



Finance Sub-Committee

12 September 2016

Budget Monitoring to 31 July 2016

Purpose of report

To provide an update on the forecast Revenue and Capital positions against the approved budgets for the period ended 31 July 2016 in financial year 2016/17.

Attachment(s):

- Appendix 1 – Service Expenditure Analysis
 - Appendix 2 – Asset Management Plan Reserve
 - Appendix 3 – Capital Programme
 - Appendix 4 – Financial Performance Indicators
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1. Introduction

- 1.1. This report provides an overview of the council's forecast revenue and capital position up to 31 July 2016 against the approved budget 2016/17. It highlights any significant under or overspending and identifies its impact on the year end position.
- 1.2. This report informs Members of high-level variations over £10k, which could potentially have a significant impact on the overall financial position of the council. Detailed information on less significant variations can be obtained directly from the budget holders.

2. Local Government Finance and the Efficiency Plan

- 2.1. Local authorities have taken the biggest hit in terms of central government cuts since 2010. The scale of reduction, along with a degree of volatility around the phasing/timing of these cuts to different authority types, can make it very difficult for authorities to plan their spending priorities strategically. The need for effective medium term planning has never been greater.
- 2.2. The government's response to these concerns has been to offer a guaranteed minimum grant, paid to councils for a 4-year period from April 2016 covering Revenue Support Grant, transitional funding and Rural Services Delivery Grant. The Secretary of State said this should increase local authority certainty and confidence and would be a key step towards supporting councils to strengthen financial management and work collaboratively with local partners when considering the way local services are provided in future.
- 2.3. To take advantage of this offer the council will need to submit an efficiency plan which will set out proposals on how the council can meet the estimated budget shortfall from 2018/19 onwards as set out in the current Medium Term Financial Plan that was approved by Council in March 2016. The deadline for submission is 14 October 2016.
- 2.4. Consequently, the council is currently undertaking a fundamental review of all council finances including its use of reserves in order to produce such an efficiency plan. It should be noted that this report is currently based on the current approved MTFS and reserves. Pending the outcome of the review there may be changes in the potential use of council resources and assumptions in the drafting of the efficiency plan. Any changes will be reported accordingly.

3. Overview

3.1. Revenue Overview

3.2. Council approved a total budget requirement of £11,202,693 for 2016/17 which included a council tax requirement of £3,870,370, as well as parish precepts and a number of technical accounting entries and adjustments. For monitoring purposes, the Finance Sub Committee is focussed on the collectable income and expenditure of this council. The original revenue budget for the net cost of services, before such adjustments and items, was £9,200,027.

3.3. Since the budget setting in February 2016, the total budget has been revised to £9,167,706. The decrease in budget relates to net interest receivable and carry forwards from 2015/16 totalling £32,321 (net) approved during the year, as shown in **Table 1** below:

	£
Net cost of services	9,200,027
Net Interest Receivable	(144,500)
Carry forwards from 2015/16 (FSC 11/7/16)	112,179
Revised budget as per Outturn report	9,167,706

3.4. Revenue Update

3.5. The estimated services outturn for the year is an overspend of £16k. This is due to a reduction in interest rate achievable against the level of cash balances held by the council.

3.6. Whilst a small overspend is currently being reported, it is recognised that this is the first reporting period for the financial year. It is anticipated that efficiencies will be identified as we progress through the financial year and that by the year end we will be reporting a surplus position.

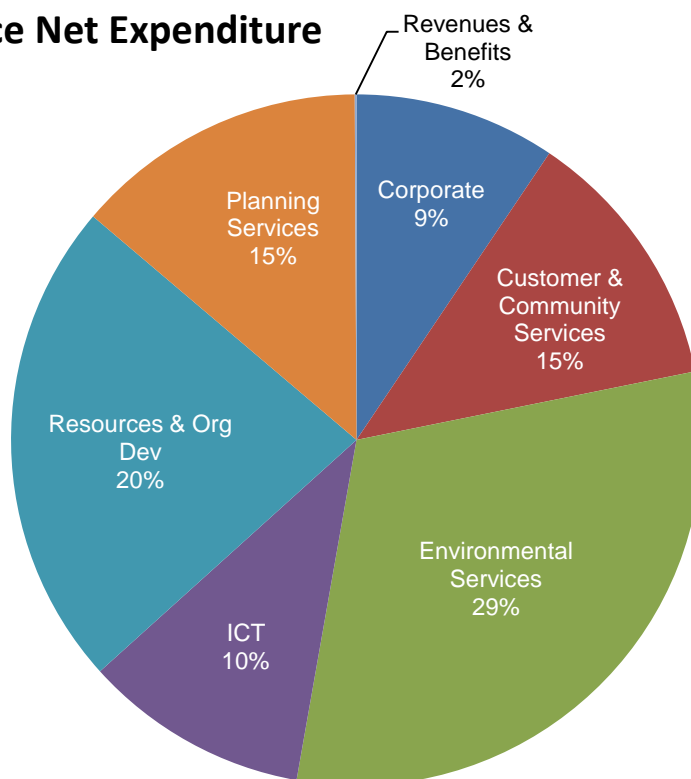
3.7. **Table 2** below shows the actual expenditure to date against budget, and the estimated out-turn for year with the variance against budget.

