

# AGENDA ITEM 11

## POLICY, FINANCE & ADMINISTRATION COMMITTEE

12 JULY 2016

### REPORT OF THE HEAD OF CENTRAL SERVICES

#### REVENUE BUDGET 2015/16 - PROVISIONAL YEAR END POSITION

##### 1.0 THE PURPOSE OF THE REPORT

- 1.1 To provide Members with information on the provisional year end position subject to external audit approval for 2015/16.
- 1.2 To provide Members with information on the implications for the Council's balances and reserves.

##### 2.0 RECOMMENDATIONS

- 2.1 **The provisional year end position, variations to the 2015/16 estimated year end position and the resultant effect on the Council's balances and reserves as set out in the attached papers be noted.**
- 2.2 **Supplementary estimates be approved for those services which are overspent against the approved budget as attached at Appendix A.**
- 2.3 **That a Spending Pressure Reserve of £72,000 is established in 2016/17 to help meet future funding pressures as outlined in para 3.8 which will be funded through a transfer from the Corporate Priorities Reserve.**
- 2.4 **That a principle is established for future years that any overall net underspends on General Expenses at the end of the financial year are transferred into the Spending Pressure Reserve as outlined in para 3.8.**

##### 3.0 KEY ISSUES

- 3.1 The following table compares the provisional year end position for 2015/16, subject to audit, for all General Fund, Special Expenses and Housing Revenue Account (HRA) Services to the estimated year end position (spending forecast but not formally approved budget) as reported to Full Council on 10 February 2016. For members further information columns have been added to show performance against the original budget set in February 2015. Attached at Appendix A is a summary of budget holder performance comparing the provisional year end position to the approved budget (the original budget as adjusted by supplementary estimates, virements and budget reductions authorised during the financial year) but for controllable budgets only i.e. excludes support service recharges, capital charges and other internal recharges between services. The approved budget is the authorised budget for spending purposes.

## General Expenses

	Original Budget	Estimated Year End Position	Provisional Year End Position	Variance to Original	Variance to Estimated Position (Underspend) / overspend
	£	£	£	£	£
Net Cost of Services	6,536,100	7,172,760	<b>5,926,629</b>	(609,471)	(1,246,131)
Transfer to / (From) Business Rate Reserve Non Service Related	120,180 (739,262)	(18,820) (1,086,718)	<b>138,696</b> <b>(543,264)</b>	(258,876) 195,998	(119,876) 543,454
Net Expenditure	5,917,018	6,067,222	<b>5,522,061</b>	(413,473)	(702,677)
<b>Funding</b>					
Business Rates	(1,063,690)	(973,090)	<b>(1,102,543)</b>	(38,853)	129,453
NNDR Collection Fund	(120,180)	(120,180)	<b>(120,180)</b>	0	0
RSG	(979,226)	(979,226)	<b>(979,226)</b>	0	0
Council Tax Collection Fund	(10,080)	(10,080)	<b>(10,078)</b>	2	2
New Homes Bonus	(862,725)	(858,747)	<b>(862,725)</b>	0	(3,978)
Council Tax	(2,746,196)	(2,746,196)	<b>(2,746,196)</b>	0	0
Total funding	<b>(5,782,097)</b>	<b>(5,687,519)</b>	<b>(5,820,948)</b>	<b>(38,851)</b>	<b>(133,429)</b>
<b>Surplus (-) / Deficit for year</b>	134,921	379,703	<b>(298,887)</b>	(433,808)	(678,590)
Reduction in General Fund working balance	0	(180,000)	<b>(180,000)</b>	(180,000)	0
Transfer to/(from) Corporate Priorities Reserve	(134,921)	(199,703)	<b>478,887</b>	(613,808)	(678,590)

## Special Expenses – Melton Mowbray

	Original Budget	Estimated Year End Position	Provisional Year End Position	Variance to Original	Variance to Estimated Position
	£	£	£	£	£
Net Cost of Services	611,400	617,950	<b>620,548</b>	9,148	2,598
Non Service Related and funding	(644,680)	(644,790)	<b>(633,402)</b>	11,278	11,388
<b>Surplus (-)/Deficit for year</b>	(33,280)	(26,840)	<b>(12,854)</b>	20,426	13,986
Transfer to/(from) Expense Reserve	33,080	33,080	<b>7,028</b>	(26,052)	(26,052)

