

## BABERGH DISTRICT COUNCIL

<b>From: Head of Corporate Resources</b>	<b>Report Number: R68</b>
<b>To: Strategy Committee</b>	<b>Date of meeting: 3 December 2015</b>

### FINANCIAL MONITORING 2015/16 – QUARTER 2

#### 1. Purpose of Report

- 1.1 The report summarises key matters relating to the 2015/16 mid-year financial position for the General Fund, Housing Revenue Account, and Capital Programme.

#### 2. Recommendations

- 2.1 That Members note the potential or likely variations in relation to the General Fund, Housing Revenue Account and Capital Programme compared to the Budget.
- 2.2 That, subject to any further budget variations that arise during the rest of the financial year, General Fund savings of £172,000 referred to in sections 11.5 (c) and 11.6 (a) and (c) of the report be transferred to the Transformation Fund.
- 2.3 That Members approve the revised capital programme as shown in Appendix B.
- 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:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
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	Unlikely	Noticeable	Focus on monitoring key income and expenditure streams and linkages to the delivery of strategic priorities

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
Capital investment and individual projects not on target	Unlikely	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 will consider a similar report on 7 December.

## **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 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.

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' 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)

10.3 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 are being revised following the additional Budget announcements from the Government on 8th July and will be further updated following the Spending Review.

- 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. Work is currently underway with the Portfolio Holders to refresh the Joint Strategic Plan and this will inform the focus management review, the 2016/17 budget and the updated 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 Comprehensive Spending Review announcement will be made on 25 November and will determine local government resources for the next three years. A verbal update will be given at the Committee. In anticipation that RSG will 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 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 2 Position**

- 11.1 Based upon financial performance and information from April to September (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 September, collection rates were 58.10%, compared with 58.37% 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 second half 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 September, collection rates were 56.61% compared with 57.91% 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 second half 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 first quarter report in September.

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.

### 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. Since the first quarter report a lot of work has been undertaken between Finance and the Corporate Managers on the staffing budget and costs. As a result it is currently anticipated that the saving target will be exceeded, resulting in a favourable variance of £216,000. This is as a result of vacancy savings and a number of posts funded from the Transformation Fund as Officers time is taken up with improvement projects. An adverse variance of £44,000 was reported at the end of the first quarter, so this position is an improvement of £260,000.

- (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.

	<b>£'000</b>
<b>Balance at 31 March 2015</b>	<b>1,737</b>
New Homes Bonus Contribution	1,602
Business Rates Grant	400
Forecast underspend (paragraph 11.7)	172
<b>Total contributions 15/16</b>	<b>2,174</b>
<b>Revised Balance Available</b>	<b>3,911</b>
<b>LESS;</b>	
Funding 2015/16 budget	-1,786
Year to date spend - at September 2015 (Appendix A)	-142
<b>Forecast Balance at 31 March 2016</b>	<b>1,983</b>

(c) Non-pay expenditure and income – at Quarter 2, Babergh is forecasting a net overspend for the year of £187,000, this is an increase of £96,000 since the previous quarter. This can be broken down as follows;

- A recommendation by the Councils external auditors BDO for the review of its bad debt provision methodology for housing benefits has resulted in an increase to the bad debt provision of £87,000. The methodology has been changed to be based upon historic collection rates to ensure reasonableness.
- There are a number of other minor variances resulting in a net adverse variance of £9,000.

Consideration will be given to all variances highlighted within the financial monitoring reports to assess what impact if any these will have in 2016/17 and will be adjusted 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 refresh of the Joint Strategic Plan. The favourable variance of £172,000 can be transferred to the Transformation Fund. The table below explains how the £172,000 favourable variance is made up.

