

BABERGH DISTRICT COUNCIL

From: Head of Corporate Resources	Report Number: R110
To: Strategy Committee	Date of meeting: 7 April 2016

FINANCIAL MONITORING 2015/16 – 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.

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.
- 2.2 That, subject to any further budget variations that arise during the rest of the financial year, General Fund savings of £370,000 referred to in sections 11.5 (c) and 11.6 (a) and (c) of the report be transferred to the Transformation Fund.

The Committee can resolve the above.

3. Financial Implications

- 3.1 These are detailed in the report.

4. Legal Implications

- 4.1 There are no specific legal implications.

5. Risk Management

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

Risk Description	Likelihood	Impact	Mitigation Measures
Forecast savings and income not delivered	Probable	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	Probable	Noticeable	Focus on monitoring key income and expenditure streams and linkages to the delivery of strategic priorities

Risk Description	Likelihood	Impact	Mitigation Measures
Capital investment and individual projects not on target	Probable	Noticeable	Regular monitoring of key projects by officers

6. Consultations

6.1 With Corporate Managers.

7. Equality Analysis

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

8. Shared Service / Partnership Implications

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

8.2 Mid Suffolk District Council's Executive Committee considered a similar report on 7 March.

9. Links to Joint Strategic Plan

9.1 Ensuring that the Councils make best use of their resources is what underpins the ability to achieve the priorities set out in the Joint Strategic Plan.

10. Key Information

Strategic Context

10.1 In February 2016 Babergh District Council approved the Joint Medium Term Financial Strategy (MTFS). This confirms the direction of travel in that the Council needs to develop a new business model to respond to the financial challenges.

10.2 The strategic response to those challenges, to ensure long term financial sustainability, is set out in six key actions:

- a) Aligning resources to the Councils' refreshed strategic plan and essential services
- b) Continuation of the shared service agenda, collaboration with others and transformation of service delivery
- c) Behaving more commercially and generating additional income
- d) Considering new funding models (e.g. acting as an investor)
- e) Encouraging the use of digital approach to customer access
- f) Taking advantage of new forms of local government finance (e.g. new homes bonus, business rates retention)

10.3 The budget for 2015/16 relies on New Homes Bonus and business rates grant of £1.8m. The budget for 2016/17, after taking into account additional budgetary pressures including inflation and savings, increases the reliance to £2.0m in order to balance the budget. The details within the Joint MTFS show the base budget pressures over the three years 2017/18 to 2019/20 and the level of resources that could be available to fund those pressures. This has been updated following the Final Local Government Finance Settlement announcement on 8 February. It shows that there could be a funding shortfall of £1.1m in 2017/18 rising to £2.8m by 2019/20

- 10.4 2015/16 continues to be a period of transition, in terms of developing the new business model and aligning resources to the Council's priorities. In recognition of the changing landscape for local authorities, work has been underway to review and refresh the Joint Strategic Plan. The refreshed plan was approved by Council in February. Complementing this has been a focussed management review to ensure that the Council has the right skills and capacity to support the MTFs.
- 10.5 The nature of local government funding has changed in recent years. There is less core funding in the form of Revenue Support Grant (RSG) and more incentivised and one-off funding like new homes bonus, retention of business rates and transformation challenge award. The business rates income is more uncertain than RSG, where appeals and the changing number of businesses within the district impact on the income that is available to the Council. It is also important that capital resources are used in ways to support the new business model.
- 10.6 The Government published the provisional spending figures on the 17 December 2015 and the final figures on 8 February, which included settlement figures for the next four years. As we expected, RSG will reduce year on year and disappear by 2019. The Council is looking to use its assets and borrowing capacity to generate income from alternative sources in order to protect key services.
- 10.7 It must be emphasised that the total estimated core funding for next year and future years is not a fixed guaranteed amount as it is now dependent on variations in business rates income. This is carefully monitored and the volatility and risks, for example, rate relief for schools converting to academies and the level of appeals, will affect the amount of income received.
- 10.8 The outcome of these changes and uncertainties is that predicting the resources available to the Council over a period of time is more challenging. During the transition period to a new business model there will be more annual variances against budget until we have developed our financial management skills and processes to fit the new funding environment. Members should therefore focus on whether your strategic priorities are being achieved.

