

**Governance Committee 29<sup>th</sup> January 2014**

**Medium Term Financial Strategy (MTFS)**

**Budget Monitoring Report 2013/14 – as at December 2013**



## Budget Monitoring Report as at December 2013

### MEDIUM TERM FINANCIAL STRATEGY (MTFS) UPDATE

Since the MTFS was approved in February 2013 the Local Government Finance Settlement has been published in December 2013. This provided provisional figures with regard to Central Government funding to be received in 2014/15. The content of the settlement was very much in line with the estimates made in the previous Governance Report as detailed below:

|   | 2014/15        | 2015/16        | 2016/17        |
|---|----------------|----------------|----------------|
| Estimated funding cut 2014/15                           | £0.036m        | £0.036m        | £0.036m        |
| Estimated funding cut 2015/16                           |                | £0.681m        | £0.681m        |
| <b>Total Estimated funding cuts within current MTFS</b> | <b>£0.036m</b> | <b>£0.717m</b> | <b>£0.717m</b> |
| Updated funding cuts published December 2013            | £0.045m        | £0.675m        | £0.675m        |
| <b>Movement in Budget Assumptions in MTFS</b>           | <b>£0.009m</b> | <b>£0.042m</b> | <b>£0.042m</b> |

It should be noted, however; that soon after the settlement was received the Chancellor of the Exchequer announced that a further £25bn needed to be cut whilst also protecting Education and the National Health Service (NHS). It was known that the Government's austerity measures would continue into future years after 2015/16 but this announcement indicates that the levels will not be insignificant. How this amount will be allocated between public sectors other than Education and the NHS is unknown. The MTFS for the period 2014/15 to 2017/18 is currently being updated to take account of the latest information available both at a national level and also in accordance with the information contained within this report with regard to recurring budgetary efficiencies achieved.

The budget position of the Council over the short and longer term is continually monitored as achieving a balanced and sustainable budget is a key corporate priority. This continual challenge and change approach has realised further budget efficiency savings that will reduce the budget deficit position as set out below.

## REVENUE BUDGET PERFORMANCE

The approved budget for 2013/14 is £13.512m less £0.607m transfer from general reserves giving a net budget requirement of £12.905m. This report compares the original 2013/14 budget with the latest projected outturn for 2013/14 which shows a forecast net underspend of £0.651m. This total budget reduction consists of two elements, that is (1) permanent budget efficiency savings of £0.390m that have been identified to bridge the budget gap position on a sustainable basis in preparation for the next financial year, and (2) one-off events and budget efficiency opportunities which have arisen in year. The main reasons for this variation are summarised below:

### PROJECTED OUTTURN 2013/14 - SUMMARY OF KEY VARIANCES TO ORIGINAL ESTIMATE

| Details   | (Under)/over spend<br>£000's |
|---|------------------------------|
| <b>Expenditure</b>  |                              |
| Employee savings (recurring)                              | (47)                         |
| Premises  | (30)                         |
| Transport   | (28)                         |
| Supplies & Services                                       | (120)                        |
| Reduced capital financing costs                           | (10)                         |
| <b>Income</b>   |                              |
| Housing Benefit subsidy increase                          | (155)                        |
| <b>Net recurring budget savings</b>                       | <b>(390)</b>                 |
| <b>One off items</b>                                      |                              |
| Employee Cost reductions in-year                          | (343)                        |
| Council Tax costs recovered                               | (70)                         |
| Building Control fee income reduction                     | 40                           |
| Property rental income reduction (including Civic Centre) | 81                           |
| Efficiency targets – shortfall                            | 70                           |
| Investments Income  | 39                           |
| New Homes Bonus – additional funding                      | (17)                         |
| Cost Sharing income                                       | (54)                         |
| Other net movements                                       | (7)                          |
| <b>Total one-off variations</b>                           | <b>(261)</b>                 |
| <b>Total variation (underspending)</b>                    | <b>(651)</b>                 |

|   |              |
|---|--------------|
| <b>Effect on Reserves:-</b>                               |              |
| <b>Transfer from General Reserves – Original Forecast</b> | <b>(607)</b> |
| <b>Transfer to General Reserve – Projected Outturn</b>    | <b>44</b>    |
| <b>Movement</b>   | <b>651</b>   |

## REVENUE BUDGET VARIATIONS - EXPENDITURE

### Employee Costs

The forecast net underspend in overall employee related costs is £390,000 of which £47,000 is recurring and £343,000 is in year budget variations. The recurring savings are due to the deletion a one vacant post and reduced overtime and casual employee budgets. The savings in year (£343,000) are mainly attributable to vacant posts and reductions in training and recruitment costs (£9,000) and also professional subscriptions (£4,000).

