

This Report will be made public on 11 October 2016

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report **C/16/61**

To: Cabinet
Date: 19 October 2016
Status: Non-Key Decision
Head of Service: Pat Main - Head of Finance
Cabinet Member: Councillor Susan Carey – Cabinet Member for Finance

SUBJECT: GENERAL FUND REVENUE BUDGET MONITORING – 2ND QUARTER 2016/17

SUMMARY: This monitoring report provides a projection of the end of year financial position of the General Fund revenue budget, based on expenditure to the 31 August 2016.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because it needs to be informed of the council's General Fund revenue budget position and take appropriate action to deal with any variance from the approved budget.

RECOMMENDATIONS:

1. To receive and note Report C/16/61.

1. INTRODUCTION AND BACKGROUND

- 1.1 This report updates Cabinet on the likely projected outturn on the General Fund revenue budget, based on data received as at 31 August 2016.
- 1.2 General Fund projections are made against the latest approved estimate which has been adjusted for approved carry-forwards from the 2015/16 budget and approved virements within year to 31 August 2016.
- 1.3 Members will recall that a high level approach was taken for the Quarter 1 monitoring report. This Quarter 2 report provides a more detailed analysis of changes and the likely year end outturn.

2. GENERAL FUND REVENUE 2016/17 - PROJECTED OUTTURN

- 2.1 The Quarter 2 projected outturn shows a forecast deficit of £2,827m against the latest approved estimated deficit of £2.588m. This represents a deterioration of £239k from Quarter 1.
- 2.2 Compared to the projection as at Quarter 1, the then forecast surplus of £127k has been replaced by a deficit of £239k. This is a deterioration of £366k for the period.
- 2.3 Although capital expenditure funded from revenue has increased by about £187k, as shown in paragraph 2.11, almost all of this has been funded from earmarked reserves. The latest projected outturn for the General Fund in 2015/16 is summarised below:

**GENERAL FUND NET REVENUE EXPENDITURE
VARIANCE ANALYSIS 2016/17 - SUMMARY**

@ August 2016 - Period 5

General Fund Net Cost of Services	Original Budget	Approved C/fwds and Virements	Latest Approved Budget	Projected Outturn	Variance
	£'000	£'000	£'000	£'000	£'000
Strategic Development	89	393	484	485	1
Leadership Support	796	54	850	893	43
Communications	250	(2)	248	240	(8)
Democratic Services & Law	5,694	23	5,717	5,687	(30)
Human Resources	881	(103)	778	820	42
Finance	4,164	240	4,404	5,143	739
Communities	2,363	432	2,795	2,644	(151)
Strategic Development Projects	321	30	351	365	14
Economic Development	560	107	667	701	34
Planning	637	182	819	660	(159)
Commercial & Technical Services	1,454	206	1,660	1,342	(318)
Sub-Total - Heads of Service	17,209	1,562	18,773	18,980	207
Unallocated Net Employee Costs	64	(192)	(128)	(174)	(46)
Recharges to Non General Fund Accounts					-
Total for Service	17,273	1,370	18,645	18,806	161
Reversal of Capital Charges Included in Portfolios		-			-
Reversal of pension adjustments		-			-
Reversal of write down of renovation advances		-			-
Internal Drainage Board Levies	436	-	436	436	-
Interest Payable and Similar Charges	576	-	576	573	(3)
Interest and Investment Income	(605)	(30)	(635)	(543)	92
Local Services Support Grant		-			-
	-	-	-	-	-
New Homes Bonus Grant	(1,950)	-	(1,950)	(1,950)	-
Other Non Service Related Government Grants	(763)	-	(763)	(832)	(69)
Town and Parish Council Precepts	1,827	-	1,827	1,827	-
Minimum Revenue Provision	405	-	405	405	-
Capital Expenditure Financed from Revenue	5,374	(1,308)	4,066	4,253	187
NET REVENUE EXPENDITURE BEFORE USE OF RESERVES	22,573	32	22,607	22,975	368
Net Transfer to/from(-) Earmarked Reserves	(1,708)	(1,348)	(3,056)	(3,185)	(129)
TOTAL TO BE MET FROM TAXPAYERS & FORMULA GRANT	20,865		19,551	19,790	239
Transfer to/from(-) the Collection Fund	(589)	-	(589)	(589)	-
Revenue Support Grant and Re-distributed NNDR	(1,736)	-	(1,736)	(1,736)	-
Business Rates Income	(3,799)	-	(3,799)	(3,799)	-
Demand on the Collection Fund	(10,839)	-	(10,839)	(10,839)	-
(SURPLUS)/DEFICIT FOR THE YEAR	3,902	2	2,588	2,827	239

The significant movements are outlined below:

	£'000	£'000	Paragraph Reference
Withdrawal as per latest approved estimate		2,588	
Reduced Income			
Reduced Investment income re housing acquisition programme	-92		2.5
		-92	
Decrease in Expenditure			
Planning - vacancies	-159		2.6
Communities restructuring and vacancies	-174		2.7
Reduced cost on waste management contracts	-50		2.8
		-383	
Increase in Expenditure			
Housing benefit	104		2.9
Rent rebates	357		2.9
Revenues and Benefits administration	215		2.10
Increased Capital expenditure from Revenue	187	863	2.11
Other net variations		-149	
Total Variance		239	
Withdrawal as per projected outturn		2,827	

2.4 The main variations are explained in more detail below.

Reduction in interest and investment income

2.5 The main reason for the reduction in income is the lower than anticipated interest receivable from Oportunitas Ltd on loans advanced to it by the council. Oportunitas' housing acquisitions programme is taking longer to progress than originally planned meaning a delay in the drawing down of loans from the council to support this. This is reflected in the General Fund Capital Budget Monitoring report being separately considered by Cabinet as part of this agenda.

