

# AGENDA ITEM 10

## POLICY, FINANCE & ADMINISTRATION COMMITTEE

11 JULY 2017

### REPORT OF THE HEAD OF CENTRAL SERVICES

#### REVENUE BUDGET 2016/17 - 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 2016/17.
- 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 2016/17 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 **That in line with the principle established last financial year a contribution of £138,000 is made to the Spending Pressure Reserve to help meet future funding pressures as outlined in para 3.8 which will be funded through a transfer from the Corporate Priorities Reserve.**
- 2.3 **Supplementary estimates be approved for those services which are overspent against the approved budget as attached at Appendix A and outlined in para 3.12**

##### 3.0 KEY ISSUES

- 3.1 The following table compares the provisional year end position for 2016/17, 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 8 February 2017. For members further information columns have been added to show performance against the original budget set in February 2016. 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 Expenditure	5,658,790	6,507,580	<b>6,096,542</b>	517,752	(331,038)
<b>Funding</b>					
Business Rates	(1,260,890)	(1,402,550)	<b>(1,408,409)</b>	(227,668)	(86,008)
NNDR Collection Fund	(90,480)	72,390	<b>72,390</b>	162,870	0
RSG	(547,531)	(547,531)	<b>(547,531)</b>	0	0
Council Tax Collection Fund	15,000	15,000	<b>15,002</b>	2	2
New Homes Bonus	(957,659)	(957,659)	<b>(957,659)</b>	0	0
Council Tax	(2,838,992)	(2,838,992)	<b>(2,838,994)</b>	(2)	(2)
Total funding	<b>(5,680,552)</b>	<b>(5,659,342)</b>	<b>(5,665,201)</b>	<b>(64,798)</b>	<b>(86,008)</b>
<b>Surplus (-) / Deficit for year</b>	(21,762)	848,238	<b>431,192</b>	452,954	<b>(417,046)</b>

## 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	628,270	614,090	<b>644,856</b>	16,586	30,766
Non Service Related and funding	(644,386)	(644,386)	<b>(670,391)</b>	(26,004)	(26,004)
<b>Surplus (-)/Deficit for year and reserve movement</b>	(16,116)	(30,296)	<b>(25,534)</b>	(9,418)	4,762

## Other Key Budgets

	Original Budget	Estimated Year End Position	Provisional Year End Position	Variance to Original	Variance to Estimated Position
	£	£	£	£	£
<b>Special Expenses (Sproxtton) Net Surplus (-) / Deficit</b>	(500)	(500)	<b>(978)</b>	(478)	(478)
<b>Special Expenses (Frisby) Net Surplus (-) / Deficit</b>	(2,514)	(1,174)	<b>(1,189)</b>	(1,325)	(15)
<b>HRA Working Balance Net Surplus (-) / Deficit</b>	<b>247,980</b>	<b>400,490</b>	<b>(273,467)</b>	<b>25,487</b>	<b>(127,023)</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 £417,046  
 Special Expenses (Melton Mowbray) – net transfer to reserve after surplus / deficit  
 £25,534  
 Housing Revenue Account – Underspend of £127,023

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 12 April 2017 which originally totalled £302,760 for general expenses and £15,830 for Special Expenses. This has since reduced to £278,380 and £11,900 respectively once the final accounts have been completed and actual underspends are known. As such this reduces the underspend against the estimated year end position on general expenses from £417,046 to £138,666 and net transfer to the reserve from £25,534 to £13,634 on Special Expenses.

