

**POLICY AND RESOURCES
COMMITTEE**

**28 SEPTEMBER
2016**

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

Yes

First Quarter Budget Monitoring 2016/17

Final Decision-Maker	Policy and Resources Committee
Lead Head of Service	Director of Finance and Business Improvement
Lead Officer and Report Author	Ellie Dunnet Chief Accountant
Classification	Public
Wards affected	All

This report makes the following recommendations to this Committee:

That the committee:

1. Notes the revenue position at the end of the first quarter and the actions being taken or proposed to improve the position where significant variances have been identified, as set out in table 1, paragraph 2.8;
2. Approves the proposed slippage in the capital programme of £4,526,591 into 2017/18 as detailed in paragraph 2.13;
3. Notes the performance of the collection fund and the estimated level of balances at the year end; and
4. Notes the performance in relation to the treasury management strategy for the first quarter of 2016/17.

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

Meeting	Date
Policy and Resources Committee	28 September 2016

First Quarter Budget Monitoring 2016/17

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report provides the committee with an overview of the capital and revenue budget and outturn for the first quarter of 2016/17, and highlights other financial matters which may have a material impact on the medium term financial strategy or the balance sheet.
 - 1.2 The first section of the report presents the revenue information specific to this committee's services, and the remainder of the report provides an update on strategic and cross-cutting issues since both aspects fall into the remit of this committee.
 - 1.3 Based on the information available to date, the year-end forecast for the revenue budget is an adverse variance of £250,000. Details of the specific variances for each committee are detailed later in the report.
 - 1.4 The capital spending for the quarter ending 30 June 2016 totals £597,471 from the annual budget of £21,219,940, which is a slippage from 2015/16.
-

2. INTRODUCTION AND BACKGROUND

- 2.1 The Director of Finance & Business Improvement 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.
- 2.2 The medium term financial strategy for 2016/17 onwards was agreed by full Council on 2 March 2016. 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.

First Quarter Results and 2016/17 Forecast – Revenue

- 2.3 Attached at **Appendix I** is a table detailing the current budget and expenditure position in relation to the first quarter of 2016/17, to June 2016. The appendix details net budget per cost centre for this Committee. Actual expenditure is shown to the end of June 2016 and includes accruals for goods and services received but not yet paid for.
- 2.4 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 2016;
 - d) The actual spend to that date;

- e) The variance between expected and actual spend;
- f) The forecast spend to year end; and
- g) The expected significant variances at 31 March 2017.

2.5 The figures are analysed in three ways and set out in three tables which show the following levels of detail:

- Table 1: by Committee;
- Table 2: by Priority;
- Table 3: by Expenditure Type.

2.6 **Appendix I** shows that of an annual budget of £7,716,975 there was an expectation that £2,216,136 would be spent in the first quarter of the year. At this point in time the budget is reporting an under spend of £263,778. No underspend is projected at present for the year as a whole. However, to the extent that underspends arise, they will be used in the first instance to offset overspends elsewhere.

2.7 Explanations for variances within individual cost centres which exceed or are expected to exceed £30,000 have been provided in accordance with the council's constitution.

2.8 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 variances identified to date and year end forecast variances are set out in summary below:

	Positive Variance Q1 £000	Adverse Variance Q1 £000	Year end Forecast Variance £000
Heritage, Culture & Leisure Committee			
Mote Park Café – this variance has arisen due to higher than budgeted agency costs and lower than expected income. The staffing structure has now been finalised, which will see reduced reliance on agency staff for the remainder of the year. Arrangements for management and control of this service have recently changed, and finance staff are working closely with the budget holders to monitor income and expenditure for the remaining part of the year.		-36	
Crematorium – this service saw income above budget in the first quarter of 2016/17, however, reduced service due to maintenance works taking place over	63		0

