

 <b>Executive – 8<sup>th</sup> August 2012</b>		<b>Agenda Item No.</b>  <b>9</b>
<b>Title</b>	Budget Review to 30 June 2012	
<b>For further information about this report please contact</b>	Jenny Clayton Tel 01926 456013 Andy Crump Tel 01926 456810	
<b>Wards of the District directly affected</b>	None	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	N/A	
<b>Background Papers</b>	No	

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

<b>Officer/Councillor Approval</b>		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Chief Executive/Deputy Chief Executive	16/7/12	Chris Elliott
Head of Service	12/7/12	Mike Snow
CMT	17/7/12	
Section 151 Officer	12/7/12	Mike Snow
Monitoring Officer	17/7/12	
Finance	12/7/12	Mike Snow
Portfolio Holder(s)	19/7/12	Andrew Mobbs
<b>Consultation &amp; Community Engagement</b>		
<b>Final Decision?</b>		Yes/No
<b>Suggested next steps (if not final decision please set out below)</b>		

## **1. SUMMARY**

This report discusses both the 2012-13 Budgetary position and also the financial forecasts for the Medium Term. It also seeks Member approval for various changes to budgets.

## **2. RECOMMENDATION**

- 2.1 Executive notes the budget position for the current year for the General Fund, currently £98,700 surplus.
- 2.2 Members are asked to agree to the returning of £87,700 to the Contingency Budget in respect of Warwick Castle and the allocation of £14,100 to Elections as well as noting the Contingency allocations already approved under the Head of Finance's delegated authority.
- 2.3 Members are asked to agree to Budget Changes in Appendix A, the most significant of which are discussed in this report.
- 2.4 Executive notes the latest position on the Capital Programme and HRA and approves the Budget Changes (Capital) in Appendix C.
- 2.5 Members note the updated Financial Strategy and the forecast required recurrent savings of £275,000 to be achieved by 2016-17. Members also note the latest progress towards meeting the Fit for the Future Targets.
- 2.6 Members approve the latest Equipment Renewal Schedule, Appendix E, and note that despite the Reserve being replenished from part of the 2011-12 surplus, the balance on this remains over-subscribed.
- 2.7 Members note the latest position in respect of the Council's Reserves.

## **3. REASONS FOR THE RECOMMENDATION**

- 3.1 To bring 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 underspend of £98,700 compared to the latest 2012-13 budgets. Section 7 below discusses the main reasons for the surplus in more depth.
- 3.2 Details of the Changes to the Contingency Budget are outlined in Section 7.5 below and included in Appendix B.
- 3.3 Appendix A shows the £261,900 favourable changes, which Members are asked to approve, with Section 7 expanding upon the most salient ones. This enables Members to understand why these amendments are necessary.
- 3.4 Only one variance (favourable) of £7,200 (saving on External Audit fees) has been reported so far in 2012-13 for the Housing Revenue Account.

- 3.5 Appendix C updates Members on the Capital Programme Budgets and changes to the programme since it was approved at £2,479,700 in February of this year. Members have already approved the slippage from 2012-13 as part of the Final Accounts process in June, as well as other amendments which have already been approved by Members since the original Budgets were set.
- 3.6 Managers have identified further changes to the capital Budgets, totalling a reduction in the 2012-13 budgets of some £54,500, primarily due to the request to slippage of the PC Printer Replacement Budget to 2013-14. Members are asked to approve the £54,500 amendments and note the latest Capital Programme for 2012-13 of £5,086,800.
- 3.7 It is essential for Members to be updated on the financial projections during the summer, as many factors which affect the medium term have changed since the Strategy was last presented in February when the Council Tax was set. As part of the new Budget Review Process, it is now appropriate to align this 5 year forecast with the first quarterly report on the current financial year. Full details of the changes, implications and risks are discussed below (section 8). Members need to be aware of the £275,000 deficit; further savings and efficiencies of this amount need to be achieved by 2016-17. The Strategy is shown within Appendices F.
- 3.8 In April, members received a report on Fit for the Future. The incorporation of the projected savings arising from Fit For the Future projects were approved to be built into budgets and the Medium Term Financial Strategy. To date just over £300,000 of the savings targeted for this year have been achieved, leaving a further £140,000 to be found by March 2013. The projected deficit of £275,000 assumes that these, plus the £800,000 target for 2013-14 are achieved.
- 3.9 The Equipment Renewal Reserve Schedule was last approved by Members in February. Since then, estimated costs and asset life expectancies have changed, as well as Managers identifying items which will not require replacement and identifying new ones. This is detailed at Appendices E for Member approval and discussed further at section 9.3.
- 3.10 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 positions outlined in Appendix D and discussed in Section 9.

