

 <b>Executive – 13<sup>th</sup> November 2013</b>		<b>Agenda Item No.</b>  <b>9</b>
<b>Title</b>	Budget Review to 30 <sup>th</sup> September 2013	
<b>For further information about this report please contact</b>	Mike Snow      Tel 01926 456800 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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?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	28/10/13	Chris Elliott
Head of Service	28/10/12	Mike Snow
CMT	28/10/13	
Section 151 Officer	28/10/13	Mike Snow
Monitoring Officer	28/10/13	Andrew Jones
Finance	28/10/13	Mike Snow
Portfolio Holder(s)	28/10/12	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 updates Members on the latest position for the current financial year and the financial outlook. The Council's Medium Term Financial Strategy has been updated since the 2013/14 Budget was agreed in February of this year in light of the Government's Spending Review 2013 announcements and other known changes discussed below. Various changes to 2013/14 budgets are presented, in line with the Financial Code of Practice approved in March of this year.

## **2. RECOMMENDATION**

- 2.1 Executive acknowledges the budget position for the current year for the General Fund, currently £601,400 surplus. Executive also notes the £586,200 net favourable variance on the HRA.
- 2.2 Members agree to the Budget Changes in Appendix A (General Fund and HRA), the most significant of which are discussed in this report.
- 2.3 Members note the updated Financial Strategy and the forecast required recurrent savings of £1.05 million to be achieved by 2018/19. Members also note the latest progress towards meeting the Fit for the Future Targets.
- 2.4 Members approve the slippage of £1,918,700 in paragraph 3.4 as well as the small underspend for the Warwick Boathouse project. These two items now mean that latest General Fund Capital Programme for 2013/14 now stands at £4,571,000. Details are shown in Appendix B1.
- 2.5 Members approve changes in the Housing Investment (HIP) Capital Programme listed in Appendix B2, a decrease of £50,800 overall; further detail is in paragraphs 9.3 & 9.4.
- 2.6 Members note the latest position in respect of all the Council's Reserves, as set out in Appendix C.

## **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 second of these reports in the current financial year. The current General Fund service expenditure position is a projected underspend of £601,400 compared to the latest 2013/14 budgets. Appendix A lists the changes identified and Member approval is sought for Budgets to be updated and note those already actioned under delegated powers. Section 7 below discusses the main reasons for the surplus in more depth. This enables Members to understand why these amendments are necessary.
- 3.2 For the Housing Revenue Account (HRA) there are some budget changes that need approval and these too are listed in Appendix A and also discussed in Section 7.7.
- 3.3 It is essential to update Members on the financial projections at regular intervals during the year, as many factors which have long term financial implications have changed since it was last presented to Executive in the

summer, as part of the quarter one Report in August. Full details of the changes, implications and risks are discussed below (section 8 and 11). Members need to be aware of the £1.05 million deficit, meaning that further savings and efficiencies of this amount need to be achieved by 2018/19, in addition to those already identified. The Strategy is shown within Appendix H.

- 3.4 Appendix B1 updates Members on Capital Programme Budgets and changes to the programme since it was last amended in September when it stood at £6,494,100. Managers have now identified a further reduction to the Capital Programme, totalling £1,923,100 which relates to slippage to 2014/15 for Leamington One Stop Shop (£295,600), Riverside House Benefits/Cash Office area refurbishment (£22,600), Enhancement of Other Car Parks (£14,000), Green Farm Play Equipment (£26,800), Jubilee House (£290,000), Leek Wootton Woodland Acquisition (£49,600), Cubbington Flood Alleviation (£280,100) and (£940,000) Crematorium, as well as the small underspend for the Warwick Boathouse project (£4,400). The first two are linked to the Riverside House relocation project, whilst Members have been made aware by the Fees & Charges report to October 2013 Executive of the delay in starting the majority of the capital works at the Crematorium. The Programme will stand at £4,571,000 should the slippage requests be approved. Appendix B2 updates Members on the Housing Investment Programme (HIP).
- 3.5 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 C and discussed in Section 10.

## **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 2014/15 budget and beyond.

## **5. BUDGETARY FRAMEWORK**

- 5.1 The Council needs to find financial savings of approaching £1.05 million over the next five years on a net General Fund Budget currently £16m, reducing to below £14m by 2018/19. 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 new 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. 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 2012, 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. As demonstrated in the Final Accounts Report 9 June 2013, the new Review Process lead to more robust monitoring and Financial management than the old system.
- 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.
- 6.4 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.

