

BABERGH DISTRICT COUNCIL

From: Head of Corporate Resources	Report Number: R19
To: Strategy Committee	Date of meeting: 9 July 2015

2014/15 FINANCIAL OUTTURN

1 Purpose of Report

- 1.1 This report summarises the 2014/15 financial outturn for the General Fund, Housing Revenue Account and capital programme and shows how this links to the Medium Term Financial Strategy (MTFS) and achievement of the Council's strategic priorities.
- 1.2 This is subject to the external auditors report on the Statement of Accounts for the year, which will be presented to the Babergh Audit Committee on 21 September 2015. The unaudited Statement of Accounts was approved for publication by the Head of Corporate Resources at the end of June.

2 Recommendations

- 2.1 The Strategy Committee is recommended to:
 - a) Note the 2014/15 financial outturn as set out in this report.
 - b) Approve the transfer of £72,000 from the Transformation Fund
 - c) Approve the General Fund carry forward requests that exceed £25,000 referred to in paragraph 8.21
 - d) Approve the Capital carry forward requests that exceed £25,000 referred to in paragraph 8.34

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 most 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 efficiencies are not delivered	Low	Significant	Monitored throughout the year by Finance Teams and Corporate Managers
Economic conditions and other external factors	Low/Medium	Marginal	Focus is on monitoring key income and expenditure streams – but Government changes and economic conditions continue to affect costs and income for a number of services
Capital Programme delivery not on target	Medium	Marginal/ Significant	Regular monitoring by key 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 Both authorities continue to work closely together with particular attention given to sharing integration costs and savings between the two Councils, which is reflected in the financial outturn for the year.

8 Key Information

Strategic Context

8.1 In February 2015 Babergh District Council approved the Joint MTFS. This confirmed the direction of travel that was developed when the budget was set for 2014/15, in that the Council needed to develop a new business model to respond to the financial challenges.

8.2 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' new 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 ("profit for purpose")

- d) Considering new funding models (e.g. acting as an investor)
 - e) Encouraging the use of digital approaches for customer access
 - f) Taking advantage of new forms of local government finance (e.g. new homes bonus, business rates, challenge award funding)
- 8.3 The details within the Joint MTFs show that for Babergh the additional funding gap for 2016/17 is approximately £1m and over the next three years that total funding gap is estimated to be £2.5m. These figures will need to be revised following the additional Budget announcements from the Government on 8th July.
- 8.4 2014/15 was a year of transition for the Council, which continues into 2015/16 and beyond, in terms of developing the new business model and aligning resources to the Council's priorities. During the year we have been developing the approach of Priority Based Resourcing (PBR), which will enable us to better align resources to the strategic priorities and will continue to be developed further in 2015/16 as part of the approach to the budget for 2016/17.
- 8.5 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.
- 8.6 The outcome of these changes and uncertainties is that annual budgets are not as predictable as they used to be, which results in more variances being shown against the plan for a particular financial year. We therefore need to continue to develop the PBR approach in 2015/16, so that we can better align financial performance with the achievement of outcomes over a period of time rather than focussing on how much was spent in one year. Our ability to predict what resources will be available in future and the scheduling of payments under the new business model will improve as we develop our financial management skills and processes to fit the new funding environment.

General Fund

- 8.7 The unaudited accounts show an adverse variance (increased expenditure and/or reduced income) of £72,000 when compared to the budget for the year (after budget carry forwards). This is in line with the forecasts that were reported to Strategy Committee during the year. Details of the financial position at the end of the year are summarised in the table below.

Service Area	Budget	Actual	Variance Adverse / (Favourable)
	£'000	£'000	£'000
Net expenditure on services	10,108	10,289	181
Discretionary grant to Parishes (funded from Government Grant)	188	188	0
Recharge from HRA	(887)	(1,055)	(168)
Capital financing costs	453	377	(76)
Transfers to / (from) reserves	775	702	(73)
Total budget requirement	10,637	10,501	(136)
Council Tax	(4,454)	(4,454)	0
Collection fund (Surplus)	(100)	(114)	(14)
Business Rates inc S31 Grant	(2,635)	(2,406)	229
Government Grant – RSG inc Freeze Grant	(2,233)	(2,233)	0
New Homes Bonus	(1,215)	(1,222)	(7)
Total funding	(10,637)	(10,429)	208
Total adverse variance	0	72	72

