

Report of	Meeting	Date
Chief Executive (Introduced by the Executive Member for Resources)	Executive Cabinet	28 August 2014

## **REVENUE AND CAPITAL BUDGET MONITORING 2014/15 REPORT 1 (END OF JUNE 2014)**

### **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 2014/15.

### **RECOMMENDATION(S)**

2. Note the full year forecast position for the 2014/15 revenue budget and capital investment programme.
3. Request Council approval to transfer £100k of additional income from Market Walk to invest in the Town Centre Grants Programme and that any surplus additional income, currently forecast to be around £163k, be divided on a 80:20 basis between two reserves: the equalisation reserve to smooth any fall in forecast income from Market Walk in future years; and the change management reserve which would assist in funding future organisational change.
4. Note the forecast position on the Council's reserves.
5. Request Council approve a £30k increase to the Adlington Play and Recreation budget in the capital programme, funded from Section 106 contributions.
6. Request Council approve the proposed re-profiling of the Capital Programme to better reflect delivery in 2014/15.

### **EXECUTIVE SUMMARY OF REPORT**

7. The projected revenue outturn currently shows a forecast underspend of £88,000 against budget (excluding additional net income from Market Walk). No action is required at this stage in the year.
8. The latest forecast excludes any variation to projected expenditure on investment items added to the budget in 2014/15. These projects are forecast to fully expend in 2014/15 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 2014/15 budget the expected net income from Market Walk is £543k. The latest projection – after taking into consideration £190k reserved to fund feasibility costs of the proposed extension and £100k to be transferred to fund further Town Centre Investment – is £706k. It is proposed that the £163k surplus be transferred to reserves, allocated 80:20 between the change management reserve and the Market Walk income equalisation reserve.

10. The forecast of capital expenditure in 2014/15 is £13.014m. This figure includes £6.650m to finance the Chorley East Health Centre.
11. The Council expected to make overall target savings of £130k in 2014/15 from management of the establishment. Savings of £100k have already been achieved for the year, with the remaining balance expected to be achieved over the coming months.
12. The Council's Medium Term Financial Strategy proposed that working balances were to be maintained at a level no lower than £2.0m due to the financial risks facing the Council. The current forecast to the end of June shows that the General Fund balance could be around £2.277m.
13. It is intended that any costs associated with the authority seeking unitary status will be financed by use of the Council's change management reserve of £261k should this be approved.

<b>Confidential report</b> Please bold as appropriate	Yes	No
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<b>Key Decision?</b> Please bold as appropriate	Yes	No
<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
	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)

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	√

Ensuring cash targets are met maintains the Council's financial standing.

## BACKGROUND

17. The latest revenue budget is £15.547m. This has been amended to include approved slippage from 2013/14 and any transfers from reserves. The significant additions to the budget include:
- £220,730 slippage from 2013/14
  - £71,270 residual balance from the Neighbourhood pump priming budget.
  - £56,500 residual balance from the Environmental Clean-ups budget.
  - £100,000 2013/14 Investment budget for Play area improvements
  - £44,760 balance of 2013/14 Investment budget for Neighbourhood Working.
18. A full schedule of the investment budgets carried forward from 2013/14 and the new investment budgets introduced in the 2014/15 budget are shown below; and with expenditure to date and officer comments in Appendix 2 (for capital items see Appendix 4).

Investment Area (Revenue)	2013/14 Investment b/f	2013/14 Recurrent Investment	2014/15 New Investment
Deliver Agreed Neighbourhood Priorities	44,760		50,000
16/17 year old drop in scheme			21,000
Britain in Bloom			10,000
Connecting Communities through food			12,000
Meals on Wheels Service			30,000
Expand the food bank			15,000
Extension & improvement of street furniture	6,340		35,000
Play and Open Space Strategy	100,000	100,000	50,000
Free Swimming			8,000
British Cycling, Tour of Lancashire			20,000
Mediation service for Anti-Social Behaviour disputes			7,000
Employee Health scheme			20,000
Campaigns and events			20,000
Chorley Council energy advice switching service			15,000
Inward investment delivery	253,600		100,000
Town Centre Masterplan			35,000
Support the expansion of local businesses (BIG grant)	46,620		45,000
Business Start-up (Grant and Loan)			67,000
Town Centre & Steeley Lane Pilot Action Plans			100,000
Unify Credit Union	9,000	50,000	
Private Property Improvement Scheme	48,030		
Joint employment initiative with Runshaw College	29,370		
Community development and volunteering	28,230	50,000	
Support to the VCFS Network		15,000	
	<b>565,950</b>	<b>215,000</b>	<b>660,000</b>

