

BABERGH DISTRICT COUNCIL

From: Head of Corporate Resources	Report Number: R42
To: Strategy Committee	Date of meeting: 10 September 2015

FINANCIAL MONITORING 2015/16 – QUARTER 1

1. Purpose of Report

- 1.1 Based on the financial performance of the Council during the first 3 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 quarter of the year.

2. Recommendations

- 2.1 That Members note the new 'outcome focused approach' to financial monitoring.
- 2.2 That Members note the potential or likely variations in relation to the General Fund, Housing Revenue Account and Capital Programme compared to the Budget.
- 2.3 That, subject to any further budget variations that arise during the rest of the financial year, General Fund savings of £8,000 referred to in sections 10.5 (a) and (b) and 10.6 (c) of the report be transferred to the Transformation Fund.
- 2.4 That Members, approve the revised 2015/16 Capital Programme referred to in Appendix B.

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:

Risk Description	Likelihood	Impact	Mitigation Measures
Forecast savings and income not delivered	Medium	Noticeable	Monitored throughout the year by Finance Teams and Corporate Managers

Risk Description	Likelihood	Impact	Mitigation Measures
Expenditure and income varies from the Budget, impacting on the Council's plans and priorities	Low	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	Low	Noticeable	Regular monitoring of key projects by officers

5. Consultations

5.1 With 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 7 September.

8. Key Information

Strategic Context

8.1 In February 2015 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.

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 and the forthcoming Spending Review.
- 8.4 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. During this year we will continue to develop the approach of Priority Based Resourcing (PBR), which will enable us to better align resources to the strategic priorities and will be 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 are continuing 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. This links to the performance monitoring report also on today's agenda. Our ability to predict what resources will be available in future and the scheduling of payments under the new business model will continue to improve as we develop our financial management skills and processes to fit the new funding environment.

9 Review of ICT Expenditure in 2014/15

- 9.1 In the 2014/15 outturn report it was outlined that more work would be undertaken by officers to further understand the reasons behind the ICT overspend last year. This work has now been completed and a summary of the reasons for the overspend are shown in the table below:

	£'000
Payment to SCC IT omitted from the 2014/15 budget as outlined in the outturn report to Strategy Committee in July 2015 (Paper R19)	170
Additional software costs due to the new finance system being more expensive than previous system, maintaining software as part of the Hadleigh server facilities until transferred to SCC IT, upgrading software to ensure we stay PSN compliant and two years of IDOX software licences paid in 2014/15 in error. For the latter there will be a corresponding saving in 2015/16.	158
Additional data network costs to ensure PSN compliance and dual running of Hadleigh facilities until fully integrated with SCC IT	25
Additional staffing/expertise to enable remote upgrading of software by SCC IT	25

	£'000
Additional contracted services costs for the development of iTrent and preparation for undertaking the planning tender	21
Under estimate of telephony costs resulting from the full integration of services when the budget was established for 2014/15	15
Total	414

Some of these pressures remain in 2015/16 while the facilities at Hadleigh are run concurrently with SCC IT operations until the transition to SCC is complete. The 2015/16 position for ICT is outlined in paragraph 10.6 (c) below.

10 Quarter 1 Position

10.1 Based upon financial performance and information from April to June (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.

10.2 The report covers:

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

10.3 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.

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

General Fund Revenue Account

10.5 In relation to funding:

- (a) Council Tax (£4.5m): At the end of June, collection rates were 30.03%, compared with 30.12% 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).

- (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 June, collection rates were 27.19% compared with 28.53% for the same period last year. Performance is down for the first quarter, but it is expected to recover by the end of the year. The level of Section 31 grants notified to the Council to compensate for national business rate relief is higher than budgeted by £143,000.

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

10.6 On a reporting by exception basis, a review of expenditure and income budget variances was 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. It is currently anticipated that only £6,000 will be achieved, resulting in an adverse variance of £44,000.

- (b) Transformation Fund

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

	£'000
Balance at 31 March 2015	1,737
New Homes Bonus Contribution	1,602
Business Rates Grant	400
Total contributions 15/16	2,002
Revised Balance Available	3,739
LESS;	
Funding 2015/16 budget	-1,786
Project Bids Approved to date *	-627
Projects Bids awaiting approval *	-288
Allowance for other Transformation activities	-100
Forecast Balance at 31 March 2016	1,039

* Assumes that the total of projects approved to date will be spent in 2015/16

- (c) Non-pay expenditure and income – at Quarter 1, Babergh is forecasting a net overspend for the year of £91,000, broken down as follows;

