

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 1 DECEMBER 2015

Title:

BUDGET MANAGEMENT REPORT AND IN-YEAR BUDGET REVIEW

[Portfolio Holder: Cllr Wyatt Ramsdale]

[Wards Affected: All]

Summary and purpose:

This report provides a review against the 2015/16 budget for the General Fund and the Housing Revenue Account forecast to 31 March 2016 based on the latest information available. This report also updates Members on the key Financial Strategy issues going forward.

How this report relates to the Council's Corporate Priorities:

The monitoring and management of the Council's budgets ensures there is financial control over the services that contribute to the Corporate Priorities. Savings identified can be redirected towards Corporate Priorities or action can be taken to rectify overspends.

Resource/Value for Money implications:

This report reviews the position against budget to date for the General Fund, the Housing Revenue Account and Capital Programmes and reports on an exception basis. It reviews the progress of service delivery against budget, taking into account 2014/15 outturn implications where necessary, projecting the potential year-end position after impact of management actions.

Legal Implications:

There are no direct legal implications relating to this report.

Introduction

1. Throughout 2015/16 all budgets are monitored on a monthly basis and performance against budget reported monthly after taking account of:
 - Spend to date, including commitments
 - Last year's outturn
 - Variations to the budget based on forecast outturn that includes the effect of management action taken where required
 - Consultation with managers and budget holders on service performance
 - Virements identified where possible from existing budgets to cover budget pressures and budget approvals actioned as required
 - Service managers review and sign off their budget forecasts and explanations

2. Financial position reporting will also focus on performance against financial targets such as income, establishment and Star Chamber savings. Financial risk is always inherent in service delivery and service managers will be assisted in identification, evaluation and mitigation of significant risks and these will be reported throughout budget management as necessary.

General Fund

3. The forecast year-end outturn position against the approved net budget of £12.5million is given in the table below. The table presents any significant variances by service. The latest forecast is an underspend of £72,000, after allowing for all requested approvals, compared to an underspend of £13,000 reported previously. The reasons are also detailed below.
4. The figures are reported on an exception basis, with explanations given for changes in forecasts. Variances identified in the last report are detailed in the previous Budget Management Report presented to the Executive on 6 October 2015.
5. Current forecast outturn variance against budget:

| Estimated variance against budget at outturn | | | |
|---|--------------------------------------|-----------------------------------|-------------------------|
| | Reported previously £'000 | Current position £'000 | Change £'000 |
| Service Variations | | | |
| Policy and Governance | | | |
| Land Charges Income (see 6.) | (75) | (113) | (38) |
| Legal Income (see 7.) | 0 | 13 | 13 |
| Environment | | | |
| Car Parks – income (see 8.) | (28) | (48) | (20) |
| Waste Recycling – MRF gate fees | 25 | 25 | 0 |
| Finance | | | |
| Financial Expenses (see 9.) | 0 | 10 | 10 |
| Council Tax and Business Rates summons costs income | 25 | 25 | 0 |
| Council Tax Support Hardship Relief | (50) | (50) | 0 |
| Rent Allowances and Rent Rebates | 50 | 50 | 0 |
| Inflation provision (see 10.) | | (50) | (50) |
| Housing | | | |
| Homelessness – potential overspend | 30 | 30 | 0 |
| Planning | | | |
| Building Control – income | (15) | (15) | 0 |
| Development Control – costs and income (see 11.) | 25 | 35 | 10 |
| Community | | | |
| Memorial Hall project (see 12.) | 0 | 16 | 16 |
| Overspend/(underspend) against budget | (13) | (72) | (59) |

6. Land Charges

Due to the relatively buoyant housing market, Land Charges income is exceeding budget and an additional £113,000 is reported at this stage.

7. Legal Income

The Legal work income is below budget due to a reduction in demand following legislation changes. A loss in income of £13,000 is forecast.

8. Car Parks

Income from season tickets and contract permits is performing well with additional income of £20,000 reported.

9. Financial Expenses

There has been a gradual increase over the last two years in customers paying for their planning fees and garden waste service by debit card for which the Council makes no charge. This has resulted in higher debit card charges from the bank amounting to £10,000. This increase in customers is also reflected in the large increase in income from these services.

