

Report of	Meeting	Date
Chief Finance Officer (Introduced by the Executive Member for Resources)	Executive Cabinet	2 August 2018

REVENUE AND CAPITAL BUDGET MONITORING 2018/19 REPORT 1 (END OF JUNE 2018)

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 2018/19.

RECOMMENDATION(S)

2. Note the full year forecast position for the 2018/19 revenue budget and capital investment programme.
3. Note the forecast position on the Council's reserves.
4. Request Council approval for the contribution of £200,000 from in-year revenue underspends to the Business Rates Retention Reserve.
5. Request Council approval for the contribution of £90,000 from in-year revenue underspends to finance the commissioning of a Highways and Transport Strategy.
6. Request Executive Cabinet approval for the contribution of £10,000 from in-year revenue underspends to finance the desktop study of pupil projections and need for additional schools in Chorley.
7. Request Council note the capital programme to be delivered in 2018/19 to 2020/21.

EXECUTIVE SUMMARY OF REPORT

8. The projected revenue outturn currently shows a forecast underspend of £425,000 against budget. No action is required at this stage in the year.
9. The forecast excludes any variation to projected expenditure on investment items included in the budget in 2018/19. These projects are forecast to fully expend in 2018/19 and should there be any balances remaining at year end they will be transferred into specific reserves and matched to expenditure in future years.
10. In the 2018/19 budget the expected net income from Market Walk after deducting financing costs is £1.005m.
11. The forecast of capital expenditure in 2018/19 is £34.121m
12. The Council's budget for 2018/19 included a savings target of £200k from management of the staffing establishment. The full savings of £200k have already been achieved.

13. The Council's Medium Term Financial Strategy proposed that working balances are to reach £4.0m over the 3 year lifespan of the MTFs to 2018/19 due to the financial risks facing the Council. As reported to Executive Cabinet in June, the target of £4m has been achieved as at 31 March 2018. Should the recommendations in this report be accepted, the forecast level of balances at 31 March 2019 will be around £4.007m. It should be noted however that there may be further call for the use of general balances throughout 2018/19.

Confidential report Please bold as appropriate	Yes	No
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Key Decision? Please bold as appropriate	Yes	No
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Reason Please bold as appropriate	1, a change in service provision that impacts upon the service revenue budget by £100,000 or more	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	✓

BACKGROUND

17. The net revenue budget for 2018/19 is £16.726m. This has been amended to include approved slippage from 2017/18 and any transfers to/from reserves. The significant additions to the budget include:

- £104,790 slippage items from 2017/18.
- £643,170 balance of investment budgets carried forward from 2017/18.
- £46,620 Transformation Challenge Award funding from reserves.

Appendix 3 provides further information about the specific earmarked reserves and provisions available for use throughout 2018/19.

18. A full schedule of the investment budgets carried forward from 2017/18 and the new (non-recurrent) investment budgets introduced in the 2018/19 budget are shown in Appendix 2 together with expenditure to date against these projects (for capital items see Appendix 4).
19. As part of the budget package for 2018/19 the Council approved the proposal for changes to be made to certain staffing structures to ensure that the Council's organisation remains fit for purpose and able to deliver the Council's priorities. Prior to the start of the 2018/19 financial year, work was undertaken to result in changes to structures that were forecast to result in cumulative savings of approximately £200k in 2018/19.
20. The Council's approved revenue budget for 2018/19 included target savings of £200,000 from management of the staffing establishment.
21. Following the recommendations made in the 2017/18 Provisional Revenue and Capital Outturn Report, in-year revenue underspends have been set aside to fund the following items:
 - £300,000 to the Change Management Reserve
 - £100,000 to the Asset Maintenance Reserve
 - £156,835 to the Business Rates Retention Equalisation Reserve
22. 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.
23. The latest forecast of capital expenditure in 2018/19 is £34.121m. The latest capital forecast is detailed 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