#### **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 needed to be considered in preparing the 2013-14 budget and beyond.

## **5. BUDGETARY FRAMEWORK**

- 5.1 The Council needs to find financial savings of approaching £275,000 over the next five years on a net General Fund Budget of £16m. 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. The Budget Review Process provides a planning tool to ensure resources are directed to the Council's priorities.

## **6. ALTERNATIVE OPTION(S) CONSIDERED**

- 6.1 Not reporting to Executive on a regular basis, however, in the current financial climate, it is imperative that budgets are reviewed, monitored and reported upon on a continuous basis.
- 6.2 From April of this year, this Council adopted the new Budget Review Process, whereby Budget amendments are brought to members throughout the year and duly updated. The Council could revert to its previous practice of deferring making such changes until December when the new-year budgets are considered. However, this would mean that the budgets were not up-to-date and these were irrelevant for managers to monitor.
- 6.3 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.

## **7. BACKGROUND**

- 7.1 Under the new Budget Review process, amendments to budgets are presented to Members for their approval on a regular basis, rather than waiting until December when the following year's Base Budgets are approved. Some of the changes leading to the £98,700 surplus have already been approved by Members. Further changes are listed in Appendix A for Member approval. The projected surplus assumes that all of the £442,000 Fit for the Future Target Savings (April Executive) are achieved. Section 7.9 below updates Members on the latest progress towards achieving this target.
- 7.2 Salaries  
There is a potential favourable variance of £51,000 – Building Control. As much of Building Control work is part of a ringfenced account, only one third of this amount will impact upon the General Fund so only £17,000 has been included in Appendix A.
- 7.3 Other Budget Changes  
This Council has now been informed that the Warwick Castle Court Case Appeal will not affect the award of costs to the Council. The Ear Marked Reserve from 2011-12 will be returned to the Contingency Budget, increasing the amount available in that budget by £87,000. The Contingency Budget is discussed further in section 7.5.

There is a one-off saving in respect of compensation for lost income at Abbey End Car park (£65,000), however this is more than off set by pressures in respect of Benefits overpayments, (£80,000 non-recurrent not written off in prior year and additional £50,000 increase to Bad Debt Provision – recurring).

Development Control Planning Fees income is likely to be significantly in excess of its original budget for 2012-13, by £200,000, due to major developments at Stoneleigh Park and the Gateway. Members should note that this additional income is non-recurrent.

In total, this month, Members are asked to approve the (£261,900 favourable) changes listed at Appendix A. Having already approved amendments, including slippage of Ear Marked Reserves, within the Final Accounts Report in June, this amounts to a £98,700 surplus for 2012-13.

#### 7.4 Revenue Slippage- Earmarked Reserves

They have been added into the 2012-13 budget, totalling £467,100. They will be monitored separately and reported to Executive on a quarterly basis. As these were only approved in June, Budget Managers have not yet reported any progress on using these resources with the exception of the Earmarked Reserve for the Community Partnership Team £11,700 (pump-priming projects to help the delivery of Warwick Partnership's integrated delivery plan). The team will now deliver the plan without this funding, (i.e. it can be returned to General Fund) with the proviso that a bid to the contingency budget for the funds to be returned be allowed later in the year, should it prove necessary. This is included in Appendix A.

#### 7.5 Contingency Budget

The Contingency Budget is intended to be used for any unplanned expenditure which could not be foreseen when the Estimates were agreed and cannot be met out of the agreed budgets. The items financed from the Contingency Budget are one-off items.

As well as the returning of the Warwick Castle Ear Marked Reserve (section 7.3), there are other amendments in respect of this Budget.

The Electoral Services Manager has demonstrated the need for the restoration of the Canvassing Budget budget. The element of the Salaries budget allocated for Canvasser fees was reduced from £25,000 to £6,500 (£18,500) for 2012/2013 as it was originally anticipated this would be a saving. To comply with Electoral Performance Standards all households must receive visits from a Canvasser during the Canvass period to update the Electoral Register. Due to unforeseen circumstances it has not been possible to carry out this work as initially envisaged. The cost of employing canvassers to complete within the statutory deadlines is £20,600, a shortfall of some £14,100. Since this reflects a budget saving that was given up, but now proves to be needed, Members are asked to approve that this be funded from the Contingency Budget.

