

Report of	Meeting	Date
Chief Finance Officer (Introduced by the Executive Member for Resources)	Executive Cabinet	13 February 2020

## **REVENUE AND CAPITAL BUDGET MONITORING 2019/20 REPORT 3 (END OF DECEMBER 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. Request Executive Cabinet approval for the contribution of £77,600 from in year revenue understand to finance the migration of property data into digital formats.
4. Request Executive Cabinet approval for the contribution of £98,500 from in-year revenue underspends to the Change Management Reserve to finance one-off redundancy and pension strain costs arising from transformation and shared service strategies.
5. Note the forecast position on the Council's reserves.
6. Request Council note the capital programme to be delivered in 2019/20 to 2022/23 and to approve the adjustments outlined in paragraph 50.

### **EXECUTIVE SUMMARY OF REPORT**

7. The projected revenue outturn currently shows a forecast underspend of £176k against budget. No action is required at this stage in the year.
8. 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.
9. In the 2019/20 budget the expected net income from Market Walk after deducting financing costs is £1.004m. The forecast outturn is £1.003m net income.
10. The forecast of capital expenditure in 2019/20 is £46.567m
11. 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.

12. The Council's 2019/20 budget also included an efficiency savings target of £85k. The full savings of £85k have also been achieved.
13. 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.

<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	No
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<b>Reason</b> Please bold as appropriate	<b>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</b>	4, Significant impact in environmental, social or physical terms in two or more wards

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

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

**ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

15. None

**CORPORATE PRIORITIES**

16. 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**

17. The net revenue budget for 2019/20 is £15.954m. This has been amended to include approved slippage from 2018/19 and any transfers to/from reserves.
18. Appendix 3 provides further information about the specific earmarked reserves and provisions available for use throughout 2019/20.
19. 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).

20. 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.
21. Following a recommendation made in the September 2019 budget monitoring report, in-year revenue underspends have been set aside to fund the following item:
  - £90,000 to finance the implementation of the extension of shared services.
22. Set out in Appendix 1 is the provisional outturn position for the Council based upon actual spend in the first nine months of the financial year and adjusted for future spend based upon assumptions regarding vacancies and service delivery.
23. The latest forecast of capital expenditure in 2019/20 is £46.567m. The latest capital forecast is detailed in Appendix 4 based upon actual and committed expenditure during the first nine months of the financial year and adjusted for future spending based upon the latest timescales for project delivery.

## SECTION A: CURRENT FORECAST POSITION – REVENUE

24. The projected outturn shown in Appendix 1 forecasts an underspend compared to budget of around £176k. 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	142	
Waste & Recycling Contract	23	
Chorley Flower Show	<u>(33)</u>	
		132
<b>Income:</b>		
Building Control Fees	(30)	
Planning Application Fees	(25)	
Legal Fees	<u>16</u>	
		(39)
<b>Major Projects:</b>		
Primrose Gardens	200	
Market Walk Extension	50	
Digital Office Park	<u>(155)</u>	
		95
Other minor variances		(12)
<b>Net Movement</b>		<b>176</b>
Quarter 2 Net Forecast Underspend		0
<b>Total Forecast Underspend at Quarter 3</b>		<b>176</b>

## *Expenditure*

25. The additional savings on staffing costs of £142,000 shown in table 1 above reflects the changes from the position reported to the end of September in the last monitoring report. The main changes are predominantly as a result of vacant posts in the Customer and Digital directorate, particularly in Customer Services where a number of posts have remained vacant pending the review of the Single Front Office. A significant saving on staffing costs has also resulted from the interim shared Chief Executive arrangement with South Ribble Borough Council.
26. The Waste and Recycling contract with FCC Environment Services (UK) commenced on 1st April 2019, achieving a £1.24m base budget saving on the previous contract with Veolia. The new contract included performance targets for the number of missed collections which FCC have struggled to achieve over the initial months of the contract. This has resulted in a number of default penalty charges reducing the monthly costs to the Council. FCC's performance is improving and in meetings with them, they have acknowledged their performance must improve and have taken steps to this end. Based on the charges to the end of December, this has resulted in a forecast reduction in costs of around £23k for the year.
27. The Council's budget for 2019/20 included an estimate of £40,000 for staging of the annual Chorley Flower Show in July 2019. Although the weather during the 2019 event wasn't as severe as in the previous year when a whole day was lost due to severe gales, it is still expected that it was the poor weather conditions that had a significant impact on ticket sales and attendance figures over the weekend. After taking final income and expenditure into account, the net cost for the event was around £76k and around £33k over budget, the majority of which is attributed to reduced ticket sales.