24. The projected outturn shown in Appendix 1 forecasts an underspend compared to budget of around £425,000. 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
Expenditure:		
Staffing Costs	354	
Contribution to Corporate Savings Target	(200)	
Waste and Recycling Contract	<u>30</u>	
		184
Income:		
Housing Benefit related grants	34	
CIL Admin Income	50	
Planning Application Income	<u>(80)</u>	
		4
Other:		
Financing	150	
Housing Benefits	78	
Transition Fund (Bus Services)	16	
Other minor variances	<u>(7)</u>	
		237
Net Movement		425

Expenditure

25. Total staffing savings are currently forecast to be £354k and are predominantly a result of vacant posts, a number of which have been held vacant pending the implementation of transformation strategies.
26. The forecast variations profiled above make assumptions regarding the start dates of staff to vacant posts, these assumptions are monitored on a monthly basis. The main savings are as a result of vacant posts, predominantly in the Customer and Digital, Business Development & Growth and Early Intervention directorates (£91k, £91k and £172k respectively) resulting from delayed recruitment to a number of posts pending the implementation of new departmental structures. This staffing underspend assumes the vacant Head of Early Intervention and Support and Head of Customer Transformation posts remain vacant throughout the year.
27. From the £354k staffing savings identified to date, the total 2018/19 corporate savings target of £200k for management of the establishment has been transferred.
28. The Council's revenue budget for the current waste contract with Veolia included a provision for the cost of an additional bin wagon required for 2018/19 together with an allowance for inflation for any additional properties in the borough. Following negotiations held with Veolia earlier this year, the charge for the additional bin wagon has now been waived. In addition to this, as a result of changes to the waste contract following the introduction of the opt-in garden waste subscription service, Veolia no longer inflate for additional new properties. The result of these changes is a saving of around £30,000 in 2018/19.

Income

29. In addition to the £58k budgeted income from Housing Benefit Related Grants, the Council has received a further two benefits related grants for 2018/19. In April the Department of Work and pensions (DWP) announced the award of £25,441 to the Council to support the administration required to combat income related fraud and error notified to the authority via the new Verify Earnings and Pensions (VEP) Alerts service due to be rolled out from 30 May 2018. A New Burdens grant of £8,874 was also awarded to cover administration costs relating to the transitional arrangements of migrating to Universal Credit and for benefit support for claimants living in temporary accommodation.
30. The Council is permitted to use 5% of the income collected each year through the Community Infrastructure Levy (CIL) to cover the cost of administering CIL. The total CIL collected in 2018/19 is currently estimated to be around £1.8m, generating eligible CIL admin of around £90,000. Of this, £40k is budgeted to finance staffing costs in the Planning Policy Team, leaving a balance of £50k. As a result, additional staffing expenditure previously expected to be covered through the base budget will instead be legitimately met through the CIL admin allocation therefore creating a saving in 2018/19.
31. One area where income levels have fallen in recent months is for planning application fees. Income received for the first quarter of 2018/19 was £113k and is significantly lower than the corresponding figure of £207k for 2017/18. This has resulted in a revised income forecast of around £580,000 for the year, £80,000 below budget. It should be noted that this position could worsen over the next few months as there are no large planning applications anticipated over the short term. In addition, these income figures include the 20% increase in fees permitted by the government in 2017/18.