<b>Investment Area (Capital)</b>	<b>2013/14 Investment b/f</b>	<b>2014/15 New Investment</b>
Regeneration – Car park resurfacing and Market Street Redevelopment	407,000	
Regeneration Projects		100,000
<b>Astley Hall &amp; Park Development:</b>	<b>133,000</b>	<b>324,000</b>
- 2013/14 carry forward	133,000	
- Astley Play Area		50,000
- Event Parking		100,000
- Events Staging		5,000
- Footpath Lighting		40,000
- Sensory Garden		35,000
- Street Furniture		18,000
- Steps & Footpath Improvements		15,000
- Other Proposals		61,000
	<b>540,000</b>	<b>424,000</b>

19. The Council's approved revenue budget for 2014/15 included target savings of £130,000 from management of the staffing establishment.
20. It was recommended in the June Provisional Revenue and Capital Outturn Report that the £326k net income from Market Walk in 2013/14 was split between the Change Management Reserve and Income Equalisation Reserve on a 80:20 basis. A sum of £261k was subsequently allocated to the Change Management Reserve to assist in funding future organisational change.
21. Set out in Appendix 1 is the provisional outturn position for the Council based upon actual spend in the first three 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 2014/15 is £13.014m. Explanations for the changes to the previously reported position in June 2014, as part of the 2013/14 Outturn Report, are expanded on in Section B of this report. The latest three year capital programme is shown in Appendix 4 based upon actual and committed expenditure during the first three 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 Council expected to make overall target savings of £130,000 in 2014/15 from management of the establishment. Staffing vacancy savings have already been achieved following the recent departmental restructures in Customer & ICT Services, Health, Environment & Neighbourhoods, Housing and Legal Services. The savings have been achieved from a number of factors including vacant posts in the first few months of the year and new starters commencing on scale points lower than budgeted. As a result, corporate savings of £100,000 have already been realised for 2014/15, which leaves £30,000 to be achieved by the end of the year.
24. The projected outturn shown in Appendix 1 forecasts an underspend compared to budget of around £88,000 (excluding any additional net income from Market Walk). The significant variances from the Cash Budget are shown in the table below. Further details are contained in the service unit analysis available in the members' room.

## ANALYSIS OF MOVEMENTS

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

Note: Savings/underspends are shown as ( ).

	£'000	£'000
<b>Expenditure:</b>		
Staffing costs	(43)	
Waste Contract	(16)	
Mailroom Services (Revenues & Benefits)	(13)	
Leisure Contract Capital Recharge	20	
Property Searches Settlement	<u>66</u>	14
<b>Income:</b>		
Market Rents	(34)	
Legal Fees income	(10)	
Supporting People Income	(10)	
Parking Fees	25	
Cotswold Rent Income	23	
Bengal Street Depot – rent/service charge	<u>11</u>	5
<b>Other:</b>		
Housing & Council Tax Benefits	(68)	
Other minor variances	<u>(39)</u>	(107)
<b>Net Movement</b>		<b>(88)</b>