10. Inflation Provision

A significant amount of service cost, other than the establishment, is large contracts such as refuse and grounds maintenance. Budgeted contractual increases are predominantly based upon a March CPI index which was 0% in 2015 therefore a number of contracts will remain at previous years' prices. It is estimated at this stage that the full inflation provision included in the budget will not be needed and an underspend of £50,000 is reported.

11. Development Control

The continuing pressure on the Development Control service from the significant increase in planning applications resulted in a forecast increase in costs for planning appraisals and consultants last period of £25,000. This increased activity is also having an impact upon the number of appeals and the associated legal fees for the Council resulting in an additional forecasted overspend of £10,000. Additional fee income has been received but this has been allocated to cover additional staffing costs.

12. Memorial Hall

As part of the Memorial Hall redevelopment project it was considered key that the temporary relocation of regular users of the Memorial Hall was done with minimal inconvenience and cost to the groups involved as they are integral to business plan of the new centre as regular hirers. With that in mind an early priority for officers working on the project was to establish possible alternative venues. An opportunity emerged to allow for many of the current groups to use the facilities at Weydon Lane School, which are new facilities, at no extra charge to their current rates. In order to take advantage of this opportunity,

Waverley needed to secure these facilities before they could be booked by other hirers so it was necessary for the groups to start using the Weydon Lane facilities as soon as they became available. This has resulted in a loss of income of some £16,000.

13. Council Tax Support Scheme

The Council Tax Support Scheme, which replaced council tax benefit two years ago, is reviewed annually. A range of assistance was introduced by Waverley to assist claimants and these schemes are actively promoted. A hardship fund was created to support claimants and the qualifying criteria revised to encourage take up. Discretionary Housing Payments are also available, and Waverley's "Don't Lose Your Home" officer and the Family Support team are proactively supporting households that are most affected by welfare reforms. Experience shows that the current Council Tax Support Scheme remains successful as evidenced by the gradual reduction in the number of claimants and the consistently low take up of discretionary support. **It is, therefore, recommended that the current scheme remains unchanged for 2016/17.**

14. The following areas within the General Fund budget carry a financial risk that could potentially impact on the forecast outturn.

- Rent Allowances and Rent Rebates.

The budget for these services is £32 million expenditure and income in 2015/16. Whilst the majority of the expenditure is recovered from Central Government within the subsidy system, recovery of overpayments and extra "performance-related" subsidy are factors subject to constant fluctuation.

- Business Rates Retention Scheme.

This scheme has complex accounting entries and the final Business Rates to be retained by Waverley for 2015/16 could be subject to large variances when changes to the valuation list, refunds and appeals are considered.

The position on these continues to be monitored closely and no significant variations are anticipated at this stage so it is brought to Members' attention for information only.

Staffing Establishment

15. The staffing establishment is monitored closely and currently this is on target.

Use of Balances

16. No use of the General Fund working balance was planned within the 2015/16 Budget. Projected movements in 2015/16 are illustrated in the table below. In line with the Financial Strategy the General Fund balance will be maintained at £3.2million.

Forecast General Fund Balance Movement

| | This report £'000 |
|---|----------------------|
| Balance 1 April 2015 | (3,290) |
| Increased by the forecast outturn variation on budget | (72) |
| Reduced by Approvals: | |
| Revenue carry forward from 2014/15 | 136 |
| Supplementary Estimate | 36 |
| Transfer from Revenue Reserve Fund | (10) |
| Forecast balance 31 March 2016 | (3,200) |

General Fund Capital

17. General Fund Capital programme is on track and monitored closely each quarter. The total capital programme budget for 2015/16 is made up as follows:

Capital Programme for 2015/16

| | £'000 |
|---|--------------|
| Original budget approved by Council in February 2015 | 3,346 |
| Revenue Projects | 570 |
| Carry forward from 2014/15 | 964 |
| New schemes and additional budget approved during 2015/16 | |
| Farnham Memorial Hall Project | 700 |
| Other small projects (mainly funded from PIC money) | 96 |
| | 5,676 |

