	Executive – 30th July 2014	Agenda Item No. 3
WARWICK DISTRICT COUNCIL		

Title	Budget Review to 30th June 2014
For further information about this report please contact	Mike Snow Tel 01926 456800 Jenny Clayton Tel 01926 456013 Andy Crump 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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?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	14/7/14	Chris Elliott
Head of Service	14/7/14	Mike Snow
CMT	14/7/14	
Section 151 Officer	14/7/14	Mike Snow
Monitoring Officer	14/7/14	Andrew Jones
Finance	14/7/14	Mike Snow
Portfolio Holder(s)	14/7/14	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

This report updates Members on the latest financial position. The Council's Medium Term Financial Strategy has been updated since the 2014/15 Budget was agreed in February of this year in light of later Government announcements and other known changes. Various changes to 2014/15 budgets been identified and are now presented to Members for approval.

2. It is RECOMMENDED that:-

2.1 The Executive acknowledges the budget position for the current year for the General Fund, currently £190,500 surplus.

2.2 The Executive retrospectively approve the Budget Changes in paragraphs 8.1(General Fund) and 8.9 (Housing Revenue Account), the most significant of which are discussed in this report.

2.3 The Executive note the updated Financial Strategy and the forecast required recurrent savings of £1.01 million to be achieved by 2019/20, as shown in Appendix C.

2.4 The Executive agree that work should be progressed on all the projects listed in paragraph 9.16.

2.5 The Executive approve the capital slippage of £433,000 discussed in paragraph 3.5 and note the latest General Fund Capital Budget for 2014/15 of £3,597,900. Members also approve a net increase in HRA-related Housing Investment Programme Capital budgets of £54,000 as per paragraph 10.4. Details of both Capital programmes are shown in Appendices A1 and A2.

2.6 The Executive note the use of the Chief Executive's emergency powers using £13,000 Contingency Budget to assist funding cycle route improvement works at Radford Road, Leamington Spa.

2.7 The Executive note the use of the Chief Executive's emergency powers to provide 1/3rd match funding (£15,000) towards a grant from the Department of Energy & Climate Change (DECC).

2.8 The Executive agree £10,000 Contingency Budget funding to undertake feasibility work on a community hub/local centre for Whitnash.

2.9 The Executive confirm the Council's membership of the Coventry and Warwickshire Pool for Business Rates.

2.10 The Executive agree that any variance from the assumed Business Rate Retained income in 2014/15 for the Council should be credited or debited to the Business Rate Volatility Reserve.

2.11 The Executive agree that the use of the Local Plan Delivery Reserve is delegated to the Chief Executive, Head of Finance, Head of Development Services in consultation with the Deputy Leader (responsible for the Local Plan) and all Group Leaders.

2.12 The Executive agree to allocate £200,000 from the Housing Revenue Account to the HRA Early Retirement Reserve.

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 first of these reports in the current financial year. The current General Fund service expenditure position is a projected £190,500 surplus compared to the original 2014/15 budget. Paragraph 8.1 lists the changes identified and Member's retrospective approval is sought for these Budgets which have been actioned under delegated powers. Section 8 below discusses the main reasons for the surplus in more depth. As it is still relatively early in the financial year, the overall position will continue to be monitored so that there can be more surety before agreeing later in the year how the projected surplus may be utilised.

3.2 For 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 8.9.

3.3 It is important for Members to be updated on the financial projections, as many factors which affect the medium term financial strategy have changed since it was last presented in February when the Council Tax was set. Full details of the changes and implications are discussed below (sections 8 and 9). Members need to be aware of the £1.010 million projected deficit, meaning that further savings and efficiencies of this amount need to be achieved by 2019/20, in addition to those already identified and included within the projections. Members also need to be alerted to the consequences of any future Council Tax Freezes (as discussed in paragraph 9.11). The Strategy is shown within Appendices C1-4.

There are several significant factors which will impact upon the Council's Budget for 2014/15 and the medium term financial projections, including:-

- Future Government Support
- Business Rates and Business Rates Retention
- Council Tax levels and Council Tax Freeze Grant
- New Homes Bonus
- Fees and charges
- Collection Fund balance
- Staff pay awards

3.4 Various projects have been agreed to be considered to be worked upon. Many of these should generate savings that should help the Council's financial position. These are all listed within paragraph 9.16. Members are asked to confirm that work should continue to progress on these projects.

3.5 Appendix A1 updates Members on the Capital Programme Budgets and changes to the programme since it was approved in February of this year. Members have already approved the slippage from 2013/14 as part of the Final Accounts report in June, as well as other amendments since the original Budgets were set, i.e. new schemes as highlighted within Appendix A1.

3.6 Appendix A2 updates Members on the HRA Capital Programme and requests a net increase of £54,000, largely balanced out by savings on revenue repairs. More detail on both the General Fund and HRA Capital Programme is included within Section 10.

3.7 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 will now receive regular detailed updates on these slipped projects.

