance Arrangements and Transparency.

Members' attention is drawn to the fact that ERR will be fully depleted during 2017-18 if all of the items currently on it are replaced at the indicative costs. Members and Heads of Service should regularly review their Service Area's requirements, considering whether the items are essential to maintain service delivery and the most cost effective means of replacing assets when they fall due. Similarly funding is only available to support the ICT Replacement Programme until 2018/19. Once monies are drawn from these reserves, it can only be spent once and the reserves will need to be reviewed and replenished as part of the Budget Process, subject to overall funding available. As previously advised to Members, the ERR will be fully depleted during 2017/18.

4 Policy Framework

4.1 Policy Framework

This report is in accordance with the Council's Financial Strategy as last approved by the Executive in February. This seeks to provide 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 2019/20.

4.3 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 The Council needs to find financial savings in excess of some £1 million over the next five years on a net General Fund Budget currently £16m, reducing to £14m by 2019/20, as reported to members in the 30 July Executive Budget Review report. 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. Within the Executive agenda, there are several reports which, if the recommendations are accepted, should result in savings in due course which should help to meet this savings requirement. These reports are Sports and Leisure Options Appraisal and Future use of Warwick LLP.

- 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 revenue projects, alongside ensuring that there are sufficient resources available to manage unforeseen demands and continue to deliver its services. Close monitoring of these balances with plans to replenish them will preserve the financial stability of the organisation for future years.
- 5.4 Changes and variations discussed in this Report will be incorporated into the 2015/16 Base Budget Reports that to Executive in December. Any further changes that are identified over the next month will also be included there.

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 Interest

The latest projections for 2014/15 onwards allow for additional income from Fees and Charges (£200,000 income contingency newly created, as discussed in paragraph 8.4) 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, 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 (eg 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 there is a Contingency Budget with an uncommitted balance of £80,000 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 is £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 Not reporting to Executive on a regular basis, however, in the current financial climate, it continues to be imperative that budgets are reviewed, monitored and reported upon on a regular basis.
- 7.2 Not slipping capital to the correct year, in which it is intended to be spent, makes monitoring of projects difficult. Members would not have relevant, up to date information from which they can make decisions about capital projects and funding. It is imperative to allocate the correct amount of expenditure according to the financial year in which that part of the project will be delivered. Thus underspendings, overspendings and delays are identified and appropriate action can be taken.

8 Background

2014/15 General Fund Budget

- 8.1 The first six months' revenue variations are as follows:

Non-Pay	A – Adverse F - Favourable
Reported to July 2014 Executive	£190,500 (F)
Mercury Abatement	£22,200 (F)
Committee Services agency cover and 1 st aid	£4,700 (A)
Castle Farm Business Rates refund	£16,000 (F)
Loss of rent – leases terminated	£30,000 (A)
24 Hamilton Terrace Vacant	£23,900 (A)
1 Market Street – rent loss – sold to Waterloo Housing	£15,500 (A)
St Mary's lands business strategy funding not spent in 2013/14 but earmarked reserve request not done.	£10,000 (A)
VCS contract value budget correction	£3,500 (A)
Increase in Licences/applications – Licensing	£55,100 (F)
Scrap Metal Income – overbudgeted – 3 year licence	£3,000 (A)
NNDR Riverside House refund – change in RV	£85,600 (F)
Shared Legal Services budget uplift	£41,700 (A)
Overbilling of Leamington T. C. service charge	£7,000 (A)
Simalto Budget consultation	£17,500 (F)
Oakley Wood Crematorium, reprofiling of project timetable, reduces lost income in 2014/15	£104,000 (F)
Impact of loss of decrim contract – costs left with WDC	£104,600 (A)
Total Non Pay amendments	£247,000 (F)
Salary Amendments discussed in paragraph 8.2	£33,100 (A)
Total Variations	
Overall position	£213,900 (F)

- 8.1.2 It was previously planned that the Improvement Works at the Crematorium would be completed in this Financial Year. As reported to Members in September works have been delayed due to the requirement to reconfigure the Car Parking. Consequently £104,000 of the reduced income assumed in 2014/15 due to the disruption will not now happen until 2015/16. The one-off

reduction in next year's Budget will be incorporated into the 2015/16 Base Budget presented to Members in December.