## Other Key Budgets

	Original Budget	Estimated Year End Position	Provisional Year End Position	Variance to Original	Variance to Estimated Position
	£	£	£	£	£
<b>Special Expenses (Sproxton) Net Surplus (-) / Deficit</b>	647	647	<b>540</b>	(107)	(107)
<b>Special Expenses (Frisby) Net Surplus (-) / Deficit</b>	(910)	(910)	<b>(1,282)</b>	(372)	(372)
<b>HRA Working Balance Net Surplus (-) / Deficit</b>	<b>45,740</b>	<b>(143,560)</b>	<b>(339,504)</b>	<b>(385,244)</b>	<b>(195,944)</b>

3.2 The net position against the estimated year end position for each of the main funds is therefore as follows:

General Fund General Expenses - Underspend of £678,590  
 Special Expenses (Melton Mowbray) – Overspend of £13,986  
 Housing Revenue Account – Underspend of £195,944

3.3 As part of the Council's flexible budget monitoring processes budgets are updated throughout the year to take into account supplementary estimates, virements and budget reductions creating an approved budget for budget holders to work within. As part of the budget monitoring and review process all budget holders have been requested to provide an explanation of significant variations against their approved budget on individual services. A full set of the more detailed explanations will be available at the meeting or members can contact the Finance Section in advance if there are any particular queries. Brief comments summarising the reasons for any budget variations for items which are within the budget holder's control have been included against the relevant service line in Appendix A. Only those in excess of £10k have been commented on. There are some key variances we would draw members attention which are outlined in paragraph 3.5

3.4 Also, included for information is the level of carry forwards previously approved at this Committee's meeting of 13 April 2016 which originally totalled £649,150 for general expenses but has reduced to £632,260 once the final accounts have been completed. There were no carry forwards in respect of special expenses. This includes £14,000 for the property services review which was due to be funded from two budget headings when presented to the committee in April 2016 but once the final accounts have been prepared it will now be funded from just the one. As such this reduces the underspend against the estimated year end position on general expenses from £678,590 to £46,350.

### 3.5 Key Variances

- **Project Work** - It should be noted there was an underspend against the Local Plans budget which mainly relates to development of the Transport Strategy and Community Infrastructure Levy which has been delayed. This will now take place during 2016/17 and the majority of the underspend forms part of the carry forward request (£435k). In addition to this the funds provided to support the Cattle Market redevelopment will be carried forward into 2016/17 following some minor delays to the programme (£99k).
- **Benefits** – There has been an underspend of circa £49k due to the increase in subsidy payments resulting from the introduction of the Intensive Housing Management Scheme together with lower instances of claimant and local authority errors. There has also been an increase in the overpayment recovery as a result of focused work in that area.
- **Information Technology** – There have been a number of saving initiatives achieved within this service including a change in the approach to Microsoft licencing, replacement of security firewalls removing the need for annual support, internet connection contract and a review of the server strategy linked to the data centre consolidation work which has resulted in a underspend of £81k.
- **Reduced costs** – In general there have been a number of savings across services such as salary savings within Communities and Neighbourhoods (£46k) and Regulatory services (£11k), reduced audit fees and bank charges (£13k), underspends on asset maintenance (£31k) and savings on the elections budget due to less seats being contested (£26k). There was also a saving generated on the insurance provision for the Wheels to Work scheme following a procurement exercise (£14k)
- **Business rates** – There has been a shortfall on the section 31 grant, which is provided to reimburse local authorities to cover the cost for implementing a number of government set reliefs due to the differences between the original estimates and final returns. As a result of a lower level of collectible rates over that originally estimated the levy payment was lower than predicted. The impact of this lower level of business rates will flow into later year's calculations. To offset the impact of these changes over that budgeted for in 2015/16 a higher amount has been transferred from the revenue account into the business rates equalisation reserve. This reserve was created to mitigate the impact of such fluctuations on the Council's financial position against budget with regard to business rates retention.
- **Income** – the council has seen an increase in a some key income streams such as:
  - Development control with higher than anticipated number of major applications being received in year (£24k)
  - Car Parks and Bus station income was higher than predicted with increased fee income due to the bad weather and a new lease agreed for Thorpe End which wasn't expected which contributed to the overall underspend (£36k)
- **Additional costs** – along with the reduced costs, savings and additional income generated, these have been partly offset by some additional costs elsewhere. These include staffing costs for supporting people (£22k), recycling gate fees were lower on waste management due to reduced tonnages (£19k) and due to an increase in vulnerable residents the costs associated with delivery the homeless service have exceeded the budget (£23k).