3.8 The Council's Reserves include many which are "Ring Fenced" or "Ear-Marked" for specific projects. In the current financial climate, opportunities to replenish these from revenue are much confined. It is imperative that these are regularly monitored. Members are asked to note the forecast reserves positions outlined in Appendix E and discussed in Section 11.

3.9 The Chief Executive has used his emergency powers to spend £13,000 from the Contingency Budget to assist funding cycle route improvement works at Radford Road, Leamington Spa. The Chief Executive also used his emergency powers agreeing £15,000, also from the Contingency Budget, to lever in Grant Funding from the Department of Energy & Climate Change (DECC). Details of both schemes are shown in paragraph 8.6. The Contingency Budget has been altered accordingly, leaving an unspent balance of £96,000.

3.10 In July 2012, the Executive agreed to £10,000 Contingency funding to support the development of Whitnash Neighbourhood Plan. Within the report to Executive, it referred to the Town Council's ideas for a Community Centre, and how bringing forward design plans would cost more than the Town Council would be able to afford alone. Of the original funding, £5,800 still remains. The feasibility work on the Community Hub is likely to cost £17,000, to which Wihitnash Town Council are able to contribute £5,000. This leaves a funding gap of £10,000, which is recommended to be approved from the Contingency Budget.

3.11 Since Business Rates Retention was introduced from 1 April 2013, the Council has been part of the Coventry and Warwickshire Pool. By being part of the pool, the Council will have benefited from an additional £75,000 in respect of 2013/14. It is proposed that the Council should continue to be part of the Pool. With there still being uncertainty over Business Rates Retention, and the level of appeals, any variance from the assumed Business Rate Retained income in 2014/15 for the Council should be credited or debited to the Business Rate Volatility Reserve.

3.12 Within the June Final Accounts report, £250,000 of the surplus for 2013/14 was appropriated to a new Local Plan Delivery Reserve. This reserve is to be used for items of work required to help the implementation of the Local Plan. This would include detailed work on a specific proposal to help turn it from a proposal to reality, e.g. working up the proposals relating to the Secondary Schooling provision at Myton or how the form for a new ground for Leamington Football Club if it is to be relocated. It is proposed that authority to use this reserve is delegated to the Chief Executive, Head of Finance and the Head of Development in consultation with the Deputy Leader who holds responsibility for the Local Plan and all Group Leaders. This allows for operational effectiveness and democratic accountability. Updates will be given as part of the regular budget monitoring reports.

3.13 The HRA Early Retirement Reserve has a balance of £58,000. It is recommended that this is increased by £200,000 to enable it to fund potential redundancies coming out of the recent Housing & Property Services restructures.

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 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 2019/20.

5. BUDGETARY FRAMEWORK

5.1 The Council needs to find financial savings of £1.01 million over the next five years on a net General Fund Budget currently £16m, reducing to £14m by 2019/20. 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, 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.

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 9.5), and also assumed increases in investment interest (paragraphs 8.8 and 9.7.4). 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 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.

- Within the 2014/15 there is a Contingency Budget with an uncommitted balance of £96,000 for any unplanned unavoidable expenditure.

- Reserves – The Council holds reserves as discussed within section 11. 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.

6.6 The financial projections include the following assumptions of note:-

- Office Relocation
  The proposed office relocation and associated "different ways of working" are expected to save £300,000 and £100,000 respectively on a recurring basis from April 2017. If these projects do not materialise, or are delayed substantially, the overall amount needed to be saved by the Council will increase.

- On-Street Parking
  With the Council ceasing to provide support for Warwickshire County Council for on-street parking, some costs previously shared with the County will all fall upon the District. This is discussed in paragraphs 8.2 to 8.4. The financial projections assume that the change in on-street parking will be cost neutral. The position still being evaluated. The worst case position if there are no savings in the shared costs is that the council would need to accommodate an estimated £200,000 net expenditure, so increasing the savings requirement within recommendation 2.3.

- Universal Credit
  With the changes to Universal Credit, the Council will see a reduction in the Housing Benefit Admin Subsidy. The full implications of Universal Credit are still subject to the Government confirming how it will be rolled out. There is a risk that this funding may reduce by more than the Council is able to reduce its expenditure on housing benefits. The financial projections assume that the council is able to make savings in the cost of the residual service provision to make any reduction in subsidy cost neutral. However, at worst case, it is estimated that the Council's net costs may increase by £200,000.

6.7 In addition to the future savings requirement, the Council does have various other demands upon its finances which have not been allowed for. Specifically these include:-

- Asset Review
  In December 2013 and February 2014 the Executive received reports highlighting the funding required on how funding is required to be spent on the Council's Properties (both operational and non-operational) maintenance liabilities, and how this may be funded. Whilst funding was agreed for 2014/15, as part of agreeing the Council's 2015/16 Budget, consideration needs to be given to how future years work shall be funded.

- Play and Open Space Strategies
  The Council's agreed Play and Open Space Strategies covering future years will require additional funding if they are to be fully implemented.

Again, potential funding towards these will be considered as part of 2015/16 Budget Setting.

