

## **POLICY AND RESOURCES COMMITTEE**

**23 SEPTEMBER 2015**

Is the final decision on the recommendations in this report to be made at this meeting?

**Yes**

### **FIRST QUARTER BUDGET MONITORING 2015/16**

<b>Final Decision-Maker</b>	Policy and Resources Committee
<b>Lead Head of Service</b>	Head Of Finance & Resources
<b>Lead Officer and Report Author</b>	Paul Riley Head Of Finance & Resources
<b>Classification</b>	Public
<b>Wards affected</b>	All

#### **This report makes the following recommendations to this Committee:**

##### **That the committee:**

1. Creates a working group of members of the committee supported by officers to identify robust and deliverable savings proposals to report back to the committee for consideration.
2. Notes the revenue budget position at the end of the first quarter and the actions proposed or being taken by each service committee as set out in table 2, paragraph 2.14.
3. Approves the proposed slippage in the capital programme of £2,875,985 into 2016/17 as detailed in paragraph 2.19.
4. Notes the performance of the collection fund and the estimated level of balances at the year end.
5. Notes the performance in relation to the treasury management strategy for the first quarter of 2015/16.

#### **This report relates to the following corporate priorities:**

The budget is a statement, in financial terms, of the priorities set out in the strategic plan. It reflects the Council's decisions on the allocation of resources to all objectives of the strategic plan. The issues raised in this report identify areas where financial performance is at variance with priority outcomes.

#### **Timetable**

<b>Meeting:</b>	<b>Date:</b>
Policy & Resources Committee	23 September 2015

# **BUDGET MONITORING 2015/16 AND MEDIUM TERM FINANCIAL STRATEGY 2016/17 ONWARDS**

## **1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1 To consider the capital and revenue budget and expenditure figures for the first quarter of 2015/16 along with other financial matters with a material effect on the medium term financial strategy or the balance sheet.
  - 1.2 The report begins by presenting revenue information specifically in relation to this committee's services. All information at a strategic level across the whole budget is then reported as both issues are of importance to this committee.
  - 1.3 The revenue budget forecast for year end is a positive variance of £982,000. This figure relates to government grant to cover lost business rates and is not available for general use. Details of the specific variances for each committee are set out in the report.
  - 1.4 The capital spending for the quarter to June 2015 totals £184,845 from a budget of £10,191,720 and the report recommends slippage of £2,875,985 of the capital budget to 2016/17 following discussions with relevant officers.
  - 1.5 Other balance sheet elements are all reporting satisfactory progress although interest on investments remains lower than expected at an average rate on all investments of 0.76% for the quarter.
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## **2. INTRODUCTION AND BACKGROUND**

- 2.1 The Head of Finance & Resources is the Responsible Financial Officer, and has overall responsibility for budgetary control and financial management. However in practice day to day budgetary control is delegated to service managers, with assistance and advice from their director and the finance section. This report advises and updates the committee on the current position with regards to both revenue and capital expenditure against the approved budgets, and also includes sections on Collection Fund performance and Treasury Management performance.
- 2.2 The report uses a number of terms that may require definition and a glossary of terms is given in section # of the report.
- 2.3 On 29 July 2015 the committee considered an initial report on the medium term financial strategy for 2016/17 onwards agreeing the factors to be used in initial planning and consultation. In addition the committee asked each of the service committees to consider the factors with regard to their own service areas and confirm their agreement to the factors. The committee also requested that the service committees commence a review

of their service areas to identify savings and efficiencies to contribute towards the medium term financial strategy's need to close a funding gap of £1.6m in 2016/17 and £3.8m over the five years of the strategy.

- 2.4 While considering that request each service committee has considered the outturn for 2014/15 and a budget monitoring report for the first quarter of 2015/16. This enabled the committees to consider the three issues in context and to identify longer term trends in the performance against budget by each service.
- 2.5 This report will firstly provide the same context for the Policy and Resources Committee but will mainly focus on performance for strategic issues across the full budget. This means that along with this committee's own budget this report deals with budgets for all committees.

#### Committee Level Outturn 2014/15

- 2.6 The financial information set out in that revenue outturn report, already considered at the last meeting of the committee, can be summarised as set out in table 1 below:

<b>Committee</b>	<b>Estimate £</b>	<b>Actual £</b>	<b>Variance £</b>
Policy & Resources	11,664,440	10,749,096	915,344
Communities, Housing & Environment	8,816,010	9,165,320	-349,310
Heritage, Culture & Leisure	590,710	682,171	-91,461
Strategic Planning, Sustainability & Transport	113,730	-228,634	342,364
Use of Balances & Reserves	-2,068,140	-1,229,060	-839,080
	<b>19,116,750</b>	<b>19,138,893</b>	<b>-22,143</b>

*Table 1: 2014/15, outturn compared to budget analysed by service committee.*

As can clearly be seen from the table, the Policy and Resources Committee reported an overall positive variance of £915,344 against a net budget of £11,664,440. This is a variance of 7.8%.