11 Quarter 3 Position

- 11.1 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.
- 11.2 The report covers:
- The General Fund Revenue Budget
 - The HRA Revenue Budget (Council Housing)
 - Both the General Fund and HRA Capital programmes.

11.3 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 2014/15 financial outturn report to Members)
- Uncertainties relating to funding or other changes that were not known at the time the Budget was approved.

11.4 Taking each area in turn, the position on key aspects of the 2015/16 Budget is summarised below:

General Fund Revenue Account

11.5 In relation to funding:

(a) Council Tax (£4.5m): At the end of December, collection rates were 86.26%, compared with 86.59% for the same period last year. Collecting council tax remains challenging, 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). The level of changes in circumstances and increases in those opting to pay over 12 monthly instalments is profiling more debt to be paid in future instalments. However this position will recover as we go through the remainder of the year.

(b) Government Grants: RSG (£1.6m), baseline business rates (£1.9m) and New Homes Bonus (£1.6m) were allowed for in the Budget. RSG and NHB are fixed but the actual amount of business rates will vary.

Business Rates: At the end of December, collection rates were 83.90% compared with 84.37% for the same period last year. This is predominantly due to movement in the rating list pushing instalments into the future. The collection position should recover as we move through the last quarter of the financial year.

(c) The level of Section 31 grants notified to the Council to compensate for national business rate relief is higher than budgeted by £143,000. This is the same figure as reported to Committee as part of the mid-year report in December.

Uncertainty around the final Business Rates Pool position such as appeals makes it difficult to predict what the outturn position will be, but work is being undertaken by officers to better understand the impact on income levels of strategic decisions like enterprise zones.

11.6 On a reporting by exception basis, a review of expenditure and income budget variances has been undertaken. These variances are summarised below:

(a) Staff budgets/costs

A vacancy management saving of £50,000 was included in the budget for 2015/16. The Finance Team has continued to work closely with Corporate Managers on the staffing budget and costs. It is currently anticipated that the saving target will be exceeded, resulting in a favourable variance of £232,000. This is a small increase of £16,000 since the mid-year report in December and is as a result of continued vacancy savings and a number of posts funded from the Transformation Fund as Officers' time is taken up with improvement projects

(b) Transformation Fund

The table below provides a high level summary of the Transformation Funds available in 2015/16. A detailed breakdown of commitments from the Transformation Fund is shown in Appendix A.

	£'000
Balance at 31 March 2015	1,737
New Homes Bonus Contribution	1,602
Business Rates Grant	400
Forecast underspend (paragraph 11.7)	370
Total contributions 15/16	2,372
Revised Balance Available	4,109
LESS;	
Funding 2015/16 budget	1,786
Year to date spend - at December 2015 (Appendix A)	234
Forecast Balance at 31 March 2016	2,089

(c) Non-pay expenditure and income – at Quarter 3, Babergh is forecasting a net overspend for the year of £5,000, this is a significant improvement of £182,000 since the mid-year report in December. This can be broken down as follows;

- £85,000 additional income in relation to planning fees. The majority of which can be attributed to the Chilton Woods development.
- Hadleigh Business Centre - a favourable variance of £46,000 is expected. This is due to a budget adjustment for the Councils contribution to final consortium costs that is no longer required.
- There are a number of other minor variances resulting in a net favourable variance of £51,000.

Consideration has been given to all variances highlighted within the financial monitoring reports to assess what impact if any these will have in 2016/17. Consequently adjustments have been made as part of the budget setting process.

11.7 It is not proposed that any action is taken to realign resources to priorities at this stage in the year, but to keep the position under review and consider the resource position in line with the refreshed Joint Strategic Plan. The favourable variance of £370,000 can be transferred to the Transformation Fund. This figure is £198,000 more than forecast from the mid-year report. The table below explains how the £370,000 favourable variance is made up.