6.8 Officers are closely monitoring these and will be reporting back to Members by way of the Quarterly Budget Reviews and other specific reports.

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.

7.3 Not monitoring the Business Rates and Council Tax Collection Fund. However, due to new changes to these from 2013/14 and the significant sums involved, it would not be good practice to wait until the end of the Financial Year to see how actual income collected compares to that forecast.

8. BACKGROUND

2014/15 General Fund Budget

8.1 The first three months' revenue variations are as follows :

Non-Pay	**A – Adverse** **F - Favourable**
Golf Course Lease Income	£20,000 (A)
Payment Card Industry data Security costing less	£45,000 (F)
Jubilee House – Lease (recurring)	£8,200 (F)
Jubilee House – Lease (one off)	£5,600 (A)
New Homes Bonus "topslice" returned	£10,400 (F)
Orbit lease expired 30/6/14	£45,100 (A)
Orbit lease dilapidations	£15,000 (F)
Overbilling of library for service charges at Pump rooms	£26,900 (A)
NNDR Refund Town Hall	£13,100 (F)
Small Business rates grant received 13/14 not 14/15	£50,000 (A)
Minor changes	£4,200 (A)
Warwick University Concierge Charges Town Hall	£5,700 (A)
Total Non Pay amendments	**£65,800 (A)**
Salary Amendments discussed in paragraph 8.2	£22,100 (A)
Total Variations	**£87,900 (A)**
Investment Interest	£78,400 (F)
Income Contingency (seasonal over-recovery) to be approved, as discussed in section 8.5	£200,000(F)
Net Position	**£190,500 (F)**

8.2 Salaries

There are two additional costs in Health and Community Protection, one relating to the extension of the Sustainability Officer post which was agreed by members (£18,000) and another due to a regrading (£4,100). These total £**22,100 adverse,** and are included in the table above**.** Other reported variances relate to Neighbourhood £52,800 favourable, Culture sickness cover £9,100 adverse but it is perceived too early in the year whether these are certain. These salary variances total £**43,700 favourable**, however they have not yet been actioned as there is some uncertainty about the figures this early in the financial year. When they are, they will be included in the table above.

8.3 WCC's decision to end the enforcement of 'on street' parking regulations by WDC and to put the service out to tender will mean that some staff currently employed by WDC will 'TUPE' to the new contractor. This may result in lost income or expenditure not being fully recovered and could offset the Neighbourhood Services favourable salary variance mentioned in paragraph 8.2.

8.4 The financial projections assume savings will be made to offset any additional residual costs relating to the District Council no longer operating on street parking enforcement. This position is being reviewed, with it being likely that these costs will not be able to be accommodated. When the overall costs are clear it will be reported immediately to Executive.

8.5 Revenue Slippage- Earmarked Reserves

Revenue slippage has been added into the 2014/15 budget, totalling £429,100 for the General Fund. These will be monitored separately and reported to Executive on a quarterly basis. As at the end of June only £25,600 has been spent to date. In addition £8,000 of revenue slippage was approved for the HRA.

8.6 Contingency Budget

8.6.1 Details are shown in Appendix B, with a balance remaining of £96,000. This balance reflects the two uses of the Chief Executive's Emergency Powers to access the Contingency Budget:-

- £13,000 to assist funding cycle route improvement works at Radford Road, Leamington Spa. These works were time critical to tie in with the remediation works following sewer improvements, with Severn Trent contributing £2,000 towards the works.

- £15,000 use of Contingency Budget to lever in Grant Funding from the Department of Energy & Climate Change (DECC)., which is providing funding to encourage the development of Heat Networks. The first stage in the process is to undertake a Heat Network mapping study which identifies the potential for such schemes before more detailed feasibility work is carried out. A brief application needed to be submitted by 27th June hence the need for the Chief Executive to use his powers. The study would also provide useful evidence for the Local Plan and Planning Policy generally.

8.6.2 In addition, the Head of Finance has approved the following uses of the Contingency Budget using delegated powers, these all being below £10,000:-

- Consultation on Sex Ent Venues £5,000

- Defibrillator St Nicholas Park LC £1,300
- Defibrillator Newbold Comyn LC £1,200
- Post National Bowls 2014 Review £6,000
- Art Gallery Valuations £2,500

8.6.3 The £10,000 recommended to undertake feasibility work on a community hub/local centre for Whitnash has not been reflected within the £96,000 balance and within Appendix B.

8.6.4 The Contingency Income Budget (£200,000), as discussed in paragraph 9.5 below, will be monitored in the same ways as the Contingency Expenditure Budget and reported at the same time. 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, this is felt to be unlikely.

8.6.5 None of the 2014/15 Training Contingency Budget of £4,900 has currently been allocated.

8.7 Fit For the Future

As reported in the 2 July Executive Fit For the Future report, the required savings for 2013/14 were under-achieved by £44,000, and a further £84,000 was only achieved on a one-off basis. This means that savings of £128,000 are still to be achieved in 2014/15. Should these savings not be achieved, it will reduce the current year's surplus and affect WDC's Medium Term Financial Strategy.