### 3.5 Key Variances

- **Project Work** - It should be noted there was an underspend against the Commercialism budget which mainly relates to the pilot project which cover 2 financial years and will continue into 2017/18. The majority of the underspend forms part of the carry forward request (£77k). In addition to this the funds provided to support the Cattle Market redevelopment will be carried forward into 2017/18 as the projects moves into the final phase of the programme (£47k).
- **Benefits** – There has been an underspend on both rent rebates and rent allowances of circa £94k due to the increase in subsidy payments resulting from the lower instances of claimant and local authority errors through improved processes. 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 moving from laptops to thin clients and the move to different functionality for signing into the Councils network (£31k).
- **Reduced costs** – In general there have been a number of savings across services such as a refund in Internal Audit fees following the change to a delegated service (£19k), professional fees and additional income generated around Legal Services (£15k). There was also a saving generated within the Environmental Maintenance Service alongside increased contributions from the BID for work delivered on their behalf (£33k).
- **Staffing** – due to vacancies across the Council during the year a number of services have seen an underspend including; Central Services (£18k), Environmental Health (£16k), Economic Development (£29k), Communications (£35k) and Licensing (£13k). Some of these have been requested to be carried forward.
- **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 (£130k)
  - Rents and service charges at Parkside due to Leicestershire Partnership Trust staying longer than anticipated within the offices (£22k)
  - Investment income from interest received was higher than anticipated as a result of greater returns achieved from Treasury Management activities (£24k).
- **Transformation** – Out of the £125k target set for 2016/17 only £23k was achieved through the savings in customer services following the revenues and benefits transformation work. Therefore, this has resulted in an shortfall on the budget during 2016/17 (£102k). In 2017/18 further savings have been identified and the current unallocated balance stands at £65k.
- **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 and loss of contributions for supporting people (£35k), Reduced income from Land Charges due to a national legal challenge and increased use of FOI requests (£14k), additional VAT payments (£30k), additional repairs and maintenance alongside reduced income for the Wheels to Work scheme (£15k). There have also been overspends on Regulatory Services due to additional staffing requirements to support planning and local plan administration (£16k).

3.6 Overall despite continued funding pressures the Council as a whole has managed its budgets prudently which is evident in the underspend position for the year on controllable costs even after taking in account the proposed carry forwards. 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 2016	640,000	2,507,292	50,000	236,462	1,459,487
Contribution from /to (-) Revenue Account	0	(431,192)	0	25,534	(273,468)
Contribution to the spending pressure reserve	0	(72,000)	0	0	0
Funding of Capital Programme	0	0	0	(17,375)	0
<b>Provisional Balance @ 31<sup>st</sup> March 2017</b>	<b>640,000</b>	<b>2,004,100</b>	<b>50,000</b>	<b>244,621</b>	<b>1,186,019</b>
<b><u>Less:</u></b>					
Revenue Budget Carry Forwards	0	(278,380)	0	(11,900)	0
Capital Programme Incl.C/Forwards	0	0	0	0	0
Budgeted changes to Reserves 2017/18	0	(225,290)	0	21,854	(59,910)
<b>Revised Estimated Position @ 31<sup>st</sup> March 2018</b>	<b>640,000</b>	<b>1,500,430</b>	<b>50,000</b>	<b>254,575</b>	<b>1,126,109</b>

3.8 As a result of the above, the balance on the Corporate Priorities Reserve is estimated to be £138,667 more as at 31 March 2018 than was reported to Full Council on 8 February 2016. The difference on the Reserve can be accounted for by the under spend on the revenue account. In light of the future funding pressures, during 2016/17 a Spending Pressure Reserve was created to help balance the budget going forward whilst steps are taken to generate the necessary efficiencies required for a longer term sustainable solution. 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. It is proposed in line with same principle established in the 2015/16 outturn to use the increased balance on the Corporate Priorities make a contribution to the Spending Pressure Reserve of £138,000.

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 £193,363 more as at 31 March 2018 than was reported to the same meeting. The majority of the difference on the Reserve can be accounted for by the reduced capital funding required for the Melton Country Park Pavilion after members decided to remove this item from the capital programme.

3.10 The HRA working balance as at the 31 March 2018 is now expected to be £127,022 higher than estimated due 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 21 June 2017.

- 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 2016/17, as attached at Appendix A, or whether these are to be carried forward into 2017/18. There are no particular overspends recommended for carry forward into 2017/18.

#### 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 2016/17 end of year position has resulted in an increase to the balance on the corporate priorities reserve of £417k against the estimated year end position reported to members in the February 2017 budget report. When budget carry forwards are taken into account this reduces the increase to £138k 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 an 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 recent years 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 has 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.

