

This Report will be made public on 11 July 2017

Folkestone

Hythe & Romney Marsh
Shepway District Council



Report Number **C/17/26**

To: Cabinet
Date: 19 July 2017
Status: Non-Key Decision
Head of Service: Pat Main – Interim Head of Finance
Cabinet Member: Councillor Malcolm Dearden - Cabinet Member for Finance

SUBJECT: GENERAL FUND REVENUE BUDGET MONITORING
2017/18 - 1ST QUARTER AND 2016/17 FINANCIAL
OUTTURN

SUMMARY: This monitoring report provides a projection of the end of year financial position for the General Fund revenue expenditure based on net expenditure to 31 May 2017. The report also summarises the 2016/17 final outturn position (subject to audit) for the General Fund revenue expenditure compared to both the latest approved budget.

REASONS FOR RECOMMENDATIONS:

Cabinet is asked to agree the recommendations set out below because Cabinet needs to be kept informed of the General Fund budget position and take appropriate action to deal with any variance from the approved budget and be informed of the final 2016/17 position.

RECOMMENDATIONS:

1. To receive and note Report C/17/26.
2. As detailed in paragraph 3.14, to allocate £0.581m of unspent 2016/17 budgets to the Carry Forward Reserve.
3. As detailed in paragraph 3.21, to allocate £1.989m in 2016/17 to a separate Otterpool Park Reserve.
4. As detailed in paragraph 2.17, to approve the allocation of a further £0.716m to the Otterpool Park Reserve at Quarter 1, 2017/18.

1. INTRODUCTION

- 1.1 This report informs Cabinet of the likely projected outturn on General Fund revenue expenditure for 2017/18.
- 1.2 The projections are based on actual expenditure and income to 31 May 2017. Some caution therefore needs to be exercised when interpreting the results. However, a thorough budget monitoring exercise has been carried out.
- 1.3 This report also brings the 2016/17 financial monitoring to a conclusion. It sets out the General Fund's financial position at year end (subject to audit) and compares it against the latest approved budget.
- 1.4 The formal Statement of Accounts for 2016/17 is being audited over July and the audited set will be submitted to Audit and Standards Committee in September 2017 for approval.

2. GENERAL FUND REVENUE BUDGET MONITORING 2017/18

- 2.1 The table below provides a summary of the projected outturn compared to the latest budget for 2017/18.

General Fund Net Cost of Services	Manager	Original		Latest		Variance
		Budget	Virements	Approved	Projected	
		£000s	£000s	Budget £000s	Outturn £000s	£000s
Strategic Development	Susan Priest	95	-	95	95	-
Leadership Support	Suzy Tigwell	817	(3)	814	775	(39)
Communications	Mark Luetchford	241	-	241	232	(9)
Democratic Services & Law	Amandeep Khroud	4,789	27	4,816	4,765	(51)
Human Resources	Andrina Smith	963	-	963	1,004	41
Finance	Pat Main	4,227	(15)	4,212	5,075	863
Communities	Sarah Robson	2,257	-	2,257	2,290	33
Strategic Development Projects	Andy Jarrett	359	36	395	395	-
Economic Development	Katharine Harvey	472	(36)	436	473	37
Planning	Ben Geering	828	-	828	826	(2)
Commercial & Technical Services	Andy Blaszkowicz	2,549	(6)	2,543	2,306	(237)
Sub-Total - Heads of Service		17,597	3	17,600	18,236	636
Unallocated Net Employee Costs		(224)	-	(224)	(224)	-
Recharges to Non General Fund Accounts						-
Total for Service		17,373	3	17,376	18,012	636
Internal Drainage Board Levies		444	-	444	444	-
Interest Payable and Similar Charges		526	-	526	526	-
Interest and Investment Income		(451)	-	(451)	(451)	-
New Homes Bonus Grant		(1,572)	-	(1,572)	(1,572)	-
Other Non Service Related Government Grants		(899)	-	(899)	(899)	-
Town and Parish Council Precepts		2,053	-	2,053	2,053	-
Minimum Revenue Provision		389	-	389	389	-
Capital Expenditure Financed from Revenue		2,190	269	2,459	2,459	-
Net revenue expenditure before the use of reserves.		20,053	272	20,325	20,961	636
Net Transfer to/from(-) Earmarked Reserves		(240)	30	(210)	151	361
Total to be met from Taxpayers and Formula Grant		19,813	302	20,115	21,112	997
Transfer to/from(-) the Collection Fund		(203)	-	(203)	(203)	-
Revenue Support Grant and Re-distributed NDR		(848)	-	(848)	(848)	-
Business Rates Income		(3,747)	-	(3,747)	(3,747)	-
Demand on the Collection Fund		(11,445)	-	(11,445)	(11,445)	-
SURPLUS(-)/DEFICIT FOR THE YEAR		3,570	302	3,872	4,869	997