8.8 Investment Interest – This has been recalculated in the light of the Council's balances being higher than originally forecast, as well as a projected earlier increase in investment rates. This is expected to generate an extra £78,400 income for the General Fund in 2014/15 and has been shown in the table in paragraph 8.1 above. The HRA is expected to benefit too, but not to the same extent as the General Fund, and once this amount has been confirmed, it will be reported to Members too.

8.9 **HRA Revenue 2014/15**

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

Ref	HRA Budget Changes Requested	£	
A	Court Costs: Major increase in Fee rate payable	39,800	Adv
	Court Costs Awarded: Increased in line with Fees	(39,800)	Fav
B	Accounting Change: Equivalent of Depreciation on Non-Housing HRA Assets retained in Major Repairs Reserve (MRR)	431,600	Adv
C	Reduced cost of repairing boilers; will part fund increased Capital cost of replacing irreparable boilers.	(50,000)	Fav
D	Revised HRA Supporting People Grant income	(1,900)	Fav
	Cost of increased take-up of Tenant Contents Insurance	4,800	Adv
	Income from increased take-up of Tenant Contents Insurance	(6,700)	Fav
	Increase Legal shared service costs for estimated inflation	3,800	Adv

Ref	HRA Budget Changes Requested	£	
	Increased HRA revenue cost	**381,600**	**Adv**
B	Accounting Change: Contribution retained in MRR	(431,600)	**Fav**
-	HIP capital changes (See Section 10 / App'x A2)	54,000	**Adv**
	Overall reduction in HRA balances	**4,000**	**Adv**

a) Court Fees for arrears cases have increased significantly, from £100 to £250. However these costs are recharged when costs are awarded to the Council. Where costs are not ultimately repaid to WDC there would be a cost to the bad debt provision, but the current provision is sufficient to cover any likely effect. It is requested to transfer the related budgets from Housing S&M General to Housing Services, to be consistent with other arrears-related budgets.

b) There is a statutory accounting change that means the HRA will contribute the equivalent of the depreciation on non-Housing HRA assets to the Major Repairs Reserve (MRR) to fund future HRA Capital repairs. This changes which reserve this amount is retained in, but overall HRA resources are unaffected.

c) There are increased capital costs replacing more irreparable boilers, reported in paragraph 10.4 and Appendix A2. This reduces the revenue cost of repairing boilers, effectively covering part of the capital cost.

d) There are a number of minor budgetary changes, which overall net to zero.

8.9.2 The financial effects of recent restructures in within Housing & Property Services have not been allowed for within the above figures. As discussed in paragraph 12.3, the two recent re-structures will increase the net HRA salary cost by £36,000 per annum. However, the impact for 2014/15 is more complex due to:-

- Several temporary posts have been extended during the year due to the delays with the re-structures, so resulting in additional costs.
- There have been some vacancies in the year to date.
- Some appointments will be subjected to protected salaries.

8.9.3 Following on from the job-matching currently on-going, it is likely that there will be some staff that are not able to be matched, and if appropriate positions are not available, they will be facing redundancy. The HRA Early Retirement Reserve currently has a balance of £58,000. This is likely to be insufficient. It is therefore suggested that £200,000 is allocated to this reserve from the HRA. This will entail reducing the amount due to be appropriated to the HRA Capital Investment Reserve in the year. The overall position for 2014/15 is being assessed as staff are job-matched. The financial implications on the 2014/15 HRA, and funding thereof, will be included in a future report to the Executive, when any redundancy funding would need to be agreed.

9 MEDIUM TERM FINANCIAL STRATEGY

9.1 In February 2014, when Members approved the 2014/15 Budget and were last updated on the Financial Projections, it was forecast that this Council would need to identify a further £1.043 million in savings above those already built into the Strategy by 2018/19. Changes to the 2014/15 budgets which are recurrent have now been built into the Medium Term Financial Strategy, alongside other future developments impacting on the Council. In addition, the projections have now been rolled further a year to include 2019/20 and this has reduced the savings needed by £33,000.

9.2 The main changes being-

- Government Support
- The impact of adding an additional year to the 5 year Financial Forecasts
- Individual Electoral Registration
- Inflation

These changes are discussed in more detail below.

9.3 The Strategy now indicates that there will be an on-going deficit of £1.01 million by 2019/20 unless further on-going savings of the same magnitude can be delivered, as shown in Appendix C.