- 2.7 The report detailed the major issues that contributed to the positive variance for this Committee as follows:
- a) The main variance relates to additional grant received from central government of £780,780 to compensate the council for lost business rates following specific discounts allowances agreed in year by central government. There was a consequential loss of business rates that are not reported in the details above and the funding does not create a usable variance;
  - b) In addition there is a balance available from the contingency budget that enables the re-use of budgets that have been identified as savings earlier than needed by the medium term financial strategy of £180,000. This budget will be automatically removed in 2015/16 as part of the normal cycle of budget savings.
- 2.8 There were no significant adverse variances

### Committee Level First Quarter Results and Forecast 2015/16

- 2.9 Attached at **Appendix A** is a table detailing the current budget and expenditure position for this Committee's services in relation to the first quarter of 2015/16, to June 2015. The appendix details net budget per cost centre for this Committee. The budget used in the budget approved by Council in February 2015 adjusted to allow for the approved carried forwards agreed by Cabinet in May 2015 or Policy and Resources Committee in July 2015. Actual expenditure is shown to the end of June 2015 and includes accruals for goods and services received but not yet paid for.
- 2.10 The columns of the table in the Appendix show the following detail:
- a) The cost centre description;
  - b) The value of the total budget for the year;
  - c) The amount of the budget expected to be spent by the end of June 2015;
  - d) The actual spend to that date;
  - e) The variance between expected and actual spend;
  - f) The forecasted spend to year end; and
  - g) The expected significant variances at 31 March 2016.
- 2.11 Appendix A shows that of an annual budget of £7,134,265 the expectation is that £2,447,657 would be spent in the first quarter of the year. At this point in time the budget is reporting an under spend of £460,555 and the forecast for year-end shows that this continues to reflect the likely outcome at 31 March 2016.
- 2.12 This variance is a continued consequence of the same government grant for loss of business rates that affected the outturn for 2014/15 and the unused element of the contingency budget.

### Strategic Level First Quarter Results and Forecast 2015/16

- 2.13 Given at **Appendix B** is a summary of the first quarter's budget performance at the level of the strategic budget. The budget and actual figures are provided at the same level as set out in paragraph 2.9. The figures are analysed in three ways and set out in three tables which show the following levels of detail:
- Table 1: Subjectively by Committee;
  - Table 2: Subjectively by Priority;
  - Table 3: Subjectively by Expenditure Type.
- 2.14 Each Committee has considered the major adverse and positive variances reported within their service areas. In each case they have chosen to either: develop plans to act further in resolving the issue; or to continue to monitor the position and act if necessary at a later date. The full year forecasted variances are set out in summary below:

<b>Full Year Forecasted Variances:</b>	<b>Positive Variance £</b>	<b>Adverse Variance £</b>
<b>Heritage Culture &amp; Leisure Committee:</b>		
<b>Museum:</b> Lower than expected income and increased maintenance costs at the Museum create an adverse variance. Work has been completed on a zero based budgeting exercise for the Museum and the committee is to receive a report on ways to realign budget and actual expenditure.		60,000
<b>Mote Park:</b> Income levels are not achieving target at Mote Park. The recent report on parking charges as part of the strategy to improve the park will be partially used to resolve this issue by the committee.		52,000
<b>Crematorium:</b> There is a pressure created by possible unachievable income expectations at the Crematorium. The committee will consider options in relation to fees and charges levels to resolve this issue and continue to monitor the situation.		52,000
<b>Strategic Planning, Sustainability and Transport Committee:</b>		
<b>Development Management:</b> As a consequence of additional planning fee income tempered by additional employee costs yet to be incurred. The committee will continue to monitor this income level and consider options for supporting the MTFS.	100,000	
<b>Car Parking:</b> Early predictions of year end forecast are notoriously difficult for parking income as weather and other trends have a direct impact. In addition the resources are partially ring-fenced to transport services by statute. The committee will continue to monitor this service.	100,000	
<b>Planning Support Shared Service:</b> The outcome of the work currently underway to bring the shared service up to date is not yet complete but for some of the major targets the service is operating to the agreed timescales. Additional costs are currently being incurred and may increase over this figure before the work is complete. Further decisions by the partnership are necessary and the committee will continue to monitor this service.		55,000
<b>Communities, Housing and Environment Committee</b>		
<b>Environmental Enforcement:</b> The income from litter fines is ring-fenced to the provision of cleansing services and the committee will monitor the service and identify where the resources could be best utilised.	33,000	
<b>Waste and Recycling:</b> Across this group of services there is forecast to be a positive variance. In the main this will be delivered by the additional resources being generated within the recycling services. The committee will consider options for supporting the MTFS.	145,000	
<b>Temporary Accommodation:</b> The level of demand for this service continues to grow. Despite a number of actions being taken over the past two years there is expected to be a further adverse variance this year. The committee will consider options in a specific report later in the year on further possible actions.		183,000
	<b>378,000</b>	<b>402,000</b>