## **7. BACKGROUND**

### **2013/14 General Fund Budget**

- 7.1 Under the Budget Review process, amendments to budgets are presented to Members for their approval on a regular basis. Some of the changes leading to the £601,400 surplus have already been approved by Members. Further changes are listed in Appendix A for Member approval alongside those already implemented. The projected surplus assumes that all of the £406,800 Fit for the Future Target Savings are achieved. Section 7.6 below updates Members on the latest progress towards achieving this target. Since the last report (£139,500) the surplus has gradually increased with reported figures to SMT for July (£162,600) and August (£440,000) showing the monthly increases. September's position improved upon the August position by £201,400, mainly due to Fees and Charges increases.
- 7.2 Salaries  
The following variations have been reported. Building and Development Control £42,100 F (£35,000 relates to the ring-fenced building control account and therefore cannot be declared as a usable variance), Revenues and Housing Benefit £44,000 F, totalling **£51,100**. The net benefit to the General Fund is

£7.1k), Revenues and Housing Benefit £44,000 F, ICT and HR (plus REAP income) £42,200 totalling **£93,300**. Whilst these have been identified as variations, budgets are not currently being amended to reflect these figures. These have not been included in Budgets to be amended as yet but are being reviewed as part of the 2014/15 Base Budget work. These figures exclude any variances in respect of the proposed pay award and Fit for the Future Achievement Award which were reported previously.

### 7.3 Other Budget Changes

These are shown in Appendix A, the major ones to note are mainly fees and charges related, with extra income for Parking (£75k), Cremation Fees (£161k) and Development Control (£154k) with reductions for Building Control (£40k), Cemeteries (£18k), Land Charges (£15k) and Revenues Court Fees (£20k)

### 7.4 Earmarked Reserves

Actual and committed expenditure for 2013/14 totals £97,600 to date against a budget of £409,700. This equates to a just over 23.8% spend. Details are shown in Appendix D.

Managers should consider where projects built into the 2013/14 budget will no longer be deliverable in part or total in this Financial Year, so that requests for slippage can be identified and presented to the Executive for approval as part of the Budget Setting process, rather than waiting until closure of the Accounts.

### 7.5 Contingency Budget

Details are shown in Appendix E, with a balance remaining of £122,700. This is after allowing for approvals that have been made under delegated powers in cases of urgency below £10,000.

None of the 2013/14 Training Contingency Budget of £10,000 has currently been allocated.

### 7.6 Fit For the Future

At the start of the year, £406,800 of savings still needed to be made. Finance, Development Services, Housing – GF, Environmental Services (now Health & Community Protection) have all made budget reductions that have reduced the outstanding amount to £128,100. Details are attached in Appendix F.

<b>Fit for the Future Target Budget</b>	<b>£'000's</b>
FFF Corporate Target (initial)	407
Achieved to date	-279
<b>Outstanding Target 2013/14</b>	<b>128</b>

Plans are in place to ensure that these savings are achieved. Should this outstanding target not be achieved in 2013/14, this would change the surplus from £601,400 (Section 7.1) to a surplus of £473,400. The projected deficit of £1.05 million assumes that these savings are achieved.

### 7.7 **HRA Revenue 2013/14**

There are a number of HRA budget changes identified in Appendix A, totalling £507,300 favourable:

Income Management/Rent Arrears:

- Reduced Bad Debt provision: £527,800 favourable. The introduction of Universal Credit has been delayed, and is now extremely unlikely in 2013/14. Additionally rent collection performance is above previous years, despite the introduction of benefit reductions related to the 'spare room subsidy' / 'bedroom tax'.
- Legal Fees savings £32,900 favourable – Arrears officers attending court without solicitors, and processing legal paperwork in-house.
- Extension of fixed term Arrears/Financial Inclusion posts, related to savings above: £91,000 adverse.

Other fixed term posts required until the completion of the Service Redesign: £71,600 adverse.

Further partnership/cost management advice will be required to support the repairs partnership and open book contracts, estimated to cost £42,500. In addition an interim structure is being implemented in property services at an estimated cost of £30,000. This is partly offset by projected savings of £50,000 from repairs contracts in the first year; with savings in future years expected to increase significantly.

Due to improved void performance, rent lost will reduce by £27,000 (favourable). However the new Council Tax scheme reducing the 6 month exemption from empty properties to 1 month will cost £19,000 (adverse).

HRA recharge for Repairs Supervision £116,700 (favourable). There was a one-sided error in this recharge budget which will now be corrected.

Other smaller changes since the last report relate to additional Investment Interest of £19,000 (favourable), additional costs of investigating regeneration options £7,500 (adverse) and various savings identified within Sustaining Tenancies which total £5,600 (favourable). £4,000 of these savings are offset by the remaining FFF savings target.

These changes are in addition to those identified in the previous Budget Review report (to 30 June 2013), which totalled £78,900 favourable.

#### 7.8 Scrap Metal Dealers and Collectors Licences

October's Executive agreed to delegate authority to the Head of Health & Community Protection, in consultation with the Health & Community Protection and Finance Portfolio Holders and Head of Finance, to set fees for those individuals who wanted to collect and deal in scrap metal. The fees, which operate from 1<sup>st</sup> October, have now been set and are attached for information in Appendix G. Income is likely to be somewhere between £2,000 and £3,000.

