

 Executive 27 July 2016		Agenda Item No. 5
Title	Budget Review to 30 June 2016	
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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?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 2016 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	04.07.16	Chris Elliott
Head of Service	04.07.16	Mike Snow
CMT	04.07.16	Chris Elliott
Section 151 Officer	04.07.16	Mike Snow
Monitoring Officer	04.07.16	Graham Leach (Deputy)
Finance	04.07.16	Andy Crump
Portfolio Holder(s)	04.07.16	ClIr Peter Whiting
Consultation & Community Engagement		
Not applicable		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		
A further report will be presented in the Autumn on options regarding business rates pool		

1. **Summary**

- 1.1 This report updates Members on the latest financial position as various changes to 2016/17 budgets have been identified and are now presented to Members for approval.

2. **Recommendations**

- 2.1 That the Executive notes the latest variances for the General Fund budget, the projected outturn on budget and agrees to the budget changes detailed in paragraph 3.1.
- 2.2 That the Executive agrees to make a one-off payment from the Contingency Budget to fund a salary underpayment for a member of staff. (para 3.2.2)
- 2.3 That the Executive notes that the rent refund to the West Midlands (WM). Reserve Force and Cadets of £16,600 has been paid from this year's Contingency budget rather than last year's as originally agreed. (para 3.2.3)
- 2.4 That the Executive notes that currently there are no projected changes to the HRA budget (para 3.5)
- 2.5 That the Executive notes the Medium Term Financial Strategy projections and the forecast of required recurrent savings of £696k which are being addressed by the Fit For the Future programme agreed by members in June 2016. (para 3.7).
- 2.6 That the Executive notes the position on Coventry and Warwickshire Business Rates Pool from 2017/18 and that a future report will be forthcoming on the future potential pooling options available to the Council. (section 3.8)
- 2.7 That the Executive agrees that Portfolio Holders and Heads of Service review all planned and potential demands for future revenue or capital funding so that the Council's financial projections are as inclusive and accurate as possible (para 3.9.2).
- 2.8 That the Executive notes the position regarding Treasury Management. (para 3.10)
- 2.9 That the Executive note the action taken under delegated powers in accordance with the Code of Procurement Practice to approve Count Venue for the EU Referendum. (para 3.11)

3. **Reasons for the Recommendations**

3.1 General Fund 2016/17

- 3.1.1 The latest variances that have been identified by managers are shown below.

	£
Firmstep Contract	7,000 (A)
Planning Income (see para 3.4.3)	100,000 (F)
Non salary variances	93,000 (F)
Salary Variances	86,800(A)
Minor Variances	5,300(A)
Overall Variance	900(F)

3.1.2 The Firmstep contract budget was included within the savings from the Customer Service Centre review. However this system is still needed for One Stop Shops. The future need for this system will be subject to the review of One Stop Shops.

3.1.3 Changes to salary budgets totalling £86,800 have arisen since these budgets were agreed and these have now been factored into the current forecast out-turn position. These relate to:-

- Contract Services Officer £26,400 – post on establishment but not within Budget.
- ICT salaries vacancy adjustment £22,100.
- Fitness instructors re-gradings £20,000.
- Revenue officer 12 month post funded from council tax penalty income, (penalty income included in budget but not the expenditure of £18,300)

3.2 Contingency Budgets

3.2.1 Details of the current year budget (£471,300) and the balance remaining (£201,900), after calls on this budget in this report, are shown in Appendix A but before any commitments requested in other reports to this meeting. The Prosperity Agenda item originally approved at April's Executive for £29,200 now only needs £25,900, a reduction of £3,300. This has been reflected in the balance remaining mentioned above. None of the 2016/17 Training Contingency Budget of £4,900 has currently been allocated. However, this budget was fully allocated in 2015/16 and is expected to be so this year. There are other Contingency Budgets for Price Inflation (£24,000) and Contract Cleaning (£101,000). Any forthcoming demands for the use of these budgets will be reported upon during the year.

3.2.2 A member of Cultural Services has been underpaid, for a number of years, and the council now has a, one-off £30,000 liability (including employer on-costs). Although the Head of Service has made every effort to fund this from existing budget, it has proved impossible without wider more adverse consequences and it is now considered appropriate that this should be funded from the Contingency Budget.

3.2.3 The rent refund relates to WDC receiving rent from Racing Club Warwick, a portion of which should have been sent to the W.M. Reserve Force/Cadets. They also received a rent refund whilst they were unable to access their Clubhouse. This refund was previously agreed by the Executive in July 2015 to be funded from last year's Contingency Budget. However, owing to the length of time it took to finally resolve all the outstanding issues regarding Racing Club Warwick and the Cadets the decision could not be executed until the beginning of this current financial year.