8.8 The table below shows the main items that are included in the net adverse variance.

General Fund Budget Area	Actual Variance Adverse / (Favourable) (£000)
<u>Service Variances</u>	
Waste Team (paragraph 8.9)	(206)
Discretionary housing payments (paragraph 8.10)	(109)
Grounds maintenance (paragraph 8.11)	(84)
Central stationery and equipment (paragraph 8.12)	(25)
Countryside Areas (paragraph 8.13)	(17)
ICT Costs (paragraph 8.14)	414
Land Charges (paragraph 8.15)	30
Other smaller items (net)	178
Total Service variance - adverse	181
<u>Funding Variances</u>	
Recharge from HRA (paragraph 8.16)	(168)
Transfers to/(from) reserves (paragraph 8.17)	(73)
Capital Financing Charges (paragraph 8.18)	(76)
Collection fund surplus	(14)
New Homes Bonus	(7)
Business Rates inc S31 Grant (paragraph 8.19)	229
Total variances adverse	72

- 8.9 Waste Team - there are a number of reasons for the £206,000 favourable variance. The majority of it can be attributed to additional income generated from recycling credits due to increased tonnages being collected. Other key reasons include higher than planned income from the garden waste service due to an advertising campaign by the team that has increased the customer base and also Babergh's share of the profit from the Countywide Recycling Consortium was received, which came to an end in 2014/15.
- 8.10 Following a review of the Council's balance sheet, as part of the preparation of the Statement of Accounts, it has been discovered that not all of the income that has been received in previous years for discretionary housing payments (DHP) has been credited to the General Fund. This means that there is a one-off addition of income to the General Fund of £109,000 in 2014/15.
- 8.11 The grounds maintenance contract with the Landscape Group was renegotiated by officers in November 2014. As a result General Fund savings of £84,000 have been achieved in 2014/15. This will increase to £137,000 in 2015/16, which has been included in the budget for the current year.
- 8.12 Central stationery and equipment – when the budget was set for 2014/15 an estimate was made as to how much would be spent on stationery for what was the first full year of integration of the management and staffing structure. As a result of greater than anticipated efficiencies due to integration, costs were £25,000 less than planned, which has been reflected in the 2015/16 budget.
- 8.13 Countryside Areas – the favourable variance of £18,000 can be attributed to a review by officers of where resources were being targeted that resulted in a reduction in spend on horticultural purchases as well as other contracted services outside of the landscape contract.
- 8.14 ICT - During 2013/14, whilst considering options for the future integrated provision of services, that for Mid Suffolk had formed part of the Customer Service Direct (CSD) contract, the strategic decision was taken to enter a collaboration agreement with Suffolk County Council (SCC) for the provision of ICT services across both councils. At the time that the arrangement was entered into SCC could not confirm the actual costs because the running costs were within CSD and unknown to SCC. Despite costs being uncertain it was decided that the strategic direction was to join with SCC to enhance future collaborative working across the county. Unfortunately when the budget was set for 2014/15 the payment to SCC was not included. This equates to £170,000 since June 2014.

There has also been a significant period of time where Babergh has made very limited investment in ICT and hence was running on outdated infrastructure, hardware and software. A considerable investment has therefore had to be made in Babergh's ICT provision to enable the Council to move onto the same platform that was already shared by SCC and Mid Suffolk.

2014/15 has been a transition period in relation to the provision of ICT services, as some functions have been migrated to SCC and others retained by Babergh. This has meant running two systems in parallel during this time and will continue into 2015/16 as the transition is completed. This picture has resulted in additional expenditure of £414,000 in 2014/15 with £170,000 being due to the reason above. An increase in costs was identified in the short term when the business case was put together, so the picture for last year is not unsurprising. The year-end position is higher than the forecast at the third quarter, so work is being undertaken to do further analysis of the expenditure position for last year and to also understand what impact this will have on the current year.