the summer, income for the second quarter is expected to be lower than budgeted.			
Strategic Planning, Sustainability and Transport			
Pay & Display Car Parks –Lockmeadow and King Street car parks have significantly outperformed against their income targets, despite the increased income budgets which were set for 2016/17. This trend is expected to continue through to the end of 2016/17. It should be noted that the forecast incorporates a shortfall of £50,000 for Mote Park car park. This has been offset against the overall underspend in the forecast outturn.	66		250
Development Management – there is an overspend on agency staff costs which is expected to continue through to year end. However, there is an expectation that the increased staff costs will be funded through increased income levels and the success of recent recruitment exercises will help to reduce the use of agency staff as the year progresses. Furthermore, a transformation review of the planning section due to commence in the autumn may produce further efficiencies in this area.		-127	0
Communities, Housing and Environment			
Temporary Accommodation – The level of demand for this service has continued to increase. A number of actions have been taken in recent years to reduce the cost of providing temporary accommodation. A report on this subject was considered by Communities, Housing and Environment Committee on 20 September. From August of this year, the council has increased the rental charges in order to maximise the amount of expenditure which can be recovered through occupation charges. Work to determine the extent to which this will alleviate the overspend in this area is ongoing.		-124	-500

Table 1: Summary of significant variances by committee

- 2.9 Finance officers are working closely with budget managers in order to address the forecast overspend and return to a balanced position by the year end.
- 2.10 In addition to the issues considered by the other service committees, this committee is reporting a positive variance as detailed in paragraph 2.5 above.
- 2.11 In accordance with best practice, virements are reported to this committee 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. The following reportable virements were made during the first quarter of 2016/17:

Reason	Value £	Temp/Perm*
Establishment of base budgets for debt recovery service further to the decision taken by Cabinet on 14 April 2015.	290,900	Permanent
Reduction in parking budgets for to reflect the annual indexation increase.	12,410	Permanent
Budget transferred from balances to capital for crematorium development works, as agreed by Cabinet on 11 February 2015.	35,000	Temporary
Business rates growth funding for economic development strategy (approved by Cabinet on 12 November 2014) transferred from earmarked reserve.	30,000	Temporary
Budget transferred from balances to fund parks strategy, as agreed by Cabinet on 15 April 2015.	40,000	Temporary

Table 2: Reportable virements

* Temporary virements represent one-off budget transfers to fund a discrete project or purchase. Permanent virements reflect alterations to the base budget which will be carried forward into subsequent years.

Strategic Level Capital Programme 2016/17

- 2.12 The capital programme was approved by Council on 2 March 2016. 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, Cabinet and this committee 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.
- 2.13 The current programme is set out in **Appendix II** 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 £3,926,591 that will require carry forward approval into 2017/18. The

major schemes that have incurred slippage relate to planned investment in property and housing.

- 2.14 The Council has the necessary resources to manage the programme in 2016/17 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

- 2.15 The total of reserves and balances as at 1st April 2016 was £14.3m. The current medium term financial strategy assumes balances of £8.5m by 31st March 2017.
- 2.16 The movement in balances during 2015/16 relates to the use of grants carried forward approved by Policy and Resources committee in July 2016.
- 2.17 The position set out above allows for the minimum level of general balances of £2.3m, as agreed by Council in March 2016, to be maintained.

Collection Fund

- 2.18 Due to the risks that surround the local council tax discount scheme and the pooling arrangements in place for business rates growth, the Council monitors the collection fund carefully. This will become increasingly important in the later years of the current medium term financial strategy as the council will become increasingly reliant on the income it raises through council tax and business rates.
- 2.19 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 2016/17:

	Target %	Actual %	Amount collected
Council Tax	29.62	29.30	£ 27,919,589
Business Rates	32.54	30.45	£ 18,656,469

Table 3: Collection Rates for Council Tax and Business Rates to June 2016

- 2.20 Council Tax has marginally missed the target. While the percentage variances are small, the gross value of Council Tax collected each year is significant. This sum equates to £305,000 out of the total collectible debt for the year.
- 2.21 A more significant variance has been observed in the collection of business rates for the first quarter. Part of the variance can be explained by the fact that billing for the business rates payable on properties owned by the council was later than usual and these amounts were therefore not paid until after the end of the first quarter. Payment of these amounts was transferred during July, which resulted in an improvement in collection rates. The July figures show this gap closing, with a collection rate of 40.38% against a target of 40.77%. It should be noted that the quarterly targets have been revised to reflect the reduced income each month due to

payments being spread over 12 months rather than 10. This is not anticipated to have any adverse impact on overall collection rates.

2.22 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. Officers will continue to pursue payment of any developing arrears along with the arrears from prior years.

