

Report of	Meeting	Date
Chief Finance Officer (Introduced by the Executive Member for Resources)	Executive Cabinet	14 November 2019

## **REVENUE AND CAPITAL BUDGET MONITORING 2019/20 REPORT 2 (END OF SEPTEMBER 2019)**

### **PURPOSE OF REPORT**

1. This report sets out the provisional revenue and capital outturn figures for the Council as compared against the budgets and efficiency savings targets set for the financial year 2019/20.

### **RECOMMENDATION(S)**

2. Note the full year forecast position for the 2019/20 revenue budget and capital investment programme.
3. Note the forecast position on the Council's reserves.
4. Request Council note the capital programme to be delivered in 2019/20 to 2021/22 and to approve the adjustments outlined in paragraph 44.

### **EXECUTIVE SUMMARY OF REPORT**

5. The projected revenue outturn currently shows a forecast underspend of £90k against budget. No action is required at this stage in the year.
6. As approved at Full Council on 17 September 2019, 2019/20 in year underspends will be used to fund Chorley Council's share of the forecast costs of expanding shared services. The £90k underspend will therefore be used to create a shared services reserve to fund current year and any future costs.
7. The forecast excludes any variation to projected expenditure on investment items included in the budget in 2019/20. These projects are forecast to fully expend in 2019/20 and should there be any balances remaining at year end they will be transferred into specific reserves and matched to expenditure in future years.
8. In the 2019/20 budget the expected net income from Market Walk after deducting financing costs is £1.046m.
9. The forecast of capital expenditure in 2019/20 is £53.691m
10. The Council's budget for 2019/20 included a savings target of £150k from management of the staffing establishment. The full savings of £150k have already been achieved.
11. The Council's 2019/20 budget also included an efficiency savings target of £85k. The full savings of £85k have now been achieved.

12. The Council's Medium-Term Financial Strategy reported that working balances are currently maintained at £4.0m due to the financial risks facing the Council. After the contribution to the Shared Services reserve of £90k from in-year underspends, the forecast level of balances at 31 March 2020 will be £4.000m. It should be noted however that there may be further call for the use of general balances throughout 2019/20.

<b>Confidential report</b> Please bold as appropriate	Yes	<b>No</b>
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<b>Key Decision?</b> Please bold as appropriate	Yes	<b>No</b>
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<b>Reason</b> Please bold as appropriate	1, a change in service provision that impacts upon the service revenue budget by £100,000 or more	<b>2, a contract worth £100,000 or more</b>
	3, a new or unprogrammed capital scheme of £100,000 or more	4, Significant impact in environmental, social or physical terms in two or more wards

**REASONS FOR RECOMMENDATION(S)**  
(If the recommendations are accepted)

13. To ensure the Council's budgetary targets are achieved.

**ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

14. None

**CORPORATE PRIORITIES**

15. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all	✓	A strong local economy	✓
Clean, safe and healthy communities	✓	An ambitious council that does more to meet the needs of residents and the local area	✓

**BACKGROUND**

16. The net revenue budget for 2019/20 is £15.935m. This has been amended to include approved slippage from 2018/19 and any transfers to/from reserves.
17. Appendix 3 provides further information about the specific earmarked reserves and provisions available for use throughout 2019/20.
18. A full schedule of the investment budgets carried forward from 2018/19 are shown in Appendix 2 together with expenditure to date against these projects (for capital items see Appendix 4).
19. The Council's approved revenue budget for 2019/20 included target savings of £150,000 from management of the staffing establishment and £85,000 efficiency savings.

20. Following the recommendations made in the June 2019 budget monitoring report, in-year revenue underspends have been set aside to fund the following items:
- £57,000 to finance the Mayflower 400 celebrations.
  - £26,000 to deliver the Youth Zone Outreach Project.
21. Set out in Appendix 1 is the provisional outturn position for the Council based upon actual spend in the first six months of the financial year and adjusted for future spend based upon assumptions regarding vacancies and service delivery.
22. The latest forecast of capital expenditure in 2019/20 is £53.691m. The latest capital forecast is detailed in Appendix 4 based upon actual and committed expenditure during the first six months of the financial year and adjusted for future spending based upon the latest timescales for project delivery.

