



Finance Sub-Committee 6 February 2017

Budget Monitoring to 31 December 2016

Purpose of report

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

Attachment(s):

Appendix 1 – Service Expenditure Analysis
Appendix 2 – Capital Programme
Appendix 3 – Financial Performance Indicators

1. Introduction

- 1.1. This report provides an overview of the council's forecast revenue and capital position up to 31 December 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. The Council's proposed efficiency plan, to take advantage of the 4 year funding deal has been accepted and agreed by Department for Communities and Local Government.

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:

Table 1

| | £ |
|---|------------------|
| 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

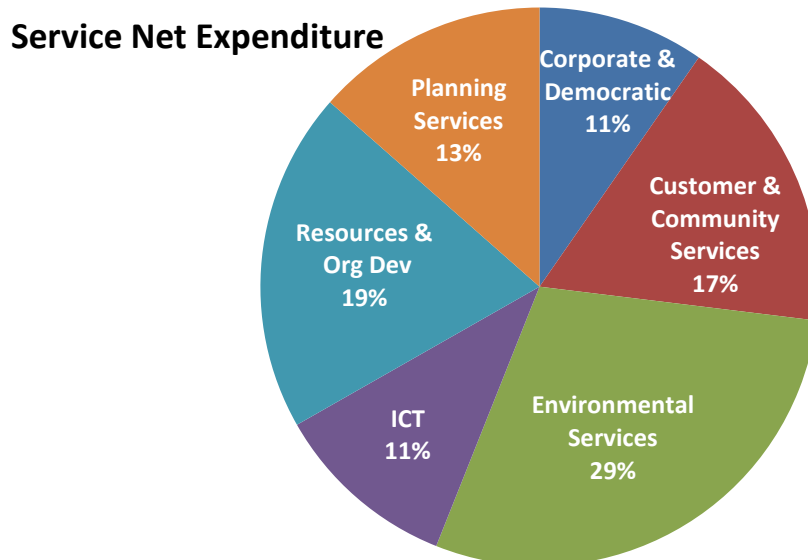
3.5. The estimated outturn for services for the year is an underspend of £150k. This is due to an increase in planning application income and garden waste income, together with other contractual efficiencies and pressures, including a reduction in interest receivable and a shortfall against the vacancy savings budget.

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

| | Budget | Actual to date | Estimated Outturn | Variance |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| Corporate & Democratic | £786,335 | £1,056,999 | £971,892 | £185,557 |
| Customer & Community Services | £1,668,460 | £3,243,555 | £1,534,028 | (£134,432) |
| Environmental Services | £2,709,410 | £1,623,174 | £2,585,230 | (£124,180) |
| ICT | £954,749 | £1,488,399 | £953,169 | (£1,580) |
| Resources & Organisational Dev | £1,714,777 | £1,571,789 | £1,772,530 | £57,753 |
| Planning Services | £1,333,975 | £574,264 | £1,200,365 | (£133,610) |
| | £9,167,706 | £9,558,180 | £9,017,214 | (£150,492) |

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

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



3.8. Vacancy Factor

3.9. 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.

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

| | |
|---|------------|
| Vacancy Factor | £k |
| Vacancy Factor (3.5%) | 200 |
| Vacancy Savings to date (Dec 2016) | (87) |
| Further vacancy savings required | 113 |

3.11. The savings to date are below expectations of achieving the full £200k by the end of the financial year. However, it should be noted that salary savings have been used to fund additional pressures within the organisation, for example the IT Strategy Review work undertaken to date. As such there is now little chance to recover any further savings for the 2016/17 financial year and therefore the shortfall is now being reported in the forecast outturn. The position will be kept under close scrutiny throughout the remainder of 2016/17 and any changes reflected in future reports as they arise. If these savings had not been used to fund additional posts or pressures the salary savings would be on target, as follows:

| | |
|---|-----------|
| Vacancy Factor | £k |
| Vacancy Factor (3.5%) | 200 |
| Vacancy Savings to date (Dec 2016) | (183) |
| Further vacancy savings required | 17 |