Treasury Management

2.23 The Council has adopted an 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 March 2016, the Council approved a Treasury Management Strategy for 2016/17 that was based on this code. The strategy requires that Cabinet should formally be informed of Treasury Management activities quarterly as part of budget monitoring.

2.24 During the Quarter ended 30th June 2016:

- Data released in the April-June quarter showed UK GDP at 2% year/year to March 2016 and annual inflation at 0.3% in May.
- Between 23 June and 1 July the sterling exchange rate index fell by 9% and short-term volatility of sterling against the dollar increased significantly.
- Immediately prior to the EU referendum result, financial market sentiment shifted significantly in favour of a Remain outcome, a shift swiftly reversed as the results came in. The vote to leave the EU sent shockwaves through the domestic, European and global political spectrum, the most immediate impact being the resignation of Prime Minister David Cameron.
- A week on from the result the overall market reaction, although significant, was less severe than some had feared. The 5-year CDS for the UK (the cost of insuring against a sovereign default) rose from 33.5 basis points to 38.4 basis points.
- The Bank of England sought to reassure markets and investors. Governor Mark Carney's speeches on 24 and 30 June in response to the referendum result stressed that the Bank was ready to support money market liquidity and raised the likelihood of a cut in policy rates 'in the summer'. Base rates were subsequently reduced to 0.25% on 4 August 2016.

Current Investments as at 30 June 2016

2.25 The council held investments totalling £26.77m. A full list of investments held at this time is given in **Appendix III** £6.77m (25%) of investments are in accounts which can be called upon immediately or for a short notice period for daily cash flow purposes. The majority of investments have less than 6 months to mature due to the Council running down its investments to fund the current capital programme, which in turn helps reduce counterparty risk. Investment income for this period is £52k.

2.26 Average interest rate for this period is 0.83%. The benchmark for investments is 3 month LIBOR plus 20 basis points. 3 Month LIBOR at the end on June was 0.5584%, which means the benchmarked figure is 0.7584%. The Council is therefore 9.4% above target.

2.27 Given the recent reduction in the Bank of England base rate, it is possible that investment income will fall below budget by year end. In this event, any shortfall will be offset by surpluses elsewhere in the portfolio of this committee, for example, it is anticipated that there will be an underspend on the audit fee.

Borrowing

2.28 There was no borrowing requirement within this quarter.

3 AVAILABLE OPTIONS

3.1 In considering the strategic position on the revenue budget at the end of June 2016 the committee has been provided with details of the actions each service committee plans to take on significant variances. 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.

3.2 The capital programme is reporting slippage of £3,926,591 and expenditure of £597,471. Details of the programmes where major slippage occurs have been detailed at paragraph 2.13. 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.

3.3 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.

3.4 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.

4 PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The committee is requested to note the content of the report and approve the proposed slippage in the capital programme to enable more accurate monitoring of the programme in future periods.

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 1 at paragraph 2.8.
- 5.2 This report will not lead to further consultation.
-

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 2016, 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.
-

7 CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	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.	Director of Finance & Business Improvement
Risk Management	The Council has produced a balanced budget for both capital and revenue expenditure and income for 2016/17 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	Director of Finance & Business Improvement

	<p>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>	
Financial	<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>	Director of Finance & Business Improvement
Staffing	<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>	Director of Finance & Business Improvement
Legal	<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>	[Legal Team]
Equality Impact Needs Assessment	<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 delivering services to meet those needs.</p>	Director of Finance & Business Improvement
Environmental/Sustainable Development	<p>No specific issues arise.</p>	Director of Finance & Business Improvement
Community Safety	<p>No specific issues arise.</p>	Director of Finance & Business

		Improvement
Human Rights Act	No specific issues arise.	Director of Finance & Business Improvement
Procurement	No specific issues arise.	Director of Finance & Business Improvement
Asset Management	Resources available for asset management are contained within both revenue and capital budgets and do not represent a significant problem at this time.	Director of Finance & Business Improvement

8 REPORT APPENDICES

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

- Appendix I: First Quarter 2016/17 Revenue Monitoring – Strategic Level
- Appendix II: First Quarter 2016/17 Capital Monitoring
- Appendix III: List of investments as at 30 June 2016

9 BACKGROUND PAPERS

None