## SECTION A: CURRENT FORECAST POSITION – REVENUE

23. The projected outturn shown in Appendix 1 forecasts an underspend compared to budget of around £90k. The significant variances from the cash budget are shown in the table 1 below.

### ANALYSIS OF MOVEMENTS

**Table 1 – Forecasted Significant Variations from the Cash Budget**

Note: Overspends/shortfalls in income are shown as ( ).

	£'000	£'000
<b>Expenditure:</b>		
Staffing Costs	20	
Non-Domestic Rates (Car Parks)	20	
Subsidised Bus Services	<u>15</u>	55
<b>Income:</b>		
Electoral Registration Funding	14	
Rental Income - Investment Portfolio	(61)	
Building Control Fees	(31)	
Parking Income	(20)	
Licence Fees (Public Protection)	(30)	
Rental Income - Cotswold House	<u>(21)</u>	(149)
<b>Other:</b>		
Financing	100	
Market Walk	(10)	
Other minor variances	<u>21</u>	111
<b>Net Movement</b>		<b>17</b>
Quarter 1 Net Forecast Underspend		73
<b>Total Forecast Underspend at Quarter 2</b>		<b>90</b>

## *Expenditure*

24. The additional savings on staffing costs of £20,000 shown in table 1 above reflects the changes from the position reported to the end of June in the last monitoring report. The main changes are predominantly as a result of vacant posts in the Customer and Digital directorate, a number of which have remained vacant pending the introduction of new departmental structures. Included in the forecast is £20k of costs to fund two posts until the end of December that will support the implementation of the new shared services structure. This includes specialist support for technical matters such as TUPE arrangements.
25. The cost of NNDR for the council's car parks is lower than budgeted by around £20k, predominantly due to developments being undertaken on the Flat Iron car park. The Council has received a rebate for the site for the period of the works and once the Market Walk extension is complete and the site cleared, the Valuation Office will be asked to review the rateable value of the car park.
26. Following an Executive Member Decision in July to continue subsidising bus routes in the borough, the Council agreed a new contract with Lancashire County Council with revised contributions to the cost of bus services from both parties. The new contract commenced on 1<sup>st</sup> September and will generate an estimated saving of around £10k in the current year. The Council's budget also included £30k funding for Coppull Primary School and Nursery to support the provision of services following reductions in funding from Lancashire County Council. However, after further discussions with the school it was agreed that the Council's funding was no longer required. This funding provision will now be used to make a one-off contribution of £20k to the Dial-a-Ride Service and £5k for Small Community Funding, leaving a saving of £15k against the budget in 2019/20.

## *Income*

27. In previous years the Council has received funding from the Cabinet Office in the form of section 31 grants to contribute to the additional costs of transferring to Individual Electoral Registration (IER). It was anticipated that 2018/19 would be the final year of funding but the Cabinet Office has recently announced a further allocation for 2019/20 and the Council has since received a grant of £13,867.
28. Several properties in the Council's Investment Portfolio have recently become vacant and this will result in a loss of rental income in the short-term. The most significant property in terms of revenue is 112/114 Market Street which is let to Eric Wright in the form of a ground lease. The Council previously received around £48k per annum when the property was occupied by Runshaw College but the lease states that when the property is vacant, the ground rent due from Eric Wright is reduced to £10k per annum. The Council is currently at an advanced stage in discussions with a prospective new tenant, but occupation of the premises is unlikely to be before July 2020 once major renovation works have been completed.
29. The total loss of income from the vacant properties is currently forecast to be around £70k in 2019/20 which is an increase of £61k from the position previously reported in June. The forecast is subject to change and is dependant on the outcome of discussions with prospective new tenants and the new leases agreed for the premises.
30. Income levels have also fallen in recent months for Building Control fees. Income received for the first six months of 2019/20 was £39k and is significantly lower than the corresponding budgeted figure of £61k. This has resulted in a revised income forecast of around £83k for the year, £38k below budget.
31. Income from Parking Fees is also forecast to be below budgeted levels for 2019/20 by around £20k. This is predominantly as a result of lost parking spaces on the Flat Iron car

park whilst the works to Market Walk Extension have been in progress. It should be noted however that the loss of income in 2019/20 is offset by the rebate on business rates for the Flat Iron car park as reported in paragraph 25 above. An additional 44 parking spaces are anticipated to be available on the site from December and this should bring income levels for 2020/21 back in line with the budget.