Urgent requests of up to £10,000 have been delegated to the Head of Finance and the relevant Head of Service to approve, in consultation with the Finance Portfolio Holder and relevant Service Portfolio Holder. Appropriate details would

subsequently be reported to the Executive by the Head of Finance. These are detailed below.

- Maternity cover in HR of £5,900.
- Maternity Cover - Communications £2,000
- Warwick Boxing Club £10,000

All of these allocations are shown at Appendix B for Member approval, the balance on the Contingency Budget is now £285,000.

#### 7.6 Training

A Central Training Budget of £10,000, administered by Human Resources, exists to provide additional resource when service budgets prove to be insufficient. None of this budget has yet been allocated in 2012-13.

#### 7.7 Final Accounts

The Accounts for 2011-12 have been finalized and variations are being analysed to see if they have a financial effect in 2012-13 and beyond. Some savings have already been identified and these contribute towards part of this year's Fit for the Future Savings target.

#### 7.8 Progress on Budget Review Protocol

The Financial Code of Practice is to be updated to facilitate the new Budget Review Process and is intended to be presented to the November Executive for approval.

#### 7.9 Fit for the Future

Budgets have been updated in accordance with the April Fit for the Future report with these being devolved to the Service Areas in line with their Service Plans. The target for savings for 2012-13 has been increased to £442,000 from £334,000 in line with April's report on Fit For the Future. The Table below shows the latest position, whereby £302,000 of this Target has already been achieved, leaving £140,000 outstanding.

<b>Fit for the Future Target Budget</b>	<b>£'000's</b>
FFF Corporate Target (initial)	334
Increase April Executive	108
Revised Target 2012-13 April	442
Achieved to date	-302
<b>Outstanding Target 2012-13</b>	<b>140</b>

Plans are in place to ensure that these savings are achieved. Should this outstanding target not be achieved in 2012-13, this would change the surplus from £98,700 (Section 7.1) to a deficit of £41,300.

#### The Fit for the Future Achievement Award

The Budget Report in February included the proposal for the Chief Executive to enter into discussions with the unions so as to agree a local pay agreement. This has now been agreed with the unions on the basis of the details included in Appendix G.

The Award will be paid if the savings referred to above are achieved, and the measures and milestones for each Service as detailed in Appendix H are also met.

## **8 MEDIUM TERM STRATEGY**

- 8.1 Approved changes to the 2012-13 budgets which are recurrent have been built into the Medium Term Financial Strategy. These and other future developments impacting on the Council now indicate that there will be an on-going deficit of £275,000 by 2016-17 unless on-going savings can be achieved in addition to the savings from Fit for the Future Projects which are now included in budgets but yet to be realised. This is an adverse change to the projection in April, which were achievable through the savings identified at that point in time. It now means that more efficiencies must be identified and secured to redress this. Members are asked to note the position (Appendices F) with concern.
- 8.2 The April Fit for the Future Report projected a surplus nearing £470,000 over the same period. The main factors for the £750,000 swing are as follows-
- Removal of the Recurrent Procurements Savings Target in 2012-13 £244,000.
  - Benefits overpayments Subsidy net of Write Offs in 2012-13 budgets, which again is recurrent. (£50,000 recurrent).
  - Reduction in Council Tax Support Grant re-imbursed under the new Council Tax Reforms from 2013-14 (£225,000 net of decreased Tax Base from Council Tax Reforms).
  - Auto-enrolment in Pension Scheme costs for 2013-14 and 2014-15 higher than those anticipated for 2012-13 (£93,000)
  - Smaller Recurrent Budget Corrections (£50,000) in 2012-13
  - Delayed recovery in Investment Interest Rates (£150,000)
  - 15% increase in Planning Fees from 2014-15 (-£60,000 favourable)

These changes are discussed in more detail below.