Planning vacancies

2.6 It has been assumed that all vacancies will have been filled by 1 October and projections have been made accordingly.

Communities restructuring and vacancies

2.7 The projected variance shown for this year is a combination of the effects of a departmental restructure where certain posts have been made redundant and others have remained unfilled for a period.

Reduced cost of the waste management contract

2.8 This has resulted from an overprovision regarding contract inflation.

Increased budgetary pressure - housing benefit and rent rebate payments.

- 2.9 The expenditure on both areas has significantly changed during this year as a result of variances in demand for benefits which are in the main outside the control of the authority. Increased control in respect of overpayments has resulted in reduced payments, however this is offset to a degree by reduced subsidy income which has mitigated the total impact. However an overall adverse situation of some £461k is projected.

Increased budgetary pressure - revenues and benefits administration

- 2.10 The 2016/17 budget was prepared on the assumption that the savings from the digital transformation of the service would start to be delivered mid-way through the year. Now that detailed project plans have been developed it is evident that this timescale for implementing the new organisation structure will not now be met; at this stage in the project it is not yet possible to predict with certainty how much of the savings will be delivered by year-end. Therefore the projected outturn has been based on an assumption that none of the savings will be delivered during 2016/17. This will be updated as soon as firm implementation dates have been agreed.

Capital financed from revenue

- 2.11 There is no direct net cost to the General Fund because these costs are being funded from reserves. It is projected that this cost will be approximately £4.253m in 2016/17. The assumption made here is that this will be funded:

	£000s
General Reserve	946.0
Earmarked reserves (see paragraph 2.5)	3,306.6
Total	4,252.6

Based on existing resources, both are fundable. This is an increase of £186.6k charged to reserves over the period 1 projection.

Net movement in reserves

- 2.12 On the basis of the projections set out in this report as at 31 August 2016, the council's net movement in earmarked reserves are expected to be:

Movement in Earmarked Reserves

Earmarked Reserve	Balance at	Latest	Change	Projected	Balance
	01/04/2016	Budget	Projected	Outturn	at 31/03/2017
	£'000	£'000	£'000	£'000	£'000
Business Rates	2,457	-30	0	-941	1,516
Invest to Save	381	-15	15	0	381
Carry forwards	1,650	-1,342	1,678	-1,394	256
IFRS	85	-22	0	-17	68
Corporate Property	20	0	-20	-20	0
Vehicle, Equipment and Technolog	942	-316	-36	-352	590
New Homes Bonus	1,757	599	0	599	2,356
Corporate Initiatives	1,227	-759	221	-620	607
Maintenance of Graves	12	0	0	0	12
Leisure	247	-100	100	-150	97
Economic Development	2,251	-1,200	-500	-1,764	487
Total Earmarked Reserves	11,029	-3,185	1,458	-4,659	6,370

3. RISK MANAGEMENT ISSUES

3.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
The latest projection of the outturn could be materially different to the actual year end position	Medium	Medium	Regularly reviewing monthly budget monitoring to identify key expenditure and income variances and taking remedial action where possible.
Fluctuating interest rate movement impacting on investment returns	Medium	Medium	Interest rate forecasts regularly reviewed. Investment portfolios split between fixed rate/fixed term deposits to help manage impact of interest rate movement.
Adverse weather conditions impacting on car parking income	Medium	Medium	Regularly reviewing monthly budget monitoring to identify key income trends/variances and taking remedial action where possible.
Increase in claimants receiving housing benefits due to the economic climate	Medium	Medium	Regularly reviewing the number of claimants receiving benefits and highlighting any significant increases as early as possible so remedial action can be taken where possible
Increase in	Medium	Medium	Regularly reviewing the

homelessness numbers due to the changes to the benefit system			homelessness situation and highlighting any significant increases as early as possible so remedial action can be taken where possible.
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4 LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

4.1 Legal Officer's Comments (DK)

There are no legal implications arising directly out of this report.

4.2 Finance Officer's Comments (AK)

This report has been prepared by Financial Services. There are therefore no further comments to add.

4.3 Diversities and Equalities Implications

The report does not cover a new service/policy or a revision of an existing service/policy and therefore does not require an Equity Impact Assessment

5. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councilors with any questions arising out of this report should contact the following officer prior to the meeting

Alan King, Group Accountant

Telephone: 01303 853213 Email: alan.king@shepway.gov.uk

The following background documents have been relied upon in the preparation of this report:

Budget projection working papers.