Table 2: Summary of significant variances by committee

- 2.15 In addition to the issues considered by the other service committees, this committee is reporting a positive variance as detailed in paragraph 2.13 above.
- 2.16 In accordance with best practice, virements are reported to Cabinet as part of quarterly budget monitoring. A virement represents the transfer of a budget between objectives that occurs subsequent to the formal approval of the budget by Council. There were no virements to report for the first quarter of 2015/16.

#### Strategic Level Capital Programme 2015/16

- 2.17 The capital programme was approved by Council on 2 February 2015.
- 2.18 Funding for the programme remains consistent with previous decisions of Council in that the majority of resources come from New Homes Bonus along with a small grants budget and a small number of capital receipts from asset sales. Previous decisions of Council and Cabinet have focused the use of New Homes Bonus on infrastructure projects where these are required by the infrastructure delivery plan that forms part of the Local Plan.
- 2.19 The current programme is set out in **Appendix C** and shows the approved budget and actual expenditure to date. The Appendix details the profile of expenditure that is forecast for the remainder of the year and identifies £2,875,985 that will require carry forward approval into 2016/17. The major schemes that have incurred slippage are:
- a) Housing Grants – The current forecast spend on housing grants for the year is £782,407. A total of £874,893 will need to be carried forward to 2016/17.
  - b) Play Area improvements – This funding is for an agreed contract that has not commenced. A full year’s expenditure will not be achieved in 2015/16. A total of £520,193 will need to be carried forward.
  - c) Acquisition of Commercial Assets – At this time schemes to utilise approximately £3,290,000 are likely to be completed this year and a balance of £710,000 will need to be carried forward.
  - d) High Street Regeneration – This is a scheme balance from the reduced contract cost of phase 2. The funding has been held over but it not sufficient to complete any further works. A total of £322,622 will need to be carried forward.
  - e) Enterprise Hub – following completion of the works on conversion of the upper floor of the Gateway building to the Business Terrace the balance of the original budget remains. This is not required for this scheme and totals £437,927.

- 2.20 The Council has the necessary resources to manage the programme in 2015/16 with the majority of funding arising from New Homes Bonus. There are a small number of minor asset sales and government grant in relation to disabled facilities grants also funding the programme.

#### Reserves and Balances

- 2.21 The total of reserves and balances as at 1st April 2015 was £15.3m. The current medium term financial strategy assumes balances of £14.4m by 31st March 2016.
- 2.22 The movement in balances during 2015/16 relates to the use of carry forwards approved by Cabinet in April 2015 and reported to this committee in July 2015 and the use of resources from earmarked reserves in relation to the local plan and the use of.
- 2.23 The position set out above allows for the minimum level of general balances of £2.3m, as agreed by Council in February 2015, to be maintained.

#### Collection Fund

- 2.24 Due to the risks that surround the pooling arrangements in place for business rates growth and the local council tax discount scheme, the Council monitors the collection fund carefully.
- 2.25 The collection rates achieved during the first quarter, and the targets set, are reported below. The rates are given as a percentage of the debt targeted for collection in 2015/16.

	<b>Target %</b>	<b>Actual %</b>
Business Rates	33.7	33.9
Council Tax	29.8	29.4

*Table 3: Collection Rates for Council Tax and Business Rates to June 2015*

- 2.26 Council Tax has marginally missed the target. This sum equates to £350,000 out of a collectable debt for the year of £89,333,786.
- 2.27 As shown above, while the percentage variances are small, the gross value of Council Tax collected each year is significant. The Head of the Revenues and Benefits Partnership follows a recovery timetable and action will be taken before year end to attempt to bring the collection rate back to target.
- 2.28 Officers will continue to pursue payment of any developing arrears along with the arrears from prior years which is on target and.