- 8.3 Members approved the removal of the Procurement Savings target (£244,000) in June, as this was a recurrent budget, on the assumption that this can be met within resources for 2012-13, this increases the on-going savings required in future years.
- 8.4 The Council continues to seek to recover Benefits Overpayments. The potential write-off provision has been reassessed. In the current financial climate it is necessary for a prudent approach to be applied here, with the provision increased by £50,000 per annum. This will continue to be assessed to reflect any change in the overall position.
- 8.5 There will be significant changes under the new Council Tax Reforms legislation. This includes allowing Councils to decide to waive exemptions on properties which fall into category A and C, as well as removing the 10% discount on 2<sup>nd</sup> Homes. However, this is offset by the introduction of the new arrangements for administration of Council Tax Support (in place of the current Council Tax Benefits scheme). Councils will receive fixed funding which will be derived from a 10% reduction in the matched subsidy currently re-imbursed and must either accommodate this pressure within its resources or design its new local scheme to relay this onto claimants. The Government have yet to announce the fixed sums that will be paid and as the numbers of claimants and their entitlements

vary significantly from month to month, the impact upon the Collection Fund and Tax Base is based upon best estimates to date. Officers are working to model possible schemes for both Council Tax Support and the levels of exemptions applied whilst monitoring changes to the levels of claimants and Band D Tax Base exemptions and 2<sup>nd</sup> Homes. The Strategy will be updated as more definitive figures become available and for the 2013-14 Tax Base. Members received a report on the proposed Council Tax Support scheme for 2013-14 in July and will receive further reports on all of these changes during the year.

- 8.6 The Auto-enrolment scheme was initially intended to be introduced in this financial year and £39,000 was built into the budget and Strategy. However, this has now been delayed until October 2013, but the costs will be significantly higher than first envisaged. The new costs have been re-profiled into the Strategy and Members approved the 2012-13 budget reduction in June.
- 8.7 Reduced Investment Interest in future years - The investment interest forecasts used for the 2012-13 Original Budgets (and which informed the latest Medium Term Financial Strategy) were based on Bank Rate remaining at 0.50% throughout 2012-13, beginning to rise from September 2013 and reaching 2.50% by the end of March 2015.

Sector, our Treasury Management Consultants, have recently revised its Bank Rate increase schedule with the first rise in Bank Rate now expected in March 2014, only reaching 1.50% by the end of March 2015, (a reduction of 1% over the previous forecast).

Whilst the levels on Reserves have increased upon the closure of the 2011-12 Accounts, reduced interest rates have more than offset this, culminating in reductions of some £150,000 per annum.

- 8.8 Other risks/uncertainties that have not yet been built into the Strategy include-
- Government Support Grant Reductions - The future level of Central Government funding for local authorities is very uncertain. Latest briefings from the Local Government Association suggest that the reductions to Revenue Support Grant will continue beyond the 4 year period announced in the 2010 Spending Review. The LGA is assuming that the level of reductions will be broadly the same, based upon the Chancellor's 2012 Budget. It is therefore possible that there will be further reductions greater than those currently factored into the financial projections.
  - With the changes to Universal Credit, the Council will see a reduction in the Housing Benefit Admin Subsidy, possibly from 2013-14. There is a risk that this funding may reduce by more than the Council is able to reduce its expenditure on housing benefits.
  - New Homes Bonus – discussed in paragraph 10.1
  - Fees and Charges
  - Business Rate Retention and Pooling (July Executive Report)
  - Capital Programme, funding of and Revenue implications would be included as and when these are reported.
  - Other organisations receiving less Government support and withdrawing monies from projects they currently fund
  - Major Contract Renewals for the 1<sup>st</sup> April 2013 will be reported to the September Executive



- Community Infrastructure Levy

## **9 RESERVES**

### **9.1 General Fund**

Appendix D shows the projected uncommitted General Fund Reserves. Following the approval of the Final Accounts report in June, the following appropriations to the Reserves have been included:-

- £140,000 to the General Fund Early Retirement Reserve;
- £110,000 to the Equipment Renewal Reserve;
- £83,000 to the Services Transformation Reserve;

The Council is fortunate in that it has a history of maintaining a good level of reserves. However, it will be noted from Appendix D, that the level of 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.

### **9.2 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 £1.633m. Of this balance £1.2m is earmarked for Leamington Asset Feasibility work, and £0.2m for Spencer Yard. Alongside this, a request elsewhere on this agenda will further reduce this reserve by £175,000. Assuming the earmarked elements are to continue, this reserve will not be able to fund any further capital projects. With this reserve being so depleted, the Council needs to make sure it retains other available potential sources of funding should any unforeseen issue arise.

The Council will need to allocate some or all of the 2013-14 New Homes Bonus to the Capital Investment Reserve when details are available later in the year.

### **9.3 Equipment Renewal Reserve**

The Equipment Renewal Reserve Schedule has been reviewed by the Heads of Service. There have been some changes to the projections that were presented to Members in February.