Other Items

32. As reported to Executive Cabinet in the Provisional Revenue and Capital Outturn report in June, the council experienced a £176k underspend against the 2017/18 budgets set aside to fund its capital financing requirement (borrowing). This related to the use of a £2.2m capital receipt the council received from the sale of land at Southport Rd. Rather than use this receipt to meet the cost of the purchase of the Oak House site, the council used the receipt to pay off the borrowing used to fund other assets with shorter useful lives such as vehicles and bins. The council will use borrowing to fund the purchase of Oak House and spread the cost over the life of this asset. The net result of using the receipt in this manner meant a reduction in the cost of borrowing in 2017/18. The impact of this will continue in 2018/19 and accounts for the reduction in the forecast borrowing of £150k in 2018/19. It should be noted that the total cost of borrowing for the council remains the same, borrowing will instead be spread over a longer period.
33. The housing benefits payments budget is one area that historically has a significant impact on the Council's year-end financial position due to the nature of the costs being demand driven and the uncertainty over the level of overpayments recovered and their associated bad debts. By reducing the level of benefit overpayments due to fraud and claimant error, the Council is able to reduce the burden of outstanding debts and the level of bad debts provision. The level of outstanding debts has fallen in the first quarter of 2018/19 compared to the previous year and this has resulted in a reduced forecast charge to the bad debts provision compared to the budgeted position. The forecast effect is a reduction in costs of around £78,000 for 2018/19. It should be noted that this position is subject to change throughout the year as new overpayments are identified and older unrecoverable debts are written off.

34. In May 2018 the Council approved the request for additional funding of £58,000 from in-year revenue underspends to support the LCC Transformation Fund in 2018/19 for the provision of future bus services. The request was based on an estimated annual cost of £158k (£116k for the initial 6 months of the year under the current arrangements plus £42k for the second half year from October under the new proposed joint funded contract arrangements). The Leader of the Council has recently made representations to LCC with regard to their proposed funding contribution as should the revised joint funding arrangements have been in place from April as initially intended, LCC would already be committing additional resources to the services. LCC have now accepted this position and have agreed to increase their contribution by £16,000 for the period April to September and this will reduce the funding Chorley Council is committing for the period.
35. Also in May 2018, the Council considered a report regarding the Government's Syrian Refugee Resettlement Programme. Council agreed the recommendations in the report to increase the capital programme by £1.672 million to fund the acquisition of 10 properties and to set aside a revenue reserve of £60k to create a building maintenance fund to bring any homes that require refurbishment up to the necessary standard. The £60k revenue reserve will be financed from the £458k in-year revenue underspends outlined in this report.

Requests from Underspends

36. There remains a large amount of uncertainty with regard to the level of business rates income the council will retain in the future. The level of business rates income the council collects is always uncertain due to periodic revaluations, appeals and general economic conditions. However there is additional uncertainty created by the changes to the business rates system proposed to be implemented in 2020/21. These changes will include a review of the local share of the national pot of retained income and it could also change how the locally retained income is shared between preceptors. Small changes to this system can have a big impact on the council's budget and it is likely that the full impact of the changes will not become apparent until late in the 2019/20 financial year.
37. In addition to this uncertainty a large risk associated with business rates income relates to two applications for mandatory charitable relief received from Lancashire Teaching Hospitals NHS Foundation Trust. If successful, the application would be backdated to 2010 and therefore have a significant impact on the Council's revenue budget. A headline figure is a potential £1.5m impact on the Council's general fund and a further c£200k reduction in ongoing retained business rates. The LGA is representing affected councils nationwide and retain the view that NHS trusts and foundation trusts are not charities and therefore not eligible for mandatory non domestic rate reliefs. As a result of this uncertainty it is proposed that a sum of £200k is set aside from the 2018/19 revenue underspends to increase the Business Rates Retention Equalisation Reserve.
38. Ahead of the Central Lancashire Local Plan Review Process, South Ribble and Preston respectively have comprehensively detailed their assessment of issues, opportunities and infrastructure requirements within the recent Central Lancashire Highways and Transport Masterplan and Preston Town Centre Masterplan. Chorley has not undertaken the same level of assessment to 'set the scene' of the transport issues specific to the area, which is a high priority in the borough under significant pressure. It is proposed therefore that a sum of £90k is set aside from this year's revenue underspends to contribute to these costs.