The table below summarises the detailed information presented in [Annexe 1](#):

| | Current Budget | Forecast Outturn | Rescheduled | (Saving)/ Overspend | Comment |
|------------------------|-------------------|---------------------|--------------|------------------------|---------|
| Service | £'000 | £'000 | £'000 | £'000 | |
| Community | 3,892 | 2,800 | 1,100 | 8 | See 18. |
| Customer & Corporate | 730 | 683 | 8 | (39) | See 19. |
| Environment | 483 | 483 | | 0 | |
| Other Projects | 460 | 410 | | (50) | See 22. |
| Urgent schemes budget | 111 | 111 | | 0 | See 26. |
| Total programme | 5,676 | 4,487 | 1,108 | (81) | |

18. The rescheduled amount includes £1million for the Memorial Hall project reported in June, as it is clear that the majority of contractor works will fall in the 2016/17 financial year. There are two separate budgets for agreed grants to Godalming Cricket Club of £50,000 and Badshot Lea Football Club of £50,000. **It is requested that this funding be rescheduled into 2016/17** as the clubs involved are not expected to be claiming these grants this financial year as they are awaiting other external funding and new leases.
19. Within the original budget is £8,000 for an aerial photography refresh. Due to a lack of available flying slots this project will not be carried out in 2016/17. However, a refresh is still required so it is requested that **this budget is rescheduled into 2016/17.**

20. There is a £20,000 budget for Call Centre Technology and a £6,000 budget for Contact Manager implementation. However, due to technical issues these projects will not materialise creating a saving of £26,000 this financial year. Alternatives will need to be considered going forward.
21. Within the Customer and Corporate Services programme there will be a saving of £3,000 achieved on Intranet Migration as the small budget rescheduled from 2014/15 is not required as the works are complete.
22. As part of the Other Projects there is a £400,000 Disabled Facilities Grant budget. Currently it is unlikely that the full budget will be spent. Therefore, expectations are that there will be a £50,000 saving this financial year.
23. In the Environmental area there is a £55,000 budget for a new Air Handling Unit (AHU) for Cranleigh Leisure Centre. The AHU was repaired, so replacement is now not necessary or effective. **It is therefore requested that this budget is transferred to the projects in paragraphs 24 and 25 below**, both projects were approved in the original budget.
24. The first of the two projects is for an additional £23,000 for a new Combined Heat & Power (CHP) unit at Cranleigh Leisure Centre. There is already a budget of £88,000 but further budget is required as the original estimate from the energy audit undertaken last year was not representative of the actual cost.
25. The second project is for an additional £32,000 for LED lighting at the Central Offices to bring forward the project, thereby enabling the savings on energy usage at the offices to be achieved sooner. The delivery of this scheme will be subject to receiving greater clarity about the Council's intention to move from the Burys as its administrative base.
26. An Employee Services project to scan all paper-based employee records into the Civica system and link these to the Midland iTrent HR system has been brought forward into this financial year. All employee HR files are currently in paper copy, stored in cabinets in Employee Services. The advantage of employee files being made available electronically are both accessibility and business continuity. This project will cost £25,000 this year and £10,000 next year. It is proposed to fund the project this year from the Urgent Schemes budget. A project justification form is attached at [Annexe 3](#).

Housing Revenue Account (HRA)

27. The HRA is forecast to break even against approved budget to the year end. The revenue account contains the day to day running cost of managing the Housing Service such as staff costs and repairs. Revenue spend on reserving empty (void) properties is currently high and projected to overspend. However, steps are being taken to manage this situation and any overspend at year end will be contained within the maintenance budget overall.
28. One area of risk to the Business Plan is the income lost due to void properties. An assumption has been made in the Business Plan projections based on previous experience but current level of voids are relatively high and

this will be monitored closely and any variations will be detailed in future reports.

29. Staff costs are projected to be within the existing budget. There has been positive progress on filling vacancies on a permanent basis rather than using agency staff.
30. It is predicted that the HRA will receive an additional £80,000 in investment interest this year. This is an increase of £50,000 over the previously reported position. This increase is as a result of higher than anticipated retained balances, in particular, on the New Affordable Homes reserve.

HRA Capital

Core Capital

31. The previous budget monitoring report included proposals to October Council for adjustments to the core capital programme. Following a review of the budget provision in light of the progressing work **it is requested to reschedule £230,000 into 2016/17**. Of this, £200,000 relates to the windows contract which is in the process of being procured but will not be in place long enough in this financial year to allow for a substantial replacement programme. The other £30,000 is for the garage budget which is unlikely to be spent this financial year.