- 8.15 Despite an overall increase in the number of searches carried out by the land charges team last year, resulting from increased activity in the housing market, a number of these were 'no fee' personal searches which led to an income shortfall of £30,000.
- 8.16 A review in 2014/15 of the apportionment basis for calculating the charge to the HRA has resulted in increased income of £168,000 to the General Fund.
- 8.17 Transfers to / from reserves – contributions to earmarked reserves were lower than planned resulting in a favourable variance of £73,000. This is the net effect of no contribution being made to the Business Rates Equalisation reserve due to the outturn position on business rates income and additional contributions to specific earmarked reserves including Homelessness, English Heritage and the Open Data Project.
- 8.18 Capital Financing Charges - the favourable variance of £76,000 resulted from using internal borrowing at a cheaper cost than 'going to the market' for external loans and by applying the most beneficial approach to the year-end capital financing arrangements to minimise Minimum Revenue Provision (MRP) costs.
- 8.19 This is the second year of the business rates retention scheme. There remain a number of uncertainties on being able to forecast the financial impact of the scheme due to business rate appeals, the resultant effect on the income base and the funding of national rate reliefs through use of grants. The net result for the Council during last year was an adverse variance of £229,000. An allowance of £150,000 for growth was included within the budget for 2014/15, but this has not materialised. In addition, there have been a number of successful appeals which has led to a reduction in the rateable value.
- 8.20 The overall net adverse variance of £72,000 means that the Council will need to make a withdrawal from the Transformation Fund.

- 8.21 Members should note that the overall outturn position includes a small number of carry forward requests totalling £145,000 as follows:

Request	(£'000)
Community Development – grant aid committed, but not yet spent	84
Hadleigh Business Centre – contribution to final consortium costs, but agreement not yet reached amongst partners	21
Healthy Communities – Council contribution to the developing cross-sector working in Sudbury will be spent once all partners have confirmed funding	15
Communities – Locality Officer development programme to be delivered during 2015/16	15
Local Plans – development and consultation continuing into 2015/16	10
Total	145

- 8.22 A statement showing the transfers to and from reserves is included at Appendix A. This reflects the transfer from the Transformation Fund.

Housing Revenue Account (HRA)

- 8.23 The financial position of the HRA for 2014/15 should be viewed in the context of the 30 year business plan, with an updated version being agreed by Council in February 2015. The business plan, made possible by the change in funding for HRAs in April 2012, sets out the aspiration of the Council to increase the social housing stock by either buying existing dwellings or building new ones.
- 8.24 To enable the maximum number of houses to be added to the Council's stock and also to maintain existing homes to the decent standard, decisions have been taken to increase housing rents to maximise income. The Government restricts our ability to increase rents through applying a 'limit rent' which is the average rent level at which full housing benefit will be paid. The rent strategy is based on applying the maximum level of rent increase to support the business plan, but keep our average rent level within the limit rent. Alongside this any efficiencies in the way that services are provided, that reduces expenditure, means that additional resources can be directed at increasing stock numbers.
- 8.25 With the Council's housing stock sitting at approximately 3,400 homes there will always be unplanned events that affect the level of income and expenditure in any one financial year. Members should therefore consider annual variances in the context of the medium term outcomes that the Council wishes to achieve.
- 8.26 The original budget set for the HRA for 2014/15 showed a surplus of £2,130,000. The final figure for 2014/15 is a surplus of £4,282,000, resulting in a net favourable variance of £2,152,000 for the year. Of this £1,682,000 relates to capital which will be required to fund the expenditure in 2015/16. The balance of £470,000 is a welcome addition to the resources available for investment, as there is uncertainty on the future financial position of HRAs following the Government announcement that "right to buy" will be extended to housing associations and local authorities will be required to sell their highest value homes to fund the change. The outturn compared to budget is shown in the table below.

	Budget YTD	Actual YTD	Variance Adverse / (Favourable)
	£000	£000	£000
Income	(16,809)	(16,821)	(12)
Maintenance	1,916	2,253	337
Housing Management	3,278	2,591	(687)
Sheltered Housing	659	796	137
Depreciation	2,631	2,647	16
Capital Financing Costs	2,904	2,881	(23)
Debt Repayment	500	500	0
Net transfers (to)/from reserves inc revenue contributions to Capital	2,491	809	(1,682)
Bad Debt Provision	300	62	(238)
Deficit (Surplus) for Year	(2,130)	(4,282)	(2,152)
Balance at 1 April 2014	(1,000)	(1,000)	-
Deficit (Surplus) for year (as above)	(2,130)	(4,282)	(2,152)
Balance at 31 March 2015	(3,130)	(5,282)	(2,152)

8.27 The table below gives an explanation of the key items included in the net favourable variance of £2,152,000.

	Actual Variance Adverse / (Favourable) (£000)
Maintenance	
Additional reactive repairs expenditure due to higher demand	86
Planned heating maintenance during whole house service visits was at a higher level than anticipated (£67k), but savings were found elsewhere to offset most of this.	6
Voids repairs at a higher level than anticipated	146
Repairs to fencing, gates and garages not anticipated	73
Higher level of dampness problems than anticipated which were identified by specialist surveys	23
Other minor variances from budget	3
Housing Management	
Savings and an underspend on staff costs as a result of integration and posts being recruited to later than expected including £193k attributable to Sheltered Housing	(613)
Savings on maintenance of communal and amenity areas	(31)