<b>Explanation and paragraph reference</b>	<b>Amount (£)</b> <b>favourable/-</b> <b>Adverse</b>
Section 31 Business Rates Grants – paragraph 11.5 (c)	£143,000
Staff / Vacancy savings – paragraph 11.6 (a)	£216,000
Non-pay expenditure and income – paragraph 11.6 (c)	-£187,000
<b>TOTAL</b>	<b>£172,000</b>

11.8 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 3 budget monitoring in March 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. It is anticipated that this will add extra spending of £20,000 and £30,000 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 £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. In the first quarter report a balanced budget was forecast, so the current position is an improvement.

11.11 In light of the 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 and the impact on the Council's landlord function will be discussed with Members in due course.

### **Capital Programme**

11.12 Following the significant reduction to budget of £6.3m in Quarter 1, the Finance Team has continued to work closely with Corporate Managers to review the current capital budgets and to review forecast spend to the more realistic spend profile for 2015/16. This has resulted in some further minor adjustments to budgets for the current year. 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 currently in the process of procuring the services of a property adviser. It is anticipated that the overall investment strategy will be discussed with and approved by Members by April 2016, 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 £6.8m, against a programme of £ 8.6m as set out in Appendix B.

11.15 Further work on the capital programme has identified an overstatement in the budget for the installation of PV panels on council homes. The budget has now been reduced to the correct level of £3.1m. The balance of £2.9m has been transferred to Corporate Services to provide resources to take advantage of any land assembly, property acquisition or regeneration opportunities that meet the strategic priorities. A land purchase, as shown in the forecast for the current year, is a separate item on today’s agenda. Members are asked to approve the revised programme for 2015/16 as shown in Appendix B.

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.

HRA (Council Housing)

11.17 Current investment plans for this year total £10.1m 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
<b>APPENDIX A – Transformation Fund</b>	Attached
<b>APPENDIX B – Capital Programme</b>	Attached

**13. Background Documents**

13.1 24 February 2015 Budget Report 2015/16 – P107

13.2 10 September 2015 Financial Monitoring 2015-16 Quarter 1 – R42

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# TRANSFORMATION FUND – PROJECTS

# APPENDIX A

	Project	Theme	Amount Sought	Council	Capital or Revenue	2014/15 Actual		Amount Spent as at 30.09.2015		TOTAL Spent Cumulatively	Committed but not yet spent
						BABERGH	MID SUFFOLK	BABERGH	MID SUFFOLK		
	<b>Approved:</b>										
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	60,568.24	60,803.83	33,250	33,250	187,872	24,128
2	Interim organisational development capacity to build change management and leadership capacity within the organisation	Efficient Organisation	60,000	Shared Equally	Revenue	24,212.43	24,212.43	30,013	30,013	108,450	-48,450
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	7,075.00	7,075.00	6,711	1,752	22,613	2,387
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	0.00	0.00			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	3,000.00	3,000.00			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	14,017.10	13,917.96	9,187	8,362	45,484	7,516
7	Additional resources within the Strategic Housing Team to support housing growth	Housing Delivery	187,000	Shared Equally	Revenue	0.00	0.00	15,375	15,375	30,750	156,250
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	2,500.00	2,500.00	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	0.00	0.00			0	15,000
10	Contribution to a countywide project developing a website that showcases the local economy	Business Growth	50,000	Shared Equally	Revenue	25,000.00	25,000.00	-	-	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	0.00	0.00			0	6,000
12	External property consultancy to undertake preliminary options appraisal under the accommodation review to ensure optimum use of strategic assets	Efficient Organisation	24,000	Shared Equally	Revenue	12,113.17	12,113.18	3,071	3,069	30,366	-6,366
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	0.00	0.00	5,040	5,040	10,080	19,920
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	0.00	0.00	2,000	2,000	4,000	496,000
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	0.00	0.00	16,073	16,073	32,147	67,853
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	2,156.25	2,156.25	3,019	3,019	10,350	0
17	Resources to support the increased HRA borrowing headroom approved by Government to facilitate social housing growth	Housing Delivery	250,000	MSDC only	Capital	0.00	0.00			0	250,000
18	General Transformation - other minor projects	Efficient Organisation			Revenue			13,652	17,366	31,018	
	<b>APPROVED SUB-TOTAL</b>		<b>1,577,000</b>			<b>150,642.19</b>	<b>150,778.65</b>	<b>142,391</b>	<b>140,319</b>	<b>584,131</b>	<b>1,019,237</b>
										<b>37%</b>	