	Budget 2016/17	Actual to date	Estimated Outturn	Variance
Corporate & Democratic Customer & Community Services	£780,335	£191,406	£826,355	£46,020 (£8,250)
Environmental Services	£1,355,432	£497,298	£1,347,182	(£9,550)
ICT	£2,709,410	£510,432	£2,699,860	£0
Resources & Org Dev	£953,507	£448,247	£953,507	£3,284
Planning Services	£1,802,469	£678,452	£1,805,753	£0
Revenues & Benefits	£1,339,975	£113,106	£1,339,975	(£15,982)
	£226,578	£604,615	£210,596	(£15,982)
	£9,167,706	£3,043,556	£9,183,228	£15,522

NB: Corporate & Democratic Core includes, Chief Executive, Executive Director and Chief Finance Officer reporting

3.8. The chart below shows the net service expenditure as a percentage of the total estimated outturn position for 2016/17.

Service Net Expenditure



3.9. Vacancy Factor

3.10. During the last 2 years the council has included a vacancy factor in the budget of £200k (based on 3.5% of staff turnover). This has again been incorporated into the 2016/17 budget and MTFS.

3.11. The monitoring of the vacancy factor is set out below:

Vacancy Factor	£k
Vacancy Factor (3.5%)	200
Vacancy Savings to date (July 2016)	(38)
Further vacancy savings required	162

3.12. The savings to date are below expectations in order to achieve the full £200k by the end of the financial year. The risk associated with the vacancy factor is that staff turnover may not be experienced at previous levels and as a result of this the amount of salary savings achieved is lower than expected. This will be closely monitored and reported during 2016/17.

3.13. Variances over £10k

3.14. **Table 3** below provides a summary of the main savings and pressures of over £10k. A detailed breakdown by Head of Service is shown at **Appendix 1**.

Service area	Saving £'000	Pressure £'000	Reason for variance
Revenues & Benefits	(15,982)		Additional Council Tax Support Administration grant income received after budget setting process
Corporate & Democratic		46,770	Shortfall in interest payable on cash investments
Environmental Services	(60,000)	60,000	Increase in garden waste costs offset by income from increased subscriptions and waste tonnages
Various		(15,266)	
	(75,982)	91,504	15,522

- 3.15. If not addressed during the financial year, the forecast overspend will reduce the anticipated contribution to reserves as budgeted for 2016/17. This is shown in more detail at paragraph 2.25.
- 3.16. The detailed breakdown at Appendix 1 shows that currently there are no reported savings or pressures identified that could be incorporated into the budget for 2017/18. As mentioned previously, this is the first reporting period for the financial year and the expectation is this will change during the course of the year as the financial position becomes clearer.
- 3.17. Potential Risks**
- 3.18. During 2015/16 it was reported that there was uncertainty around the timing of the implementation of the Universal Credit changes and the financial impact was unknown. This remains a potential risk for 2016/17 which may result in a pressure on the council.
- 3.19. EU Referendum**
- 3.20. On 23 June, the EU referendum took place and the people of the United Kingdom voted to leave the European Union. Until exit negotiations are concluded, the UK remains a full member of the European Union and all the rights and obligations of EU membership remain in force. During this period the Government will continue to negotiate, implement and apply EU legislation. It will be for the Government, under the new Prime Minister, to begin negotiations to exit the EU. The outcome of these negotiations will determine what arrangements apply in relation to EU legislation and funding in future, once the UK has left the EU.
- 3.21. Until such outcomes are known, the uncertainty has had a negative impact on the financial market. The council is already experiencing a lower return on interest from its cash investments (further detail is provided at section 3.33). There is a risk that the situation could worsen. This will be monitored closely and updates provided when required.
- 3.22. Business Rates**
- 3.23. The volatility surrounding changes to business circumstances continues in 2016/17. Changes such as demolitions, changes in use, business rate reliefs and valuations for new businesses remain a risk to the council.
- 3.24. During 2014/15 changes to the rules governing alterations to business rates were announced which meant any appeal submitted after 1 April 2015 would not be backdated to 2010. This resulted in a significant increase in appeals prior to that deadline.
- 3.25. The Valuation Office has been very slow in responding to the number of appeals. Based on the Valuation Office data provided at 31 July 2016 for the appeals listing, there were 307 appeals outstanding. The council has estimated the financial impact of the appeals going forward at £1.5m, which will be met through various reserves that have been set aside.
- 3.26. Revenue Reserves**
- 3.27. When the council set its budget in February 2016 it included a £834k contribution to reserves. The forecast position for the year as a result of the changes set out above is shown in the table below:

Reserves	As at 31 Jul 2016 £k
Budget contribution to reserves	834
Forecast overspend for the year	-16
Revised contribution to reserves 2016/17	819

3.28. The impact of the latest outturn position on revenue reserves is set out in the table below:

Revenue Reserves	£k	£k
Revenue Reserves Q4 2015/16		
Grants Unapplied		299
General Reserves		1,500
Earmarked Reserves		10,282
Revenue Reserves as at 1 April 2016		12,081
Less:		
Community Projects	(428)	
Use of earmarked reserves	(778)	
Revised Reserves		(1,206)
Add:		
Contribution to Community Projects Reserve		1,313
Forecast Contribution to reserves 2016/17		819
Forecast revenue reserves (incl. earmarked at 31 March 2017)		13,007

3.29. Asset Management Plan Reserve

3.30. Included within earmarked reserves is £173k which was set aside for ad-hoc repair and maintenance costs and was approved by Finance Sub Committee on 13 June 2016. This was on the basis that any one off items would be requested from reserves and that following a review of what works are required for the financial year, any surplus amount would be transferred back into the Council Improvement Reserve.

3.31. Works have now been identified totalling £70.2k. A breakdown of these can be seen in **Appendix 2**. This leaves £100.7k potentially to be transferred back into the Council Improvement Reserve.

3.32. It has been noted that there is no budget resource available for any unplanned maintenance requirements that may arise during the year which may require urgent attention. It is therefore recommended that £20k be held back in reserve to allow for any emergency works which may be required. This would mean that £80.7k would be transferred back into the Council Improvement Reserve.

3.33. Treasury Management

3.34. The council had an investment portfolio of £23.34m at 31 July 2016. The current average interest rate achievable is 0.56%. This is lower than anticipated when the budget was set in February 2016, when the estimated rate was 0.85%. The current outlook on the UK's financial economy is unstable following the outcome of the EU Referendum vote. A further consequence of this was the Bank of England's announcement on 4 August to cut the interest rate from 0.5% to 0.25%. This is also expected to have implications on interest payable to the council.

3.35. Whilst the investments are achieving a lower rate of return, the level of cash balances held by the council remains higher than anticipated when the budget was set. Whilst this has helped to reduce the impact of the lower interest rate, the estimated income from interest received is expected to be below budget. This is set out in the table below. A detailed report on Treasury Management will be presented separately to Finance Sub Committee on 12 September 2016.

Treasury Management Budget vs. Estimated Outturn

	Budget £000	Estimated Outturn £000	Shortfall £000	
Investments	£144,500	£97,730	(£46,770)	Lower interest rates being achieved, partly offset by higher than expected cash balances
Total	£144,500	£97,730	(£46,770)	

4. Capital Overview

4.1. Capital Expenditure 2016/17

- 4.2. The table below sets out the current budget for the approved capital programme and the total amount for those projects which remain in the development pool:

Table 1	2016/17 Budget	Re-profiled from 2015/16	Approved within year	Dev Pool Additions	Revised Position
Capital Programme					
Housing Projects	£500,000	£176,969	£20,000	-	£696,969
Leisure Projects	£119,000	-	£21,764	-	£140,764
Environment Projects	£270,000	-	-	-	£270,000
Corporate Systems	-	£313,809	£270,830	-	£584,639
Property Maintenance	-	£950	-	-	£950
Total Approved	£889,000	£491,728	£312,594	-	£1,693,322
Development Pool					
Housing Projects	-	-	-	£40,000	£40,000
Leisure Projects	£210,500	-	-	-	£210,500
Environment Projects	-	-	-	-	-
Central Services Projects	£30,000	-	-	-	£30,000
Corporate Systems	£567,005	-	(£125,000)	-	£442,005
Property Maintenance	£275,000	-	-	-	£275,000
Total Development Pool	£1,082,505	-	(£125,000)	£40,000	£997,505
Total Capital Programme	£1,971,505	£491,728	£187,594	£40,000	£2,690,827

- 4.3. The council's Capital Programme for 2016/17 of £889k was approved by Council on 24 February 2016. Since then, the budget has increased to £1.693m as a result of changes within the financial year. These changes include the re-profiling of expenditure from 2015/16 since the budget was set in February 2016, additional budget and promotion of projects from the Development Pool to the Approved Capital Programme. These movements were formally approved during 2015/16.
- 4.4. A detailed breakdown of the capital programme is shown in **Appendix 3**, which shows that the forecast outturn for 2016/17 is currently in line with the approved budget. Disabled Facilities Grant (DFGs) shows actual spend as a credit of £49.3k. This is due to spend relating to 2015/16 financial year which was carried forward and has not yet been paid. DFGs are anticipated also to be fully spent based on additional resource being put in. However, this will continue to be monitored throughout the year and any changes will be reported to Committee as they arise.
- 4.5. On 22 August, Finance Sub Committee approved £7k for works required to Splash to replace and/or refurbish existing extract fans, shower fans, and ducting within the ceiling adjacent to the sauna/health suite, crèche and boiler room, and in addition, to make adjustments to the hot water supply to the toilets. This monitoring report relates to the period to 31 July 2016 and therefore adjustments are still required to transfer £7k from the Development Pool to the Approved Capital Programme.

- 4.6. Within the Development Pool there are some items identified for works to the Pemberton Centre. These are as follows:

Year	Amount (£k)	Works Required
2016/17	15	Estimate for works relating to cracking and movement to rear of the building subject to structural engineer report
2017/18	10	Estimate for minor roof works and repairs as identified in condition survey including works to the guttering

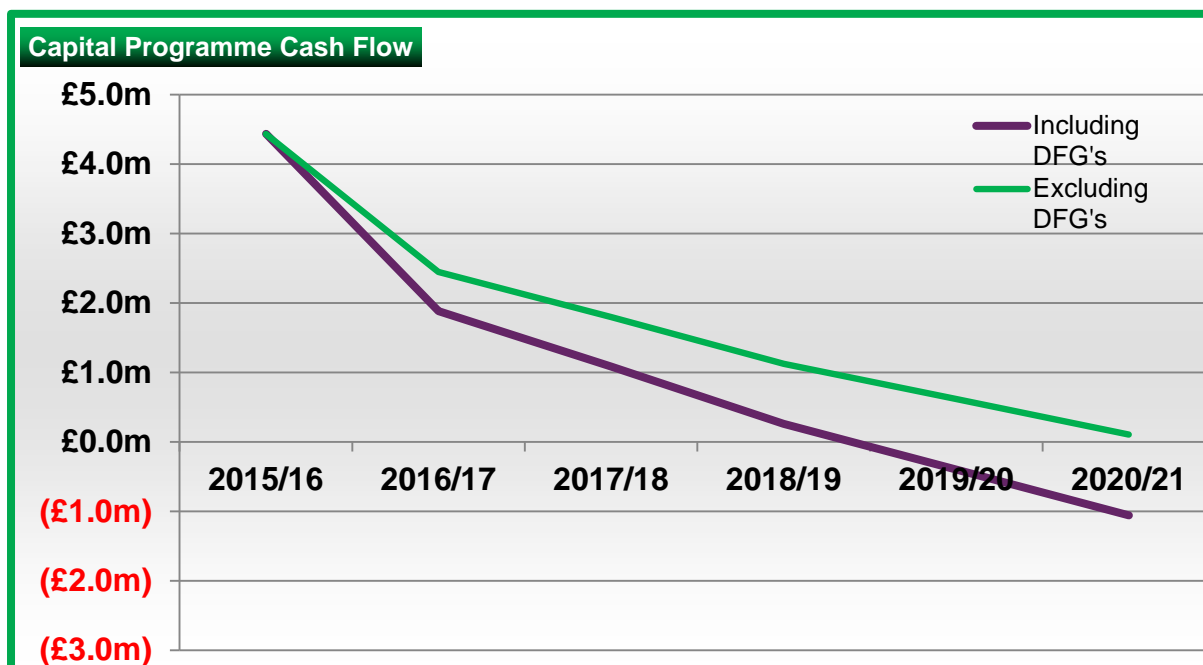
- 4.7. The movement and cracking at the rear of the Pemberton Centre was mostly covered through an insurance claim and the £15k estimated in addition to this is now not required. A sum of £3k was spent in relation to this and was met from within existing budgets. However, the other roof works identified for 2017/18 still need to be completed. A request has been made to complete these before the new leisure contract starts on 1 April 2017. A day rate has been quoted at £750 per day. Based on an allowance of 15 days (£11,250) plus materials (£3,750), £15k is requested to be transferred from the Development Pool to the Approved Capital Programme in order to complete the required works. Members are asked to approve the change of use for the £15k in the table above for 2016/17 which will result in the £10k in 2017/18 being removed from the Development Pool.