The total capital programme approved budget for 2015/16 is made up as follows:

| Approved Budget for 2015/16 | |
|--|---------------|
| | £'000 |
| Original budget approved by Council in February 2015 | 6,870 |
| Carry forward from 2014/15 | 1,823 |
| Approved rescheduling to 2016/17 | (320) |
| Total | £8,373 |

The table below summarises the detailed information presented in [Annexe 2](#).

| Work Stream | Approved Budget | 2015/16 Spend and Committed | Reschedule | Budget Remaining |
|--------------------|------------------------|------------------------------------|-------------------|-------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Decent Homes | 5,285 | 2,941 | 200 | 2,144 |
| Other Capital Work | 3,088 | 1,169 | 30 | 1,889 |
| Grand Total | £8,373 | £4,110 | £230 | £4,033 |

Stock Remodelling

32. The total capital programme budget originally approved in February 2015 was £1,280,010 and a further £55,000 was carried forward from 2014/15. During the year members have approved rescheduling to 2016/17 of £390,000 giving a current budget in 2015/16 of £945,000. A comprehensive exercise to

assess each capital scheme for stock remodelling and new homes has been undertaken to take account of build cost inflation and contingencies. Also a reassessment of delivery timescales has been made. This has resulted in a number of proposed changes to capital budgets which are shown in the table below.

| Work Stream | Latest Budget | 2015-16 Expenditure including commitments | Budget Remaining | Realignment |
|--------------------------------------|---------------|---|------------------|---------------|
| | £'000 | £'000 | £'000 | £'000 |
| Scheme Design and Project Management | 66 | 66 | 0 | |
| Approved Schemes | 89 | 42 | 47 | |
| Potential Schemes | 790 | 2 | 788 | (405) |
| Total | £945 | £110 | £835 | (£405) |

The programme has been reviewed and updated to reflect progress on schemes to date and likely progress during the rest of the year. As a result work on the Ockford Ridge remodelling scheme, to the value of £720,000, has been rescheduled. However, two additional schemes have been added to the programme. **This results in a net position of rescheduled expenditure for 2015/16 totalling £405,000.**

New Build

33. The total capital programme budget originally approved in February 2015 was £11,457,000 and a further £4,859,000 was carried forward from 2014/15. The New Build Programme has also undergone a mid-year review and the approved budget has been rescheduled to more realistically reflect current and expected progress. It also reflects budget rescheduled from 2014/15 for land and asset purchase. Other main changes relate to the redevelopment of Wey Court, schemes at Middlefield and Nursery Hill with some **£7.9million proposed to be rescheduled into 2016/17 and 2017/18.**
34. New homes at Station Road are still on target for a January 2016 completion. The build contractor for the show homes at Ockford Ridge has been selected and pre-site works to make the site secure have commenced.
35. Once the detail of the Government proposals in the Summer budget is known, it will be necessary to further revisit the HRA Capital Programmes in order to achieve savings to help meet projected revenue shortfall.

New Build 2015/16

| Work Stream | Approved Budget 2015/16 | Budget carried forward from 2014/15 | Other approved changes | 2015/16 Expenditure including commitments | Realignment | Budget Remaining |
|-------------------------|-------------------------|-------------------------------------|------------------------|---|---------------|------------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Project management | 352 | 0 | 0 | 352 | 0 | 0 |
| Pre development Exp | 83 | 0 | 0 | 54 | 0 | 29 |
| Committed schemes | 5,151 | 897 | 868 | 3,500 | 2,293 | 1,123 |
| Proposed schemes | 4,651 | 19 | 203 | 16 | 4,427 | 430 |
| Land and asset purchase | 1,220 | 3,943 | (227) | 3,324 | 1,200 | 412 |
| Total | £11,457 | £4,859 | £844 | £7,246 | £7,920 | £1,994 |