2.2 Overall at Quarter 1 there is a projected increase in net expenditure of £0.997m on the General Fund. The main reasons are as follows:

	£000s	£000s	£000s
Increased Income			
On Street Parking	(103)		
Off street Parking	(84)		
Building Control	(36)		
New Hythe T.C. Grounds Maint. Contract	(19)	(242)	
Reduced Income			
Cemeteries	39		
Market income	25		
Loss of income re Resource Centre	40		
Reduced income re Coast protection	24		
Reduced shingle extraction	13	141	
Increased Expenditure			
Housing Benefit	165		
Housing Rebates	604		
Finance	157		
Miscellaneous small variations	13	939	
Decrease in Expenditure			
Council Tax reduction Scheme	(30)		
Customer Services	(38)		
Electoral Services	(20)		
Committee Services	(34)		
Leadership	(39)		
Folkestone Sports Centre Contract	(11)		
Property	(30)	(202)	
Transfer to Earmarked Reserves		361	
Total variance against budget			997

- Car Parking.
- 2.3 Projection for both on-street and off-street parking increased in line with 2016/17 outturn.
- Building Control
- 2.4 The projection is in line with 2016/17 trends.
- New Hythe Town Council grounds maintenance contract.
- 2.5 Additional salary costs of £20k offset by £39k contract income.
- Cemeteries
- 2.6 2017/18 income has been projected on the basis of 2016/17 which showed a significant reduction in income.
- Market Income
- 2.7 This income has reduced as a result of continued under-utilisation of available spaces.

Resource Centre

- 2.8 The expenditure budget for the resource centre was removed from the 2017/18 budget; however there remains a £40k income target that will no longer be realised.

Coastal Protection

- 2.9 Reduction in grant received. Coast protection includes long term schemes contributed to by Kent County Council as a loan agreement, therefore income will reduce year on year as schemes drop out.

Shingle Extraction

- 2.10 There is an anticipated reduction in shingle extraction in line with previous periods.

Housing Benefit/Rent Rebates

- 2.11 A variance in demand has resulted in a projected net increase in costs. The majority of this variance is as a consequence of a significant increase in bed and breakfast accommodation claims which in some cases are eligible for very restricted levels of subsidy. If this trend continues throughout 2017/18 the forecast budget shortfall will be £769k. Prevention continues to play a key role in our work with homeless/threatened with homeless customers. The addition of two externally funded posts, Family Housing Solutions Officer and Prevention Plus Officer, will pilot working intensively with families and those individuals with complex needs. Officers are exploring ways to mitigate the rise in homeless through initiatives such as the existing Social Lettings Agency, alongside new initiatives including the feasibility of acquiring temporary accommodation and reviewing the robustness of staffing resources

Finance

- 2.12 The planned service restructure is now in progress but a number of senior posts will continue to be covered on an interim basis until implementation is complete. Whilst a small reduction in the overall excess cost is anticipated in this year the full budget savings from the restructure will not be realised until 2018/19.

Folkestone Sports Centre Contract

- 2.13 The contract in respect of the Sports Centre has an agreed annual reduction in contract value.

Capital Financed from Revenue

- 2.14 In line with the outturn on the General Fund Capital Budget Monitoring report, also on this agenda, it is projected that this cost will be approximately £2.459 million in 2017/18. The assumption made here is that this will be funded:

	£000s
General Reserve	1,501
Earmarked Reserves	958
Total	2,459

This is an increase of £0.269m in the budgeted sum as a result of re-profiling capital schemes between financial years. Where capital expenditure is financed from revenue there is no net cost to the General Fund because it is funded from reserves.

Net Movement in Reserves

- 2.15 Based on the projected outturn set out in this report, as at 31 March 2018 the council's net movements in earmarked reserves are expected to be:

Movement in Earmarked Reserves

	Balance at 01/04/2017	Latest Budget	Change	Outturn	Balance at 31/03/2018
	£000s	£000s	£000s	£000s	£000s
Business Rates	2,682	-	-	-	2,682
Carry Forward	1,117	(55)	-	(55)	1,062
Corporate initiatives	754	(339)	(100)	(439)	315
IFRS Reserve	67	(18)	-	(18)	49
Invest to Save	366	-	-	-	366
Leisure	146	50	-	50	196
New Homes Bonus (NHB)	2,431	(75)	358	283	2,714
VET Reserve	876	(339)	103	(236)	640
Economic development	2,027	(150)	-	(150)	1,877
Otterpool	1,989	716	-	716	2,705
Maintenance of Graves	12	-	-	-	12
	12,467	(210)	361	151	12,618