3.12. Variances over £10k

3.13. **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 £ | Pressure £ | Reason for variance |
|-------------------------------|------------------|----------------|--|
| Corporate & Democratic | | 36,890 | Shortfall in interest received from cash investments |
| Corporate & Democratic | (12,000) | | Estimated savings for Chief Finance Officer |
| Corporate & Democratic | (14,279) | | Savings on internal audit charges from Rutland CC |
| Corporate & Democratic | | 46,000 | Benefits from business transformation projects delivered later than anticipated |
| Corporate & Democratic | | 112,950 | Shortfall on transitional salary savings target |
| Customer & Community Services | (15,982) | | Additional council tax support administration grant income compared to budget |
| Customer & Community Services | (90,410) | | Savings on maintenance and repairs to leisure buildings due to new contract arrangements |
| Customer & Community Services | (18,560) | | Additional income from Land Charges |
| Environmental | (10,470) | | Net increase in savings from refuse collection Misc Advertising and Paper & plastic sacks |
| Environmental | (10,600) | | Net increase in bulky household waste income |
| Environmental | (40,500) | | Net increase in garden waste income due to increased subscriptions and waste tonnages |
| Environmental | (45,270) | | Net increase in recycling credits income taking into account increased management costs |
| Planning Services | (139,000) | | Increased planning fee income following receipt of large planning application |
| Resources & Org Dev | | 18,319 | Underestimation of recharges for parliamentary election 2015/16 |
| Resources & Org Dev | (13,000) | | Additional income from external printing |
| Resources & Org Dev | | 50,000 | Consultancy advice for investment opportunity business case |
| Various | (4,580) | | Various |
| | (414,651) | 264,159 | (150,492) |

3.14. The detailed breakdown at Appendix 1 shows that currently there is a reported pressure of £17k identified within the 2016/17 forecast outturn position that has been incorporated into the budget for 2017/18.

3.15. Included in the forecast outturn is a cost of up to £50k in relation to the procurement of consultancy advice to support a business case for an investment opportunity. A

budget virement is currently being processed in accordance with the Constitution Part 4.3 Financial Procedure Rules with approval by the Chief Finance Officer and the Chair of Finance Sub Committee.

3.16. Potential Risks

3.17. 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. The district currently has a 'live service' for Universal Credit which means new claims are accepted as well as some where circumstances have required a change. A full service is scheduled to be rolled out in the area from February 2018. There is not expected to be much change during 2016/17 and therefore the risk of a pressure during the current financial year is low.

3.18. EU Referendum

3.19. 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.

3.20. Until such outcomes are known, the uncertainty has had a negative impact on the financial markets. 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.

3.21. A new £23bn National Productivity Investment Fund was announced as part of the Autumn Statement which is to be spent on innovation and infrastructure over the next five years. This has been allocated with the intention of smoothing the transition period for the UK in the lead up to the exit from the EU.

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 that 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 December 2016 for the appeals listing, there were 230 appeals outstanding. The council has estimated the financial impact of the appeals going forward at £2.05m (of which ENC's share is £0.82m), which will be met through various provisions and 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 Dec 2016 £k |
|---|-------------------------|
| Budget contribution to reserves | 834 |
| Forecast underspend for the year | 150 |
| Revised contribution to reserves 2016/17 | 984 |

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 | (748) | |
| Use of earmarked reserves | (1,111) | (1,859) |
| Revised Reserves | | 10,222 |
| Add: | | |
| Contribution to Community Projects Reserve | | 1,313 |
| Forecast Contribution to reserves 2016/17 | | 984 |
| Forecast revenue reserves (incl. earmarked at 31 March 2017) | | 12,519 |

3.29. Treasury Management

3.30. The council had an investment portfolio of £25.03m at 31 December 2016. The current average interest rate achievable is 0.41%. 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 2016 to cut the interest rate from 0.5% to 0.25% which has also had implications on interest payable to the council.

3.31. 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 19 December 2016.

| Treasury Management Budget vs. Estimated Outturn | | | |
|--|-----------------|-------------------|--|
| | Budget | Estimated Outturn | Pressure |
| | £ | £ | £ |
| Investments | £144,500 | £107,610 | (£36,890) |
| | | | Lower interest rates being achieved, partly offset by higher than expected cash balances |
| Total | £144,500 | £107,610 | (£36,890) |

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 | £25,000 | - | £701,969 |
| Leisure Projects | £119,000 | - | £43,764 | - | £162,764 |
| Environment Projects | £270,000 | - | - | - | £270,000 |
| Corporate Systems | - | £313,809 | £460,830 | - | £774,639 |
| Property Maintenance | - | £950 | - | - | £950 |
| Total Approved | £889,000 | £491,728 | £529,594 | - | £1,910,322 |
| Development Pool | | | | | |
| Housing Projects | - | - | - | £40,000 | £40,000 |
| Leisure Projects | £210,500 | - | - | (£22,000) | £188,500 |
| 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) | £18,000 | £975,505 |
| Total Capital Programme | £1,971,505 | £491,728 | £404,594 | £18,000 | £2,885,827 |

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 £1.910m 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 as well as investment to support the ICT Strategy. These movements have been formally approved during 2016/17.