9.4 The Table below explains the changes since the February Budget Report.

Description of Changes	**£'000's (-) favourable, (+) adverse**
Impact of additional year 2019/20:-	
Inflation	270
Contracts/Committed Spend	54
Simalto – Resident Consultation	-26
Council Tax	-241
Business Rates Retained	-96
Bowls (Car parking)	9
Inflation provision not provided for in 2018/19	51
Individual Elector Registration (additional Costs unfunded)	55
Salary Bases	-24
Government Grant Settlements projections revised and re-profiled	418
Net changes in minor Rental Income	-11
Orbit vacating Riverside House 30/6/14 - lease expires	60
Other minor	-2
Revised Investment Interest Forecast	-350
Income Contingency for seasonal over-recovery	-200
Total changes	**-33**

Reported to Members	**£'000's**
February 2014 Executive	1,043
July 2014 Executive	1.010
Change	33

9.5 Following the closure of the 2013/14 Accounts, an analysis has shown that in recent years several of the Council’s main income streams have substantially exceeded the original budget. These include fees and charges which can vary due to seasonal trends (for instance, hot summers will increase swimming attendances and car park usage, whilst a harsh winter would have the converse effect). In additional Development Control fees have shown significant favourable variances in the last two years as the country has come out of recession. Some of the notable variances are shown below:-

Variations against Original Budget	**2012/13**	**2013/14**
("-" shows additional income)	**£'000**	**£'000**
Development Control income	-510	-426
Car Parks	-91	-336
Culture - Fees & Charges (exc RSC)	-87	-94

Managers have traditionally set budgets on the latest intelligence with some degree of prudency and will not assume that "one-off" over-recovery against budget would continue on an on-going basis. This cautious approach has again been followed in setting the 2014/15 Budgets. However, as members are aware, these are calculated some 6 months prior to the beginning of the new financial year. Based on the latest analysis, there is confidence that overall income will exceed original expectations, a £200,000 "Income Contingency" Budget has therefore been introduced on a re-current basis. This will only be used as additional favourable income variations are identified, these will be off-set against this Budget. This has been built into the Strategy on an ongoing basis. Officers will monitor this budget and update Members accordingly on the outstanding target. Whilst there will always be uncertainty over future income levels, a Contingency of £200,000 is believed to be realistic, whilst not being overly optimistic which would otherwise impact upon the Council's future financial stability.

9.6 Future Government Funding

LG Futures, the Council's Future Government Financial advisors, have revised their projections to take into account the Chancellors March 2014 Budget speech and Office for Budget Responsibility forecasts on economic growth. The level of Government funding reductions beyond 2015/16 still remains uncertain. Officers have again modelled these years on previous percentage reductions. This has reduced the forecast grant in 2015/16 further since the Budgets were set in February this year. Earlier profiling assumptions are now believed to be overly-optimistic and a more prudent approach has now been taken. Overall, Government Support is likely to reduce by £418,000 more than previously forecast.

9.7 Economic Forecasts

9.7.1 Since February 2014 a number of indicators suggest that the economic revival in the UK retained its drive as the economy continued to show positive growth in Quarter 1 2014. Although growth was slower than expected, the first reading of Quarter 1 GDP growth registered at 0.8%. This figure was then re-affirmed by the second reading. The May Inflation Report highlighted that the recent strong performance the UK economy has shown is likely to continue into the foreseeable future. Strengthening in areas such as productivity and real incomes, alongside growing confidence, should underpin the durability of the expansion. However, as the sustained output growth has not yet been accompanied by a pickup in labour productivity, there remains scope to make greater inroads before raising Bank Rates.

9.7.2 Going forward, markets expect that the UK will remain the fastest growing major European economy in 2014. UK GDP growth is expected to be in the range of 2-3% in 2014. The level of UK GDP is projected to rise back above pre-recession levels for the first time in Quarter 4 2014. Inflation is expected to remain slightly below the Bank of England's 2% target level for the next 3 years. Real average earnings are expected to decline for the sixth consecutive year in 2014, although the gap between prices and earnings is expected to be the smallest since 2009, so the real wage squeeze will start to ease. Continued real wage constraint will, however, support employment growth, pushing unemployment down to close to the Monetary Policy Committee's 7% threshold by the end of 2014.

9.7.3 This is likely to restart the debate on monetary tightening with a minority of Monetary Policy Committee members expected to be voting for interest rate rises soon.

9.7.4 Accordingly, officers have updated investment interest income estimates and projections included within this report. They have also taken into account, changes to balances available for investment, which were identified during the 2013/14 Final Accounts Process. Over the last 6 months, with the recent growth in the economy, the Base Rate projections over the period of the Council's Medium Term financial Strategy have doubled from 1% to 2%. This, along with increases in balances, have presented additional investment interest of £350,000 per annum within the projections.

9.8 Business Rates Retention

9.8.1 2013/14 was the first year of the Business Rates Retention Scheme whereby local authorities get to retain locally a proportion of business rates collected. Previously all this income was paid to Central Government for redistribution to local authorities. By enabling local authorities to retain a proportion of locally collected business rates income, it is intended to incentivise local authorities to grow their business rates base and encourage local prosperity.

9.8.2 In setting the 2013/14 Budget, it had been agreed that any retained Business Rates above the "Baseline" position (£3.011m for 2013/14) would be credited to the Business Rates Volatility Reserve. In closing the 2013/14 accounts £842,000 was allocated to this reserve. It is anticipated that much of this reserve will be needed in 2014/15 and 2015/16 to finance the substantial level business rates appeals, many backdated to 2010, that had to be allowed for in the 2013/14 accounts. Accordingly, it is proposed that any variance from the assumed Business Rate Retained income in 2014/15 for the Council should be credited or debited to the Business Rate Volatility Reserve.

