

## BABERGH DISTRICT COUNCIL

<b>From: Head of Corporate Resources</b>	<b>Report Number: P101</b>
<b>To: Strategy Committee</b>	<b>Date of meeting: 12 February 2015</b>

### FINANCIAL MONITORING 2014/15 – QUARTER 3

#### 1. Purpose of Report

- 1.1 Based on the financial performance of the Council during the first 9 months of this financial year and latest information, a reporting by exception approach has been adopted to reviewing income and expenditure budget variances in the first three quarters of the year.
- 1.2 To advise on actions that have been taken or that are proposed.

#### 2. Recommendations

- 2.1 That the potential or likely variations in relation to the General Fund, Housing Revenue Account and Capital programme compared to the Budget be noted.
- The Committee can resolve the above.

#### 3. Financial Implications

- 3.1 These are detailed in the report.

#### 4. Risk Management

- 4.1 This report is closely linked with a number of the Council's Significant Business Risks. Key risks are set out below:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
Forecast savings and income not delivered	Unlikely	Noticeable	Monitored throughout the year by Finance Teams and Corporate Managers
Expenditure and income varies from the Budget, impacting on the Council's plans and priorities	Unlikely	Noticeable	Focus on monitoring key income and expenditure streams and linkages to the delivery of strategic priorities
Capital investment and individual projects not on target	Unlikely	Noticeable	Regular monitoring of key projects by officers

## **5. Consultations**

5.1 With Heads of Service and Corporate Managers.

## **6. Equality Analysis**

6.1 An equality analysis has not been completed because there is no action to be taken on service delivery as a result of this report.

## **7. Shared Service / Partnership Implications**

7.1 Corporate Managers have reviewed the budget position for each sovereign council having regard to strategic priorities and plans.

7.2 Mid Suffolk District Council's Executive Committee will consider a similar report on 9 February.

## **8. Key Information**

### **Strategic Context**

8.1 Members should consider the overall Budget position in the context of the new financial and business model that is set out in the Strategic Plan.

8.2 This involves reducing our reliance on core Government funding and replacing this with increased income, both from incentivised funding like the New Homes Bonus and from new initiatives such as the PV panels project and looking into commercial income generating opportunities in the private rented housing sector.

8.3 At the same time, we need to continue to examine and reduce costs and focus limited resources on the key priorities and outcomes set by Members. The Priority Based Resourcing approach is part of this.

8.4 Current and future Budgets, therefore, involve more uncertainty and there will be an increased risk of variations (timing and amounts) compared to forecasts and estimates as we develop, design and deliver projects and plans that are innovative and new to the organisation.

8.5 This third quarter review is very much a snapshot in time in the journey that we have embarked on. Priority Based Resourcing and other changes will result in a fundamental change in how we budget and manage resources including our approach to risk management and this will become the norm in how we tackle our Medium Term Financial Strategy.

### **Quarter 3 Position**

8.6 Based upon financial performance and information from April to December (with emerging trends extrapolated to the end of the financial year) and discussions with budget managers, key variations on expenditure and income compared to Budget have been identified.

8.7 The report covers:

- The General Fund Revenue Budget
- The HRA Revenue Budget (Council Housing)
- Both the General Fund and HRA Capital programmes.

8.8 Budget monitoring is a key tool and indicator on the delivery of the council's plans and priorities for the year. There will, of course, always be reasons why there are variances such as:

- Economic conditions and those services that are affected by demand
- Base budgets being over or understated (a number were identified in the 2013/14 financial outturn report to Members)
- Uncertainties relating to funding or other changes that were not known at the time the Budget was approved.

8.9 These uncertainties are identified in the Section 151 Officer's report that accompanied the Budget that Members approved in February 2014.

