

ARUN DISTRICT COUNCIL BUDGET MONITORING

Financial Position as at end of September 2019

1. Introduction

- 1.1 This report sets out the Capital, Housing Revenue and General Fund Revenue budget performance to end of September 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 September 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 Sep 2019			
	Variance on Budget Aug £'000	Variance on Budget Sep £'000	Change £'000
Service controllable spend			
Corporate Support Direct			
Elections - Local Elections Expenditure	37	37	0
Neighbourhood Services			
Cemeteries - Fees & Charges and grave digging	0	(33)	(33)
Planning			
Planning - Fees and Charges	(144)	(138)	6
Residential Services			
Nightly Paid Accommodation - Payments	168	247	79
Technical Services			
Building Control - Fees and Charges	0	(30)	(30)
Investment Properties - Rental and Repair Charges	96	113	17
Sundry Properties - Rates	38	0	(38)
Other Variances less than +/- 20k	(106)	(220)	(114)
Total Service controllable budget variance	89	(24)	(113)
Corporate controllable budget			
Establishment against savings target	(83)	(145)	(62)
Corporate underspend (net)	(40)	(87)	(47)
General Fund underspend variance against profiled budget	(34)	(256)	(222)

- 2.3 The table shows a general fund underspend of (£256k) against current budget profile to the end of September 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 There has been an increase in demand for cremations which has resulted in an increase in income and a reduction in costs resulting in a favourable variation of (£33k) for Cemeteries.
- 2.5 Planning income is currently above profile by (£138k). This is mainly due to a change in Accounting Standards (IFRS15 – Revenue from Contracts with Customers) which required 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 Net expenditure on nightly paid accommodation to the end of September 2019 is £562k (£430k previous month) compared to a full year budget of £630k. It is anticipated that the budget will be exhausted by the end of October 2019. A report will be presented to cabinet at its meeting on 9 December giving details of the situation and requesting a supplementary estimate to be submitted to Full Council for approval on 15 January 2020.

Bed & Breakfast monitoring - September 2019				
	Outturn 2018/19 £'000	Original Budget £'000	Current Budget £'000	Actual to Date £'000
Gross Expenditure	1,825	950	950	831
Income	(554)	(320)	(320)	(269)
Net Expenditure	1,271	630	630	562
Income including Housing Benefit recovered	30%	34%	34%	32%
Number of recipients				
Families	198	200	200	83
Other	129	130	130	50
Total	327	320	320	133
Average cost per recipient	3,887	1,969	1,969	4,226

- 2.7 Building control net expenditure is currently above profile by (£30k). This is due to additional income being received during September 2019.
- 2.8 Investment Properties net expenditure is £113k above profile (adverse). This is mainly due to Bognor Regis Arcade. The Council has incurred additional service charges for 2017-18 and 2018-19 including fees that the agents were unable to recover from tenants. In addition, income is down by £56k for outstanding rents and property unoccupancy which the council must fund. 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.

- 2.9 A refund has been received for Non-Domestic Rates in relation to the Look and Sea which has regularised the budget position for sundry properties for 2019/20 (£38k adverse previous month).
- 2.10 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 £87k at the end of September 2019 and the breakdown is shown in the following table:

Corporate Underspends Confirmed Sep 2019			
	Aug 19 £'000	Sep 19 £'000	Change £'000
Underspends from services	44	161	117
Additional investment income	50	100	50
Underspends from contingencies/miscellaneous budgets / corporate controllable	0	0	0
Additional non-ringfenced grants	0	0	0
Total identified corporate underspend	94	261	167
Virements actioned/earmarked from corporate underspend	(54)	(174)	(120)
Corporate Underspends Sep 2019 (Net)	40	87	47

- 2.11 In 2018-19 Planning sought a supplementary estimate for the Pagham Judicial review of £105,000 (C/049/040319 P/140/16/OUT). The Council successfully defended the decision this year and the remaining £103k of the funding has been vired to the corporate underspend.
- 2.12 £120k has been earmarked from the Corporate underspend to fund the pension strain which resulted from a restructure in 2019/20 where the full costs were not known.
- 2.13 The change in the planned original budget General Fund Reserve movement due to supplementary estimates and budget performance to end of September 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	24,772
Financed by:		
Government Grants and Retained Business Rates	(8,861)	(9,058)
Council Tax	(15,664)	(15,664)
Taken From / (Added to) Balances	0	49
General Fund Balance 01 April 2019	7,076	7,076
Supplementary Estimates	0	0
Current Budget Variation Estimated Outturn 2019/20	0	256
General Fund Balance 31 March 2020	7,076	7,332

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.