- 8.1.3. The Town Council now receives and pays its' own Business Rates. This was previously charged to this Council, with it being incorporated into the Quarterly Service Charge. The reduced business rates charge to this Council has already been reflected in Budgets, but the reduced Service Charge to the Town Council was not amended. It has since come to light that the proportions of floor space had been overstated in the previous overall Service Charge calculation. The costs of prior years are currently being assessed by officers. At the time of writing this report, these are still being looked into and members will be updated on any liability in respect of prior years, with their budgetary impact being included in the December Base Budget Report.
- 8.1.4. Officers have identified the lost contribution to our costs in respect of ceasing to administer the decriminalisation of car parking on behalf of Warwickshire County Council totals £104,600 in 2014/15. The cost to the council will be £136,600 in 2015/16. Known savings to date to offset this have been included, but Officers continue to work on identifying further savings to redress the deficit.

8.2 **Salaries**

The forecast saving from the vacant Car Parks Manager Post included within the July Budget Review report will now be needed to off-set the additional costs of Off Street Car Park Inspectors from 1st November 2014 when the On Street SLA with the County Council expires. Hence the salary saving of some £52,800 will not be realised. This alongside, new minor salary variances totalling £19,700 favourable, means there is now an overall adverse variance of £33,100 on pay.

8.3 **Revenue Slippage- Earmarked Reserves**

Revenue slippage from 2013/14 totalled £469,100 for the General Fund. As at the end of September only £94,200 (20%) has been spent or committed. In addition £8,000 of revenue slippage was approved for the HRA, most of this has either been spent or committed.

8.4 **Contingency Budgets**

- 8.4.1 The Contingency Income Budget (£200,000), was incorporated within the Budget earlier in the year. Potential income streams toward this are being monitored throughout the year. Should this amount not be reached, it will reduce any surplus that the Council is currently reporting or increase any deficit. On past experience and performance, not reaching this target is anticipated to be unlikely. As reported in the Fees and Charges Report to October Executive, Development Control, for example, has income of £635,000 to date against a budget of £696,000, Parking income was forecast to increase by a minimum of £65,000. Other Culture and Neighbourhood Services income projections continue to be robust; therefore the target should be met.
- 8.4.2 The Contingency Expenditure Budget (£200,000) now has a balance of £80,000 details can be seen in Appendix A.
- 8.4.3 None of the 2014/15 Training Contingency Budget of £4,900 has currently been allocated.

8.5 Fit For the Future

- 8.5.1 Recurring Fit For the Future required savings have still not been achieved by £44,000 (£38,000 Housing General Fund and £6,000 Development). Ongoing the Housing element is expected to be met due to savings from the Service Redesign. Culture has met its target for 2014/15. Should these savings not be achieved, it will reduce the current year's surplus and affect WDC's Medium Term Financial Strategy.

8.6 Variations

- 8.6.1 There are several small variances in the following areas, Committee teas £5,000 adverse, Committee Services printing £3,400 favourable, Media Room £1,500 favourable which offset one another, but are reported for information.

HRA Revenue 2014/15

- 8.7 There are a number of HRA variances identified for which budget adjustments have been made and Members need to be made aware of:

	£
Fire Prevention/Safety: Transferred from Capital, as required works are revenue repairs; £71k Sheltered Scheme Fire Alarm system replacement; £30k other revenue works	(101,000) adv
Decorating: £10.8k contractually required cyclical redecoration of leased hostel; £21k redecorate sheltered scheme after significant works; £21k redecoration of another scheme brought forward from next year for efficiencies now and in future programme	(52,800) adv
Communal flooring: Worn carpets at sheltered scheme, replacement necessary to prevent trip hazard	(18,300) adv
Right-to-Buy Valuations: Costs due to increased number of applications, although actual sales have decreased	(5,300) adv
Shared Legal Services budget uplift: HRA element	(38,000) adv
Total anticipated HRA variance	(215,400) adv