8.10 Taking each area in turn, the position on key aspects of the 2014/15 Budget is summarised below:

#### **General Fund Revenue Account**

8.11 In relation to funding:

- (a) Council Tax (£4.4m): At the end of December, collection rates were 86.6%, broadly the same as last year. Collecting council tax remains challenging though, especially from those receiving council tax reductions under the Local Council Tax Reduction Scheme (LCTR). Recovery Action is varied and is a high priority for the Shared Revenues Partnership (SRP).
- (b) Government Grants: RSG (£2.2m), baseline business rates (£1.9m) and New Homes Bonus (£2.1m) were allowed for in the Budget. RSG and NHB are fixed but the actual amount of business rates will vary.
- (c) Business Rates: At the end of December, collection rates were 85.0%, compared to 86.6% last year. The annual collectible debit has reduced by around £1m since the start of the year, largely due to rating appeals. The collection of business rates is down compared to last year due to many businesses taking advantage of a 12 month instalment plan as opposed to 10 months last year. Business rates income growth of £0.15m was allowed for in the Budget. Given the current collection rates and appeals, this budgeted income is at risk.

- (d) Part of the new business rates arrangements include the Government paying councils a Section 31 (new burdens) grant towards the various reliefs and reductions that they have introduced. For Babergh, this was estimated at £0.6m in the Budget and latest forecasts are that the outturn for the year should be in line with this.
- (e) Depending on the overall position of the Business Rates Pool and the variables such as appeals, it is anticipated that there could be a significant pooling benefit for the year as a whole – potentially around £4m - which is shared between all of the Suffolk councils, Babergh's share is an estimated £160k. Based on a £4m overall benefit, £1.9m will be set aside for the Public Sector Leaders Fund.

8.12 On a reporting by exception basis, a review of expenditure and income budget variances since the mid-year report was undertaken. Those changes are summarised below:

(a) Staff budgets/costs

Previously, expenditure was running just ahead of the total pay budget for ODT's and the approved establishment – by about £50k, there has been no change since the mid-year report.

(b) Transformation

A further review of resource requirements is being undertaken as part of the current Priority Based Resourcing work so appropriate funding can be allocated from the Transformation Fund. As part of the 2014/15 Budget approved by Members in February 2014 and the beneficial 2013/14 outturn, a total of £2.6m is available in the fund for additional capacity and specific projects.

As a result, additional funding will be allocated between now and the end of the financial year from the Transformation Fund to ensure there is the necessary capacity to progress and support the delivery of the extensive change programme and individual projects. A summary of the sums committed by each Council and in total is shown below.

Babergh - £348,500

Mid Suffolk - £598,500

Total - £947,000

(c) Non-pay expenditure and income

At Quarter 3, Babergh is forecasting a net overall saving for the year of £212k, over and above the general allowance of £200k made in the Budget. This has increased by £37k since the mid-year report to Strategy Committee in November. The additional costs and savings identified can be broken down as follows;

- LCTR New Burdens Grant of £68k not budgeted for in 2014/15 awarded to the Council to cover the unavoidable costs associated with the implementation of the LCTR scheme
- £86k expected savings on the Joint Waste Contract, the majority of this can be attributed to a greater than expected income for recycling credits and garden waste
- Additional expenditure of £175k is anticipated for the provision of IT. We are currently in a transition period in relation to the provision of IT for Babergh, which is pushing up costs in the short term, as identified in the business case. Since June 2014 Suffolk IT has been providing the network and infrastructure support for both Babergh and Mid Suffolk and been charging the two councils accordingly. Once the new arrangements have been put in place there will be future savings.
- The grounds maintenance contract with the Landscape Group was renegotiated in November 2014. Savings of £58k are expected.

8.13 The Finance Team will continue to monitor the trends over the last few months of the year and take action if necessary, but this is unlikely to be required under the current circumstances. The final update for 2014/15 will be included in the outturn report to Strategy Committee in July 2015.