Explanation and paragraph reference	Amount (£) favourable/ Adverse
Section 31 Business Rates Grants – paragraph 11.5 (c)	£143,000
Staff / Vacancy savings – paragraph 11.6 (a)	£232,000
Non-pay expenditure and income – paragraph 11.6 (c)	-£5,000
TOTAL	£370,000

11.8 The Finance Team continues to monitor the trends over the last three months of the year. The final update for 2015/16 will be included in the outturn report to Strategy Committee in July 2016.

Housing Revenue Account (HRA - Council Housing)

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

- Rent and other income (Budget £16.8m) – The current level of rent arrears and the level of performance for collection are such that the contribution to the bad debt provision can be reduced. The underlying rent income is expected to be slightly less than the budget due to the combined impact of higher Right to Buy sales and the reduction in Supporting People funding. Overall the outturn is forecast at £16.9m, £0.1m higher than the budget.
- Repairs and maintenance (Budget £3.0m) – Repairs and maintenance of garages and fences/gates is currently placing an additional demand on the budget. However, savings being achieved in other budget areas are expected so that an overall overspend does not result.
- Management and other costs (Budget £2.7m) - No significant variations have been identified.
- Funding the capital programme (Budget £10.5m) - 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.

11.10 Based on the above, potential overspends will be carefully managed. Rent income and arrears collection will continue to be closely monitored. Overall, there is currently the potential for net income for the year to be £100,000 greater than budget. This forecast is in line with that reported in the second quarter.

Capital Programme

11.12 The Finance Team has continued to work closely with Corporate Managers to review the current capital budgets and to review forecast spend. A full breakdown of the revised budget and current forecast for 2015/16 can be seen in Appendix B.

11.13 Officers continue to develop the investment strategy to support the use of the £25m Delivery Programme Investment Opportunities budget and are continuing to procure the services of a property adviser. It is anticipated that the overall investment strategy will be discussed with and approved by Members in the first half of 2016/17, so it is currently forecast that there will be no spend in 2015/16.

General Fund

11.14 Excluding the £25m, current investment plans for this year total £6.6m, against a programme of £8.7m as set out in Appendix B.

11.15 Following the overstatement adjustment of the 2015/16 budget for the installation of PV panels on council homes to £3.1m, a favourable variance of £0.1m is anticipated. This will not be carried forward to 2016/17 as the programme finishes in 2015/16.

11.16 Planned improvement works at the two leisure centres (excluding essential works) have been placed on hold, pending the outcome of a strategic assessment of built and pitch facilities across the district.

11.17 A favourable variance of £0.2m is expected for grants for affordable housing, this is as a result of a number of Housing Associations reviewing their positions following the proposed changes to rents.

HRA (Council Housing)

11.18 Current investment plans for this year total £7.1m compared to a programme of £10.5m as set out in Appendix B. The main variance is on the new build programme as a result of the difficulty in being able to accurately predict the payment profile in a new area of work for the Council

12. Appendices

Title	Location
APPENDIX A – Transformation Fund	Attached
APPENDIX B - Capital Programme	Attached

13. Background Documents

24 February 2015 Budget Report 2015/16 – [P107](#)

10 September 2015 Financial Monitoring 2015-16 Quarter 1 – [R42](#)

3 December 2015 Financial Monitoring 2015-16 Quarter 2 – [R68](#)

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TRANSFORMATION FUND – PROJECTS