25. The forecast saving of £43,000 on staffing costs shown in the table above is in addition to the contribution of £100,000 already made to meet the corporate savings target for 2014/15. The additional saving is a result of vacant posts remaining in the establishment following the departmental restructures being implemented.
26. The Council's waste collection contract with Veolia is subject to inflationary increases in charges with effect from April each year, using the measure for RPIX in March. The actual RPIX figure was lower than the 3% assumed in the budget for 2014/15 and this has generated a saving of around £16,000 for the year.
27. The Council has negotiated a new contract with Northgate Information Solutions for providing mailroom services relating to the on-line scanning and indexing of Housing & Council Tax benefits documents. This has resulted in a saving of £13,000 to the Council.
28. The Council's leisure centre's contract with Active Nation for 2014/15 included a sum of £25,000 for project management costs to work on capital schemes throughout the year and charge the cost of that time to the Capital Programme. One of the main schemes was roof works which is now anticipated to start towards the end of the current financial year and run into 2015/16. As a consequence, it now seems likely that there will be minimal staff time that qualifies for a revenue recharge to capital this year resulting in a shortfall of around £20,000.
29. Legislation introduced by central government and subsequently repealed in relation to property search fees has given rise to a legal claim against the Government and local authorities for restitution from property search companies. A settlement negotiated by Bevan Brittan Solicitors, having been procured by the Local Government Association (LGA)

to act on Chorley's behalf along with 369 other English and Welsh local authorities, estimates the Council's liability to be £89,799.68 excluding interest and a contribution to the claimants' costs. As such a total cost of £100k is estimated and has been included in the latest forecast of 2014/15 outturn. At the time of repeal the Government provided local authorities with a grant to contribute to any future claims. The council received £34,350 which has been held in a specific reserve; the balance of £65,650 has been included as an in-year adverse variation.

30. With markets at full capacity, the Council is generating additional income from Market Rents. Income levels continue to remain high as we saw throughout 2013/14 and based on quarter 1 results, this is forecast to continue in 2014/15. If these levels are maintained for the full year, additional income of around £34,000 should be achieved.
31. The Council's budget for legal fees income was set at £30,000 for 2014/15 and was based on actual income received over previous years. Income levels throughout 2013/14 were higher than budgeted, mainly as a result of S106 related issues and this trend has continued into the new financial year. As a result, an additional £10,000 income is now forecast in 2014/15.
32. The Council currently receives Supporting People Grants from Lancashire County Council which help to finance various Housing initiatives such as support to tenants at Cotswold House, Home Improvement Agency and the provision of Handyperson services under the Preston Care and Repair Scheme. At the time of setting the budget for 2014/15 it was still unclear as to what level of funding would be agreed by LCC for the coming year. The assumptions included in the budget were that Home Improvement grant income held in reserve from previous years would finance the 2014/15 work undertaken by Preston Care and Repair, as the LCC funding of around £28,000 was expected to end for this initiative. It was anticipated that funding for the other schemes would reduce by around 5% for the coming year. I am pleased to report that LCC have now confirmed that there will be no reduction in funding for 2014/15, resulting in additional income of around £10,000. As the funding will also continue for the Care and Repair Scheme, the £28,000 budgeted use of reserves will not be required and this sum can now remain in the reserve to fund the service for an extra year if required.
33. As part of the budget package for 2014/15, £100,000 was added to the budget to allow the administration to continue with the revised car parking tariff that was introduced to promote the use of the Town Centre. As reported in budget monitoring towards the end of last year, and after the 2014/15 budget had been approved, the full year effect of the new tariff is now estimated to be around £125,000. Income levels for the first quarter have continued at the same level and the initial forecast is for a shortfall of £25,000 for 2014/15.
34. Cotswold House is currently undergoing a programme of building works that will result in a number of rooms being out of commission for a period of time. As a consequence, there will be a loss of rental income whilst the rooms are unavailable this year. It is estimated at this stage that the shortfall in income will be around £23,000.
35. A report to Executive Cabinet on 21<sup>st</sup> March 2013 outlined the benefits of sharing the Bengal St Depot site with registered charity Recycling Lives. The proposals detailed the potential budget savings of £86,000 going forward from shared site costs and rental income. Based on these proposals, the Council's budget for 2014/15 included a total sum of around £45,000 for the first year savings/rental income – the 2013/14 budget had included savings of £11,000 due to sharing business rates and an additional £20,000 is due to be realised in 2015/16 from a profit sharing agreement. As the final details of the lease are being agreed it is unlikely that full year savings will be realised this financial year and so a loss of income of around £11,000 is forecast for the first quarter.
36. As outlined in previous monitoring reports, one budget that could have a significant impact on the Council's year-end position is the budget for housing benefit payments. Figures for

the first quarter continue to show an increase in the level of benefits overpayments recovered as a result of pro-active investigation work. As a result, the initial forecast is for additional income of around £74,000 against the 2014/15 budget.