## **8 MEDIUM TERM FINANCIAL STRATEGY**

- 8.1 The Strategy now indicates that there will be an on-going deficit of £1.05 million by 2018/19 unless further on-going savings of the same magnitude can be delivered. Further savings must be identified in addition to those already built into budgets secured to redress what is effectively a £2 million "hole" in the Council's Finances.

- 8.2 The Table below explains the changes since they were last reported to Executive.

	<b>£'000</b>
<b>August 2013 Executive</b>	<b>1,975</b>
<b>November 2013 Executive</b>	<b>1,049</b>
<b>Change between the Executives</b>	<b>926</b>
Car Park Income	-75
Investment Interest	200
Housing Benefits Admin Grant Cost Neutral-reduction off set by savings	-214
2018/19 inflation set at zero, exclude Pay and Major Contracts	-140
Office Relocation Project 2016	-400
Clarendon Arcade	-350
Head of Develop Services Full Time from April 2014	33
Car Parking – savings to be sought to mitigate costs previously included in financial projections	-212
Business Rates – major developments plus further 0.6%/0.5% increased growth	195
Government Settlement Changes	100
Fees and Charges	-74
Smaller Adjustments	11
<b>Total Change</b>	<b>-926</b>

- 8.3 The Council's Medium Term Financial Projections that were reported to Executive in August included net income inflation from Fees and Charges for 2014/15 at 2% and future years. This plus other known changes assume income increases by a further £74,000 in 2014/15 in excess of the original projections.
- 8.4 Some of the other changes have risks attached to them. For instance, many are influenced by the economy. This affects the levels of disposable income available to our customers when choosing to use some of the Council's Discretionary income such as Leisure Centres. Similarly the economy will influence levels of Car Parking Income, Investment Interest, inflation, Business Rates. Members are asked to note that there is now no inflation for 2018/19 apart from that on Fees and Charges, Pay and Major Contracts. Investment interest is not expected to increase for some years now following on from the recent announcement from the new Governor of the Bank of England with greater emphasis being placed on employment levels.
- 8.5 The Car Parking Income projections for 2013/14 have already exceeded the Original Budgets and Officers believe this will continue into future years. The Strategy had previously assumed that the County Council would tender the on-street parking enforcement scheme, to take effect in 2014/15, which would present additional costs for the District Council. Whilst the County's approach is still to be confirmed, the projections have been changed to reflect, even if the County does operate independently, savings would be made by the Parking Service to ensure there is no additional financial burden on the District Council.
- 8.6 The financial projections previously factored in reduction to the Housing Benefits Administration Grant as Universal Credit is reduced. The timing of when the introduction of Universal Credit will impact upon Housing Benefits is

expected to be delayed. Within the projections, the loss of this grant has now been removed on the basis of the anticipated delay, and the intention that the Council will need to ensure that costs are reduced in line with any grant reduction. These reductions will impact not only impact upon the Benefits Team, but also all services that provide support, including front line and back-office support.

- 8.7 Assumed savings from the proposed office move have now been factored in to the financial projections.
- 8.8 Whilst there is the possibility that the Clarendon Arcade scheme may slip, the projections now assume that the loss in car park income from Chandos Street will be made up by increased Retained Business Rates.
- 8.9 The arrangements with Coventry Council to share the Head of Developments Services/Planning Post will terminate for 2014/15. The budget needs to be restored to it's original recurrent position, with a full-time post being recruited.
- 8.10 The Strategy has also been updated to reflect the Government Announcements in the summer. As the Government's future assumptions in respect of the economy, growth and employment change so will future indicative settlements. Appendix H details the Council's position over the coming years.
- 8.11 The Fees and Charges Exercise for 2013/14 and 2014/15, as reported to Members in October, identified more recurrent income than previously assumed in the Strategy. Members were fully updated last month.

## **9. CAPITAL**

- 9.1 Appendix B1 updates Members on the Capital Programme Budgets and changes to the programme since it was last amended in September when it stood at £6,494,100. Managers have now identified a further reduction to the Capital Programme, totalling £ 1,923,100 which relates to slippage to 2014/15 for Leamington One Stop Shop (£295,600), Riverside House Benefits/Cash Office area refurbishment (£22,600), Enhancement of other car parks (£14,000), Green Farm Play Equipment (£26,800), Jubilee House (£290,000), Leek Wootton Woodland Acquisition (£49,600), Cubbington Flood Alleviation Partnership (£280,100) and £940,000 Crematorium as well as a small saving on Warwick Boathouse project. The first two are linked to the Riverside House relocation project, whilst Members have been made aware by the Fees & Charges report to October 2013 Executive of the delay in starting the majority of the capital works at the Crematorium.
- 9.2 Members expressed concerns upon the closure of the 2012/13 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 with progress on each:-
  - **Victoria Park Bowls**-Additional funding of £250k was granted by the Executive in September for additional improvements and costs to the project. Alterations to the pavilion are due to commence November 2013 and the replacement irrigation system has been delayed until October 2014.
  - **Chase Meadow** – We took possession of the Community Centre on 1<sup>st</sup> October 2013. LPG canisters are currently being used instead of mains gas pipeline



supply due to a problem with the pressure. This is in the process of being rectified and the increase in costs is being addressed.