#### Treasury Management

- 2.29 The Council has adopted and incorporated into its Financial Regulations, the CIPFA Code of Practice on Treasury Management in Local Authorities. This Code covers the principles and guidelines relating to borrowing and investment operations. In February 2015, the Council approved a

Treasury Management Strategy for 2015/16 that was based on this code. The strategy requires that this committee should be informed of treasury management activities quarterly as part of budget monitoring.

- 2.30 Officers can confirm that treasury management activity in the first quarter of the year complied with the code and with the Council's Treasury Management Strategy.
- 2.31 During the Quarter ended 30th June 2015:
- The economic recovery slowed marginally;
  - The economy went into deflation which lasted only one month (CPI reached -0.1%);
  - The general election confirmed that the fiscal squeeze will re-intensify next year.
- 2.32 The Council's Treasury Management advisors, Capita Asset Services, provided a forecast that was little change since the end of last year and reported that:
- Growth in Q1 2015 (January to March) was lower than expected at 0.4%
  - The Bank of England reduced its annual growth prediction for the year and maintained the base rate at 0.5%.
  - Issues in Europe such as Greek debt and demands made long term prediction difficult.
- 2.33 At 30th June 2015 the council held investments totalling £28.99m. A full list of investments held is given in Appendix D. £10.99m of investments were in accounts that can be called upon immediately or available within the following quarter.
- 2.34 Investment income is slightly below target with a balance of £53,619 compared to a budget of £67,500. The average interest rate for this period is 0.76%. The low interest rates are a consequence of Government support for lending schemes which have prompted a reduction in need for additional cash by financial institutions.
- 2.35 There has been no need to borrow either temporarily, to manage cash flow, or long term prudential borrowing.

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### **3. AVAILABLE OPTIONS**

- 3.1 This report covers a series of issues all of which require consideration. Each issue and the options are set out below:
- 3.2 The committee will be aware from the report considered on 29<sup>th</sup> July 2015 relating to the medium term financial strategy that the council must identify £1,632,000 in savings in order to balance the budget for 2016/17 and overall savings of £3,765,000 for the five year period of the strategy. Each committee has been asked to consider options to contribute to the savings plans over the five year period and the other three service committees have opted to commence the work through a working group commissioned to develop ideas for the committee to consider. The working

group in each case will be made up of members of the committee supported by officers so that ideas can be developed into robust proposals. This work needs to be completed for the December meeting of this committee.

- 3.3 The committee could opt to take the same approach or develop an alternative approach such as asking for specific reports back to the committee by each head of service. The option to take no action is not appropriate in this case as savings must be identified and it is the responsibility of this committee to recommend a balanced budget to Council in March 2016.
- 3.4 In considering the strategic position on the revenue budget at the end of June 2015 the committee has been provided with details of the actions each service committee plans to take on significant variances.
- 3.5 The committee can chose to note those actions and reconsider the outcomes at the end of the second quarter or it could chose to take further action.
- 3.6 The capital programme is reporting slippage and expenditure of on £184,845. Details of the programmes where major slippage occurs have been detailed. The committee could agree the slippage as proposed or take an alternative action such as removal of the budget or transfer of the budget to other schemes. If such alternative action is taken the councillors should be aware that the medium term financial strategy sets a hierarchy of priorities for the capital programme and any alternative scheme should be the highest priority unfunded scheme currently proposed.
- 3.7 Details of the performance of the collection fund and the level of available balances are both as expected and the committee need only note this information at this time.
- 3.8 Treasury Management is for information only as the Audit, Governance & Standards Committee takes responsibility for considering changes that may be required, for reference on to Council. The committee could make reference to the Audit, Governance and Standards Committee of any issues that it may wish to be considered at a future meeting.

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#### **4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS**

- 4.1 The report is for advice in relation to the actions being taken by officers and other service committees and it is recommended that the committee note the current situation with two exceptions:
  - a) The committee is recommended to create a working group to enable the free development of proposals to generate savings and efficiencies over the next five years; and

- b) The committee is requested to approve the proposed slippage in the capital programme to enable more accurate monitoring of the programme in future periods.
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## **5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK**

- 5.1 The first quarter's budget monitoring report has been considered by each of the other three service committees the key issues and their consideration is set out in table 2 at paragraph 2.14.
- 5.2 This report will not lead to further consultation.
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## **6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

- 6.1 The second quarter's budget monitoring report will be considered by the service committees in November 2015 culminating in a full report to this committee.
- 6.2 There are no significant issues arising from this report that require action from this committee. The success of actions by the other service committees to manage the pressures in their budgets will be regularly reported to this committee through later versions of this report.
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## **7. GLOSSARY OF TERMS**