3.6 Overall despite continued funding pressures the Council as a whole has managed its budgets prudently which is evident in the minor underspend position for the year. However, as there are a number of variances across budget headings we will continue to undertake further work with budget holders to develop more accurate forecasting in order to ensure the most efficient use of resources in year.

3.7 The impact on reserves and balances of the provisional year end position is summarised below:

	<u>General Expenses</u>		<u>Special Expenses</u>		<u>HRA</u>
	<u>Working Balance</u>	<u>Corporate Priorities Reserve</u>	<u>Working Balance</u>	<u>General Reserve</u>	<u>Working Balance</u>
	£	£	£	£	£
Balance as at 31 <sup>st</sup> March 2015	820,000	2,002,572	50,000	374,299	1,120,522
Contribution from /to (-) Revenue Account	0	298,887	0	7,028	339,504
Budgeted Change in reserves	(180,000)	180,000	0	0	0
Write off of Deferred Liability	0	25,833	0	0	0
Funding of Capital Programme	0	0	0	(144,864)	0
<b>Provisional Balance @ 31<sup>st</sup> March 2016</b>	<b>640,000</b>	<b>2,507,292</b>	<b>50,000</b>	<b>236,463</b>	<b>1,460,026</b>
<b>Less:</b>					
Revenue Budget Carry Forwards	0	(632,260)	0	0	0
Capital Programme Incl.C/Forwards	0	0	0	(248,000)	0
Budgeted changes to Reserves 2016/17	0	21,762	0	16,116	(247,980)
<b>Revised Estimated Position @ 31<sup>st</sup> March 2017</b>	<b>640,000</b>	<b>1,896,794</b>	<b>50,000</b>	<b>4,579</b>	<b>1,212,046</b>

3.8 As a result of the above, the balance on the Corporate Priorities Reserve is estimated to be £72,163 more as at 31 March 2017 than was reported to Full Council on 10 February 2016. The difference on the Reserve can be accounted for by the under spend on the revenue account and the write-off of an old deferred liability. The above figures do not include any allowance for supplementary estimates approved in 2016/17 to date in order to provide a like for like comparison across the two years. In light of the future funding pressures it is proposed to use the increased balance on the Corporate Priorities Reserve to create a 'Spending Pressure Reserve' of £72,000. This can be utilised to help balance the budget whilst steps are taken to generate the necessary efficiencies required for a longer term sustainable solution. It is also proposed by the Budget and Strategic Planning Working Group that a principle is established that if there are any further underspends in future years these are also transferred into the Spending Pressure Reserve. It is envisaged that this could act as an incentive for officers to manage budgets efficiently with the knowledge that underspends would be available to meet potential gaps in budget provision in future years reducing the need for short term cuts to services.

3.9 For Special Expenses (MM) as a result of the figures in the table above, the balance on the Special Expenses Reserve is estimated to be £4,324 more as at 31 March 2017 than was reported to the same meeting. The difference on the Reserve can be accounted for by an overspend on the revenue account due to the tree works and Thorpe Road toilets schemes being charged to revenue rather than capital, which has resulted in the reduced transfer to the reserve. This was offset by the reduced capital programme funding required by those schemes charged to revenue, as well as the lower cost to the toilets works.

3.10 The HRA working balance as at the 31 March 2017 is now expected to be £219,134 higher than predicted to the underspend on the revenue account and remains above the target working balance of £750,000. A more detailed report regarding the outturn position and impact on the HRA business plan was presented to the Community and Social affairs committee at its meeting on the 22 June 2016.

3.11 Financial Procedure Rules require that any overspending on service estimates in total must be carried forward to the following year unless a supplementary estimate has been approved by this Committee and will constitute the first call on service estimates in the following year.

3.12 Therefore this Committee needs to determine whether to approve supplementary estimates for those service areas which have overspent their budget in 2015/16, as attached at Appendix A, or whether these are to be carried forward into 2016/17. There are no particular overspends recommended for carry forward into 2016/17.

#### **4.0 POLICY AND CORPORATE IMPLICATIONS**

4.1 Policy and corporate implications are covered in the key issues section of this report.

#### **5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS**

5.1 In summary, taking into account carry forwards, the 2015/16 end of year position has resulted in an increase to the balance on the corporate priorities reserve of £704k against the estimated year end position. When budget carry forwards are taken into account this reduces the increase to £74k at 31<sup>st</sup> March 2017.

5.2 The provisional year end position has shown that flexible budget management processes and the good working relationships and partnership between finance and budget holders has enabled increased costs to be offset by savings elsewhere. This represents a tremendous achievement for the Council in such economically challenging times.