Medium-Term Financial Strategy

36. The Annual Finance Seminar was held on the 5 October 2015 for all members of the Council. The seminar set out the key aims of the Finance Strategy and gave highlights of the current position for the General Fund and Housing Revenue Account. It also presented the issues and risks for the next four years and a strategy for balancing the budget.
37. Key aims of the Finance Strategy for the General Fund and the Housing Revenue Account are to:
- Provide a framework for managing resources in the medium term
 - Focus limited resources on priority areas
 - Support service improvement
 - Ensure a robust, balanced budget
 - Ensure a prudent level of balances
 - Ensure adequate investment in assets
38. The highlights of the current position were summarised as:
- Continued Government grant cuts
 - Funding uncertainty and the Comprehensive Spending Review
 - Government proposals for the HRA
39. However the current positions also take account of:
- Waverley's Council Tax staying the same level for the sixth year
 - A good record of staying within budgets
 - Star Chamber initiatives are still delivering
 - There have been no service cuts
 - There is no reliance on one-off/uncertain income

General Fund

40. For the General Fund the strategy for balancing the budget is summarised as:
- Further efficiencies
 - Star Chamber
 - Invest to save

- Opportunities for income generation
 - Consider funding opportunities
 - Effective use of assets
 - Learning from others
 - Member scrutiny through budget process
41. Issues and Risks for the 2016-17 General Fund budget are:
- Growth-driven funding
 - Waste Management
 - Service improvement demands
 - Importance of contractors/partners
 - Recruitment and retention
42. The key message for the General Fund given at the Finance Seminar was a £3.3 million budget gap over the next four years. The savings required to be found this budget round are £1million. It is going to be a challenge to bridge this gap and become self-sufficient from the Government.

Housing Revenue Account

43. The current 30 Year Business Plan for the Housing Revenue Account is robust. However, there are a few big issues that put this position at risk. They are summarised as:
- Government changes will lose Waverley more than £300million
 - Rent reductions 1% per year for four years from 2016/17
 - Sale of high value voids
 - Welfare reform
44. The areas where this will potentially have the biggest impact to the services provided by the Housing Revenue Account are:
- Improving service to tenants
 - Significantly reduced new build programme
 - Review stock remodelling
45. It is proposed to address the impact of these Government changes to Housing Revenue Account finances by:
- Further efficiencies
 - Opportunities for income generation (limited)
 - Reduced planned maintenance
 - Reduce new build
 - Reduce remodelling
- And if necessary:
- Reschedule debt

Financial Strategy Summary

46. For the General Fund and Housing Revenue Account there is uncertainty going into the budget process. There will be significant pressures on finances and challenging times ahead. However, the base position is strong and Waverley has a good track record of balancing the budget.

Conclusion

47. Service performance for the year, based on the mid-year revenue position, is in line with the budget, therefore, no action is required currently.
48. Members are asked to recognise the challenges ahead for the General Fund and the Housing Revenue Account, as presented at the Finance Seminar on the 5 October 2015. Budgets will be put under scrutiny as part of addressing the budget deficits and this will be undertaken throughout the budget setting process in the coming months.

Recommendation

It is recommended that the Executive notes the report and

1. recommends that the current Council Tax Support Scheme remains unchanged for 2016/17, see paragraph 13;
2. recommends that approval be given to the Employee Records Civica project at a cost of £25,000, to be funded from the Capital Urgent Schemes budget, see paragraph 26;
3. recommends that Council approves the rescheduling of £50,000 of the Godalming Cricket club grant budget into 2016/17, and Badshot Lea Football Club of £50,000, see paragraph 18 above;
4. recommends that approval be given to the rescheduling of £8,000 for the Aerial photography refresh into 2016/17, see paragraph 19 above;
5. recommends that Council approve the transfer of £55,000 from the Cranleigh Leisure Centre AHU budget to the Cranleigh Leisure Centre CHP unit (£23,000 – see paragraph 24) and LED Central Office Lighting Replacement (£32,000 - see paragraph 25);
6. recommends that Council approves the rescheduling of £230,000 of HRA Capital budget into 2016/17 as detailed in paragraph 31 above;
7. recommends that Council approves the rescheduling of £405,000 of the 2015/16 budget for Stock Improvement, see paragraph 32;
8. recommends that Council approves the rescheduling of £7,920,000 of the 2015/16 budget for New Affordable Homes, see paragraphs 33 and 36; and
9. accepts the mid-year budget projection and acknowledges that no immediate action is required for 2015/16 at this stage.

Background Papers

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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