	Actual Variance Adverse / (Favourable) (£000)
Underspend on management expenses mainly due to lower than expected contracted services, professional and consultants fees	(43)
Sheltered Housing	
Staffing costs exceeded the budget by £193k, but this was offset within Housing Management above. For 2015/16 the budgets have been adjusted.	198
Premises costs were less than budget, largely because of reduced energy bills	(61)
Bad Debt Provision	
Limited impact from welfare reforms in 2014/15 and the delayed roll-out of Universal Credit compared to the budget assumption. Revised modelling to be undertaken to establish any future provision required.	(238)
Depreciation	
The budget was based on the estimated notional Major Repairs Reserve Allowance (MRA) from the HRA self-financing determination. The actual charge was slightly higher.	16
Net transfers (to) from reserves / revenue Contributions to Capital	
The reduction in revenue contributions from capital is a result of the lower than expected expenditure on the capital programme. This is not a saving as requests to carry forward those items are made elsewhere in this report	(1,682)

8.28 The net position means that the HRA Working Balance as at 31 March 2015 is £5,282,000. This is well above the minimum recommended level of £1,000,000.

Capital Programme

8.29 The capital resources should also be aligned to the Council's strategic priorities and desired outcomes. To date the PBR approach has not been applied to capital, as the focus has been on revenue resources, but this will be included as part of the budget setting approach for 2016/17.

8.30 With the aspirations of the Council, as set out in the Joint Strategic Plan, there is a need to ensure that capital resources and assets are being used as effectively as possible. To acknowledge this, the councils have recently employed the services of two interims to look at both strategic asset management and responsive repairs. They will undertake work that will link into the PBR approach to ensure that resources are maximised and delivering against the strategic outcomes.

- 8.31 With complex capital schemes it is difficult to accurately assess the level of payments that will be made in any one financial year. The Council is also embarking on new projects e.g. building new homes and the solar PV project where it is difficult to accurately predict at the planning stage how payments will fall. Members should therefore focus on whether overall outcomes are being achieved as a result of the capital investment rather than variances against the plan for a particular year.
- 8.32 A substantial level of capital investment of £6.6m was undertaken in the year - £3.7m on the HRA and £2.9m on the General Fund (further details are shown in Appendix B). The outturn shows a net adverse variance of £66,000 (after carry forward requests) as summarised in the table below, but mainly relates to issues about the timing of payments.

	£'000
Revised Capital Programme	16,235
Actual expenditure	6,648
Contractual commitments as at 31 March 2015 (see paragraph 8.34 below)	4,811
Carry forward requests (see paragraph 8.35 below)	4,842
Total expenditure, commitments and slippage requests	16,301
Net capital programme adverse variance	66

- 8.33 Contractual commitments are detailed in the table below. These funds were committed in 2014/15 and will be spent in 2015/16. Resources to finance the capital expenditure e.g. capital receipts will also transfer from 2014/15 into 2015/16.

Contractual Commitments as at 31 March 2015	(£'000)
<u>HRA</u>	
Planned maintenance	1,498
<u>General Fund</u>	
Solar PV Project	3,096
Grants to Community Development projects	217
Total	4,811

8.34 The following items are schemes where no contractual commitment yet exists, but they represent either plans or aspirations for investment, for which carry forward to the 2015/16 capital programme is requested, again with the requisite capital resources to fund this. It is proposed that these capital resources are carried forward into 2015/16 and reviewed as part of the PBR approach to assess whether the original requirement still exists, how it contributes to the strategic priorities and hence whether the resource can be redirected or removed.

