

ARUN DISTRICT COUNCIL BUDGET MONITORING

Financial Position as at end of June 2019

1. Introduction

1.1 This report sets out the Capital, Housing Revenue and General Fund Revenue budget performance to end of June 2019 and presents performance information for all aspects of financial risk such as Income and specific savings targets.

1.2 Budget performance is presented after taking account of the following:

- Spend to date excluding commitments against profiled budgets.
- Consultation with managers and budget holders on service performance.
- Virements identified where possible from existing budgets to cover budget pressures.

2. General Fund Summary

2.1 The budget was approved by Full Council on 20 February 2019.

2.2 The General Fund performance to end of June 2019 against profiled budget is given in the table below. The table presents only the variances on budget in excess of +/- £20k.

General Fund variance on profiled budget to end of Jun 2019	
	Variance on Budget Jun £'000
Service controllable spend	
Corporate Support Direct	
Elections - Local Elections Expenditure	37
Planning	
Planning - Fees and Charges	(126)
Residential Services	
Nightly Paid Accommodation - Payments	118
Technical Services	
Investment Properties - Rental and Repair Charges	75
Sundry Properties - Rates	58
Other Variances less than +/- 20k	(112)
Total Service controllable budget variance	50
Corporate controllable budget	
Establishment against savings target	(81)
Corporate underspend (net)	(23)
General Fund underspend variance against profiled budget	(54)

- 2.3 The table shows a general fund underspend of (£54k) against current budget profile to the end of June 2019. Variations on service controllable budgets are presented first, followed by establishment, insurance and rates which are corporate and monitored in separate sections.
- 2.4 Expenditure on the District election is currently £37k above expected. This is partially due to larger number of Parish Council elections and additional costs (poll card delivery, printing, equipment, staff costs and the count). Once the final costs have been verified part of the overspend will be recharged to the Parish Councils, with the balance having to be met by the Council.
- 2.5 Planning fees and charges are currently above profile by (£126k). The adoption of IFRS15 (International Financial Reporting Standard – Revenue from Contracts with Customers) resulted in a stricter interpretation of when revenue income should be recognised in the Accounts. This resulted in £200k being carried forward as a receipt in advance from 2018/19 (£70k previous year).
- 2.6 Nightly paid accommodation is currently overspent by £118k. At the end of June 2019, a total of 65 households had been placed in nightly paid accommodation to date. Gross expenditure at the end of June was £395k (full year budget of £950k) and the percentage of Housing Benefit recovered is at 30%. Already the net budget looks like it will be overspent by up to £500k and a supplementary estimate will be required. It should be noted that as the service is demand led it will be closely monitored until year end.

Bed & Breakfast monitoring - June 2019				
	Outturn 2018/19 £'000	Original Budget £'000	Current Budget £'000	Actual to Date £'000
Gross Expenditure	1,825	950	950	395
Income	(554)	(320)	(320)	(120)
Net Expenditure	1,271	630	630	275
Income including Housing Benefit recovered	30%	34%	34%	30%
Number of recipients				
Families	198	200	200	39
Other	129	130	130	26
Total	327	320	320	65
Average cost per recipient	3,887	1,969	1,969	4,231

- 2.7 Investment properties net expenditure is £75k above expected to date due to Bognor Regis Arcade. The managing agents (Savills) have requested an additional £40k for works that have been carried out on the Council's behalf. In addition, income is down by £35k for outstanding rents and property unoccupancy which the council has to fund. It should be noted that the Council is liable for 50% of the service charges as the top floor remains unoccupied, in addition to any service charges in relation to unlet units.
- 2.8 The Business Rates budget is above profile by £58k (after virement from the corporate underspend to fund Public Conveniences 2.9 below) due to the Look

and Sea. Once the property is rented out, the Council will receive a partial refund.

- 2.9 The corporate underspend relates to identified unrequired contingency and corporately controlled budgets and Government grants that are available for potential resource allocation. Budgets are set based on assumptions about service delivery, which sometimes result in a different actual budget requirement resulting in surplus budget. As these are identified, the surplus budget is vired to a corporate underspend account and made available for resource re-allocation. The advantage of this is a reduction in the need for supplementary estimates and managing service delivery within the approved budget and Medium Term Financial Strategy (MTFS). SMT (Senior Management Team) are expected to exercise their discretion in managing their budgets responsibly and prudently and wherever possible meeting additional cost pressures by virement from within existing budgets. The corporate net underspend is £23k at the end of June 2019 and the breakdown is shown in the following table:

Corporate Underspends Confirmed Jun 2019	
	Jun 19 £'000
Underspends from services	43
Additional investment income	0
Underspends from contingencies/miscellaneous budgets / corporate controllable	0
Additional non-ringfenced grants	35
Total identified corporate underspend	<u>78</u>
Virements actioned/earmarked from corporate underspend	(55)
Corporate Underspends Jun 2019 (Net)	<u>23</u>

- 2.10 The £43k contribution from services relates to year end estimates in 2018/19 (accruals). Additional income received from the recycling scheme (profit share) and loss of income due to the closure of the Littlehampton Dome.
- 2.11 To assist District Councils, the government pledged £35k across two financial years, 2018-19 and 2019-20 to assist leaving the EU. This non-ringfenced grant has been transferred to the corporate underspend.
- 2.12 The budget for 2019/20 assumed that Public Conveniences would be taken out of rating in 2019/20 (announced by the government during 2018-19). However, this legislation was delayed and is now anticipated to be effective 2020/21, resulting in a liability of £50k, which has been vired from the corporate underspend.

2.13 An additional £5k has been used from the corporate underspend to fund Arun District Council's liability for the BID (Business Improvement District) levy in Bognor Regis.

2.14 The change in the planned original budget General Fund Reserve movement due to supplementary estimates and budget performance to end of June 2019 is shown in the table below:

General Fund Reserve Movement estimated outturn 2019/20	Original Budget £'000	Current Budget £'000
Net Budget Requirement	24,525	24,740
Financed by:		
Government Grants and Retained Business Rates	(8,861)	(9,076)
Council Tax	(15,664)	(15,664)
Taken From / (Added to) Balances	0	0
General Fund Balance 01 April 2019	7,076	7,076
Supplementary Estimates	0	0
Current Budget Variation Estimated Outturn 2019/20	0	54
General Fund Balance 31 March 2020	7,076	7,130

3. Earmarked Reserves

3.1 Earmarked reserves are amounts set aside from General Fund Reserve to provide financing for specific future expenditure plans and held alongside the General Fund for drawdown as required under the scheme of virement. These reserves need to be reviewed regularly to ensure that they are being drawn down as appropriate or returned to General Fund reserve.

4. Externally Funded Services

4.1 Arun District Council hosts a number of services under its stewardship as the Accountable Body. Whilst these services are entirely externally funded, Arun District Council has service provision interests. These services are the Wellbeing team, the Think Family Programme and Car Parking enforcement. There are no budgetary concerns to report on these services.

4.2 A bid for funding for the LEAP Small Business Grant project was submitted, by this Council, to the West Sussex Strategic Investment Fund which is overseen by West Sussex County Council. The bid was for funding to provide grants to small businesses and totalled £1M to be paid over 2 years from the Business Rate Pool. The bid was made on behalf of all 7 District and Borough Councils in West Sussex; Arun District Council, Adur District Council, Chichester District Council, Crawley Borough Council, Horsham District Council, Mid Sussex District Council and Worthing Borough Council. It was

successful and the funding has been paid to Arun to distribute to the other 6 Councils with each Council receiving £71,428.57. The second part of the grant will be received in 2020/21.