APPENDIX A

	Project	Theme	Amount Sought	Council	Capital or Revenue	2014/15 Actual		Amount Spent as at 31.12.2015		TOTAL Spent Cumulatively	Balance
						BABERGH	MID SUFFOLK	BABERGH	MID SUFFOLK		
	Approved:										
1	Priority Based Resourcing work to move to our new financial and business model and Delivery Programme Resources	Efficient Organisation	212,000	Shared Equally	Revenue	60,568	60,804			121,372	90,628
2	Interim organisational development capacity to build change management and leadership capacity within the organisation	Efficient Organisation	60,000	Shared Equally	Revenue	24,212	24,212	46,627	46,627	141,679	-81,679
3	Development of evidence base for playing pitch and built sports/recreational facilities to feed into strategy and wider review of how leisure assets contribute towards health outcomes.	Community Capacity	25,000	Shared Equally	Revenue	7,075	7,075	14,151	14,151	42,452	-17,452
4	Investigation and research into the feasibility and viability of a Suffolk wide Building Control Partnership to support collaborative working across Suffolk	Efficient Organisation	20,000	Shared Equally	Revenue					0	20,000
5	Establishment of a joint contract register to support the commissioning for outcomes framework and the transparency agenda	Efficient Organisation	15,000	Shared Equally	Revenue	3,000	3,000			6,000	9,000
6	Development and implementation of the Community Infrastructure Levy to support economic growth	Housing Delivery/Business Growth	53,000	Shared Equally	Revenue	14,017	13,918	14,882	14,057	56,874	-3,874
7	Additional resources within the Strategic Housing Team to support housing growth	Housing Delivery	187,000	Shared Equally	Revenue			31,670	31,670	63,340	123,660
8	Undertake research to develop a visitor destination plan with West Suffolk and Ipswich to support an emerging Suffolk tourism strategy	Business Growth	15,000	Shared Equally	Revenue	2,500	2,500	5,000	5,000	15,000	0
9	Undertaking HRA stock / viability assessments in order to maximise the use of our housing resources	Housing Delivery	15,000	Shared Equally	Revenue					0	15,000
10	Contribution to a countywide project developing a website that showcases the local economy	Business Growth	50,000	Shared Equally	Revenue	25,000	25,000			50,000	0
11	Additional capacity in area of skills and work enabling to support the right skills for business project, thereby contributing towards a economic growth	Business Growth	6,000	Shared Equally	Revenue			908	908	1,815	4,185
12	External property consultancy to undertake preliminary options appraisal under the accommodation review to ensure optimum use of strategic assets (see also 25 below)	Efficient Organisation	24,000	Shared Equally	Revenue	12,113	12,113			24,226	-226
13	Additional capacity within the Licensing Team to enable the Corporate Manager to work on the Open for Business Project thereby supporting business to thrive and grow	Business Growth	30,000	Shared Equally	Revenue			6,875	6,875	13,749	16,251
14	Commissioning of external specialist feasibility / viability work on key sites as required, to be able to move them forward for approval and development to support economic and housing growth	Housing Delivery/Business Growth	500,000	Shared Equally	Revenue			6,000	2,000	8,000	492,000

APPENDIX A (Cont'd)