9.8.3 The Council agreed to enter into a "Pool" with the Warwickshire district councils, Warwickshire County Council and Coventry City Council (the Warwickshire and Coventry Pool). By entering into a pool, assuming there is some growth in the business rates base, local authorities should be able to retain more income locally. In addition, should business rates decrease, the safety net provisions within the pool are more favourable by operating at a 5% reduction rather than the 7.5% outside the pool. However, pools are not without risk however and should business rates income decline, the risk is that safety net payments to pool members will need to be made from the resources within the pool.

9.8.4 Appendix D is a briefing note considering how the pool performed in 2013/14. It will be noted that Warwick and North Warwickshire did not perform as well as the rest of the pool. The reasons for this are:-

- Warwick – Substantial appeals outstanding. WDC has more large individual rating assessments than the other district, notably in the retail sector. With many of these large assessments having lodged appeals, the potential reduction in the rating base will be more significant. In assessing the level of appeals to be allowed for within the accounts, all the districts have been advised by "Analyse Local", a company specialising in rating valuations.
- North Warwickshire – Backdated appeal in respect of the Belfry and the closure of the colliery.

Despite this, all authorities within the pool benefited from pooling, with Warwick District benefitting from £75,000 more than had it not been in a pool.

9.8.5 The accounting arrangements for business rates retention are extremely complex. This notably impacts upon on when any income from an increase or decrease in the business rate base will impact upon the Council's revenue accounts. Accordingly, with substantial appeals still outstanding, it is necessary to continue to be prudent in forecasting increased business rates income to the Council. The position is being closely monitored and members will be updated in future Budget reports. The position reflected in the projections is believed to be a prudent one, it is hoped that with greater clarity over the figures, it will be possible to include higher projected levels of retained business rates in the projections for future years.

9.8.6 The Local Plan and the Council's Prosperity Agenda should both help to stimulate the local economy. This in turn should lead to higher levels of business rates which should provide additional funding to the Council from the Business Rate Retention scheme.

9.9 <u>Individual Electoral Registration</u>
Recent electoral reform means that eligible voters will have to register individually, instead of completing one return per household. Whilst the Government have indicated they will provide initial start-up funding to Local Authorities, this will not be re-current. This is likely to cost the Council some £55,000 in 2015/16.

9.10 <u>Office Relocation</u>
In June of this year, Members considered a report on the proposed Office Re-location. It was resolved that prior to deciding on the proposed site, Officers should investigate whether this is the most suitable site and if Royal Leamington Spa is the most viable option for the HQ Offices to be based. Their findings will then be reported back to Members. The Financial Projections had previously assumed that savings and efficiencies deriving from the new office would be realised in April 2016, the benefits from the re-location is now assumed for April 2017. Whilst not changing the overall savings required by 2019/20, it means that £400,000 of these will now have to be achieved a year earlier.

9.11 <u>Council Tax and Council Tax Freeze Grant</u>
The Budget and Council Tax set in February of this year, assumed that there would be a 7.5% reduction in the levels of Council Tax Support given to working age claimants, net of an allowance for non-recovery. The actual costs

of the scheme will vary according to recovery rates, number of claimants and the amount they are eligible for. Clearly the local economy will also affect these figures. For 2015/16, the Council has agreed that as part of the local Council Tax Reduction Scheme, all households will need to contribute a minimum of 15% towards their council tax charge.

The District's element of the council tax was last increased in 2010/11. Since then the Council has been able to freeze it, and so take advantage of Government Council Tax Freeze Grant. The Government has indicated that funding will also be available for 2015/16. A freeze has been allowed for within the council's projections for 2015/16. By freezing the council tax, authorities are eroding their council tax base in real terms, and are exposed to the risk of the Government freeze funding not continuing into future years. Also, the recent freeze grants have only covered 1% of council tax, whereas councils are able to increase council tax by 2% (without resorting to a referendum, based 2014/15 criteria).

Officers monitor the forecast council tax income for the year on a monthly basis and its impact on the Collection Fund. Any shortfall (or surplus) forecast on the 15th January each year will be built into next year's budget, with the difference between this and the final outcome being carried forward in the Collection Fund Balance to be recovered in future years.

9.12 <u>New Homes Bonus</u>

New Homes Bonus is dependent on the increase in the number of Properties and additional social housing on the previous year. The council has always seen an increase in its Tax Base year on year and when the local plan is approved, it expects to see a higher level of Growth in future years. The Council has a Joint Venture with a Social Housing Provider stimulate the growth in affordable housing across the District. Members are reminded that each year's allocation is for a time limited period (6 Years).

The projections in the Council's Financial Strategy are based on a prudent approach, with the funded growth dropping out after the 6th year and no further growth. On this basis, by 2019/20, this funding will have reduced to £212,000 compared to over £1 million in this financial year. However, if there is a continued upturn in development, there will be increased levels of NHB in future years. At present the Council has been able to set balanced budgets without utilising these monies, allocating them to appropriate reserves as required. This also ensures that a prudent approach is being taken. Not only is the money time limited, but also the Government could decide to no longer fund the scheme.