#### **Housing Revenue Account (HRA - Council Housing)**

8.14 In relation to the HRA Revenue Budget, the position on key activity areas is as follows:

- Rent and other income (Budget £16.6m) - It is anticipated that there will be an additional £100k received, largely due to the budget for bad debt provision being higher than is needed.
- Repairs and maintenance (Budget £2.4m) - No significant variations have been identified.
- Management and other costs (Budget £3.6m) - No significant variations have been identified.
- Funding the capital programme (Budget £5.1m) - Subject to the actual level of capital spending for the year and year-end capital financing decisions, this is expected to be in line with the Budget.
- Borrowing and associated costs (Budget £3.4m) - This is also expected to be in line with the Budget.

8.15 Based on the above, there would be a forecast surplus for the year of £100k compared to the Budget, which will be added to the funds available for the HRA Investment Strategy.

## Capital Programme

- 8.16 A very substantial level of capital investment is planned for the year, including activity and schemes that were carried forward from 2013/14. See Appendix A.

### General Fund

- 8.17 Investment plans for this year total £8.4m including £0.6m carried forward from last year and £4.5m relating to the solar panel PV project. The amount and timing of expenditure on projects are linked to the Joint Strategic Plan. Some of these are based on opportunities that emerge e.g. Regeneration Fund.

- 8.18 The two areas referred to above have a large Budget and a high dependency on the timing of projects and opportunities:

- The solar panel PV project – the contract is progressing well but the Budget assumed all of the money would be spent this year, which was unrealistic. A revised forecast is provided in Appendix A.
- Regeneration Fund – this is available to progress projects in Sudbury or elsewhere in the district. Progress is dependent on opportunities arising and other factors.

- 8.19 At the end of December 2014, £1.5m or 19% was spent and a further £1.4m or 17% committed. The potential forecast year end position, is that between £3.5m and £3.9m (42% and 46%) could be spent – an underspend of between £4.5m and £4.9m. The actual position will depend on progress on individual schemes and projects before the end of the year.

- 8.20 Details on key areas and specific schemes, including current forecasts for the year are set out in Appendix A. Forecast variations are indicated and comments on key areas are provided below:

- Private Sector Housing Grants - every effort is made to spend the Budget although some of the activity is demand led. It is likely that some of the Budget may, therefore, not be spent by the 31 March but more will be spent next year as activity will be ramped up to meet the Council's new strategic priorities
- Affordable Housing – anticipated spend of £0.3m. Some uncertainty though on timing of actual expenditure
- Community Services/Grants – Some minor variations expected. Some uncertainty though on timing of actual expenditure
- Corporate Services - anticipated underspend of £100k on ICT as forecasting the precise amount of Budget required for the year was difficult.

## HRA (Council Housing)

8.21 Details on budgets and forecasts for the year are set out in Appendix A. Investment plans for this year total £7.8m including £2.4m carried forward from last year.

8.22 The current position is as follows:

- Potential forecast year end position of between £5.9m and £6.5m (between 77% and 83%) being spent. – an underspend of between £1.3m and £1.8m. This will depend, however, on progress on individual schemes and projects before the end of the year
- Some risk and uncertainty exists on individual projects and this is allowed for in the forecast variances that are summarised in Appendix A.

### Planned Maintenance and Improvements (Budget £6.4m)

- At the end of December 2014, £1.9m or 29% was spent and a further £2.3m or 37% committed
- There are a number of variations within the planned maintenance programme, most notably in relation to additional spend of £775k on roofing work, which is being undertaken to properties at the same time as the PV Panels project. Budgets are being reallocated from other areas to fund this.

### New Homes Fund (Budget £1.4m)

- Funds have been earmarked for the development partner projects with Havebury Housing.
- Only a small amount of the budget is likely to be spent this year but will be used to support delivery of the Babergh Affordable Homes Programme. 2 new housing schemes are proposed. It is anticipated that start on sites will range from June to September 2015 with completion of the schemes ranging from June through to July 2017.
- Total programme costs are £3.6m with funding coming from:

Homes and Communities Agency Grant	£ 472k
New Homes Fund	£1,417k
Other HRA Funding Streams	£1,733k
TOTAL	£3,622

