

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

REVENUE AND CAPITAL BUDGET MONITORING 2018/19 REPORT 3 (END OF DECEMBER 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 £100,000 from in-year revenue underspends to finance the next phase of CCTV infrastructure in the capital programme.
5. Request Council approval for the contribution of £60,000 from in-year revenue underspends to the Income Generation Reserve.
6. Request Council approval for the contribution of £210,000 from in-year revenue underspends to create a Council Tax Costs Bad Debt Provision.
7. Request Executive Cabinet approval for the contribution of £40,000 from in-year revenue underspends to the Market Walk income equalisation reserve.
8. Request Council note the capital programme to be delivered in 2018/19 to 2020/21.
9. Request Council approve the budget changes to the capital programme outlined in paragraph 50.

EXECUTIVE SUMMARY OF REPORT

10. The projected revenue outturn currently shows a forecast underspend of £410k against budget. No action is required at this stage in the year.
11. 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.

12. In the 2018/19 budget the expected net income from Market Walk after deducting financing costs is £1.059m.
13. The forecast of capital expenditure in 2018/19 is £32.314m
14. 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.
15. 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 £4m.

| | | |
|----------------------------------------------------------|-----|----|
| Confidential report Please bold as appropriate | Yes | No |
|----------------------------------------------------------|-----|----|

| | | |
|----------------------------------------------------|-----|----|
| Key Decision? Please bold as appropriate | Yes | No |
|----------------------------------------------------|-----|----|

| | | |
|---------------------------------------------|----------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
| 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)

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

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

17. None

CORPORATE PRIORITIES

18. 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

19. The current net revenue budget for 2018/19 is £16.877m. This has been amended to include approved slippage from 2017/18 and any transfers to/from reserves.
20. Appendix 3 provides further information about the specific earmarked reserves and provisions available for use throughout 2018/19.

21. 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).
22. The Council's approved revenue budget for 2018/19 included target savings of £200k from management of the staffing establishment. The full savings of £200k have been achieved for the year.
23. Following a recommendation made in the September 2018 budget monitoring report, in-year revenue underspends have been set aside to fund the following item:
 - £50,000 to finance a procurement review of the Council's leisure contract..
24. 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.
25. The latest forecast of capital expenditure in 2018/19 is £32.314m. The latest capital forecast is detailed in Appendix 4 based upon actual 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

26. The projected outturn shown in Appendix 1 forecasts an underspend compared to budget of around £410k. 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 | 25 | |
| Local Plan / Planning Delivery Grant | 50 | |
| Support to VCFS Network | <u>15</u> | 90 |
| Income: | | |
| Planning Application Fees | (67) | |
| S106 Maintenance of Public Open Spaces | 19 | |
| Sale of Land | <u>16</u> | (32) |
| Other: | | |
| Net Financing Transactions | 100 | |
| Business Rates | 100 | |
| Community Infrastructure Levy (CIL) | 50 | |
| Market Walk | 40 | |
| Other minor variances | <u>(6)</u> | 284 |
| Net Movement | | 342 |
| Quarter 2 Net Forecast Underspend | | 68 |
| Total Forecast Underspend at Quarter 3 | | 410 |

Expenditure

27. The additional savings on staffing costs of £25,000 shown in table 1 above reflects the changes from the position reported to the end of September in the last monitoring report. 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 from quarter 3 are predominantly from the Customer and Digital directorate from vacant posts in Customer Transformation and Streetscene Services.
28. In December 2017 the Government announced the introduction of the Planning Delivery Fund aiming to support greater collaboration between local planning authorities and a more strategic approach to planning for housing and infrastructure. A joint bid on behalf of Chorley, Preston and South Ribble proved successful in securing £250,000 in grant funding to support the creation of a shared Central Lancashire Planning team and the production of a Central Lancashire Local Development Plan (or 'Local Plan').
29. Allocation of Chorley's share of the grant of around £83k is likely to be spread across the financial years 2018/19 and 2019/20 but will be determined based on actual costs at the end of 2018/19 and estimated costs over the timescale for the Local Plan review process. A share of the grant will offset costs in 2018/19 and will reduce the requirement for the Council to use its full £100k revenue budget created for refreshing the Local Plan. The latest figures indicate a saving of around £50k in the current year.
30. The Council currently has an annual revenue budget of £15,000 to provide additional support to the Voluntary, Community and Faith Sector (VCFS) in Chorley through strengthening the work of the Chorley VCFS Network. The arrangement with Lancashire West Citizens Advice Bureaux is currently out of contract and under review, therefore no payment will be required in 2018/19 generating a budget saving in the current year.