9.13 <u>Impact of 2013/14 Final Accounts</u>
In depth discussions have yet to take place with managers to establish if any of the underspends identified when the 2013/14 Accounts were closed (as presented to Members in June) are re-current. Those that are proven to be such will be subsequently built into future year's budgets. As discussed in paragraph 9.5, the financial projections have been updated in the light of increased income sources. The 2nd Budget review (position as at 30th September 2014) to Members in November will update on what progress has been made reviewing these underspends.

9.14 Fees and Charges
The Financial Projections currently assume a 2% increase per annum in discretionary fees and charges income. Heads of Service have been asked to seek increases of 2% (broadly in line with current inflation levels) in overall income levels. Alongside this, consideration is being given to the fees and charges benchmarking exercise recently undertaken with other district councils to ascertain whether there may be scope to amend the Council's charges. Detailed proposed level of fees and charges to be implemented from 1 January 2015 will be presented to the members in October. The effect of any proposed income changes will be incorporated into the current year's Budget Review Process as well as the Medium Term Financial Strategy.

9.15 Savings Requirement
The profile of the latest projected savings requirement is set out below:-

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Cumulative Savings £'000's	-63	433	830	989	1,010
Additional Savings £'000's	-63	496	397	159	21

9.16 Various projects have been agreed by the Executive, these are listed below:-

Projects agreed by Executive before 2014

Project	Project Timeline
Shared Building Control Service	2013-2015
Options appraisal for Leisure Services	2013-2016
Responding to Universal Credit implications	2013>
Responding to Warwickshire County Council's parking proposals	2013-2014
Relocation of Warwick District Council HQ	2012-2017
Review of energy consumption at Council buildings	2014-2015
Review of Historic Building Grants/Heritage Open Days	2015-2016
Review of the approach to Sports, Arts and Small grants	2015-2016
Review of Concurrent Services	2015-2016
Review of Assisted Travel	2015-2016
Role of the Council's Chairman	2014-2015
Review of Council's Assets	2012>
Leisure Centre Programme Review	2012-2014

Projects agreed by Executive 2014

Project	Project Timeline
Review of Service Area business administration support and opportunities for cross-council working e.g. complaints, orders, invoices, general administration	2014-2015
Examination of West Midlands Improvement and Efficiency Partnership fees and charges work	2014-2015
Review of Disabled Facilities Grant funding	2015-2016
Review of Economic Development & Town Centre Development (ensuring that it is contributing to the	2014-2015

Project	Project Timeline
Prosperity Agenda)	
Marketing of Council's commercial operations	2014-2016
Marketing of the District	2015-2016

Projects siting in Service Area Plans

Project	Project Timeline
Review of One Stop Shops	2014-2016
Review of Payroll Service	2014-2015
Relocation project T&C's	2012-2017
Review and consider potential for pre-app charging scheme	2014-2015
H&CP further service changes	2014-2015

It will be noted that these projects are all at different stages, some having been actively worked upon for a while, whilst others are still at initial evaluation stage. Financial savings have been assumed from some projects, with these being incorporated into the Medium Term Financial Strategy.

Members are asked to note these projects and confirm that work should continue on them.

10. CAPITAL

10.1 Appendix A1 updates Members on the Capital Programme Budgets and changes to the programme since it was approved at £3,123,600 in February of this year. Members have already approved the slippage from 2013/14 (£846,200) as part of the Final Accounts process in June, as well as other amendments since the original Budgets were set, i.e. new schemes as highlighted within the Appendix. Managers have also identified a further reduction to the Capital Programme, totalling £433,000, which is slippage for the Castle Farm Sports Pitch Drainage Budget (£73,000), Warwick Sea Scouts, (£50,000), Jubilee House (£310,000) to 2015/16. The Programme balance, should the changes be approved, would stand at £3,597,900.

10.2 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 will now 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:-

- **Victoria Park Bowls (£77,300)** - Completing of the pavilion works had been delayed due to issues surrounding the upgrade utility works. The works have now been finished, final invoices (and retention) are due to be paid soon.
- **Cubbington Flood Alleviation (£222,400)** –Scheme continuing into 2014/15 due to delays in design, tunnelling and management of badger setts
- **Play Area Improvement Programme (£128,200)**. Completion of 2013/14 programme has been delayed due to poor weather. However, now weather is improving, completion should not be delayed much further.

- **The Rural/Urban Capital Improvement Scheme Grants budget (£186,400)** should be spent in 2014/15 as grant recipients are now bringing schemes forward.
- **Oakley Wood** Members will receive a full update on this project with updated forecast costings in September.

10.3 Appendix A2 updates Members on the latest position of the Capital Housing Investment Programme (HIP). It sets out the latest HIP budgets including slippage already approved by members in June 2014 (£1,226,700) as part of the final accounts process, and the budget changes requested below.