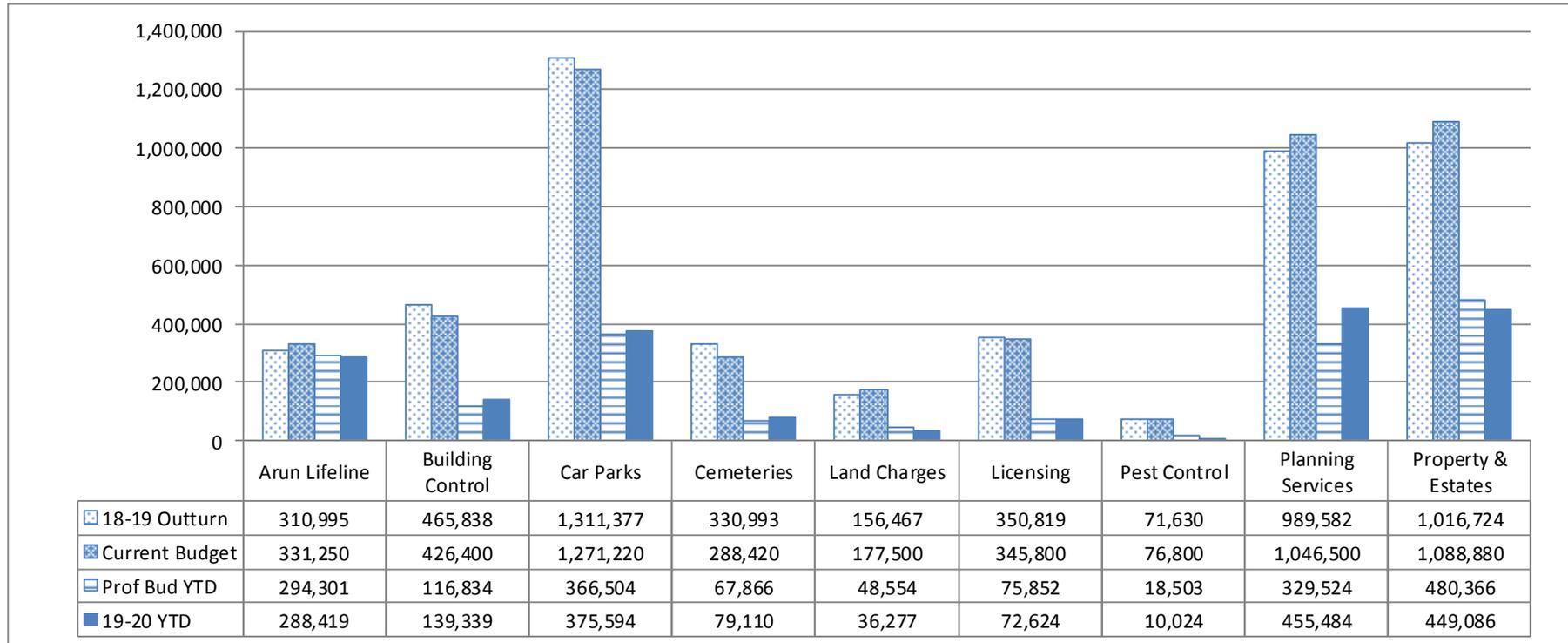
5. Establishment

- 5.1 Each year a vacancy management target is included within the budget to ensure that the establishment complement is scrutinised for efficiency and reflects the needs of on-going service delivery changes. For Financial Year 2019/20 the target is set at £450k.
- 5.2 The savings target is currently over achieved by (£81k).

6. Income

- 6.1 Income from fees, charges and rents are included within net cost of service. In total this amounts to an overall financing of £5.053 million. Income is a key risk area to the budget as it is predominantly externally influenced, without direct link to service cost and each source is unique.
- 6.2 Total income is currently (£108k) above expected mainly due to favourable variation in Planning income of (£126k) summarised in Paragraph 2.5 and the adverse variation on Sundry Properties in relation to Bognor Regis Arcade of £35k (paragraph 2.7).
- 6.3 The graph on the following page shows income by source and value, achievement to end of June 2019 against profiled budget, full year budget and outturn last year.

General Fund Income



7. Housing Revenue Account

7.1 The table below shows the HRA monitoring summary to the end of June 2019:

HOUSING REVENUE ACCOUNT: June 2019	
Forecast level of balance	
HRA Reserve Movement	£'000
HRA balance 01 April 2019	8,395
Budgeted deficit for 2019/20	(3,117)
Supplementary approvals	0
Capital slippage	(613)
Revenue slippage	(130)
Forecast balance at 31st March 2020	4,535

7.2 HRA revenue project slippage includes £100k committed for Tree surveys and £30k for specialist fees related to stock condition surveys. Capital slippage relates to £465k for essential Fire safety work which has to be completed in 2019/20 and £148k for a HRA IT system.

7.3 Repairs and maintenance (planned and responsive) is expected to be in line with budgeted expenditure. No significant variance to report in relation to supervision and management in this quarter.

7.4 HRA income consists almost entirely of rents. Current projections forecast rental income in line with the budgets.

7.5 Loss of income due to right to buy (RTB) disposals and void dwellings still remains a key risk. The estimated number of RTB disposals for 2019/20 was set at 12 (there were 9 RTB disposals in 2018/19, 18 RTB disposals in 2017/18 and 24 in 2016/17). To date there has been 1 disposal in the current year.

7.6 Details of the HRA capital, improvements and repairs programmes are shown in paragraphs 8. Paragraph 9, covering Capital Receipts also has relevance for the Housing Revenue Account.

8. Capital, Asset Management and Other Projects Programme

8.1 The Council's budget for 2019/20 included several projects which although included in the Capital budget for project management and monitoring purposes cannot, under current accounting regulations, be charged to the capital accounts. The revenue expenditure and budget relating to these projects is transferred to services on a quarterly basis.

- 8.2 The capital and projects budget will continue to be monitored on a corporate level as this provides better information and control of the budget.
- 8.3 The table on the next page has been restated to include Capital and Revenue Expenditure for both General Fund and Housing Revenue Account.