- **Acquisition of Leek Wootton Woodland** – Police expect to make their decision on the sale of the Police Estate this autumn which will then determine the future of this project.
- **Castle Farm Sports Centre Roof**- Project complete with an under spend of £15,600.
- **Leamington Cemetery Extension** – work has started.
- **Oakley Wood Crematorium Improvements**-Planning request to go to January committee. Costs for the improvements from the Quantity Surveyor will not be known for another 5 months. Majority of budget has been slipped to 2014/15.
- **Cubbington Flood Alleviation** –Additional funding has been awarded by the Regional Flood Forum. The contract is now in the process of being awarded.
- **Kenilworth Public Service Centre** –Review is in progress for the future of this scheme.
- **Abbey Fields Car Park** –Complete.
- **Riverside House One Stop Shop**-All budget slipped to 2014/15 pending Riverside House move.

- 9.3 Appendix B2 updates Members on the latest position of the Capital Housing Investment Programme (HIP). It sets out the latest budgets including slippage and changes already approved by Members, as well as the changes that need approval; a reduction of £50,800:

<b>HRA Related HIP:</b>		
Thermal Improvement Works	£8,500	Additional work required
Environmental Works	(£35,600)	Reduced programme
Water Services	(£5,000)	No works expected
Tannery Court Biomass heating	£50,000	See para 9.4 below
<b>General Fund related HIP:</b>		
Rural Enabling Service	(£3,700)	Saving
Private Sector Decent Homes	(£60,000)	Fewer grants in year
Energy Efficiency Grants	(£5,000)	No expenditure expected
<b>Net Decrease in HIP</b>	<b>(£50,800)</b>	

- 9.4 The Tannery Court Biomass heating system was approved in June 2012 with a budget of £176,000. However it was not included in 2013/14 HIP budgets as the timescale was unclear. It is now expected that £50,000 of work will be completed in 2013/14, the remaining £126,000 in 2014/15.

## 10 RESERVES

### 10.1 General Fund

Appendix C 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, it will be noted from Appendix C, 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.

#### 10.2 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 £2.273m. Of this balance £1.2m is earmarked for the consequences of the Leamington Asset Feasibility studies and £0.2m for Spencer Yard. Assuming the earmarked elements continue, this reserve will not be able to fund significant future capital projects. With this reserve being so depleted, Officers are currently assessing how this can be addressed.

#### 10.3 Equipment Renewal Reserve

The Council has introduced a requirement for Options Appraisals to be carried out when items within the schedule are approved for acquisition in order to determine the most advantageous method of financing the acquisition. This may mean that not all items on the schedule will in fact be purchased using resources from the Equipment Renewal Reserve but financed by other means such as leasing. This may relieve some of the pressure on this reserve but even so, based on current demands this reserve will be exhausted during 2016/17 unless it is replenished.

#### 10.4 Service Transformation Reserve

This reserve is providing funding for various schemes related to Fit to the Future. The current unallocated balance is £1,895,000.

#### 10.5 Sport and Culture Facility Reserve

This reserve was created with £300,000 towards financing works that will be required to the Council's assets following on from the asset condition survey that is currently being undertaken. It is known that substantial sums will need to be spent on the Council's assets in future years. Full details of this survey were presented to Members in October. It was agreed that a maximum of £30,000 be appropriated from the Service Transformation Reserve to conduct an Options Appraisal on the future provision of Sports & Leisure Services in the District.

### **11 RISKS**

#### 11.1 Economy related

Inflation increasing costs above level which can be contained within agreed budgets. Inflation provision is in place.

Reduced income from fees and charges

Reduced investment interest

Increased number of housing benefit and council tax reduction claimants

Decrease in retained business rates

Not achieving required savings that have been included within budgets

Project delays

Contractor risks

Procurement risks –tendering, contract management

Reductions of government funding above levels expected

Increased pension fund contributions – results of triennial review to feed into 2014/15 budget.

Risk of legal challenge

Increased project costs

## **12 HRA BUSINESS PLAN**

- 12.1 An updated HRA Business Plan will be presented to Executive in December 2013, taking account of the budget changes identified in this report and the latest projections for future years.