## 9. Appendices

Title	Location
APPENDIX A - Capital Programme	Attached

## 10. Background Documents

Budget Book 2014/15

Strategy Committee, 13 February 2014 (Budget report)

20 November 2014 Financial Monitoring Mid Year report – P72

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## APPENDIX A

BABERGH CAPITAL PROGRAMME 2014/15	Original Budget £'000	Revised Budget inc Carry Forwards £'000	Forecast £'000	Revised Budget LESS Forecast £'000
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### Housing Revenue Account

Planned Maintenance & Response				
Planned maintenance	2,968	4,751	5,151	400
Disabled Facilities work	200	200	350	150
Other programmes	1,110	1,212	812	-400
Environmental Improvements	150	150	0	-150
Horticulture and play equipment	70	70	70	0
<b>Risk / Uncertainty Allowance</b>	<b>0</b>	<b>0</b>	<b>-500</b>	<b>-500</b>

New build programme	900	1,417	100	-1,317
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<b>HRA Risk / Uncertainty Allowance</b>	<b>0</b>	<b>0</b>	<b>-500</b>	<b>-500</b>
<b>HRA Capital Spend</b>	<b>5,398</b>	<b>7,800</b>	<b>6,483</b>	<b>-1,317</b>
<b>TOTAL HRA Capital Spend</b>	<b>5,398</b>	<b>7,800</b>	<b>5,983</b>	<b>-1,817</b>

### General Fund

Housing				
Mandatory Disabled Facilities Grant	357	249	249	0
Discretionary Housing Grants	200	200	200	0
Grants for Affordable Housing	50	329	329	0
Renovation/Home Repair Grants	62	38	38	0
Energy Efficiency Grants	1	9	9	0
<b>Risk / Uncertainty Allowance</b>	<b>0</b>	<b>0</b>	<b>-200</b>	<b>-200</b>
<b>Total Housing</b>	<b>670</b>	<b>825</b>	<b>625</b>	<b>-200</b>

Environmental Services				
Replacement Refuse Freighters - Joint Scheme	150	150	150	0
<b>Total Environmental Services</b>	<b>150</b>	<b>150</b>	<b>150</b>	<b>0</b>

Community Services				
Planned Maintenance / Enhancements - Car Parks	40	53	53	0
Street Parking Improvements	8	8	8	0
Planned Maintenance / Enhancements - Kingfisher	114	137	77	-60
Planned Maint / Enhancements - Hadleigh Pool	25	48	63	15
Play Equipment	25	52	26	-26
Broadband Development	50	50	25	-25
Replacement CCTV Cameras	40	40	40	0
Community Development Grants	129	293	293	0
<b>Risk / Uncertainty Allowance</b>	<b>0</b>	<b>0</b>	<b>-200</b>	<b>-200</b>
<b>Total Community Services</b>	<b>431</b>	<b>681</b>	<b>385</b>	<b>-296</b>

Asset Management				
Planned Maint / Enhancements - Hadleigh HQ	35	56	31	-25
Planned Maint / Enhancements - Other Corp Buildings	48	86	66	-20
Carbon Reduction	135	235	185	-50
Installation of PV Panels on Housing Stock	4,485	4,485	1,585	-2,900
<b>Total Asset Management</b>	<b>4,703</b>	<b>4,862</b>	<b>1,867</b>	<b>-2,995</b>

Corporate Services				
ICT costs related to joint working with Mid Suffolk	398	587	487	-100
Regeneration Fund	1,520	1,330	0	-1,330
<b>Total Corporate Services</b>	<b>1,918</b>	<b>1,917</b>	<b>487</b>	<b>-1,430</b>

<b>General Fund Risk / Uncertainty Allowance</b>	<b>0</b>	<b>0</b>	<b>-400</b>	<b>-400</b>
<b>Best Case</b>	<b>7,872</b>	<b>8,435</b>	<b>3,914</b>	<b>-4,521</b>
<b>Worst Case</b>	<b>7,872</b>	<b>8,435</b>	<b>3,514</b>	<b>-4,921</b>

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