39. Chorley Council seeks to commission a piece of work using available data which will look at what the needs for school places are in the borough of Chorley at present and models future need based on a number of scenarios, including identifying any future deficit of provision and need for additional primary or secondary provision. This is a pro-active assessment and will inform Chorley's part of the subsequent allocations and strategic planning during the wider Central Lancashire Local Plan Review process. It is therefore proposed that a sum of £10k is set aside from the 2018/19 revenue underspends

MARKET WALK

40. The budgeted net rental income from Market Walk after taking account of financing costs in 2018/19 is £1.005m.

Table 2: Market Walk Income 2018/19

	2018/19 Budget £	2018/19 Outturn £	2018/19 Variance £
Rental & Insurance Income	(1,774,100)	(1,727,385)	(46,715)
Operational Costs (excluding financing)	148,550	101,835	46,715
Net Income (excluding financing)	(1,625,550)	(1,625,550)	0
Financing Costs	619,730	619,730	0
Net Income (including financing)	(1,005,820)	(1,005,820)	0
Income Equalisation Reserve (Annual Contribution)	50,000	50,000	0
Asset Management Reserve (Market Walk)	50,000	50,000	0
Net Income	(905,820)	(905,820)	0

Income

41. Income is expected to be £46k short of the budget in 2018/19 due to:
- Unit 8 and 18 becoming vacant in the new financial year. It is prudently assumed that these units will not be let during the financial year however work is underway to market these units and get new tenants in.
 - As a result of a company voluntary agreement issued by a national retailer to its landlords it has been agreed to reduce the annual rent on this unit.

Expenditure

42. The shortfall in income can be offset by expected underspends in the expenditure budgets, these include underutilised maintenance and professional fees budgets. The expenditure forecasts include the council's liabilities for NNDR and service charges on the vacant units.

Reserves

43. The table below summarises that the expected balances at year end in the MW income equalisation and MW asset maintenance reserves are £350k and £49k respectively. There is no assumed use of the income equalisation reserve however the £24k committed in

2017/18 for the upgrading of the covered market lighting is expected to be committed in 2018/19.

44. In order to meet demand for car parks whilst works are being carried out to create additional Town Centre parking approval was given to develop additional temporary parking provision on the Flat Iron car park in support of delivering the Market Walk Extension scheme. The additional temporary spaces will be split between short stay public spaces and long stay staff parking spaces for Market Walk tenants and will be funded through the Market Walk maintenance reserve at a cost of around £124k.

Summary of Market Walk Reserves

	Income Equalisation £	Asset Maintenance Market Walk £
Opening Balance 2018/19	300,366	146,970
2018/19 contribution to reserves	50,000	50,000
Upgrading of covered market lighting		(24,000)
Use of reserve to fund works to Flat Iron Car Park		(124,000)
Forecast Closing Balance 2018/19	350,366	48,970

GENERAL FUND RESOURCES AND BALANCES

45. With regard to working balances, and as per Appendix 1, the Council started the year with a balance of £4.000m. The approved MTFS proposes that working balances are to reach £4.0m over the 3 year lifespan of the MTFS to 2018/19 given the budgetary challenges facing the Council. The current forecast to the end of June shows that the General Fund closing balance could be around £4.307m.
46. Should the recommendations in this report be accepted, the forecast level of balances at 31 March 2019 will be around £4.007m as detailed in table 3 below. It should be noted however that there may be further call for the use of general balances throughout 2018/19.

Table 3 – Movement in General Fund Balance

General Balances	£m
Opening Balance 2018/19	4.000
Forecast revenue budget underspend	0.425
Initial General Fund Closing Balance 2018/19	4.425
Agreed use of in-year underspends:	
LCC Transition Fund (Bus Services)	(0.058)
Syrian Refugee Programme	(0.060)
Current General Fund Closing Balance 2018/19	4.307
Business Rates Retention Reserve	(0.200)
Highways and Transport Study	(0.090)
Desktop study of pupil projections	(0.010)
Forecast General Fund Closing Balance 2018/19	4.007

47. Appendix 3 provides further information about the specific earmarked reserves and provisions available for use throughout 2018/19.