General Fund

- 8.4 Cabinet approved £600k for affordable housing in Westergate in May 2018, the first instalment of £300k was paid in May 2019. This expenditure is funded from S106 receipts.
- 8.5 Demolition of the old Littlehampton Leisure Centre is well underway the building is down with the reinstatement works to follow.

Housing Revenue Account

- 8.6 As part of the HRA business plan there is a programme to develop or acquire new affordable homes. Summer Lane in Pagham is a scheme which will deliver 27 new affordable homes at a cost of £5m over the coming years. Exchange of contracts is expected in July along with an initial payment of £1.3m.

Asset management and other projects monitoring - June 2019

	Original Budget £'000	Current Budget £'000	Actual to date £'000	Balance £'000
General Fund				
<i>Technical Services</i>				
Asset Management	560	1,504	52	1,452
Works to Public Conveniences	280	597	17	580
Seafront Trial Concession	-	270		270
Reactive Maintenance	160	160	44	116
Littlehampton East Bank	-	50		50
Disabled Facilities Grants	1,500	1,500	439	1,061
<i>Corporate Support</i>				
Computer Services	170	189	128	61
GDPR	-	44		44
Telephone Switch Upgrade	-	9		9
Digital Strategy	200	200		200
Arun Improvement Programme (AIP)	-	92	16	76
Web/Integration	-	117		117
Modern Gov	-	48	5	43
EH System	-	66		66
<i>Community Wellbeing</i>				
Littlehampton Wave	-	970	274	696
<i>Economy</i>				
Pavilion Park	300	590	31	559
<i>Neighbourhood Services</i>				
Keystone Centre	250	250		250
Play Areas	100	209		209
Mill Road	-	35		35
Sea Road Skatepark	-	60		60
<i>Residential Services</i>				
Grants to Registered Social Landlords	-	300	300	-
Homelessness	-	31	2	29
Total General Fund	3,520	7,291	1,308	5,983
Housing Revenue Account				
Stock Development	-	13,895	14	13,881
Housing IT	-	148		148
Housing Improvements	1,046	1,046	166	880
Domestic Boiler Installations*	600	600	94	506
Commercial Boiler Rooms	350	350		350
Reroofing Programme	643	643		643
Sheltered Programme	600	600		600
Kitchen & Bathroom Replacement Programme	400	400	42	358
Fire Compliance	300	765	35	730
Windows & Doors	1,074	1,074		1,074
Aids & Adaptations*	410	410	136	274
Housing Repairs*	1,803	2,001	413	1,588
Day to Day General Repairs*	1,543	1,543	356	1,187
VOIDS*	804	804	161	643
Total Housing Revenue Account	9,573	24,279	1,417	22,862
Total Programme	13,093	31,570	2,725	28,845

* Please note expenditure includes QL commitments taken from the Housing Mgmt. System

Total programme comprises Capital, Asset Management and other projects budget plus Housing Repairs. Although Housing Repairs forms part of the HRA revenue budget it is included here because of the close link with the Housing Improvements Programme.

9. Capital Receipts

- 9.1 Arun has entered into an agreement with the Government to retain the additional receipts generated by the relaxation of the Right to Buy discount rules, subject to these receipts being used for the provision of new social housing and Arun matching every £30 of receipts with £70 of its own funding (the 70/30 rule). A further condition is that the receipts must be spent within three years, failing which they must be returned to the Government plus interest at 4% above base rate. The table below shows Arun's investment requirements under the above terms.

	£'000
"1 for 1" receipts accrued to 30 June 2019	5,448
Arun's 70% contribution (70/30 X £5,448k)	12,711
Total investment requirement	18,159
Less amount already invested to 30 June 2019	8,855
Remaining investment requirement	<u>9,304</u>
By 30/09/2019	868
By 31/12/2019	1,773
By 31/03/2020	843
By 30/06/2020	800
By 30/09/2020	1,274
By 31/12/2020	631
By 31/03/2021	1,321
By 30/06/2021	881
By 30/09/2021	703
By 31/12/2021	211
By 31/03/2022	0
By 30/06/2022	0
Total	<u>9,304</u>

- 9.2 One of the key priorities of Arun's HRA Business Plan is a development programme to enable the delivery of an additional 250 new Council dwellings over a ten year period. In July the first payment was made in respect of a scheme for 27 new homes and two other schemes are under active consideration. However, it will be extremely challenging to match the phasing of the payments for these and any other schemes with the investment requirement set out above.
- 9.3 In order to protect the Council's investment in the provision of new social housing, exemption from capital receipt pooling has been obtained in respect of all Arun's new dwellings in the current investment programme.