## *Income*

28. The previous budget monitoring report highlighted a fall in the income received for Building Control Fees over the first six months of the year. Income levels have continued to fall over the third quarter for both Planning and Inspection fees with around £23k income received compared to the corresponding budgeted figure of £51k. This has resulted in a revised income forecast of around £136k for the year, £68k below budget, an increase of £30k from the figure reported at quarter 2. Low staffing levels within the Building Control team over recent months have no doubt impacted on income generation. Temporary arrangements have now been put in place to ease the situation which should help to increase revenue for the remainder of the year.
29. Income for Planning Application Fees has also fallen over the third quarter with around £115k received compared to the corresponding budgeted figure of £137k. The revised forecast for the full year is for a shortfall of around £25k compared to budget, however this could easily change over the remainder of the year due to the unpredictable nature of the budget. Members will be updated accordingly should this position change.
30. On a more positive note, income from Legal Fees has increased significantly in the third quarter. This has resulted in a forecast of around £46k for the full year, giving a revenue surplus of £16k compared to the income budget of £30k.

## Major Projects

31. Three of the council's major projects opened in 2019/20. The implications of this on the revenue budget are summarised in table 2 below, all figures exclude the cost of borrowing that are accounted for in the net financing budget:

Table 2: Summary of Outturn Position of Major Projects

	<b>(Income)/ Expenditure Budget £000s</b>	<b>Forecast Outturn £000s</b>	<b>Variance £000s</b>	<b>20/21 Budget £000s</b>	<b>21/22 Budget £000s</b>
Primrose Gardens Retirement Village	244	44	200	(50)	(65)
Extension to Market Walk	(125)	(175)	50	(250)	(280)
Strawberry Fields Digital Office Park	160	315	(155)	0	(150)
<b>TOTAL</b>	<b>279</b>	<b>184</b>	<b>95</b>	<b>(300)</b>	<b>(495)</b>

32. The popularity of **Primrose Gardens Retirement** has meant the apartments are now 75% occupied. This is a much faster rate of occupancy than originally budgeted for and so the project in 2019/20 is forecast to be £200k under budget. There are a further 10 apartments allocated with the expectation that all apartments will be occupied by the end of March. The outturn for 2019/20 is £44k net cost however looking further forward, Primrose Gardens is expected to generate £50k to £65k net income in 20/21 and 21/22 respectively.
33. The extension to **Market Walk** opened in December and has been a great success with four units occupied equivalent to 75% of total lettable space. The net income in 2019/20 is forecast to be £50k higher than originally budgeted and the forecast for future years is for the development to become increasingly occupied with in 2021/22 and a future net income to the council, at a minimum, of £280k. This is a prudent estimate, the report to Full Council on 21 January 2020 outlined a possible net distributable income of £350k dependent upon the final tenant occupancy.
34. **Strawberry Fields Digital Office Park** opened in October 2019. Occupancy is increasing with 65% of office space let or under negotiation to be let by the end of March 2020. Due to delays in the development of the access road on the adjacent site the office park opened five months later than originally budgeted. This has resulted in a variance to budget of £155k.