#### Capital Receipts Reserve

- 5.5 Whilst this report concerns the revenue budget at the previous meeting of the committee Members did query the level of unused capital receipts. The table below shows a summary analysis of the movements on the Capital Receipts balance following the major receipt from Sainsbury in 2011/12. The estimated balance on the reserve based on the budgeted capital programmes at the end of 2017/18 is £686k which highlights the limited capital balances for funding of future schemes. Given the limited capital funding available in order to fund further capital programme items the main options available to the Council are generating additional capital receipts, use of other revenue reserves such as Corporate Priorities or external borrowing. A more detailed breakdown of all the movements is available for the financial services team should members want a copy.

£'000	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Opening balance	£942k	£10,073k	£7,340k	£5,330k	£4,729k	£3,584k	£2,269k
Capital receipts	£14,957k	£5k	£64k	£13k	£48k	£11k	£0k
Capital Expenditure	(£5,826k)	(£2,738k)	(£1,074k)	(£614k)	(£1,193k)	(£1,326k)	(£1,583k)
Leisure Vision	£0k	£0k	(£1,000k)	£0k	£0k	£0k	£0k
Closing Balance	<b>£10,073k</b>	<b>£7,340k</b>	<b>£5,330k</b>	<b>£4,729k</b>	<b>£3,584k</b>	<b>£2,269k</b>	<b>£686k</b>

### Corporate Priorities Reserve

- 5.6 Following on from the above members also queried the level and movements on the Corporate Priorities Reserve. The balances on the reserve over the last few years together with the predicted balance going forward is summarised in the table below. As members will see the balance of circa £1.5m in 2013/14 is broadly in line with the predicted balance as at the end of 2017/18. When you take into account the proposed transfer to the Spending Pressure reserve of £138k as outlined in para 3.8 this would reduce the predicted balance further to £1.641m

£'000	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Actual	2017/18 Budget
Closing Balance	<b>£1,591k</b>	<b>£2,003k</b>	<b>£2,507k</b>	<b>£2,004k</b>	<b>£1,362k</b>

Within each year there are a number of movements within the reserve which is outlined below using 2016/17 as an example comparing the budgeted movement to the actual movement.

£'000	2016/17 Budgeted Movement
<b>Opening Balance</b>	<b>£2,507k</b>
Revenue Surplus	(£22k)
2015/16 Carry Forwards	£632k
Supp Estimates agreed in year	£238k
Transfer to Spending Pressure Reserve	£72k
<b>Net movement</b>	<b>£920k</b>
<b>Closing Balance</b>	<b>£1,587k</b>

As set out above there was estimated to be a net draw on the reserve of £920k resulting in an estimated balance on the reserve of £1,587 at 31.3.17. However, as outlined in the table on page 2 for General Expenses the variance between the actual spend for 2016/17 compared to the predicted year end balance is an underspend of £417k due to the underspend overall on the revenue budget as outlined in App A. Therefore, this has resulted in less funding from the reserve being required than predicted so only £503k has been taken (£920k less £417k) resulting in an actual balance on the reserve as at 31 March 2017 of £2,004k. A portion of this underspend has been requested to be carried forward into 2017/18 and when this is taken into account as shown in the table on page 5 the balance on the reserve at 31.3.18 is estimated to be £1,500k which is an increase of £138k over that estimated in February 2017.

## 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 2017/18 financial year for budget monitoring and therefore it isn't clear whether the under and overspends in 2016/17 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 2017/18 with interest rates expected to remain low during the forthcoming year with the first increases forecast for summer 2019.

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 2017/18 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. The key element of this is the risk relating to the achievement of the efficiency plans. 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 as set out in the following table. 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>B</b>	<b>High</b>			<b>1</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 and efficiency plans not being delivered</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 7 June 2017, 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: 7 June 2017

Appendices: Appendix A – Provisional Year End Position 2016-17

Background Papers: Budget Variation Analyses  
 Oracle General Ledger Reports

Reference: X: C’tees, Council & Sub-C’tees/PFA/2017-18/11-07-17/DG-Provisional Year End Position 2016-17