- A revision to the Treasury Management Strategy was approved at Full Council in July 2015, which increased the investment of cash surpluses into a number of investment vehicles. In line with the report recommendations, £5 million will be invested in CCLA from the end of August 2015. It is expected that a net return of approximately £100,000 is generated in 2015/16. The Council has taken advice as to whether the Housing Revenue Account should receive a share of the additional investment interest, the rules are complex, but preliminary advice indicates that investment interest should only benefit the General Fund. Upon receipt of final advice an update will be provided in Quarter 2.
- Photo Voltaic Panels - as part of the capital programme, the Council has been installing PV panels on its Housing Stock. Any electricity generated through the PV process is bought by the National Grid resulting in income for the Council. As a result of 'slippage' to the Capital Programme, which was reported as part of the 2014/15 outturn report in July, a reduction to income of £52,000 is expected.
- In the 2014/15 outturn report, it was identified that despite the increased activity in the housing market and consequently the increase in the number of searches carried out by the land charges team, a number of these were 'no fee' personal searches which led to an income shortfall. This trend is continuing in 2015/16, resulting in a forecast adverse variance of £51,000.
- ICT costs – some of the additional costs seen in 2014/15, as identified in section 9.1 are continuing in 2015/16, resulting in an adverse variance of £32,000 being anticipated.
- Community Alarms - £27,000. A decision was made to cease provision of the Community Alarms service as the equipment used was old and in need of significant investment. There are a number of specialist providers in this market using the latest technology. It was decided that this was not a core market for the council to operate in and compete with specialist providers, hence the investment to modernise could not be justified. The service has been transferred to Stafford and Rural Homes (SARH).
- There are a number of other minor variances resulting in a net adverse variance of £29,000.

A number of the variances mentioned in 10.6 (c) will have an impact in 2016/17 and will need to be adjusted as part of the budget setting process.

- 10.7 Due to the uncertain nature of some of the variances at this early stage in the year, it is not proposed that any action is taken to realign resources to priorities, but to keep the position under review. The favourable variance of £8,000 can therefore be transferred to the Transformation Fund.
- 10.8 The Finance Team will continue to support Corporate Managers in monitoring their budgets for the rest of the year. An update will be provided as part of Quarter 2 budget monitoring in December 2015.

Housing Revenue Account (HRA - Council Housing)

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

- Rent and other income (Budget £16.8m) - It is currently anticipated that there will be no significant variations.
- Repairs and maintenance (Budget £3.0m) – Repairs and maintenance of garages and fences/gates is currently placing an additional demand on the budget. It is anticipated that this will add extra spending of £20k and £30k respectively. Savings will be achieved in other budget areas so that an overspend does not result.
- Management and other costs (Budget £2.7m) - No significant variations have been identified.
- Funding the capital programme (Budget £9.2m) - 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.

10.10 Based on the above, potential overspends will be closely managed so that the approved balanced budget is not affected.

10.11 In light of the recent Government announcements that will impact upon the HRA for example the reduction in rent levels, a detailed review of the business plan is currently being undertaken. The outcome of this review will be reported to Members in due course.

Capital Programme

10.12 Following the significant underspend within the 2014/15 Capital Programme, Finance has worked closely with Corporate Managers to review the current capital budgets and to adjust them to a more realistic spend profile for 2015/16. This has resulted in a reduction to the budget of £6.3m of which £3.5m is HRA and £2.8m is General Fund. A full breakdown of budget changes can be seen in Appendix B.

10.13 The revised budget position for both General Fund and HRA is also the forecast outturn position for 2015/16 as at the first quarter.

10.14 The £25m Delivery Programme Investment Opportunities budget remains unchanged and officers continue to develop the investment strategy. The Regeneration Fund has been replaced by the inclusion of the £25m in the capital programme.

General Fund

10.15 Following the review outlined in 10.12, investment plans for this year total £33.7m, including £25m for Delivery Programme Investment Opportunities as set out in Appendix B.

HRA (Council Housing)

10.16 Again, following the review outlined in section 10.12, investment plans for this year total £10.5m as set out in Appendix B.

10.17 The reduction to budget of £3.5m relates in the main to the New Build and Acquisitions Programme. The payment profile has been rescheduled following the carry forwards from 2014/15 and the 2016/17 Capital Programme will reflect these changes.

11 Appendices

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

12 Background Documents

24 February 2015 Budget Report 2015/16 – P107

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TRANSFORMATION FUND – PROJECTS