Capital

- 8.8 Appendix B1 updates Members on the latest 2014/15 Capital Budgets and changes to the Capital Programme. Managers have also identified further reductions to the Capital Budget, totalling £104,400 to be reported to this meeting. The savings relate to Website CMS replacement £28,100, Abbey Fields Gatehouse £1,100 as well as savings for Victoria Park Bowling Green irrigation works £24,000 and Chase Meadow £1,700. Slippage of £22,700 and £26,800 for Enhancement of Other Car Parks and Green Farm Play Equipment total £49,500. The 2014/15 total General Fund Capital Budget, should the changes be approved, would stand at £4,537,400.
- 8.9 Members expressed concerns upon the closure of the 2013/14 Accounts at the level of slippage on the Capital Projects. In light of this, Members continue to receive regular updates on these slipped projects. Below is a list of all current major General Fund Capital Schemes that slipped from 2013/14 with progress on each:-

Project Title	Proposed Expenditure 2014/15 £	Current status of project
Fen End - City Deal	559,000	Nothing scheduled to happen on site until the last two quarters of the year.
Victoria Park Bowling Green & Ancillaries Improvements	203,300	Irrigation works due to commence by end October and complete by end December. Saving of £24,000.
Play Area Improvement Programme	308,700	Projects scheduled this financial year include Farmerward Rd, Roxborough Croft, Eagle Recreation Ground.
Cubbington Flood Alleviation Partnership	518,500	Re-laying of damaged drains, fencing, compensation claims and landscaping to complete project.
Crematorium Improvements	1,183,900	The new offices sited in the Lodge building have been built and the new ICT infrastructure established. Work on the south car park and south chapel waiting room is due to start on the 17 th November, and the north car park and chapel will follow completion of the south (so that one chapel always remains open at any given time). As explained in Section 8.1.2. above much of this work will not be undertaken until 2015/16.
West Midlands Reserve & Cadet Force - New Building	400,000	Planning permission has been granted. Providing that the St Mary's Land item in the Executive report on 1st October 2014 is agreed, the funding should be spent this financial year. This is subject to call in.

8.10 Appendix B2 updates Members on the latest position of the Capital Housing Investment Programme (HIP).

8.11 The Housing Investment Programme (HIP) Budget changes requested are:

HIP Slippage	£
Environmental Works: Tenant Participation: Efficiencies from larger programme in 2015/16	44,000 fav
Contributions to Registered Providers: For clearer reporting, unallocated resources will no longer be shown as a budget	939,800 fav
Subtotal: Slippage into 2015/16	983,800 fav
2014/15 element of scheme approved 3-Sep-14	£
Acquisition of Housing SW Warwick: Initial projection for 2014/15, remainder of approved budget in 2015/16	(1,574,000) adv
Subtotal: Scheme approved Executive 3-Sep-14	(1,574,000) adv
Other HIP Budget Changes	£
Aids and Adaptations: £143k prior years settlement; £60k critical extension for disabled child	(203,000) adv
Roof Coverings: no planned programme	182,700 fav
Tannery Court Biomass: costs lower than initial est.	21,000 fav
Fire Prevention Works: £101k moved to revenue, remainder not required	329,700 fav
Thermal Improvement Works: no planned programme	121,300 fav
Garage Refurbishment: no capital works projected	24,600 fav
WRCC Rural Enabling Service: One-off saving	1,900 fav
Discretionary Grants: Reduced ongoing requirement	105,200 fav
Subtotal: Other HIP Budget Changes	583,400 fav
TOTAL HIP Budget Changes Requested	(6,800) adv

More detail is shown within Appendix B2.

9 Service Transformation Reserve

9.1 There are several other reports to this Executive meeting for which there are recommendations to use the Service Transformation Reserve, which currently has an unallocated balance of £1,486,000. The requests for Service Transformation Reserve funding are shown below, along with the new balance remaining, assuming those requests are agreed.

	£
Service Transformation Reserve - Unallocated Balance	1,486,000
Proposed allocations from STR:-	
Prosperity Agenda – Temporary funding research resource.	50,000
Planning Advisory Service review of WDC's engagement with Prosperity Agenda.	6,000
Use of delegated powers – CSW Broadband.	130,000
Sports & Leisure Options.	350,000
Balance remaining	950,000