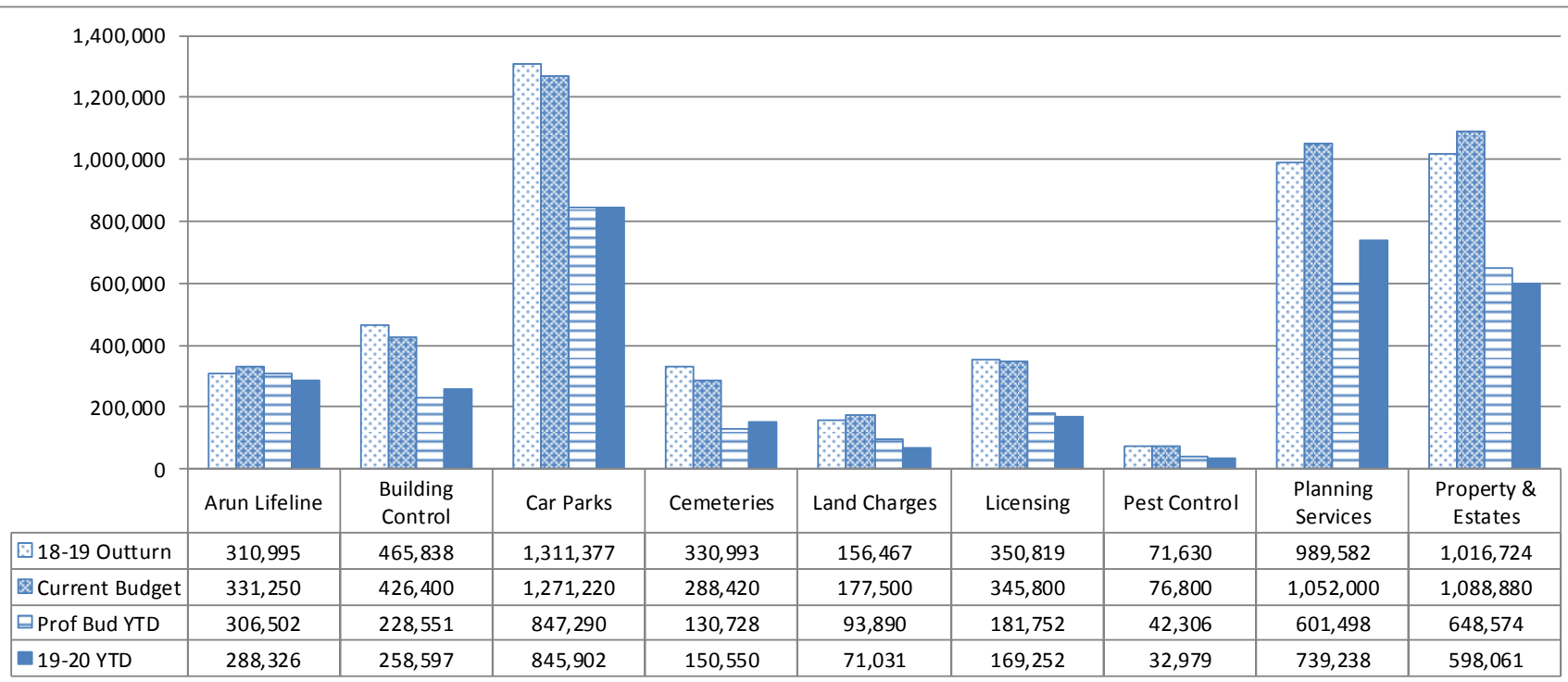
5. Establishment

- 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 establishment savings target is currently over achieved by (£145k).

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 (£73k) above expected mainly due to favourable variation in Planning income of (£138k) (paragraph 2.5); and Bognor Regis Arcade where income is £56k under achieved (paragraph 2.8).
- 6.3 The graph on the following page shows income by source and value, achievement to end of September 2019 against profiled budget, full year budget and outturn last year.