Income

31. Previous budget monitoring reports have highlighted the issue of falling income levels from planning applications for the first six months of the year. Although actual income received for October was marginally above budgeted levels, the income received during November and December was again significantly lower than anticipated. This has resulted in a revised income forecast of around £458,000 for the year, £202k below budget and £67k less than reported in September.
32. A major joint application from Homes England and CBC is anticipated in the last quarter of 2018/19. However, as an element of this and other application processing will be undertaken in 2019/20, in accordance with accounting standards the income will be accounted for in the same period. Major applications in 2019/20 include Botany Bay for reserved matters consent anticipated to be submitted following the grant of outline planning permission.
33. The Council occasionally receives S106 contributions from property developers in the form of commuted sums for maintenance of adopted public open space and recreation facilities. Once a site has been adopted by the Council, the relevant income can be allocated or amortised over a number of years to contribute to the Council's annual maintenance costs. The Council budgeted to receive around £16,000 but an additional £19,000 has since been allocated for 2018/19.
34. Over recent months the Council has received a number of revenue receipts from the disposal and sale of small parcels of land that had been declared surplus to requirements. Three sales in particular have realised total income of around £21,000 generating a surplus of £16,000 over the revenue budget for 2018/19.

Other Items

35. The Council's budget for 2018/19 was prepared on the assumption that additional PWLB borrowing would be taken to replace the use of internal cash balances used to finance previous capital investment, and to finance major capital projects in the year. The reason being to secure cash at a lower interest rate than might be available in the future. £6m borrowing has been taken in January 2019 but this still leaves a saving of £100k in 2018/19. Further borrowing may be taken in 2018/19 with minimal impact on the revenue budget and sufficient budget has been set aside in future years to manage the council's borrowing requirements.
36. Net business rates-related resources are expected to increase by around £100k. Most of the increase is S31 Grant to fund Small Business Rate Relief (SBRR). The government has corrected its calculation method so part of the increase is for SBRR awarded in 2017/18. The increase in S31 Grant is offset in part by an increase in the levy payable to the Lancashire Business Rates Pool.
37. 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 £2.6m, generating eligible CIL admin of around £130,000. Of this, around £80k will finance a proportion of the staffing costs in the Planning Policy, Development Control & Building Control teams leaving a balance of £50k. As a result, additional staffing and non-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.

Requests from Underspends

38. The council currently has £100k allocated in the capital programme towards improving the CCTV infrastructure throughout the borough. Further schemes have been identified including Friday St car park, Market St, Cleveland St, Bengal St, Market St and Eaves Green Community Centre. Other investment is planned at Market Walk, to be funded through the sinking fund and Market Walk Extension, to be funded through Market Walk revenue budgets (see above). It is proposed to set aside £100k from the 2018/19 underspend identified in this report to fund this further investment in CCTV infrastructure.
39. A provision for non-collection of £210k is required in respect of council tax costs. Costs to be recovered from council taxpayers are income to the council. The income is credited to the General Fund in the year in which it is added to council taxpayers' accounts, and up to 2017/18 any bad debts have been netted off this income. Until recently the arrears balance in respect of the costs could not be identified separately from council tax arrears. The bad debt provision for costs arrears was incorrectly part of the Collection Fund provision for council tax-related arrears in total. A new system report has been used to identify arrears in respect of costs, and the bad debt provision for cost arrears has been calculated to be £250k as at 1 April. Once the provision has been created, any bad debts would be written off to the provision each year instead of reducing the General Fund's costs income. In essence the council is incurring costs during 2018/19 that will be used to offset bad debts in future years. This will reduce writing off costs to the council's general fund in future years potentially saving approximately £25k per year.
40. The council continues to develop its existing sites that will bring forward employment, housing and economic regeneration to its residents as well as generating a return for the council. To bring forward these opportunities £700k was set aside in 2016/17 and is being used to fund council staff and the commissioning of external expertise. Further funding is required to develop business cases and outline planning applications for sites such as Alker Lane, Shady Lane and Cowling Farm. In addition, further sites will come forward within the borough that may benefit the council and its residents including the development of health