- 9.4 Exemption from pooling will be sought for all future newly built or acquired dwellings. This will enable Arun to retain 100% of the receipts from any future right to buy disposals in respect of these new dwellings (although it's worth noting that these receipts will be net of any discount entitlement).

10. Section 106 sums

- 10.1 Section 106 agreements, also known as planning obligations, are agreements between developers and Arun District Council as the local planning authority that are negotiated as part of a condition of planning consent. The Town and Country Planning Act 1990 enables Arun to negotiate contributions towards a range of infrastructure and services, such as community facilities, public open space, transport improvements and/or affordable housing.
- 10.2 Many section 106 sums are spent on one-off projects in accordance with the terms of the various agreements, the remainder being used to fund ongoing maintenance commitments. Any additional expenditure funded from section 106 sums is subject to Individual Cabinet Member or Cabinet approval in accordance with the terms of the Council's constitution.
- 10.3 Some Section 106 sums are time limited in that the Council is required, under the terms of the agreement, to spend the amount received on the project specified in the agreement within a set time scale. Failure to comply with this requirement will lead to the Council having to repay the Section 106 sum plus interest, the interest often being calculated at a penalty rate.
- 10.4 The Council currently holds £8.452m on deposit from s106 agreements (plus £2.552m on behalf of other bodies like WSCC). It should be noted that there are currently no receipts that are required to be spent within the next 5 years.

11. Risk Analysis

- 11.1 Corporate and Operational risk registers are reviewed and updated for financial implications as part of the Council's risk management process on the criteria of probability of occurrence and materiality of impact upon balances. No significant risks have been identified.
- 11.2 Some lesser risks, however, are inherent within the overall budget. These are discussed below.
- 11.3 Paragraph 9.2 above outlines the situation with regard to the additional receipts generated by the relaxation of the Right to Buy discount rules ("1 for 1" receipts). The key risk here is that failure to make the necessary level of investment within the required timescale will lead to the Council having to repay to the Government some or all of these "1 for 1" receipts, together with interest at a penalty rate of base rate (currently 0.75%) plus 4%. We are experiencing a significant reduction in new "1 for 1" receipts, the sums repaid might not be replaced by new receipts. If the programme slips, this might lead to Arun having to borrow a greater proportion than 70% of the total cost of the schemes, leading to increased loan servicing costs.

In addition the Council will need to have regard to the proposals outlined in a recently published Government consultation paper on the use of “1 for 1” receipts. One of these proposals is for the introduction of a price cap where “1 for 1” receipts are used to acquire, as opposed to build, dwellings. This could have significant implications for Arun’s development programme.

The Council has expressed its concerns about this proposal in its response to the consultation paper.

- 11.4 Housing Benefit claims are gradually being transferred to the Universal Credit scheme (approximately 100 per month) which will eventually level out. There will be claims handled by the local authority which will not transfer to the Universal Credit scheme. These will include pensioners and claimants who require supported accommodation.

Following legislation in 1989, supported accommodation costs assist vulnerable people who require additional help within the community. Unfortunately, the valuation office does not take this additional cost into account which is left to the local authority to fund.

Costs can vary widely, for example, a hostel could charge £300 per week for a single person to include 24-hour security and relevant medical care as well as accommodation. The valuation office will state that the local authority may only claim £100 per week for the accommodation in subsidy. This leaves the local authority to fund the remaining £200 per week for this individual. In certain circumstances, for example, if the individual is a pensioner or has a dependant, the local authority is sometimes able to reclaim 60% of the supported accommodation charges.

The cost to the local authority will largely depend on how many landlords provide this service in the area, however, at present the cost to Arun District Council is steadily increasing (£170k 2017-18, £323k 2018-19, current estimate £522k 2019-20). The current budget forecast set in 2018-19 for supported accommodation charges was £160k.

- 11.5 Recently, some retailers have decided to reduce their presence on the high street. If this trend continues, this could have a negative impact on Non Domestic Rate collections.
- 11.6 The United Kingdom is due to leave the European Union on 31 October 2019. Additional uncertainty leading up to Brexit could result in additional money market fluctuations and business plan changes. This could result in a reduction in money market returns and have a negative impact on Non-Domestic Rate collections.

12. Conclusions and Recommendations

Cabinet is requested to:

- i. Note the report;
- ii. Note the significant anticipated overspend in relation to nightly paid accommodation;
- iii. Approve the HRA revenue and capital slippage contained in paragraph 7.2;
- iv. Note that overall performance against budget is currently on track.