4.8. Capital Funding 2016/17

- 4.9. The latest capital spending position was funded from the following sources in 2016/17:

2016/17	£k
Capital Programme	1,693
Total Expenditure	
Funded by:	
Revenue Contribution	22
External Contributions	515
Capital Reserves	1,156
Total Funding	1,693

- 4.10. The graph below demonstrates the council's latest position for the cash flow projection of the capital programme.



4.11. The graph shows the cash flow over the medium term based on the current capital programme and development pool. It is currently anticipated (based on **all** schemes being approved) that during 2019/20 the council will run out of capital resources and be required to seek alternative options for financing capital expenditure. This position is being proactively mitigated through the MTFs.

4.12. Other Financial Performance Indicators

4.13. The council also monitors performance on the following financial activities:

- Prompt Payment of Invoices
- Sundry Debt Performance
- Housing Benefit Overpayments
- Council Tax Collection
- Business Rates Collection
- Debt Write Off

4.14. Further information on each of these performance indicators can be seen in **Appendix 4**. A review of total outstanding debt is currently being carried out. The outcome of this will be reported to Finance Sub Committee at its meeting scheduled for December 2016.

5. Equality and Diversity Implications

5.1. There are no known equalities issues arising from this report.

6. Legal Implications

6.1. There are no known legal implications arising from this report.

7. Risk Management

7.1. This risks arising from this report are recorded in the council's Risk Register. The risks are subject to regular review and update.

8. Resource and Financial Implications

8.1. This report is of a financial nature and the implications are set out within the report.

9. Constitutional Implications

9.1. This report is of a financial nature. There are currently no direct implications impacting on the Constitution.

10. Customer Service Implications

10.1. This report is of a financial nature. There are no direct implications impacting on customer services.

11. Corporate Outcomes

11.1. This report links to the following Corporate Outcomes:

- **Effective Management**

Budget monitoring allows the council to manage and review its financial performance, contributing to the effective management of the council

- **Good Value for Money**

This report demonstrates the cost of services provided which contributes to this corporate outcome

12. Recommendations

16.1 The Finance Sub-Committee is asked to:

- a) note the latest revenue, capital and reserves positions for 2016/17
(Reason – this is for information / monitoring purposes)
- b) note the current position on the Asset Management Plan Reserve and approve the transfer of £80.7k back into the Council Improvement Reserve
(Reason – to manage resources efficiently and strengthen reserves to mitigate some future financial risk)
- c) Approve the transfer and change of use of £15k from the Development Pool into the Approved Capital Programme in respect of works to the Pemberton Centre as set out in section 4.7 of this report.
(Reason – to follow the formal process for approval of the amendment to the Capital Programme Budget for 2016/17)
- d) note the collection and write off performance for sundry debtors, local taxation and benefit overpayments as set out in Appendix 4.
(Reason – this is for information / monitoring purposes)

Legal	Power: Local Government Act 2003				
	Other considerations:				
Background Papers:					
Person Originating Report: Michelle Drewery, Finance Manager ☎ 01832 742267 ✉ mdrewery@east-northamptonshire.gov.uk					
Date: 25.08.2016					
CFO		MO		CX	