Capital Scheme	Carry Forward Requests (£'000)
<u>HRA</u>	
New Build Programme	1,366
Other programmes e.g. insulation, major improvements, garages, forecourts, sewerage treatment works etc.	1,124
Horticultural & Play Equipment	70
Other Capital projects (£20,000 & below)	5
Total HRA	2,565
<u>General Fund</u>	
Land Assembly	1,338
Discretionary Housing/Renovation/Home Repair Grants	167
Carbon Reduction	191
Affordable Housing	188
Planned maintenance – Kingfisher	122
Play Equipment	54
Broadband Development	50
Planned maintenance – Hadleigh HQ	45
Planned maintenance – Other Corporate Buildings	38
Planned maintenance – Hadleigh Pool	35
Other Capital projects (£20,000 & below)	49
Total General Fund	2,277
Total	4,842

9 Appendices

Title	Location
APPENDIX A - General Fund Reserves	Attached
APPENDIX B – Capital Programme	Attached

10 Background Documents

10.1 Budget Book 2014/15

10.2 Strategy Committee, 20 November 2014 report – P072 (Financial Monitoring – Q2)

10.3 Strategy Committee, 12 February 2015 report – P101 (Financial Monitoring – Q3)

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APPENDIX A

GENERAL FUND RESERVES

General Fund	Balance at 31 March 2014 £'000	Transfers Between 2014/15 £'000	Transfers Out 2014/15 £'000	Transfers in 2014/15 £'000	Balance at 31 March 2015 £'000
Working Balance	1,200				1,200
District Elections	40			20	60
Carry Forwards	199		-199	144	144
Planning Enforcement Legal				20	20
Welfare Benefits Reform	64				64
Babergh/Mid Suffolk Integration	299		-254		45
Business Rates Equalisation Reserve	0				0
Transformation Fund	1,993	-497	-1,421	1,622	1,697
New Homes Bonus	0	497			497
Energy Efficiency / Green Initiatives	25				25
S.106 Agreements	270				270
Recycling Consortium (BDC Share)	108		-108		0
Other	208			74	282
Total	4,406	0	-1,982	1,881	4,305

Note – this includes the transfer of £72,000 net adverse variance from the Transformation Fund.

APPENDIX B

BABERGH CAPITAL PROGRAMME 2014/15	Current Budget	Actual Spend	Contractual Commitments	Uncommitted Carry Forwards	Variance Adverse/ (Favourable)
	£'000	£'000	£'000	£'000	£'000
Housing Revenue Account					
Housing Maintenance					
Planned maintenance	4,245	2,747	1,498	0	0
Other programmes	1,672	547	0	1,124	0
New build programme	1,417	52	0	1,366	0
Environmental Improvements	2	2	0	0	0
Horticulture and play equipment	70	0	0	70	0
Disabled Facilities work	384	379	0	5	0
Total HRA Capital Spend	7,791	3,728	1,498	2,565	0
General Fund					
Housing					
Mandatory Disabled Facilities Grant	249	279	0	0	30
Discretionary Housing/Renovation/Home Repair Grants	238	71	0	167	0
Grants for Affordable Housing	329	141	0	188	0
Energy Efficiency Grants	9	0	0	9	0
Installation of PV Panels on Housing Stock	4,485	1,389	3,096	0	0
Total Housing	5,310	1,881	3,096	364	31
Environmental Services					
Replacement Refuse Freighters - Joint Scheme	150	151	0	0	1
S106 expenditure (funded from S106 developer contributions)	0	25	0	0	25
Total Environmental Services	150	175	0	0	25
Community Services					
Planned Maintenance / Enhancements - Car Parks	53	46	0	7	0
Street Parking Improvements	8	0	0	8	0
Planned Maintenance / Enhancements - Kingfisher	139	16	0	122	0
Planned Maint / Enhancements - Hadleigh Pool	38	3	0	35	0
Play Equipment	52	-2	0	54	0
Broadband Development	50	0	0	50	0
Replacement CCTV Cameras	40	50	0	0	10
Community Development Grants	293	77	217	0	0
Countryside Grants	9	0	0	9	0
Total Community Services	682	190	217	285	10
Asset Management					
Planned Maint / Enhancements - Hadleigh HQ	56	11	0	45	0
Planned Maint / Enhancements - Other Corp Buildings	44	6	0	38	0
Carbon Reduction	235	44	0	191	0
Hadleigh Community facility	50	50	0	0	0
Total Asset Management	385	111	0	274	0
Corporate Services					
ICT - Hardware / Software (incl joint working with MSDC)	587	571	0	16	0
External Grants & Contributions	0	0	0	0	0
Land assembly, property acquisition and regeneration opportunities	1,330	-8	0	1,338	0
Total Corporate Services	1,917	563	0	1,354	0
Total General Fund Capital Spend	8,444	2,920	3,313	2,277	66
Total Capital Spend	16,235	6,648	4,811	4,842	66