## APPENDIX B

<b>BABERGH CAPITAL PROGRAMME</b>	<b>15/16 Revised Budget</b>	<b>YTD spend Apr - Sept</b>	<b>Forecast</b>	<b>Forecast variance to Revised Budget</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Housing Revenue Account</b>				
<b>Housing Maintenance</b>				
Planned maintenance	3,721	1,111	3,730	10
Other programmes	2,166	284	2,156	-10
Environmental Improvements	50	0	50	0
Horticulture and play equipment	101	0	101	0
Domestic Renewal Heating Incentive	0	6	0	0
Disabled Facilities work	200	119	200	0
<b>New build programme</b>	<b>3,793</b>	<b>2</b>	<b>3,347</b>	<b>-446</b>
<b>New build acquisitions</b>	<b>492</b>	<b>46</b>	<b>548</b>	<b>56</b>
<b>Total HRA Capital Spend</b>	<b>10,522</b>	<b>1,568</b>	<b>10,132</b>	<b>-390</b>
<b>General Fund</b>				
<b>Housing</b>				
Mandatory Disabled Facilities Grant	329	193	329	0
Discretionary Housing Grants	100	50	80	-20
Empty Homes (loan)	150	0	100	-50
Grants for Affordable Housing	288	0	288	0
Energy Efficiency Grants	9	0	9	0
<b>Total Housing</b>	<b>876</b>	<b>243</b>	<b>806</b>	<b>-70</b>
<b>Environmental Services</b>				
Recycling Bins	62	28	84	22
<b>Total Environmental Services</b>	<b>62</b>	<b>28</b>	<b>84</b>	<b>22</b>
<b>Community Services</b>				
Planned Maintenance / Enhancements - Car Parks	37	2	37	0
Planned Maintenance / Enhancements - Kingfisher	287	15	47	-240
Planned Maint / Enhancements - Hadleigh Pool	60	3	25	-35
Play Equipment	79	0	79	0
Broadband Development	50	0	0	-50
Replacement CCTV Cameras	40	-2	40	0
Community Development Grants	355	39	337	-18
<b>Total Community Services</b>	<b>908</b>	<b>57</b>	<b>565</b>	<b>-343</b>
<b>Asset Management</b>				
Planned Maint / Enhancements - Hadleigh HQ	59	4	39	-20
Planned Maint / Enhancements - Other Corp Buildings	84	17	64	-20
Carbon Reduction	31	-5	31	0
Hadleigh Community facility	9	0	9	0
Installation of PV Panels on Housing Stock	3,098	2,026	3,098	0
<b>Total Asset Management</b>	<b>3,281</b>	<b>2,042</b>	<b>3,241</b>	<b>-40</b>
<b>Corporate Services</b>				
ICT - Hardware / Software (incl joint working with MSDC)	600	112	600	0
Land assembly, property acquisition and regeneration opportunities	2,898	64	1,464	-1,434
<b>Total Corporate Services</b>	<b>3,498</b>	<b>176</b>	<b>2,064</b>	<b>-1,434</b>
<b>Delivery Programme Investment Opportunities</b>	<b>25,000</b>	<b>0</b>	<b>0</b>	<b>-25,000</b>
<b>Total General Fund Capital Spend</b>	<b>33,625</b>	<b>2,546</b>	<b>6,760</b>	<b>-26,865</b>
<b>Total Capital Spend</b>	<b>44,148</b>	<b>4,114</b>	<b>16,892</b>	<b>-27,255</b>