32. In setting the budget for 2019/20, the council had an intention of introducing a licensing policy for special treatments. This would have included treatments such as Micro-Blading and other treatments. An income budget of £30k was created as part of this intention. However, further work has now been undertaken that has identified that the necessary legislative framework does not exist to introduce the policy. While it is possible for other councils, such as those in London, to have regulated activity, this is because a specific statutory provision has been made. The council is reliant on legislation being introduced nationally before a local policy can be adopted and therefore it is not possible to achieve the anticipated income.
33. The current forecast for rental income received for Cotswold House is around £266k for the current year, compared to a budget of £287k, giving a forecast shortfall of around £21k. The forecast is broadly in line with the actual income received in previous years, with £264k received in both 2017/18 and 2018/19. If the forecast remains the same over the coming months, the budget for 2020/21 will be adjusted to more accurately reflect the income levels currently received.

#### Other Items

34. The council continues to manage its cash flow to minimise the costs of borrowing and this has resulted in a forecast £100k saving to the council. The council closely monitors changes to interest rates on borrowing and will take long term borrowing when required and when it is most economically advantageous to do so.
35. The forecast underspend already accounts for £45k of revenue contributions towards a £150k fund (the remaining £105k to funded through reserves – see paragraph 44) that will target grot-spots, environmental improvements and enhancements to play spaces across the borough as part of intelligence-led campaigns. This will ensure that residents can have pride in their neighbourhood and local area, a key priority within the corporate strategy, as well as promoting safer, more cohesive communities. It will also complement recent large developments and key schemes as part of creating a more attractive and appealing borough.

#### MARKET WALK

36. The budgeted net rental income from Market Walk after taking account of financing costs in 2019/20 is £1.046m.

**Table 2: Market Walk Income 2019/20**

	<b>2019/20 Budget</b>	<b>2019/20 Outturn</b>	<b>2019/20 Variance</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Rental & Insurance Income	(1,774,100)	(1,687,052)	(87,048)
Operational Costs (excluding financing)	107,820	30,798	77,022
<b>Net Income (excluding financing)</b>	<b>(1,666,280)</b>	<b>(1,656,254)</b>	<b>(10,026)</b>
Financing Costs	619,730	619,730	0
<b>Net Income (including financing)</b>	<b>(1,046,550)</b>	<b>(1,036,524)</b>	<b>(10,026)</b>

Income Equalisation Reserve (Annual Contribution)	50,000	50,000	0
Asset Management Reserve (Market Walk)	50,000	50,000	0
<b>Net Income</b>	<b>(946,550)</b>	<b>(936,524)</b>	<b>(10,026)</b>

#### *Income*

37. Income is expected to be £87k short of the budget in 2018/19 due to two units being vacant during 2019/20. One of these units is expected to be filled in the coming months however rent-free incentives will mean the income is not recognised until 2020/21. The 2020/21 budget will be updated to account for possible vacant units and upcoming rent reviews. In addition, the expenditure budget will also be adjusted to better reflect the operational cost of the site.

#### *Expenditure*

38. Historically any shortfall in income has been offset by underspends in expenditure relating to Market Walk. It is expected that revenue expenditure for professional fees related to lease renewals will underspend to offset all but £10k of shortfall in income.

### **GENERAL FUND RESOURCES AND BALANCES**

39. With regard to working balances, and as per Appendix 1, the Council holds a £4m General Fund balance to manage budget risks not covered by earmarked reserves or provisions. The current forecast to the end of September shows that the General Fund closing balance could be around £4.090m.
40. On 17 September 2019, Council gave approval for the creation of an implementation budget to progress phase 1 of extending the Shared Services Agreement between Chorley and South Ribble. The £90k in-year revenue underspend outlined in this report will therefore be used to create a shared services reserve to fund current year and any future costs. As a result, the forecast level of balances at 31 March 2020 will be £4.000m as detailed in table 3 below. It should be noted however that there may be further call for the use of general balances throughout 2019/20.

**Table 3 – Movement in General Fund Balance**

<b>General Balances</b>	<b>£m</b>
Opening Balance 2019/20	4.000
Forecast revenue budget underspend	0.090
<b>Initial General Fund Closing Balance 2019/20</b>	<b>4.090</b>
<b>Agreed use of in-year underspends:</b>	
Implementation of Shared Services phase 1	(0.090)
<b>Forecast General Fund Closing Balance 2019/20</b>	<b>4.000</b>

41. Appendix 3 provides further information about the specific earmarked reserves and provisions available for use throughout 2019/20.