SECTION B: CURRENT FORECAST POSITION – CAPITAL

48. The approved capital budget as per the revenue and capital outturn report approved on 21 June 2018 is as follows:

	2018/19 £'000	2019/20 £'000	2020/21 £'000	Total £'000
Approved Budget	34,020	4,441	1,096	39,557
Q1 Adjustment	101	(101)	0.000	0.000
Revised Budget	34,121	4,340	1,096	39,557

49. The budgets have been re-profiled between 2018/19 and 2019/20 to reflect a revised profile of the Market Walk Extension budget. In addition, the remaining £26k budget for CCTV has been moved to the Asset Improvement budget where the budget and financing is located. Further details can be found in Appendix 4.

Customer & Digital - £321k

50. The **Bank Hall** restoration project has committed £825k, including £508k in 17/18, of HLF funding towards the project. The grant eligible works are making good progress, with all major elements and all key decisions now made to the satisfaction of all parties. Stonework repairs and masonry work is well advanced and of an exceptional standard. Specifications and materials have been agreed for all key areas and the target for completion of the structural repairs remains at December 2018 with the fit out works (which are non-grant eligible) to commence thereafter. There may be some slight slippage in the programme but this will still be within the HLF imposed target end date for the completion of 28 February 2019.

Policy & Governance - £26k

51. The 2018/19 project budget for **Astley 2020** is £547k. This budget includes £200k match funding toward a bid to the HLF for a total allocation of £2.1m. As per the advice of the HLF, the bid is being re-written and resubmitted in August 2018 with a likely response in December 2018. The budget also includes £82k for the improvements to Hallgate car park that have now been completed and £100k for the Garden of Reflection that is also expected to complete soon and is funded through a grant from the Armed Forces Covenant. There remains a budget of £140k in the programme for footpath lighting.

Early Intervention - £87k

52. The total allocation for Chorley Council's **DFG** in 2018/19 is £717k, spend to date is £87k.

Business, Development and Growth - £2.764m

53. Total expenditure on the **Market Walk Extension** project in 2018/19 is £280k, this predominantly relates to the demolition of Oak House site and the preliminary works for the

decked parking on Friday Street car park. An update on the project will be provided to Full Council on 24 July 2018.

54. Phase 1 works at **Harpers Lane Recreation Ground** are complete as well as the pump track, the £70k contract for works to the playground has been awarded with start on site expected on 24 July 2018. Phase 1 works to **Coronation Recreation Ground** are also complete; these include refurbished footpaths, walls and tennis courts.
55. The construction of **Primrose Gardens** continues to progress well with £1.131m spent in 2018/19 (total value of works certified to date of £4.529m or 46% of total contract value). Areas 1 & 2 have 100% roof trusses installed, whilst roof coverings and window frames to these areas are near completion. Work to Area 3 is well underway and foundations and steelwork to Area 4 are now complete. The design of the public realm space has been agreed and is currently being costed by the contractor. Works to Primrose Gardens are on schedule to be completed by the 15th March 2019.
56. Enabling works at the **Digital Office Park** site are now complete and the main build has begun and is expected to complete by May 2019. There remains a budget of £900k in the capital programme for the enabling works relating to the larger site.

CAPITAL PROGRAMME FINANCING 2018/19

Fund	Original Budget 2018/19 £'000	Quarter 1 2018/19 £'000	Change £'000
External Contributions	10,107	10,107	0
Grants	8,685	8,685	0
New Homes Bonus	400	400	0
Earmarked Reserves	2,314	2,314	0
Revenue	23	23	0
Capital Receipts	981	981	0
Borrowing	11,511	11,612	101
Capital Financing 2018/19	34,020	34,122	101

57. The increase in borrowing is the result of re-profiling the Market Walk Extension budget, there is a subsequent reduction in borrowing in 2019/20.

IMPLICATIONS OF REPORT

58. 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

59. The financial implications are contained within this report

COMMENTS OF THE MONITORING OFFICER

60. No Comment

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

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