## Requests from Underspends

35. The Council's property data is currently held on various disparate software packages, paper files and hard drives, with no central database of information available for easy access. With no adequate asset management and reporting software, managing statutory requirements, the property portfolio and day to day maintenance of the Council's assets has become increasingly difficult with significant manual input required to retrieve the most basic information.
36. It is proposed that Property Services adopt existing corporate systems to manage data more efficiently and reduce risk inherent in paper-based systems. To achieve this a significant historic data migration exercise is necessary that will categorise data in a way that is easily accessible and stored more securely. It is proposed that a sum of £77,600 is set aside from 2019/20 revenue underspends to finance temporary additional staffing resources and scanning costs for digitization of records.
37. During the current financial year, the Council is forecast to utilise a sum of around £211k from the Change Management Reserve to finance the one-off redundancy and pension strain

costs as a result of the restructures already implemented. The balance remaining at year end is now forecast to be around £104k and will not be sufficient to cover further staffing changes due to take place as part of the transformation and shared services strategies, so this reserve will need to be resourced correctly for the Council to fund these changes. It is therefore proposed that a sum of £98,500 is set aside from the 2019/20 revenue underspends to contribute towards these one-off costs.

## MARKET WALK

38. The budgeted net rental income from Market Walk after taking account of financing costs in 2019/20 is £1.004m.

**Table 3: Market Walk Income 2019/20**

	2019/20 Budget	2019/20 Outturn	2019/20 Variance
	£	£	£
Rental & Insurance Income	(1,774,100)	(1,692,143)	(81,957)
Operational Costs (excluding financing)	150,110	51,171	98,939
Market Walk Extension Revenue Expenditure	0	17,941	(17,941)
<b>Net Income (excluding financing)</b>	<b>(1,623,990)</b>	<b>(1,623,031)</b>	<b>(959)</b>
Financing Costs	619,730	619,730	0
<b>Net Income (including financing)</b>	<b>(1,004,260)</b>	<b>(1,003,301)</b>	<b>(959)</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>(904,260)</b>	<b>(903,301)</b>	<b>(959)</b>

### *Income*

39. Income is expected to be £81k short of the budget in 2018/19 mainly due to two units being vacant during 2019/20. In addition, a number of lease renewals were undertaken in 2019/20 resulting in some reductions in rent.
40. Of the two remaining vacant units, one was filled in November 2020 and the other vacant unit is due to become occupied in the coming months. The 2020/21 budget will be updated to account for the occupancy rate of the shopping centre as well as the potential outcome of upcoming rent reviews.

### *Expenditure*

41. Historically any shortfall in income has been offset by underspends in expenditure relating to Market Walk. It is expected that revenue expenditure budgets for professional fees and maintenance will be sufficiently underspent to cover the shortfall in income.
42. There is forecast to be £17k of revenue costs incurred in 2019/20 that relates to the extension of Market Walk. These costs relate to signage, publicity and professional fees relating to some lease negotiations. These costs can be met within the Market Walk budget in 2019/20.

## GENERAL FUND RESOURCES AND BALANCES

43. 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 December shows that the General Fund closing balance could be around £4.176m.
44. Should the recommendations in this report be approved, the forecast level of balances at 31 March 2020 will be £4m as detailed in table 4 below.

**Table 4 – Movement in General Fund Balance**

<b>General Balances</b>	<b>£m</b>
Opening Balance 2019/20	4.000
Quarter 3 forecast revenue budget underspend	0.176
<b>Initial General Fund Closing Balance 2019/20</b>	<b>4.176</b>
Data Migration	(0.078)
Change Management Reserve	(0.098)
<b>Forecast General Fund Closing Balance 2019/20</b>	<b>4.000</b>

45. The original budget for 2019/20 included a contribution from the Income Generation Reserve of £160k to fund staffing costs for four Strategic Project Officer posts. As a result of the Senior Management restructure, two of these posts were subsequently deleted and one of the two remaining posts has since been vacant. This has reduced the funding requirement from the reserve to around £75k for the Projects staffing costs and therefore increases the balance available in the reserve to fund other income generation scheme costs.
46. Appendix 3 provides further information about the specific earmarked reserves and provisions available for use throughout 2019/20.