5.3 This management approach has produced once again a positive end of year position. As set out earlier there continues to be a need to focus on budget management as whilst overall (excluding carry forward requests) there has been a small underspend there are still a number of over and underspends across the budget headings.

5.4 In response to previous years underspends an approach taken in 2015/16 was to not bring requests for supplementary estimates to committee early in the year but instead, whilst still highlighting to members the additional spend, look to address this by identifying funds in other areas that can be used to offset this need. This approach proved successful as the Council was able to identify funds within services and reduce the number of requests for supplementary estimates and submit only those which specifically needed member approval. This same approach will be adopted for 2016/17 and as before during the year if this is not possible it may result in requests being brought later in the financial year but based on the experience for 2015/16 this may not be necessary, particularly for those of lower values.

#### **6.0 LEGAL IMPLICATIONS/POWERS**

6.1 Legal implications/powers were addressed in setting the current year's budget. There are no further legal implications arising from this report.

#### **7.0 COMMUNITY SAFETY**

7.1 Community safety issues were addressed in setting the current year's budget. There are no further community safety issues arising from this report.

## 8.0 EQUALITIES

- 8.1 Equalities issues were addressed in setting the current year's budget. There are no further equalities issues arising from this report.

## 9.0 RISKS

- 9.1 The Council's Chief Financial Officer has a duty under the Local Government Act 2003 in setting the budget to comment on the robustness of the estimates and the adequacy of the reserves.

This requires that effective budget monitoring procedures are set in place to monitor expenditure and income against the budget and careful consideration is given to determining the level of reserves.

- 9.2 It is still early in the 2016/17 financial year for budget monitoring and therefore it isn't clear whether the under and overspends in 2015/16 have continued including any upturn on significant income budgets. As usual the council will need to monitor any trends as they are still subject to sensitivity. Investment income is unlikely to show any significant recovery in 2016/17 with interest rates expected to remain low during the forthcoming year with the first increases forecast for early 2017.
- 9.3 There are a number of financial pressures and uncertainties which could affect the estimates particularly in future years and collectively these indicate significant financial pressure on the council's resources. The forward projections as part of the 2016/17 budget process were subject to sensitivity analysis in light of the potential risks associated with particular items and assumptions. These indicated potential wide fluctuations in any year which could see the likely deficit being substantially different to that expected. This emphasises both the high level and impact of the risks that face the Council's finances in the future. In recognition of the significance of these risks there is a risk contained within the Council's corporate risk register relating to finance (number 1 in the table below). As a corporate risk an action plan is in place and is actively managed. Other key areas of risk which would impact on the council's financial position are also set out in the table below.
- 9.4 Offset against the risk below are the level of reserves and balances the Council holds as referred to in para 3.7. Whilst the Council does have a good level of reserves and balances this should be taken in the context of the future significant cuts that are set to continue. Such reserves could be used, should the need arise, to support the revenue budget in any year to mitigate the impact of any deficit whilst more long term sustainable plans are developed to reduce net expenditure.

<b>L I K E L I H O O D</b>	<b>A</b>	<b>Very High</b>			<b>1</b>	
	<b>B</b>	<b>High</b>				
	<b>C</b>	<b>Significant</b>				
	<b>D</b>	<b>Low</b>				
	<b>E</b>	<b>Very Low</b>				
	<b>F</b>	<b>Almost Impossible</b>				
			<b>Negligible 1</b>	<b>Marginal 2</b>	<b>Critical 3</b>	<b>Catastrophic 4</b>

**IMPACT**

<b>Risk No</b>	<b>Risk Description</b>
<b>1</b>	<b>Risk of achieving a balanced budget as a result of government funding cuts without resulting in significant cuts in service provision</b>

**10.0 CLIMATE CHANGE**

10.1 Climate change issues were addressed in setting the current year’s budget. There are no further climate change issues arising from this report.

**11.0 CONSULTATION**

11.1 The Budget and Strategic Planning Working Group in a meeting held on 13 June 2016, the Management Team and budget holders have been consulted in preparing this report.

**12.0 WARDS AFFECTED**

12.1 All wards are affected.

Contact Officers: David Scott, Central Services Manager  
 Claire Burgess, Senior Management Accountant

Date: 13 June 2016

Appendices: Appendix A – Provisional Year End Position 2015-16

Background Papers: Budget Variation Analyses  
 Oracle General Ledger Reports

Reference: X: C’tees, Council & Sub-C’tees/PFA/2016-17/12-07-16/DG-Provisional Year End Position 2015-16