The chairs and tables at the Spa Centre will no longer require replacing from this Reserve, however, the Cinema needs a Digital Projector to enable it to remain competitive and this would need to be done in the current financial year to secure match funding from the Digital Funding Partnership. Overall there is very little difference in estimated cost between these 2 items.

The replacement of the Environmental Services vans has been updated to reflect latest vehicle prices.

Members are asked to note the expected replacement costs now totalling some £3.3 million. The balance on this Reserve at 1<sup>st</sup> April 2012 is £1,365,000. As shown in the Reserves Appendix D, the Reserve will be fully exhausted by April 2017, unless it is further replenished or items can be replaced at lower cost, funded from other sources or removed from the Schedule. Members are also asked to approve this Schedule (Appendix E).

## **10 NEW HOMES BONUS**

- 10.1 The Council is receiving a New Homes Bonus (NHB) of £818,000 in total for 2012-13. This comprises of the second year of the 2011-12 NHB of £292,000 and £526,000 as the first year of the 2012-13 allocations. Allocations are due to continue for six years.

Assuming the scheme is unchanged, for 2013-14 the Council should again receive £818,000 plus the 2013-14 allocation. It is difficult to predict the 2013-14 allocation, as with any future years; this is dependent upon the net increase in new dwellings in the district after allowing for any increase in long term empty properties, supplemented by a payment of £350 per increase in Social Housing unit.

Under the Joint Venture that the Council has signed with Waterloo Housing Association, the NHB for any additional properties under the Joint Venture will be recycled into the partnership.

The Council will need to consider the various demands upon the NHB. As a priority, the Council should seek to replenish the various reserves for which their balances are substantially reducing as a result of the various projects that they are financing. Should there be a significant increase in numbers of new properties in one year, this may also be reflected in additional demands from this Council which will need to be resourced as well.

## **11 FEES AND CHARGES**

- 11.1 The effect of any income changes arising out of the Fees and Charges report to the October Executive will be incorporated into the current year's Budget Review Process as well as the Medium Term Financial Strategy. The Strategy currently assumes a 2% increase per annum, although Service Areas are seeking to increase income about this level, especially for any services which were not subject to increases in January 2012.

## **12 COMMUNITY INFRASTRUCTURE LEVY**

- 12.1 Section 206 of the Planning Act 2008 confers the power to charge Community Infrastructure Levy to local Planning Authorities. This levy is to provide towards the infrastructure costs of new development and this authority would be including in it levy costs incurred by other public sector bodies such as the County and NHS. The levy should be set at a rate to recover this Council's set up and administration costs. It is expected that the Council will introduce the levy in 2014, alongside adopting its local plan, with Members receiving a full report on this in due course.
- 12.2 In setting an appropriate levy, authorities should consider the value of the development and also the affordability of the levy in respect to Developer affordability. This would have to be balanced against the costs of all the authorities. It is foreseen that this levy will replace much of the income currently received under S106 agreements. Work on this is at a preliminary stage at present, however, there are risks which could impact on the Council from 2014 onwards

- Failure to set the levy high enough to recover the Council's costs
- Charging too high a levy and discouraging developers

- Reduced levels of Development would restrict Business Rate Growth and the proportion retained
- Reduced level of domestic development limiting Tax Base and therefore Council Tax Income and New Homes Bonus.

When drawing up the scheme, officers will be mindful of these implications.

### **13 FUTURE GOVERNMENT FUNDING**

- 13.1 The future level of Central Government funding for local authorities is very uncertain. Latest briefings from the Local Government Association suggest that the reductions to Revenue Support Grant will continue beyond the 4 year period announced in the 2010 Spending Review. The LGA is assuming that the level of future reductions will be broadly the same, based upon the Chancellor's 2012 Budget.
- 13.2 The Strategy still assumes that the 7.5% reduction in Revenue Support Grants will not extend beyond 2014-15. Should the same level of reduction continue for a further 2 years, the impact could be in the region of £860,000. As other grants are likely to be rolled into this grant, other support could also reduce by 7.5% per year. Officers will continue to monitor the situation closely.
- 13.3 There is a possibility that Housing Benefit Admin Subsidy may be reduced from 2014-15 or earlier. With the move to Universal Credits and the work being transferred to DWP, there is also a risk that the Council may lose more Grant Funding than it is able to reduce its costs. Precise details of the amount and timing are very uncertain at this stage.