General Fund Income



7. Housing Revenue Account

- 7.1 The estimated reserve movement for the HRA against original budget and the current estimated outturn reserve movement due to supplementary estimates and budget performance to end of September 2019 is shown in the table below:

Housing Revenue Account Reserve Movement estimated outturn 2019/20	Original Budget £'000	Current Budget £'000
HRA balance 01 April 2019	8,395	8,395
Budgeted deficit for 2019/20	(3,117)	(3,117)
Supplementary approvals		0
Capital slippage		(613)
Revenue slippage		(130)
Sheltered accommodation		600
Current Budget Variation Estimated Outturn 2019/20		0
HRA Balance at 31 March 2020	5,278	5,135

- 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 HRA IT system. £600k set aside for sheltered accommodation has been taken out of the current budget as this will now form part of future capital programme (see 8.7).
- 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 month.
- 7.4 HRA income consists almost entirely of rents. Current projections forecast rental income in line with the budget forecast.
- 7.5 Loss of income due to right to buy (RTB) disposals and void dwellings remain 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 3 disposals 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 Project Programmes

- 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.
- 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 Sea Road Skate Park in Littlehampton is now open, its official opening is at the end of October. The flood lighting is still to be installed and the scheme was funded from a combination of Arun District Council, Town Council and Section 106 Contributions.
- 8.5 Reinstatement works at the old leisure centre site are almost complete.

Housing Revenue Account

- 8.6 As part of the HRA Business Plan there is a programme to develop or acquire new affordable homes. £1.3m initial payment was made in July 2019 toward a scheme at Summer Lane in Pagham which will deliver 27 new affordable homes at a cost of £5m over the coming years. Further commitments are to follow towards two additional schemes in Littlehampton and Yapton that could deliver a further 24 new affordable homes.
- 8.7 The budget for Sheltered Housing has been removed in 2019-20 as this relates to part of a much larger sheltered housing scheme. The budget will be put in a future year when it is estimated to be delivered.

Asset management and other projects monitoring - September 2019

	Original Budget £'000	Current Budget £'000	Actual to date £'000
General Fund			
<i>Technical Services</i>			
Asset Management	560	1,785	279
Works to Public Conveniences	280	597	64
Reactive Maintenance	160	160	105
Littlehampton East Bank	-	50	-
Disabled Facilities Grants	1,500	1,473	765
Discretionary Grants	-	1	(20)
<i>Corporate Support</i>			
Computer Services	170	198	128
GDPR	-	45	-
Digital Strategy	200	200	-
Arun Improvement Programme (AIP)	-	92	16
Web/Integration	-	118	-
Modern Gov	-	29	5
EH System	-	66	5
<i>Community Wellbeing</i>			
Littlehampton Wave	-	970	455
<i>Economy</i>			
Pavilion Park	300	290	34
<i>Neighbourhood Services</i>			
Keystone Centre	250	250	-
Play Areas	100	209	-
Mill Road	-	44	44
Sea Road Skatepark	-	145	102
<i>Residential Services</i>			
Grants to Registered Social Landlords	-	300	300
Homelessness	-	31	2
Total General Fund	3,520	7,053	2,284
Housing Revenue Account			
Stock Development	-	13,895	1,314
Housing IT	-	148	2
Housing Improvements	1,046	1,046	241
Domestic Boiler Installations	600	600	246
Commercial Boiler Rooms	350	350	25
Reroofing Programme	643	643	16
Sheltered Programme	600	-	-
Kitchen & Bathroom Replacement Programme	400	400	53
Fire Compliance	300	725	177
Windows & Doors	1,074	1,074	41
Aids & Adaptations	410	410	196
Housing Repairs	1,803	2,019	1,200
Day to Day General Repairs	1,543	1,543	711
Voids	804	804	354
Total Housing Revenue Account	9,573	23,657	4,576
Total Programme	13,093	30,710	6,860

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 Sept 2019	5,547
Arun's 70% contribution (70/30 X £5,547k)	12,943
Total investment requirement	18,490
Less amount already invested to 30 Sept 2019	10,187
Remaining investment requirement	8,303
By 31/12/2019	1,297
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
By 30/09/2022	342
Total	8,303

- 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 £8.426m on deposit for s106 agreements in addition to £2.455m for other organisations (e.g. the NHS). The total held on deposit is £10.881m.
- 10.5 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 £507k 2019-20). The current budget forecast set in 2018-19 for supported accommodation charges was £160k.

- 11.4 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.
- 11.5 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. To assist the authority with any possible negative impacts, the government has provided Arun District Council with additional funding, £17,484 in 2018-19 and £17,484 in early 2019-20. The current government has confirmed that it intends to make a further payment of £17,484 sometime prior to 31 October 2019.

12. Conclusions and Recommendations

- 12.1 Note the significant anticipated overspend in relation to nightly paid accommodation; and
- 12.2 Note that overall performance against budget is currently on track.