facilities and leisure centres. It is proposed that the income generation reserve is increased by £60k to develop existing and new opportunities.

MARKET WALK

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

Table 2: Market Walk Expenditure/(Income) 2018/19

| | 2018/19 Budget £ | 2018/19 Outturn £ | 2018/19 Variance £ |
|---------------------------------------------------|------------------------|-------------------------|--------------------------|
| Rental & Insurance Income | (1,774,100) | (1,753,971) | (20,129) |
| Operational Costs (excluding financing) | 148,550 | 34,181 | 114,369 |
| Market Walk Extension | 0 | 53,975 | (53,975) |
| Net Income (excluding financing) | (1,625,550) | (1,665,815) | 40,265 |
| Financing Costs | 619,730 | 619,730 | 0 |
| Net Income (including financing) | (1,005,820) | (1,046,085) | 40,265 |
| Income Equalisation Reserve (Annual Contribution) | 50,000 | 90,000 | (40,000) |
| Asset Management Reserve (Market Walk) | 50,000 | 50,000 | 0 |
| Net Income | (905,820) | (906,085) | 265 |

Income

42. Income is expected to be £20k short of the budget in 2018/19 due to two units becoming vacant during the year and no assumed replacement tenants in 2018/19.

Expenditure

43. 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.
44. The council will incur approximately £50k of costs relating to Market Walk in 2018/19. The majority of these costs relate to the CCTV infrastructure required to link the new shopping centre to the councils existing network as well as the additional CCTV equipment.

Income Equalisation Reserve

45. The council proposes to utilise the underspend from Market Walk to increase the income equalisation reserve by increasing the contribution to the reserve to £90k in 2018/19. This will result in a reserve of £390k by the end of 2018/19. This will be used to cushion any potential shortfalls in income that may result from adverse economic conditions or a slowdown in the retail sector.

GENERAL FUND RESOURCES AND BALANCES

46. 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 December shows that the General Fund closing balance could be around £4.410m.
47. Should the recommendations in this report be accepted, the forecast level of balances at 31 March 2019 will be around £4m as detailed in table 3 below. It should be noted however that there may be further call for the use of general balances throughout the remainder of 2018/19.

Table 3 – Movement in General Fund Balance

| General Balances | £m |
|------------------------------------------------------|--------------|
| Opening Balance 2018/19 | 4.000 |
| Forecast revenue budget underspend | 0.410 |
| Initial General Fund Closing Balance 2018/19 | 4.410 |
| CCTV Infrastructure | (0.100) |
| Contribution to Income Generation Reserve | (0.060) |
| Council Tax Costs Bad Debt Provision | (0.210) |
| Market Walk Income Equalisation Reserve | (0.040) |
| Forecast General Fund Closing Balance 2018/19 | 4.000 |

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

SECTION B: CURRENT FORECAST POSITION – CAPITAL

49. The changes to the capital programme budget are outlined below:

| | 2018/19 £m | 2019/20 £m | 2020/21 £m | Total £m |
|-----------------------|---------------|---------------|---------------|---------------|
| Approved Budget | 34.020 | 4.441 | 1.096 | 39.557 |
| Q1 Adjustment | 0.101 | (0.101) | 0.000 | 0 |
| Q2 Adjustment | 0.018 | 0.983 | 2.606 | 3.676 |
| Q3 Adjustment | (1.825) | 2.338 | (0.000) | 0.513 |
| Revised Budget | 32.314 | 7.661 | 3.702 | 43.676 |

50. Approval is requested for the following budget adjustments:

- £100k increase in the asset improvement budget to fund additional investment in **CCTV equipment and infrastructure** as outlined in this report.
- £100k increase in the **ICT Infrastructure** budget to fund project management costs previously charged to revenue.