Otterpool Park Reserve (see also paragraph 3.18)

- 2.16 Cabinet paper C/16/106 (7 March 2017) provided an update on the Otterpool Park development. At that point in time it was acknowledged there remained a potential funding gap across the timescale addressed in the paper.
- 2.17 Subsequently, in line with the recommendation from CMT of 11 April 2017, the net services budget underspend of £0.716m at the end of 2016/17 (see paragraph 3.3 above) has been transferred to the Otterpool Park Reserve. This amends the reserve balance from £1.989m (see paragraph 3.17) at the end of financial year 2016/17, to £2.705m (paragraph 2.16). In due course during 2017/18, expenditure attributable to this reserve will be confirmed and charged accordingly.

3. GENERAL FUND OUTTURN 2016/17

- 3.1 The Narrative Report of the unaudited Statement of Accounts 2016/17 reports the following year end position. This report however expands further on the detail.
- 3.2 The projected outturn shows a surplus of £1.452m against the latest approved estimated withdrawal of £3.827m. This represents an improvement of £5.279m compared to the original approved 2016/17 budget. This is after deducting the unspent budgets that were carried forward amounting to £0.581m.

3.3 The outturn for the General Fund in 2016/17 is summarised below:

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

General Fund Net Cost of Services	Original Budget £000s	Latest Approved £000s	Projected Outturn £000s	Variance £000s
Leadership Support	781	846	883	37
Communications	250	248	231	(17)
Democratic Services & Law	5,708	5,816	5,749	(67)
Human Resources	881	771	829	58
Finance	4,164	4,332	4,960	628
Communities	2,363	2,733	2,670	(63)
Strategic Development Projects	410	868	642	(226)
Economic Development	560	642	490	(152)
Planning	637	819	708	(111)
Commercial & Technical Services	1,453	1,672	915	(757)
Sub-Total - Heads of Service	17,207	18,747	18,077	(670)
Unallocated Net Employee Costs	64	(128)	(174)	(46)
Total for Service	17,271	18,619	17,903	(716)
Internal Drainage Board Levies	436	436	436	-
Interest Payable and Similar Charges	576	576	573	(3)
Interest and Investment Income	(605)	(635)	(581)	54
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	5,380	2,273	(3,107)
NET REVENUE EXPENDITURE BEFORE USE OF RESERVES	22,571	23,895	20,054	(3,841)
Net Transfer to/from(-) Earmarked Reserves	(1,708)	(3,105)	(4,543)	(1,438)
TOTAL TO BE MET FROM TAXPAYERS & FORMULA GRANT	20,863	20,790	15,511	(5,279)
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	3,900	3,827	(1,452)	(5,279)

3.4 The main reasons for the £5.279m underspend for 2016/17 are as follows:

Significant Movements	£000s	£000s	Note
Increased income			
Bulky waste	-20		3.8
Legal Charges	-35		
Training Courses	-16		
Licences	-25		
On Street Parking	-219		3.6
Off Street Parking	-157		3.6
Building Control	-38		
Crematorium and Fishermans Beach	-37		
Non Service related Grants	-69		3.5
Various	<u>-304</u>	-920	
Reduced Income			
Garden Waste	35		3.8
Hythe Pool	38		3.9
Individual Election Register	43		
Cemeteries	42		3.1
Court Costs	50		
Loss of DCLG Council Tax Reduction Grant	91		3.7
Market Rents	10		
Shoreline Management (Extraction)	<u>25</u>	334	
Increased Expenditure			
Housing Benefit and Rent Rebates	257		3.11
Council Tax Reduction Scheme	55		3.7
Homelessness	<u>49</u>	361	3.12
Reduced Expenditure			
Community grants	-132		3.16
Contract changes (indexation)	-141		3.15
Capital Expenditure	-3107		3.13
Transfer to Earmarked reserves	-1438		3.14
Miscellaneous items	<u>-236</u>	-5054	
		<u>-5279</u>	

Other Non-Service Related Government Grants.

3.5 The increase was mainly due to additional Section 31 grants to meet additional business rate costs.

Car Parking Income.

3.6 Both the on-street and off-street parking services have continued to see an substantial increase in income due to greater usage and an increase in penalty notices issued.

Council Tax Reduction Grant

- 3.7 This grant was withdrawn by the Department for Communities and Local Government (DCLG) and combined with the increase in costs associated with this scheme.