## MARKET WALK

37. The budgeted net rental income from the Market Walk in 2014/15 is £543k. The latest forecasts estimate the Council will receive an additional £453k. This is due to the letting of two vacant units, savings to operational costs and reduced costs of financing the acquisition.
38. Of the additional income forecast it is proposed to use £190k to fund design, planning and feasibility costs in relation to the extension to Market Walk and to transfer £100k to finance further investment in the Town Centre through the Town Centre Grants Programme to continue the Council's support of new local businesses through the award of shop front and shop floor grants.

**Table 2: Market Walk Income Forecast (June 2014)**

	2014/15 Budget	2014/15 Jun-14 Forecast	2014/15 Variance
<b>Income Budget</b>			
Gross Income	(1,759,827)	(1,793,493)	(33,667)
<b>Expenditure Budget</b>			
Operational costs and financing	1,216,630	797,084	(419,546)
	(543,197)	(996,409)	(453,213)
<b>Commitments</b>			
Market Walk Extension - design / feasibility costs	0	190,000	190,000
Reserved for Town Centre Investment	0	100,000	100,000
Net Income	(543,197)	(706,409)	(163,213)
<b>Transfer to reserve as per 2014/15 Budget Report</b>			
Equalisation Reserve (annual contribution)	50,000	50,000	0
Asset Management re Market Walk	50,000	50,000	0
Revised Net Income	(443,197)	(606,419)	(163,213)

39. The approved budget made provision for a £50k transfer to reserve to fund asset maintenance costs outside of the service charge agreement and a £50k transfer to an equalisation account to build up a reserve to fund any future reduction to income levels. Should these amounts remain unchanged, based on current forecasts the revised net income will exceed budgeted estimates by £163k in 2014/15.
40. It is proposed that the additional income of £163k is transferred to reserves, allocated on the 80:20 basis in line with previous allocations, between the Market Walk income equalisation reserve and the change management reserve.

## GENERAL FUND RESOURCES AND BALANCES

41. With regard to working balances, and as per Appendix 1, we started the year with a balance of £2.189m. The approved MTFs proposes that working balances are to be no lower than £2.0m given the budgetary challenges facing the Council. The current forecast to the end of June shows that the General Fund closing balance will be around £2.277m as detailed in the table below.

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

General Balances	£m
Opening Balance 2014/15	2.189
Provisional revenue budget underspend	0.88
<b>Forecast General Fund Balance 2014/15</b>	<b>2.277</b>

42. In June of this year, the Council approved the transfer of £326k net income from Market Walk in 2013/14 between the Change Management Reserve and Income Equalisation Reserve. A sum of £261k was subsequently allocated to the Change Management Reserve to assist in funding future organisational change. It is proposed that this reserve is used to finance any costs to the Council associated with the authority seeking unitary status if approved.
43. Appendix 3 provides further information about the specific earmarked reserves and provisions available for use throughout 2014/15.

**RETAINED BUSINESS RATES**

44. The Business Rates Retention (BRR) scheme was introduced in April 2013. It provides a direct link between business rates growth or decline, and the amount of money the council has to spend on local people and local services. The Council is able to keep a proportion of business rates revenue, as well as growth generated on that revenue, within their local area. Conversely any decline in Business Rates revenue levels reduces the income received by the Council.
45. The calculation of the Business Rates expected to be retained (which was included in the 2014/15 approved budget) and a comparison with our latest forecast for the year is outlined below. The council receives resources for the year based on the initial estimate of business rates income included in the budget at the start of the financial year. Any change, be it a surplus or deficit, will normally be realised in the following two years.