4.4. A detailed breakdown of the capital programme is shown in **Appendix 2**, which shows that the forecast outturn for 2016/17 is currently projected to be an underspend of £165k against the approved budget.

4.5. The majority of the forecast underspend is £151k relating to 7 major applications for Disabled Facilities Grant. However, it is expected that these applications will be approved and committed by the year end and that a carry forward request will be submitted so that these projects can be completed in 2017/18.

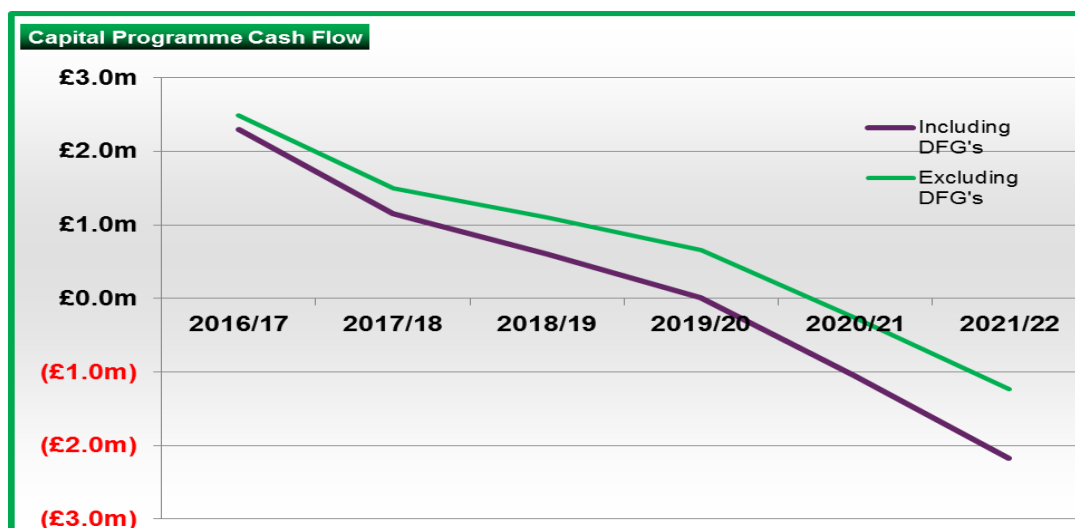
4.6. There is also additional demand for wheelie bins at a cost of £15k. At the meeting of 19th December, Finance Sub Committee recommended to Council to approve the transfer of £15k from revenue underspends within Environmental Services to cover this cost. However, as this recommendation was omitted from the reports to Council on 23rd January, it has not received formal approval and will need to be referred to the next Council meeting on 27 February.

4.7. Capital Funding 2016/17

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

| | |
|--------------------------|--------------|
| 2016/17 | £k |
| Capital Programme | 1,910 |
| Total Expenditure | |
| Funded by: | |
| Revenue Contribution | 22 |
| External Contributions | 515 |
| Capital Reserves | 1,373 |
| Total Funding | 1,910 |

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



4.10. 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.

4.11. Other Financial Performance Indicators

4.12. 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

4.13. Further information on each of these performance indicators can be seen in **Appendix 3**.

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

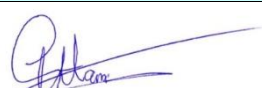
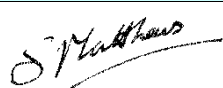
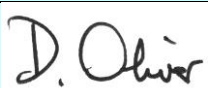
11.1. This report links to the following Corporate Outcomes:

- **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

12.1 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 collection and write off performance for sundry debtors, local taxation and benefit overpayments as set out in Appendix 3.
(Reason – this is for information / monitoring purposes)
- c) **resolve to recommend to Council** the increase of £15k to the Approved Capital Programme budget in respect of the purchase of additional wheeled bins, which will be funded through an additional revenue contribution to capital (paragraph 4.7 of this report).
(Reason – to follow the formal process for approval of the amendment to the Capital Programme Budget for 2016/17)

| | | | | | |
|---|---|-----------|--|-----------|---|
| 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: 29.11.2016 | | | | | |
| CFO |  | MO |  | CX |  |