APPENDIX A

	Project	Amount Sought	Council	Capital or Revenue	2014/15 Actual		Amount Spent as at 30.06.15		TOTAL Spent Cumulatively	Committed but not yet spent
					BABERGH	MID SUFFOLK	BABERGH	MID SUFFOLK		
	Approved:									
1	Priority Based Resourcing work to move to our new financial and business model	200,000	Shared Equally	Revenue	60,568.24	60,803.83	15,037.95	15,037.95	151,448	48,552
2	Interim organisational development capacity around values, attitudes and behaviours	60,000	Shared Equally	Revenue	24,212.43	24,212.43			48,425	11,575
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.	25,000	Shared Equally	Revenue	7,075.00	7,075.00	7,075.41	7,075.41	28,301	-3,301
4	Investigation and research into the feasibility and viability of a Suffolk wide Building Control Partnership to support collaborative working across Suffolk	20,000	Shared Equally	Revenue	0.00	0.00			0	20,000
5	Establishment of a joint contract register to support the commissioning for outcomes framework and the transparency agenda	15,000	Shared Equally	Revenue	3,000.00	3,000.00			6,000	9,000
6	Development and implementation of the Community Infrastructure Levy to support economic growth	53,000	Shared Equally	Revenue	14,017.10	13,917.96	4,915.27	4,915.27	37,766	15,234
7	Additional resources within the Strategic Housing Team to support housing growth	187,000	Shared Equally	Revenue	0.00	0.00			0	187,000
8	Undertake research to develop a visitor destination plan with West Suffolk and Ipswich to support an emerging Suffolk tourism strategy	15,000	Shared Equally	Revenue	2,500.00	2,500.00	2,500.00	2,500.00	10,000	5,000
9	Resources to support the increased HRA borrowing headroom approved by Government to facilitate social housing growth	250,000	MSDC only	Capital	0.00	0.00			0	250,000
10	Support for the Delivery Programme by extending the Project Accountant by 3 months	12,000	Shared Equally	Revenue	0.00	0.00			0	12,000
11	Undertaking HRA stock / viability assessments in order to maximise the use of our housing resources	15,000	Shared Equally	Revenue	0.00	0.00			0	15,000
12	Contribution to a countywide project developing a website that showcases the local economy	50,000	Shared Equally	Revenue	25,000.00	25,000.00			50,000	0
13	Additional capacity in area of skills and work enabling to support the right skills for business project, thereby contributing towards a economic growth	6,000	Shared Equally	Revenue	0.00	0.00			0	6,000
14	External property consultancy to undertake preliminary options appraisal under the accommodation review to ensure optimum use of strategic assets	24,000	Shared Equally	Revenue	12,113.17	12,113.18			24,226	-226
15	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	30,000	Shared Equally	Revenue	0.00	0.00			0	30,000
16	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	500,000	Shared Equally	Revenue	0.00	0.00			0	500,000
17	Additional Economic Development capacity to support a number of initiatives aimed at increasing economic growth e.g. key sites, market towns and engaging businesses	100,000	Shared Equally	Revenue	0.00	0.00			0	100,000
18	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	15,000	Shared Equally	Revenue	2,156.25	2,156.25	3,018.75	3,018.75	10,350	4,650
	APPROVED SUB-TOTAL	1,577,000			150,642.19	150,778.65	32,547.38	32,547.38	366,516	1,210,484
									23%	

	GF	Capital	
MSDC	626,500	287,000	913,500
Babergh	626,500	37,000	663,500

APPENDIX B

BABERGH CAPITAL PROGRAMME	Revised 15/16 Budget (inc Carry Forwards) £'000	Budget Review Changes £'000	15/16 Revised Budget £'000	YTD spend Apr - June £'000
Housing Revenue Account				
Housing Maintenance				
Planned maintenance	3,754	0	3,754	435
Other programmes	2,117	0	2,117	6
Environmental Improvements	50	0	50	0
Horticulture and play equipment	101	0	101	0
Disabled Facilities work	26	174	200	53
New build programme	2,766	1,041	3,807	1
New build acquisitions	5,200	-4,708	492	1
Total HRA Capital Spend	14,014	-3,493	10,521	496
General Fund				
Housing				
Mandatory Disabled Facilities Grant	329	0	329	75
Discretionary Housing Grants	480	-380	100	23
Empty Homes (loan)		150	150	
Grants for Affordable Housing	288	0	288	0
Energy Efficiency Grants	9	0	9	0
Total Housing	1,106	-230	876	98
Environmental Services				
Recycling Bins	62	1	62	5
Total Environmental Services	62	1	62	5
Community Services				
Planned Maintenance / Enhancements - Car Parks	47	-22	25	0
Street Parking Improvements	16	-8	8	0
Planned Maintenance / Enhancements - Kingfisher	187	0	187	6
Planned Maint / Enhancements - Hadleigh Pool	60	-13	47	3
Play Equipment	79	0	79	0
Broadband Development	50	0	50	1
Replacement CCTV Cameras	40	0	40	-2
Community Development Grants	337	0	337	34
Countryside Grants	18	0	18	0
Total Community Services	834	-43	791	41
Asset Management				
Planned Maint / Enhancements - Hadleigh HQ	80	0	80	3
Planned Maint / Enhancements - Other Corp Buildings	86	0	86	17
Carbon Reduction	241	0	241	-5
Hadleigh Community facility	0	10	10	0
Installation of PV Panels on Housing Stock	5,996	0	5,996	1,238
Total Asset Management	6,403	10	6,413	1,254
Corporate Services				
ICT - Hardware / Software (incl joint working with MSDC)	566	34	600	36
Land assembly, property acquisition and regeneration opportunities	2,603	-2,603	0	0
Total Corporate Services	3,169	-2,569	600	36
Delivery Programme Investment Opportunities	25,000	0	25,000	0
Total General Fund Capital Spend	36,574	-2,831	33,742	1,435
Total Capital Spend	50,587	-6,324	44,263	1,931