<b>Term</b>	<b>Definition</b>
Accrual	The inclusion in the financial report of a money value to represent the receipt of goods or services within the report period, if actual payment has not yet been made.
Adverse variance	The difference between expected (budgeted) cost and actual cost where the actual value is a higher cost than expected.
Capital expenditure	Spending on the creation, purchase or enhancement of the Council's assets .
Capital Receipts	Income from the sale of assets. This income can only be used for the creation, purchase or enhancement of other Council assets.
Carry forwards	A budget for works or services that remained unused at year end, has a purpose that still requires completion and has been moved into the following year with the approval of Cabinet.
Collection Fund	The collection fund is a statutory fund that the Council maintains for the collection and distribution of council tax and business rates.

Cost centre	An accounting location or service as set out in the annual budget report i.e. The Museum or the Leisure Centre.
Local council tax support	The local system of discount applied to council tax that replaced the national council tax benefit system on 1st April 2013.
Positive variance	The difference between expected (budgeted) cost and actual cost where the actual value is a lower cost than expected.
Profiled budget	The total amount expected to be spent (from the budget) by the period end, after considering the expected pattern of spend throughout the year and past trends.
Retained business rates	The system of localised business rates in operation since 1st April 2013. The system allows the Council to retain a proportion of business rates collected rather than pay the total amount to central government.
Revenue expenditure	Expenditure on the day to day running costs of the Council's services.
Revenue Support	Revenue funding that has been set aside to finance goods and service of a capital nature.
SELEP	South East Local Enterprise Partnership
Subjective analysis	An accounting type used to define costs i.e. salaries, vehicle hire, premises rents.
Treasury Management	The management of the organisation's investments, cash flows and banking along with control of the risks associated with those activities.
Virement	A virement represents the transfer of a budget between services (cost centres) that happens after the formal approval of the budget by Council. The authority to make certain types of virement is set out in the Council's constitution.

## 8. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
<b>Impact on Corporate Priorities</b>	This report monitors actual activity against the revenue and capital budgets and other financial matters set by Council for the financial year. The budget is set in accordance with the Council's medium term financial strategy which is linked to the strategic plan and corporate priorities.	Head of Finance & Resources

<b>Risk Management</b>	<p>The Council has produced a balanced budget for both capital and revenue expenditure and income for 2015/16. This budget is set against a backdrop of limited resources and an difficult economic climate. Regular and comprehensive monitoring of the type included in this report ensures early warning of significant issues that may place the Council at financial risk. This gives this committee the best opportunity to take actions to mitigate such risks.</p> <p>The issues set out in this report do not exhibit the level of potential risk identified in previous years.</p>	Head of Finance & Resources
<b>Financial</b>	<p>Financial implications are the focus of this report through high level budget monitoring. The process of budget monitoring ensures that services can react quickly to potential resource problems. The process ensures that the Council is not faced by corporate financial problems that may prejudice the delivery of strategic priorities.</p>	Head of Finance & Resources
<b>Staffing</b>	<p>The budget for staffing represents approximately 50% of the direct spend of the council and is carefully monitored. Any issues in relation to employee costs will be raised in this and future monitoring reports.</p>	Head of Finance & Resources
<b>Legal</b>	<p>The Council has a statutory obligation to maintain a balanced budget this monitoring process enables the committee to remain aware of issues and the process to be taken to maintain a balanced budget for the year.</p>	Head of Finance & Resources
<b>Equality Impact Needs Assessment</b>	<p>The budget ensures the focus of resources into areas of need as identified in the Council's strategic priorities. This monitoring report ensures that the budget is</p>	Head of Finance & Resources

	delivering services as set in the budget to meet those needs.	
<b>Environmental/Sustainable Development</b>	No specific issues arise	Head of Finance & Resources
<b>Community Safety</b>	No specific issues arise	Head of Finance & Resources
<b>Human Rights Act</b>	No specific issues arise	Head of Finance & Resources
<b>Procurement</b>	No specific issues arise	Head of Finance & Resources
<b>Asset Management</b>	Resources available for asset management are contained within both revenue and capital budgets and do not represent a significant problem at this time.	Head of Finance & Resources

## 9. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

Appendix A: First Quarter 2015/16 Budget Monitoring Report

Appendix B: First Quarter 2015/16 Strategic Budget Monitoring Summary

Appendix C: First Quarter 2015/16 Capital Programme Report

Appendix D: List of investments as at 30<sup>th</sup> June 2015

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## 10. BACKGROUND PAPERS

None