

Report to: **Executive**

Date: **19 December 2019**

Title: **Quarter 2 Revenue Budget Monitoring
2019/2020**

Portfolio Area: **Support Services – Cllr H Bastone**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: **After Call In 2
January 2020**

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Recommendations:

That the Executive resolves to:-

- i) Endorse the forecast income and expenditure variations for the 2019/20 financial year and the overall projected underspend of £37,000 (0.4% of the total Budget £8.833 million).
- ii) Recommend to Council to transfer £40,000 from the Dartmouth Lower Ferry Earmarked Reserve in order to complete the work required to bring the existing fleet up to the required Maritime and Coastal Agency (MCA) standards.

1. Executive summary

- 1.1 This report enables Members to monitor income and expenditure variations against the approved budget for 2019/20, and provides a forecast for the year end position.
- 1.2 The gross service expenditure budget for 2019/20 was set at £43 million (£8.833 million net). **Actual net revenue expenditure is forecast to be under budget by £37,000 when compared against the total budget set for 2019/20.**

2. Background

2.1 The Council's financial procedure rules require that reports must be made on budget monitoring on a regular basis to the Executive as part of the Council's arrangements for budget management.

3. Outcomes/outputs

3.1 **Budget overview** - Table 1 below provides an analysis of the projected variances against budget.

TABLE 1: 2019/20 BUDGET FORECAST

	2019/20 Budget expenditure /(income)	Budget variations		£000	Note
		%	£000		
	£000			£000	
APPROVED BUDGET				8,833	
Reductions in expenditure/additional income					
Customer First					
Planning income	(898)	(11.1%)	(100)		A
Commercial Services					
Car Parking income	(3,078)	(1.6%)	(50)		B
Dartmouth Ferry income	(807)	(5.0%)	(40)		C
Financing and Investment					
Investment income	(183)	(16.4%)	(30)		D
Other Comprehensive Income & Expenditure					
Business Rates Pooling gain	(100)	(100.0%)	(100)		E
Sub total of variations				(320)	
Increases in expenditure/reductions in income					
Customer First					
Housing Benefit overpayment recoveries	(245)	40.8%	100		F
Commercial Services					
Salcombe Harbour management recharge	-	-	18		G
Dartmouth Lower Ferry fleet refurbishment – Hauley 6	-	-	40		H
Haulage and processing of waste and recyclable materials (net position)	(520)	25.0%	130		I
Fly tip collections	20	100.0%	20		J
Strategy & Commissioning					

Corporate Management – payment collection expenses	49	30.6%	15		K
Sub total of variations				323	
Transfers to/from Earmarked Reserves					
Dartmouth Ferry Reserve	N/A		(40)	(40)	
PROJECTED OUTTURN				8,796	
PROJECTED UNDERSPEND				(37)	

Notes

- A. **Planning income** – income from planning applications is anticipated to be above target by £100,000 (11.1%) on an income budget of £898,000. However, this is a volatile area which can be very difficult to forecast given the impact of large applications so there is every likelihood that the income will fluctuate as the year progresses.
- B. **Car Parking income** – income levels have been better than anticipated, resulting in a projection of additional income of £50,000 (1.6%). This includes town/peripheral and rural permits.
- C. **Dartmouth Ferry income** – income from the Dartmouth Ferry is projected to be above target by £40,000 (5.0%) on an income budget of £807,000.
- D. **Investment income** – investment income is anticipated to be above target by £30,000 (16.4%). Additional income is expected due to the recent investment with the CCLA.
- E. **Business Rates Pooling gain** – following a meeting of the Devon Business Rates Pool Technical Group, South Hams District Council's share of the 2019/20 pooling gain is forecast to be at least £200,000 against a budget of £100,000, resulting in a surplus of £100,000.
- F. **Housing Benefit recovery of overpayments** – The income from the recovery of overpayments is anticipated to be below target by approximately £100,000 (40.8%). The annual target of £245,000 will become harder for the Council to achieve due to the fact there is an expectation that recovery will reduce year on year as collection becomes more difficult. We also expect to see fewer overpayments being created due to the introduction of DWP Real Time Information referrals.
- G. **Salcombe Harbour management recharge** – The involvement of Salcombe Harbour staff in ensuring the continuing compliance of the Dartmouth Lower Ferry with the legislation set out in the Maritime

and Coastguard Agency (MCA) has been estimated at £18,000 in 2019/20 (£21,100 per annum from 2020/21).