## SECTION B: CURRENT FORECAST POSITION – CAPITAL

42. The approved capital budget as per the revenue and capital outturn report approved on 20 June 2019 and subsequent adjustment in quarter 1 is as follows:

	2019/20	2020/21	2021/22	Total
	£'000	£'000	£'000	£'000
Approved Budget	21.148	3.882	3.941	28.970
Q1 Adjustment	(1.569)	(2.707)	(2.766)	(7.042)
Q2 Adjustment	34.111	0.190	0.000	34.301
<b>Revised Budget</b>	<b>53.691</b>	<b>1.365</b>	<b>1.175</b>	<b>56.230</b>

43. The budgets have been re-profiled between 2018/19 and 2019/20 to reflect:

- The £33m site acquisition approved by Full Council on 22 July 2019
- £450k included in the 2019/20 capital programme for the works to the Duxbury site as approved at Full Council on 17 September 2019

44. It is requested the following capital budgets are adjusted for quarter 2:

- It is proposed that the remaining £105k Recreation Pitch Strategy will be re-invested to enhance play areas and fund environmental improvements as outlined earlier in this report. £170k was set aside as part of the 2015/16 budget to support the Play, Open Space and Playing Pitch Strategy. To date £65k has been provided to Cuerden Valley Visitor Centre.

### *Customer & Digital*

45. The budget for the construction of the **Muslim Cemetery** has been adjusted to reflect the final cost of the works. This will be funded with £20k of capital receipts replaced through the sales of the burial plots and a £52k contribution from the Chorley Muslim Trust.

### *Business Development & Growth*

46. The **Asset Improvement** budget has been re-profiled to reflect the delivery of enhancements to the council's assets in 2019/20 and 2020/21. Expenditure in 2019/20 includes:

- a. £150k investment in CCTV across the borough
- b. £75k CIL contributions to the 'Chorley Parish' regarding the works to the car park at Ackhurst, this will be recycled back into investment in Chorley.
- c. £50k for the replacement and installation of more efficient boilers at the Town Hall

Some works have been re-profiled into 2020/21 including the works to the Town Hall Chamber that are expected to begin in April 2020.

47. The budget for the **Willows** (Eaves Green) has been increased to reflect the income from sales of garden land at the Cedars and the Willows. This has been invested in open space improvements and further investment will be made to improve access to the site.

48. The **Play and Open Spaces** budget continues to be updated as S106 income is received and the programme is updated in line with the approved strategy
49. The budget for **West Way Playing Field** has been update to £2.7m as per the report to Executive Cabinet on 1 August 2019. The final budget costs will not be known until tenders are received however it is anticipated that costs will be lower than budgeted.

#### CAPITAL PROGRAMME FINANCING 2019/20

Fund	Original Budget 2019/20 £'000	Quarter 1 2019/20 £'000	Quarter 2 2019/20 £'000	Change £'000
External Contributions	5.091	5.079	5.416	0.325
Grants	2.584	2.494	2.394	(0.190)
New Homes Bonus	0.415	0.415	0.361	(0.054)
Earmarked Reserves	0.766	0.766	0.661	(0.105)
Revenue	0.485	0.485	0.485	0.000
Capital Receipts	0.642	0.667	0.715	0.073
Borrowing	11.165	9.674	43.659	32.494
<b>Capital Financing 2018/19</b>	<b>21.148</b>	<b>19.580</b>	<b>53.691</b>	<b>32.543</b>

50. The increase in borrowing is due to the site acquisition being included in the capital programme. This will be more than funded through the revenue generated by the site.

#### IMPLICATIONS OF REPORT

51. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

#### COMMENTS OF THE STATUTORY FINANCE OFFICER

52. The financial implications are contained within this report

#### COMMENTS OF THE MONITORING OFFICER

53. No Comment

GARY HALL

CHIEF EXECUTIVE & CHIEF FINANCE OFFICER

There are no background papers to this report.

<b>Report Author</b>	<b>Ext</b>	<b>Date</b>	<b>Doc ID</b>
David Bond/James Thomson	5488/5025	17/07/18	***