Customer & Digital - £1.280m

51. The **Bank Hall** restoration project has committed £1.376m, including £508k in 17/18, of HLF funding towards the project. Works on site are progressing well, with major elements of reconstruction now completed. One wing even has a new Welsh slate roof back in place. The bespoke windows have been agreed and will be ordered shortly. Whilst good progress is being made there have been some delays from technical difficulties with works to the tower, which has meant that the target completion for the shell repair works is now set at the end of April 2019 with fit-out scheduled for completion by the end of September 2019. The new forecast completion timetable has been agreed by the HLF.

52. The **ICT Infrastructure** project utilises external professional services to manage, test and implement the large programme of works. These costs in 2018/19 will be charged to the capital programme and be funded through reserves set aside to fund the ICT Infrastructure programme. The budget for 2018/19 has been increased by £100k to accommodate these costs.

Business, Development and Growth - £15.120m

53. Total expenditure on the **Market Walk Extension** project in 2018/19 is £2.5m, this predominantly relates to the creation of the Oak House car park and the completion of the decked parking on Friday Street car park. Enabling works around town centre parking are now complete and works are underway for the main build of the extension with steel work due to be completed by the end of March. Other work due to start in 2018/19 include ground floor concrete slabs, roof construction and façade cladding. The total project budget has been increased and re-profiled as per the report to Executive Cabinet on the 13 December 2018.

54. The construction of **Primrose Gardens** continues to progress well with £4.9m spent in 2018/19. Apartments to areas one and two ground to first floors are complete with second floor due to be complete imminently. All remaining apartments to the second floor are skimmed with the pamper bathroom left to do. On the first floor flat 18 and the lounge and overnight rooms are to be skimmed. Scaffold to the atrium has been stripped and works have commenced on the ground floor. The base course to carpark is to be laid on Friday with landscaping to follow. Works are on schedule to be completed by the end of 2018/19.
55. Enabling works at the **Digital Office Park** site are now complete and the main build has begun with spend in 2018/19 of £6.249m. Ground works outside are currently underway including the installation of block paving. The final finish of internal decoration is taking place from the top floor down with carpet tiles and blinds being installed. There remains a budget of £900k in the capital programme for the enabling works relating to the larger site.
56. The **Asset Improvement Budget** for 2018/19 is £654k with commitments totalling £602k including works to PALS Memorial, Astley cottage roof, town centre CCTV and the covered markets. This budget has been increased by £100k to accommodate more investment in CCTV across the borough.

CAPITAL PROGRAMME FINANCING 2018/19

| Fund | Original Budget 2018/19 £m | Quarter 1 2018/19 £m | Quarter 2 2018/19 £m | Quarter 3 2018/19 £m | Changes from Original Budget £m |
|----------------------------------|-------------------------------|-------------------------|-------------------------|-------------------------|------------------------------------|
| External Contributions | 10.107 | 10.107 | 10.195 | 9.147 | (0.960) |
| Grants | 8.685 | 8.685 | 8.319 | 8.294 | (0.391) |
| New Homes Bonus | 0.400 | 0.400 | 0.355 | 0.355 | (0.045) |
| Earmarked Reserves | 2.314 | 2.314 | 2.374 | 2.579 | 0.265 |
| Revenue | 0.023 | 0.023 | 0.023 | 0.040 | 0.017 |
| Capital Receipts | 0.981 | 0.981 | 1.036 | 1.036 | 0.055 |
| Borrowing | 11.511 | 11.612 | 11.907 | 10.864 | (0.748) |
| Capital Financing 2018/19 | 34.020 | 34.122 | 34.209 | 32.314 | (1.807) |

57. The changes to the financing in quarter 3 relate to £200k use of revenue and reserves to fund the CCTV and ICT Infrastructure. Other changes relate to the re-profiling of Market Walk Extension budgets across 2018/19 and 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 | *** |