**Table 4 – Business Rates Income Projection**

	Budget 2014/15 £000	June Forecast 2014/15 £000	Variance £000	
Net Rate Yield (after deducting reliefs, cost of collection and appeals)	27,015	27,196	181	1% growth forecast in 2014/15
<i>Calculation of Chorley retained income:</i>				
Retained by Chorley (before tariff/levy)	10,806	10,878	72	CBC retain initial 40% of income collected before further deductions Fixed deduction to Central Government Reduction calculated against excess collected over base funding level
Tariff to Central Government	(7,646)	(7,646)	0	
Levy to Central Government	(620)	(683)	(63)	
<b>Estimated retained business rates</b>	<b>2,540</b>	<b>2,549</b>	<b>9</b>	
Section 31 Grant	753	753	0	
<b>Retained Rates and Section 31 Grant</b>	<b>3,293</b>	<b>3,302</b>	<b>9</b>	
<u>Budget split:</u>				
Base Funding Level	2,619	2,619	0	Included in the budget to smooth future years fluctuations in income
Growth included in base budget	171	171	0	
Growth earmarked for Business Rates Reserve	503	512	9	
	<b>3,293</b>	<b>3,302</b>	<b>9</b>	



46. The latest information of income yield – net of costs for reliefs, cost of collection, bad debt and estimated appeals – is a small increase in Chorley's share of retained rates of £9k. At this stage the monitoring of performance against budgeted estimates for the local retention of business rates is subject to change due to the volatility of variables such as the outcome of outstanding appeals. These latest estimates indicate we are meeting expectations included in the budget however further fluctuations will be closely monitored and any significant variances reported in the next monitoring report to Cabinet.
47. Central Government is committed to refunding Local Authorities for their loss in income from Retained Business Rates as a result of Small Business Rate Relief and Empty Property Relief. DCLG have confirmed that the Council will receive £753k as section 31 grant in relation to reliefs in 2014/15.

## **SECTION B: CURRENT FORECAST POSITION – CAPITAL**

48. The Capital Budget for 2014/15 to 2016/17 as approved at Special Council in February and taking into account amendments reported to the Executive in June within the 2013/14 Outturn Report is as follows:
  - 2014/15: £12.897m
  - 2015/16: £1.305m
  - 2016/17: £0.390m
49. Capital expenditure and commitments raised as of 30<sup>th</sup> June 2014 are £1.060m. This represents 17% delivery against the 2014/15 budget (excluding the £6.65m earmarked for the Chorley East Health Centre). It is expected that with many schemes now on site that expenditure will accelerate throughout the remainder of the year.

### *Amendments*

50. Executive Cabinet is asked to approve the following addition to the capital budget:
  - We have received a section 106 contribution of £30k to be spent on equipped play space. It is proposed to allocate this funding, in line with the terms of use, to the Adlington Play Facilities Project.
51. The purchase of Market Gazebos for £10k. The markets are at full capacity and the lack of additional gazebos is preventing further stall allocation for the Tuesday market. The new gazebos would also be available for hiring out at other times during the week.
52. In March 2014 Executive Cabinet approved the appointment of P.J. Services to carry out phase 5 works to Cotswold Supported Housing. Since then, further works have been identified including temporary accommodation and CCTV, the requirement for a new alarm system and full electrical re-wire. These costs in total add a further £375k to the initial contract price as per the March report.
53. The increase in cost can be funded through the use of capital budgets that have already been approved. Pending the Cabinet approval the following budget transfers will be actioned: £72k will be transferred from the Council's Asset Management budget; £47k from the affordable housing budget; and £256k from the previously uncommitted Housing renewal budget funded from the carry forward of Regional Housing Pot.
54. The Disabled Facilities budget for the adaptation of disabled peoples' homes previously contained only the grant allocations approved from Central Government. In previous years this has been supplemented by the Council's own funding. It is recommended that the budget in 2014/15 and 2015/16 be increased to £405k and £420k respectively and the additions financed from the remaining Regional Housing Pot funding.

55. If all the recommendations above are approved the revised capital programme will be as summarised below and as presented in Appendix 4:

- 2014/15: £13.014m (includes £6.65m for Chorley East Health Centre)
- 2015/16: £1.228m
- 2016/17: £0.390m

## IMPLICATIONS OF REPORT

56. 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

57. The financial implications are detailed in the body of the report.

## COMMENTS OF THE MONITORING OFFICER

58. The Monitoring Officer has no comments.

GARY HALL  
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Dave Bond	5488	29/07/14	Revenue and Capital Budget Monitoring 2014-15 Report 1