- H. **Dartmouth Lower Ferry fleet refurbishment** – In April 2018 Members were presented with a report (E.86/17) that sought Council approval for a spend of £100,000 (subject to their out of water surveys) from the Dartmouth Lower Ferry Earmarked Reserve in order to bring the existing fleet up to the required Maritime and Coastal Agency (MCA) standards. This included work to ensure that, subject to regular inspection and maintenance on the tugs, they would continue to be seaworthy and compliant.

To date, the work to bring the fleet up to the required MCA standards has been completed on Hauley 4 and Hauley 5, at a total cost of £115,600. In September 2019, Hauley 4 passed her running trial and was permitted to go into service with a recommendation that the deck is fully renewed at the next opportunity. Hauley 5 is due for her MCA inspection in mid-December, followed by the running trial.

Hauley 6 is currently on standby as the relief vessel until Hauley 5 is signed off. It is anticipated (subject to the out of water survey) that the cost to bring Hauley 6 up to the required MCA standards will be approximately £40,000. It is requested to fund this from the Dartmouth Lower Ferry Earmarked Reserve. The reserve fund currently stands at £367,810 and has an annual contribution of £117,000.

- I. **Haulage and processing of waste and recyclable materials (net position)** – A net cost pressure of £130,000 has been identified for this due to contamination and the suppressed market continuing to affect income for recyclable materials. Haulage costs are forecast to reduce as the new reprocessor is closer to the South Hams. However, total materials income, including recycling credits, are decreasing and are causing a budget pressure. The net position equates to an additional predicted cost of £130,000 for 2019-20.

Over the past couple of years, whilst these issues have affected the Council and caused cost pressures, the Council was protected to some extent by already being in a reprocessing contract before the markets crashed. However, that contract expired last year and the Council was obliged to let a new material sales contract in November 2018. The new contract price more accurately reflects the current market position and, as this is the first full year of the new materials contract, there is a greater impact on the budget. When the materials contract was procured in September 2018, the price for paper was around £35/tonne. The paper markets have fallen over the spring/summer (reduction of 30% since April) which is resulting in a reduction in income for the Council. This is outside of the scope of the FCC contract.

Whilst the Council will continue to be affected by the market in future years, once the Devon Aligned Service starts in September 2020,

this cost will be halved by sharing the market risk with the waste contractor. A cost pressure of £65,000 has been built into the Medium Term Financial Strategy to reflect this for 2020-21.

- J. **Fly Tip Collections** - The budget of £20,000 for large or hazardous fly tip collections is predicted to be overspent by £20,000. This continues the trend of previous years. Large or hazardous fly tips sit outside of the FCC contract and this is a Council cost. Household and small fly tips are included within the FCC contract and are part of the contract cost.
- K. **Payment collection expenses** – In line with 2018/19, the budget for bank processing fees and internet/card processing fees is anticipated to be exceeded by £15,000 in 2019/20.

Savings/Additional Income identified in the 2019/20 Budget

- 3.2 This monitoring report includes an update on the position regarding the savings and additional income that were identified in the 2019/20 budget setting process, set out in Appendix B.

4. Review of Earmarked Reserves

- 4.1 The Council annually undertakes a review of the level of its Earmarked Reserves as part of the budget setting process. A schedule of Earmarked Reserves is attached at Appendix A.

5. Prudential Indicators

- 5.1 The prudential code indicators were approved in the Capital, Investment and Treasury Management Strategy report to the Council on 21 March 2019. The indicators are monitored during the year through the normal revenue and capital monitoring processes. Any exceptions are reported to the Executive together with any remedial action or revision required. To date all Treasury Management limits have been adhered to.