Waste Management

- 3.8 There has been a reduction in the take up of Garden Waste service, offset to a degree by the increase in income from the collection of bulky household waste. The budget for Garden Waste was increased in line with the fee increase in 2016/17; the increase in fees resulted in an initial reduction in the number of subscribers. Recent activity indicates the number of subscribers is increasing again and expectation is that the budget will be achieved in 2017/18.

Hythe Pool

- 3.9 Pool income reduced while the pool was closed for refurbishment.

Cemeteries

- 3.10 Continued trend of reduced income from cemeteries that is anticipated to continue into future years.

Housing Benefit and Rent Rebates

- 3.11 These areas are a major element of expenditure for the council but over which little control that can be applied. Government subsidy is received in respect of expenditure incurred but to varying rates which results in an element of cost remaining with the council. The increased expenditure is a very small percentage of overall expenditure incurred. Increased demand from the homeless for bed and breakfast accommodation (which attracted a much lower rate of subsidy) has also impacted on this budget.

Homelessness

- 3.12 This area is demand-led and has seen an increase in demand for bed and breakfast accommodation which has resulted in a greater need for management support. This is an on-going trend.

Capital Financed from Revenue

- 3.13 In line with the outturn on the General Fund Capital Budget Monitoring report, also on this agenda, this cost was £2.273m in 2016/17, a variance of -£3.107m from budget. There is no net cost to the General Fund because it is funded from Reserves.

Transfers to Earmarked Reserves

- 3.14 The table at paragraph 3.17 below sets out the various Earmarked Reserves that the council holds. The Carry-Forward reserve includes £0.581m which was approved by CMT on 28 March 2017 as budgeted revenue expenditure relating to 2016/17 to be carried forward to 2017/18.

Contract Changes

- 3.15 A number of contracts have benefitted in year from a reduced inflationary increase.

Community Grants

- 3.16 Reduced expenditure resulting from approved budget reductions.

Net Movement in Reserves

- 3.17 Based on the outturn as at 31 March 2017 the council's net movements in earmarked reserves were:

Movement in Earmarked Reserves

	Balance at 01/04/2016	Latest Budget	Change	Outturn	Balance at 31/03/2017
	£000s	£000s	£000s	£000s	£000s
Business Rates	2,460	(31)	253	222	2,682
Carry Forward	1,650	(1,342)	809	(533)	1,117
Corporate Initiatives	1,226	(808)	336	(472)	754
Corporate Property	20	(20)	-	(20)	-
IFRS Reserve	84	(22)	5	(17)	67
Invest to Save	381	(15)	-	(15)	366
Leisure	246	50	(150)	(100)	146
New Homes Bonus (NHB)	1,757	599	75	674	2,431
VET Reserve	942	(316)	250	(66)	876
Economic Development	2,251	(1,200)	976	(224)	2,027
Otterpool Park	-	-	1,989	1,989	1,989
Maintenance of Graves	12	-	-	-	12
	11,029	(3,105)	4,543	1,438	12,467

Otterpool Park Reserve

- 3.18 The management of spending commitments and funding streams related to the Otterpool Park development has, at times, been complex to administer. Consequently, it is proposed to set up a separately identified reserve for Otterpool Park, in line with previously-reported funding and expenditure plans (updated below), ensuring that the funding for this project is ring-fenced. This will simplify the administration of the scheme and allow money to be drawn down as and when it is needed.
- 3.19 Cabinet paper C/16/106 (7 March 2017) provided an update on the Otterpool Park development. Funding of £2.145m (other than existing budget provision) was noted. Subsequently, this funding (and further items identified below) has been identified as a separate reserve as at the end of financial year 2016/17.
- 3.20 Further DCLG Garden Towns Capacity Funding of £0.345m was received in March 2017, amending the total funding to £2.490m.
- 3.21 Actual spend for the 2016/17 financial year on the development attributable to the funding amounted to £0.501m, leaving a balance of £1.989m from the funding identified above. This is shown at in the table at paragraph 3.17.

4. RISK MANAGEMENT ISSUES

4.1 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	Low	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	Low	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	Low	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 homelessness numbers due to the changes to the benefit system	High	High	Regularly reviewing the homelessness situation and highlighting any significant increases as early as possible so remedial action can be taken where possible.

5. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

5.1 Legal Officer's Comments (DK)

There are no legal implications arising from this report.

5.2 Finance Officer's Comments (AK)

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

5.3 **Diversities and Equalities Implications (PM)**

The report does not cover a new service/policy or a revision of an existing service or policy therefore does not require an EIA.

6. **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

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

Budget projection working papers