10.4 The HIP Budget changes requested are:

	HRA-Related HIP Budget Changes Requested	**£**	
a	Increased cost of replacing irreparable boilers.	125,000	Adv
	Reduction in necessary capital Electrical works	(75,000)	Fav
b	Completion of Stamford Gardens play area project	4,000	Adv
	Overall increase in HIP budgets	**54,000**	**Adv**
a	HRA revenue saving on boiler repairs (Section 8.8)	(50,000)	Fav
	Overall reduction in HRA balances	**4,000**	**Adv**

a) Early projections of the number of boilers that are likely to prove irreparable over the year indicate that the Capital HRA Central Heating replacement programme will require at least an additional £125,000 in 2014/15. £50,000 is effectively offset by related savings on the Revenue HRA Heating Repair budget, identified in section 8.9. The remaining £75,000 can be funded due to a reduction in the amount of Capital HRA Electrical works necessary. Therefore it is requested that budgets are transferred on this basis. The cost of heating repairs will continue to be monitored throughout the year, and any further changes reported.

b) There was a small element of the Stamford Gardens play area project not completed in 2013/14 but not requested as slippage in the June Final Accounts report. Therefore a budget of £4,000 is requested for the remaining works.

11 RESERVES

11.1 General Fund
Appendix E shows the projected uncommitted General Fund Reserves. The Council is fortunate in that it has a history of maintaining a good level of reserves. However, the level of these reserves is forecast to reduce substantially over the next few years. Given the uncertain financial and economic future of all of the public sector, it is important that the Council continues to maintain an adequate level of reserves. This position has helped cushion the Council from the reductions in funding whilst savings are being sought without having to make reductions in service provision.

11.2 Capital Investment Reserve
Normal practice is to keep the level at around £2,000,000 to allow for any unforeseen capital demands. This reserve is shown to have an uncommitted balance of £2.049m.

11.3 Equipment Renewal Reserve
The spend projections on this reserve are based on the schedule in Appendix 6 to the 2014/15 Budget report presented to Executive and the Council in February 2014 subsequently adjusted for those items purchased since then.

11.4 Service Transformation Reserve
This reserve is providing funding for various schemes related to Fit to the Future. The current unallocated balance is £1,797,000.

11.5 Corporate Assets Reserve
This reserve was created towards financing the works identified as part of the Asset Review, with £1.34m being allocated for 2014/15 works. The total works required over the next five years total £4.29m and a further £18.5m in the subsequent 25 years. The Executive agreed that detailed feasibility studies are undertaken on the potential merits of selective land and non-operational property disposals with further reports to be presented over the course of the financial year 2014/15 as these studies are completed. This will allow informed decisions made on potential disposals, retentions, alternative uses and investment opportunities, to facilitate the development of a long term funding strategy for subsequent years which will form a part of the 2015/16 budget setting process.

11.6 Local Plan Delivery Reserve
Within the June Final Accounts report, £250,000 of the surplus for 2013/14 was appropriated to a new Local Plan Delivery Reserve. This reserve is to be used for items of work required to help the implementation of the Local Plan. This would include detailed work on a specific proposal to help turn it from a proposal to reality, e.g. working up the proposals relating to the Secondary Schooling provision at Myton or how the form for a new ground for Leamington Football Club if it is to be relocated. It is proposed that authority to use this reserve is delegated to the Chief Executive, Head of Finance and the Head of Development in consultation with the Deputy Leader who holds responsibility for the Local Plan and all Group Leaders. This allows for operational effectiveness and democratic accountability. Updates will be given as part of the regular budget monitoring reports.

12 HRA BUSINESS PLAN

12.1 The HRA Business Plan Financial Framework (BPFF) presented at the end of 2013/14 to June's Finance & Audit Scrutiny Committee projected an adverse variance of £34m over the 50 year Business Plan period, compared to the Business Plan presented in December 2013.

12.2 The year-end projected variance is predominantly due to the effect of agreeing a lower rent increase than the national formula, and also reassessing the likely speed of convergence by moving void homes to formula social rent.

12.3 Since then 'Phase 2' of the Housing & Property service redesign has been approved. Overall this increases current annual HRA costs by approximately £36,000 (net of the increased rent income from renting out the former sheltered scheme manager accommodation) over the 2014/15 Estimates.

12.4 The Business Plan presented to members in December, and more recently in to Finance and Audit Scrutiny Committee, assumed that the service re-designs would make savings of £220,000 per annum in future years, rather than the additional £36,000 now estimated. The latest estimated costs from the service re-designs mean that over 50 years there is an additional adverse variance of £38m. Added to the year-end variances of £34m discussed above, this gives an overall adverse variance of £72m over 50 years compared to the Business Plan presented in December 2013. Unless compensating favourable variances are identified, this reduces the resources available for investment in the service, such as providing new social homes. It should be noted that this variance is on a total turnover within the Business Plan over the same 50 year period of around £3,900m (based on projected income). Over that period there will be many other changes. The HRA Business Plan continues to be in a very strong position with resources currently existing, and planned to exist, that will enable future investment in additional housing stock over the period of the plan.