6. Income and Reserves

Income monitoring is an integral part of financial management. Current income forecasts are as follows:

Service	Actual Income 2018/19 £'000	Income Budget 2019/20 £'000	Projected Income 2019/20 £'000	Deficit/ (Surplus) £'000	Deficit/ (Surplus) %
Car Parks	3,196	3,078	3,128	(50)	(1.6%)
Dartmouth Ferry	867	807	847	(40)	(5.0%)
Employment Estates	819	827	827	-	-
Licensing	196	201	201	-	-
Planning Applications	1,173	898	998	(100)	(11.1%)
Land Charges	171	170	170	-	-

Recycling	552	520	390	130	25.0%
TOTAL	6,974	6,501	6,561	(60)	

7. Management Actions

7.1 The table below sets out the relevant management actions for the revenue expenditure and income variations shown above. It is best practice for the Council to state whether there are any corrective actions that need to be taken for the variances identified in 2019/20.

	Budget variations overspend/ (underspend) £000	Management Action
Reductions in expenditure/additional income		
Planning income	(100)	This will be kept under review during 2019/20.
Car parking income	(50)	It has been proposed as part of the Budget Update 2020/21 report to increase parking charges by 4%.
Dartmouth Ferry income	(40)	Additional income of £20,000 has been built into the 2020/21 budget
Investment income	(30)	Additional income of £20,000 has been built into the 2020/21 budget.
Business Rates Pool income	(100)	Additional income of £100,000 has been built into the 2020/21 budget.
Housing Benefit recovery of overpayments	100	A cost pressure of £100,000 has been built into the 2020/21 budget.
Salcombe Harbour management recharge	18	A cost pressure of £21,100 has been built into the 2020/21 budget.
Dartmouth Lower Ferry fleet refurbishment	40	This is a one off cost pressure. Recommended to fund from the Dartmouth Lower Ferry Earmarked Reserve.
Haulage and processing of waste and recyclable materials	130	A cost pressure of £65,000 has been built into the 2020/21 budget to reflect this. This will be mitigated in future years by sharing the market risk with the waste contractor after September 2020.
Fly tip collections	20	A cost pressure of £20,000 has been built into the 2020/21 budget.
Payment collection expenses	15	A cost pressure of £25,000 has been built into the 2020/21 budget.

8. Options available and consideration of risk

8.1 At this early stage it is important to note that these forecasts can change over the course of the year. Managers can seek out opportunities to reduce any overspends, whilst considering the risk of any adverse impact on the customer experience.

9. Proposed Way Forward

9.1 Revenue budget monitoring will continue on a regular basis and further reports will be brought to the Executive each quarter.

10. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Statutory Powers that apply to this report are the Local Government Act 1972 Section 151 and the Local Government Act 2003 Section 28.
Financial implications to include reference to value for money	Y	The report identifies an overall underspend of £37,000 which is 0.4% of the overall budget set for 2019/20 of £8.833million, mainly due to the Business Rates Pool income.
Risk	Y	<ol style="list-style-type: none">1) Budget variances – continual budget monitoring at all levels within the Council ensures early identification of variances. Reporting to the Executive provides an opportunity for Members to identify and instigate remedial action where appropriate.2) Resource Planning – the Executive takes into account any significant issues when developing the Council's Medium Term Financial Strategy. These are identified in the Management Actions section of the report (Section 7).
Supporting Corporate Strategy		The budget monitoring process supports all six of the Corporate Strategy Themes of Council, Homes,

		Enterprise, Communities, Environment and Wellbeing.
Climate Change – Carbon / Biodiversity Impact		None directly arising from this report.
<i>Comprehensive Impact Assessment Implications</i>		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Appendix A – Schedule of Reserves (Earmarked Reserves and Unearmarked Reserves).

Appendix B – Savings/Additional income schedule

Background Papers:

Finance Community of Practice budget monitoring working papers.
Budget Update Report 2020/21 – Executive 31 October 2019.

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/A