3.2.4 If agreed, the Contingency Budget balance shown in paragraph 3.2.1 would reduce from £245,200 to £201,900.

3.3 Revenue Slippage- Earmarked Reserves

3.3.1 Revenue slippage from 2015/16 has been added into the 2016/17 budget, totalling £322,600 for the General Fund, see Appendix B. This will be monitored separately and reported to Executive on a quarterly basis. As at the end of June nothing has been spent to date. In addition £258,700 of revenue slippage was approved for the HRA at the same meeting and these can also be seen in Appendix B.

3.3.2 Progress has been made on some of the earmarked reserves and this is detailed in Appendix B.

3.4 Income Budgets

3.4.1 Due to the significant favourable income variances reported in the 2015/16 Final Accounts which contributed to the overall £1.7m net underspend. The Accountancy team is working with budget managers to check whether the current income budget projections are accurately reflecting current market conditions.

3.4.2 Appendix C shows income and budget details for the last three years, for major income budgets. This Appendix shows that over the past few years, income forecasting in those areas, apart from 2015/16, has mainly been reasonable. The two areas, which are exceptions to this, are Car Parking and Planning fee income. Planning Income has averaged, over the past 3 years, a more than £250,000 over recovery of the income budget per annum. Parking has been subject to similar variances at approximately £235,000 per annum.

3.4.3 Whilst it is early in the year, further work is on-going to confirm whether the upturn in these budgets will continue. At this stage the only change is in respect of Planning Fees where £100,000 increase in the income budget is proposed. By the second quarter's report on the budget, later in the year (October/November), managers should be in a better position to identify if these income budgets could be increased, improving the Council's financial position as at 31st March 2017, and also review the budgets for future years to be included within the Medium Term Financial Strategy.

3.5 HRA

3.5.1 No variances have currently been identified for the HRA to end of June 2016.

3.6 Capital

3.6.1 There are currently no General Fund Capital variances being reported by budget managers with the exception of the item below.

3.6.2 The Housing Investment Programme (H.I.P.) reported, to June's Executive that the Renewal of the Fire Alarm Systems in Sheltered Housing Schemes needed additional funding of £207,000. It was agreed that £71,000 would come from an earmarked reserve from 2015/16, with the remainder being paid from existing reserves.

3.7 Medium Term Financial Strategy (MTFS)

3.7.1 The MTFS was updated and presented to Members on 2 June as part of Fit For the future Executive report. The savings requirements within that report are set out below:-

On-going Savings (-) required	2017/18	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000	£000
Additional Savings	148	295	75	52	696
Cumulative Savings	148	147	-220	-23	644

3.7.2 The MTFS allows for the following assumptions:-

- Council Tax annual increases of £5 at Band D to 2019/20, and 2% thereafter
- £300,000 savings from the proposed office move in 2018/19
- £145,000 savings from the Terms and Conditions Review (Phases 1 & 2) from 2018/19
- £500,000 from the investment in the leisure centres and new management arrangements by 2018
- Investment in a new multi storey car park at Covent Garden with the finance costs of borrowing met by increased parking charges from 2018/19
- Revenue Support Grant reducing to zero by 2019/20.

3.7.3 At this stage, there are no significant changes proposed that will alter the above projections. However, the following issues are being considered and monitored:-

- Retained Business Rates. Business Rates income is still subject to substantial appeals waiting to be determined. Consequently, it is still necessary to take a prudent view of current and future retained business rates. As part of the finalisation of 2015/16 accounts the Council was able to increase the balance on the Business Rate Volatility Reserve. The projections for retained business rates income have been reviewed in the light of 2015/16 and it has been determined that there is no need to amend the previous estimates at this stage.
- Following on from the finalisation of 2015/16 accounts, the main income sources are continuing to be monitored tightly, as discussed elsewhere within this report (see Appendix C). Also, the expenditure variances within this report are also being considered, with any variances for the current year being discussed elsewhere within this report.
- The variances in section 3 have not been factored into the MTFS at this stage.
- Investment interest is being kept closely under review as discussed within paragraph 3.10.

3.7.4 The June FFF Executive report agreed a programme of initiatives which should secure sufficient savings to exceed the cumulative savings requirement in the above table. These initiatives are being progressed and any additional savings potential will be closely monitored. If it is not possible to make these savings, this will be reported to Members in future reports and who should note that in such a scenario the Council would need to consider other savings initiatives.