	Project	Theme	Amount Sought	Council	Capital or Revenue	2014/15 Actual		Amount Spent as at 31.12.2015		TOTAL Spent Cumulatively	Balance
						BABERGH	MID SUFFOLK	BABERGH	MID SUFFOLK		
	Approved:										
15	Additional Economic Development capacity to support a number of initiatives aimed at increasing economic growth e.g. key sites, market towns and engaging businesses	Business Growth	100,000	Shared Equally	Revenue			27,167	27,167	54,334	45,666
16	Review of the administrative function within the councils to ensure that it can support the organisation to be flexible and able to grasp new opportunities	Efficient Organisation	15,000	Shared Equally	Revenue	2,156	2,156	3,019	3,019	10,350	4,650
17	Integrated employment service for young people in Stowmarket and surrounding area - MyGo	Business Growth	107,000	MSDC only	Revenue			0	8,228	8,228	98,772
18	Extension of fixed term Heritage & Design officer post for 2 years to support work on securing heritage assets	Business Growth	69,000	Shared Equally	Revenue					0	69,000
19	Review of leasehold management services	Efficient Organisation	5,000	Shared Equally	Revenue					0	5,000
20	Commission Connect Education Businesses (CEB) to work with schools to help them to link up with local businesses more effectively	Business Growth	30,000	Shared Equally	Revenue					0	30,000
21	Extend the Enabling Officer, Community Led Planning post from mid-2016 until mid-2017	Business Growth	49,000	Shared Equally	Revenue					0	49,000
22	Inspecting Houses in Multiple Occupation - 12 mth fixed term post	Housing Delivery/Business Growth	55,000	Shared Equally	Revenue					0	55,000
23	Introduction of Glass collection round for trade waste service (income generation project) - cost of vehicle and wheeled bins	Business Growth	84,000	Shared Equally	Capital					0	84,000
24	Sales person to promote trade waste services - 6 months (linked to 23 above)	Business Growth	20,000	Shared Equally	Revenue					0	20,000
25	Accommodation Review - Phase 1 Analysis and Direction	Efficient Organisation	100,000	Shared Equally	Revenue			4,987	4,987	9,974	90,026
26	External support to undertake Local Housing Needs Surveys	Housing Delivery/Business Growth	20,000	Shared Equally	Revenue					0	20,000
27	HRA projects: Review Of Trades Team	Housing Delivery/Business Growth	55,000	MSDC only	HRA				25,875	25,875	29,125
28	External support to create Joint Local Plan	Business Growth	20,000	Shared Equally	Revenue					0	20,000
29	General Transformation - other projects	Efficient Organisation			Revenue			0	0	0	
	- Interim Programme Delivery Director							56,931	56,931	113,862	
	- Additional legal support for Planning							11,000	11,000	22,000	
	- Focussed Management Review							4,700	4,700	9,400	
	APPROVED SUB-TOTAL		1,941,000			150,642	150,779	233,917	263,194	798,532	1,287,730
										41%	

APPENDIX B

BABERGH CAPITAL PROGRAMME 2015/16	15/16 Revised Budget £'000	YTD spend Apr - Dec £'000	Forecast £'000	Forecast variance to Revised Budget £'000
Housing Revenue Account				
Housing Maintenance				
Planned maintenance	4,186	1,988	4,186	0
Other programmes	1,640	667	1,640	0
Environmental Improvements	10	1	10	0
Horticulture and play equipment	101	0	101	0
Disabled Facilities work	300	193	300	0
New build programme	3,793	415	249	-3,544
New build acquisitions	492		640	148
Total HRA Capital Spend	10,522	3,264	7,126	-3,396
General Fund				
Housing				
Mandatory Disabled Facilities Grant	329	294	329	0
Discretionary Housing Grants	100	92	100	0
Empty Homes Grant	150	0	100	-50
Grants for Affordable Housing	288	0	46	-242
Energy Efficiency Grants	9	0	0	-9
Total Housing	876	386	575	-301
Environmental Services				
Recycling Bins	62	84	84	22
Planned Maintenance / Enhancements - Car Parks	25	2	25	0
Planned Maintenance / Enhancements - Kingfisher	287	20	47	-240
Planned Maint / Enhancements - Hadleigh Pool	47	3	47	0
Play Equipment	79	0	79	0
Street Parking Improvement	8	0	0	-8
Total Environmental Services	509	109	282	-226
Community Services				
Broadband Development	50	0	0	-50
Replacement CCTV Cameras	40	0	40	0
Community Development Grants	355	57	337	-18
Total Community Services	445	57	377	-68
Asset Management				
Planned Maint / Enhancements - Hadleigh HQ	79	11	40	-39
Planned Maint / Enhancements - Other Corp Buildings	84	26	84	0
Carbon Reduction	141	-4	141	0
Hadleigh Community facility	10	0	9	-1
Installation of PV Panels on Housing Stock	3,098	2,471	2,998	-100
Total Asset Management	3,412	2,505	3,272	-140
Corporate Services				
ICT - Hardware / Software (incl joint working with MSDC)	600	167	600	0
Land assembly, property acquisition and regeneration opportunities	2,898	64	1,464	-1,434
Total Corporate Services	3,498	231	2,064	-1,434
Delivery Programme Investment Opportunities	25,000	0	0	-25,000
Total General Fund Capital Spend	33,740	3,288	6,571	-27,170
Total Capital Spend	44,262	6,553	13,697	-30,566