## SECTION B: CURRENT FORECAST POSITION – CAPITAL

47. The approved capital budget as per the revenue and capital outturn report approved on 20 June 2019 and subsequent adjustment in quarter 1 and 2 is as follows:

	2019/20	2020/21	2021/22	Total
	£m	£m	£m	£m
Approved Budget	21.148	3.882	3.941	<b>28.970</b>
Q1 Adjustment	(1.569)	(2.707)	(2.766)	<b>(7.042)</b>
Q2 Adjustment	34.111	0.190	0.000	<b>34.301</b>
Q3 Adjustment	(7.123)	17.536	1.065	<b>11.477</b>
<b>Revised Budget</b>	<b>46.567</b>	<b>18.901</b>	<b>2.239</b>	<b>67.707</b>

48. Some budgets have been re-profiled between 2019/20 and 2020/21 to reflect:

- The delivery of Astley Hall and Park Developments expected to begin in 2020/21
- Expected improvements to the Duxbury Park Site in 2020/21
- Revised timing of investment in the Play and Open Space sites
- The delivery of West Way Playing Fields in 2020/21
- Forecast delivery of works to Union Street, the Town Hall and other council owned assets in 2020/21

49. The following approved capital budgets adjustments have been made for quarter 3

- The budget for **West Way Playing Field** has been updated to £2.258m as per the report to Executive Cabinet also on this agenda. The funding includes £647k from the FA, £400k CIL and over £1m from S106. The majority of these costs have been re-profiled to 2020/21.
- An adjustment to the **Market Walk Extension** budget was approved at Full Council on 21 January 2020. These adjustments are reflected in the 2019/20 budget.
- On 19 November 2019 Full Council approved a new budget of £9.2m for the development of the **Alker Lane** site. This budget has been included in the 2020/21 budget.

50. It is requested the following amendments to the capital programme are approved by Full Council:

- a. The draft budget approved by Executive Cabinet on 16 January 2019 included £4m to deliver the remaining town centre public realm masterplan works. It is proposed that £300k of these works are brought forward to deliver improvements to **Queens Rd car park**. The car park surface is deteriorating posing a potential increased health & safety risk. The proposal would reconfigure the car park and create 17 additional parking spaces that are already in high demand.
- b. The main work to **Strawberry Fields Digital Office Park** is complete with occupancy of the site increasing week by week. The original works including main build, digitisation and furniture and fittings, were delivered on budget. However, additional enabling works and enhancements to the original specification, including anti-ram bollards, has meant the project expenditure is £8.4m compared to the original budget of £8.2m.
- c. There remains additional works to be completed that were not part of the original project plan and therefore require additional budget. A lot of this work relates to tenant's requirements as well as ensuring the site offers secure 24-hour digital services. It also includes:
  - i. Additional network infrastructure to meet tenant requirements
  - ii. Business Continuity - provision of external emergency power connection point
  - iii. Additional furniture - to increase flexibility of lettable space
  - iv. Additional car park controls and electrical charging points

In total Council is asked to approve an increase in budget from £8.180m to £8.520m, an increase of £340k.

#### CAPITAL PROGRAMME FINANCING 2019/20

Fund	Original Budget 2019/20 £'000	Quarter 1 2019/20 £'000	Quarter 2 2019/20 £'000	Quarter 3 2019/20 £'000	Change £'000
External Contributions	5.091	5.079	5.416	1.450	(3.641)
Grants	2.584	2.494	2.394	1.903	(0.681)
New Homes Bonus	0.415	0.415	0.361	0.218	(0.197)
Earmarked Reserves	0.766	0.766	0.661	0.597	(0.169)
Revenue	0.485	0.485	0.485	0.010	(0.475)
Capital Receipts	0.642	0.667	0.715	0.243	(0.399)
Borrowing	11.165	9.674	43.659	42.146	30.981
<b>Capital Financing 2018/19</b>	<b>21.148</b>	<b>19.580</b>	<b>53.691</b>	<b>46.567</b>	<b>25.419</b>

51. 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.
52. The reduction in external contributions is the result of reprofiling S106 and CIL contributions to play and open space projects from 2019/20 into 2020/21.

**IMPLICATIONS OF REPORT**

53. 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**

54. The financial implications are contained within this report

**COMMENTS OF THE MONITORING OFFICER**

55. No Comment

GARY HALL  
CHIEF EXECUTIVE & CHIEF FINANCE OFFICER

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
David Bond/James Thomson	5488/5025	29/01/20	***