3.8. Business Rates Retention and Pooling

- 3.8.1 The Council is currently in the Coventry and Warwickshire Business Rates Pool, along with the 5 districts in Warwickshire, the County Council and Coventry City Council. As part of the pool, the authorities have been able to reduce the net amount of levy payable to Central Government, and retain more business rate income locally.
- 3.8.2 With the formation of the new West Midlands Combined Authorities, there will be a new pool formed covering that area. Consequently the current pool will no longer exist from 1 April 2017. Consideration is being given to what the alternate pool arrangements are for the Non-Constituent Members of the Combined Authority, along with authorities such as Warwick which have not agreed to join the new Combined Authority. Modelling is also due to be undertaken. This work is likely to progress into the Autumn. Members will be advised in a future report what the pooling options are along with any appropriate recommendation.
- 3.8.3 Overall the Pool arrangement resulted in over £1.1m being retained locally from Business Rates, with WDC's share being £95k for 2015/16. However, due to the Council also receiving a, one-off, safety net payment for 2013/14 from the Pool which is due to be repaid from future years' retained levy, the Council will not directly benefit from this. In addition, it should be noted, that subject to the performance of the pool in 2016/17, the Council may still have a liability to pay when the pool is dissolved. This is currently estimated to be £50k, which would be financed from the Business Rate Volatility Reserve. When further information is available, it will be reported to the next meeting of the Executive. However, as it stands the Council stands to lose business rates income if it remains outside a pool.

3.9 Other Funding Liabilities

- 3.9.1 In addition to the projected shortfall in the Medium Term Financial Strategy, the Council also has the following liabilities to fund:-
- Asset Maintenance Liabilities – following the review of Corporate Assets, the future cost of maintaining all the Council's property assets and land holdings has been established, as previously reported to Executive. The cost of these works is only funded up to and including 2018/19. To fully fund the works required in subsequent years will amount to an additional cost averaging out at approximately £1m per annum.
 - ICT – A separate ICT Reserve has been established to provide funding for the Council's ICT infrastructure. Contributions of £250k, per annum, are being made to this reserve.
 - Equipment Renewals Reserve – For some years the Council has maintained an Equipment Renewals Reserve to fund service equipment replacement. Contributions of £100k per annum are being made to this reserve.
- 3.9.2 It is important that the Council's financial projections are as inclusive of all potential funding demands upon the Council as possible. It is important that Portfolio Holders and Heads of Service review all items currently budgeted for in the current and future years, and any further items which are currently not budgeted for inclusion in the financial projections and future Budget reports.

3.10 Treasury Management

- 3.10.1 Following the Referendum decision to leave the European Union, the UK's credit rating has been downgraded from its AAA rating. The implications of this and

other 'Brexit' issues have not yet become clear and the country has entered a period of un-certainty. The Governor of the Bank of England has already indicated that interest rates are likely to fall. This has not been factored into the financial projections at this stage.

3.11 Procurement

- 3.11.1 An exemption to the Code of Procurement Practice was approved by the Head of Finance, in accordance with paragraphs 6.2.5 and 6.3 of the Code. for the use of Stoneleigh Park as a count venue for the EU Referendum. This exemption was agreed because, following research by officers, there are no other suitable venues for the count within Warwick District. The quote received was for £10,800 for room hire with some further additional services (stage, PA, Tables, Security and parking staff), bringing the total cost to £12,523.
- 3.11.2 Officers are working on securing a contract for a count venue within the District, for the medium term and a report, if necessary will be brought before Members.

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 One of the 3 Strands of Fit For the Future is ensuring that the Council achieves the required savings to enable it to set a balanced budget whilst also maintaining or improving 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 additional financial savings of almost £700,000 over the next five years for the General Fund as detailed elsewhere in this report. Officers review current year budgets on a monthly basis at the same time as considering implications for the medium term. Members are updated on a quarterly basis.
- 5.2 The Budget Review Process provides a planning tool to ensure resources are directed to the Council's priorities. Alongside the Council's own activities, external factors influencing its finances are also taken into consideration, for example Central Government Financing, the Business Rates Retention scheme, changes in legislation and the economy.
- 5.3 The Council maintains its Reserves to deliver Capital and other projects, and to ensure that there are sufficient resources available to manage unforeseen demands and continue to deliver its services. Close monitoring of these Reserve balances, 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 (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 2016/17 there is a Contingency Budget with an uncommitted balance of £245,200 (prior to this meeting) for any unplanned or 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 Finance & Audit 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.