This variance excludes any recurring savings against 2013/14 efficiency targets, for example catering services, which are shown separately.

### Premises

There is a forecast underspends in overall premises costs of £30,000 which is due to forecasted reductions in repairs and maintenance budgets £20,000 following a review of maintenance requirements, particularly at the leisure sites. Efficiency savings with regard to utility costs £5,000 have also been achieved.

### Supplies and Services

At the end of 2012/13, savings of £112,000 in supplies and services were achieved and these have formed the basis of a base budget review exercise during 2013/14 to identify potential recurring budget savings. Consequently annual savings of £120,000 have been identified which include contract costs for ICT and security services; plus savings in office supplies and printing costs. The achievement of these savings will contribute to reducing the Council's budget gap and have been adjusted in the budget forecasts for 2014/15 and future years.

## Transport Related

There is a underspend forecasted in respect of transport related costs of £28,000 which includes annual savings in vehicle repair and maintenance costs of £20,000 and grounds maintenance vehicle hire costs.£8,000. The £20,000 forecast reduction is due to the new vehicle fleet which is costing less than originally expected to operate. The £8,000 forecast saving in grounds maintenance vehicle hire cost is as a consequence of vans previously used for the New Progress contract being redeployed and a reduction in the number of seasonal workers.

## REVENUE BUDGET VARIATIONS – INCOME

These key income targets are affected by changes in the economic climate and any material variations against budget could significantly impact on our overall revenue budget position. These income budgets are being closely monitored and the table below shows the latest estimated position.

| Key Income Budgets          | Original Budget<br>2013/14<br>£ | Projected Outturn<br>2013/14<br>£ | Forecast Budget<br>Variance<br>2013/14<br>£ |
|-----------------------------|---------------------------------|-----------------------------------|---|
| Investment Property Income  | (979,600)                       | (953,948)                         | 25,652                                      |
| Bulk Containers/Trade Waste | (393,000)                       | (393,000)                         | -   |
| Planning Fee Income         | (400,000)                       | (400,000)                         | -   |
| Investment Interest         | (200,000)                       | (161,000)                         | 39,000                                      |
| Building Control Income     | (196,000)                       | (161,000)                         | 35,000                                      |
| Land Charges                | (110,000)                       | (120,000)                         | (10,000)                                    |
| Car Parking Income          | (83,000)                        | (83,000)                          | -   |

Investment property income has reduced overall by £81,000 which includes £55,000 following the vacation of office space by tenants at the Civic Centre, and just under £26,000 in relation to investment property rentals which have reduced in the third quarter. Although the take up of smaller units has improved this year and there is additional income from Moss Side Depot, the vacation of units at Forward Industrial Estate and continuing voids at Walton Summit mean that a shortfall at the year end is anticipated. For the next financial year, each property has been reviewed to assess its letting prospects and a better outturn figure is anticipated and this is reflected in the budget forecasts. The accommodation in the Civic Centre is being actively marketed.

Both Trade Waste and Planning fee income are currently on target compared to the original budget forecasts, however, planning fee income fluctuates throughout the year and in 2012/13 income increased significantly against the level that was originally anticipated. The actual outturn position will depend on the type and number of applications received in the final quarter of the financial year.

There is a forecast shortfall in Building Control fee income for 2013/14 of £40,000, offset by an increase in street naming/numbering income of £5,000. As previously reported, the current economic climate presents a challenging environment for the Building Control function and consequently there has continued to be a decline in Building Control income. The team is currently sharing a manager with Preston Council and work is underway looking at a permanent solution.

It can also be seen that land charges income has experienced a slight increase in comparison to the level anticipated. This has been brought about by a greater number of property search requests being received from house buyers.

There has been an increase in the Housing Benefit subsidy income received as a result of a reduction in exempt supported accommodation. The forecast increase is a surplus of £155,000.

There is a one-off increase in Waste Management Cost Sharing income in 2013/14, as the reduced income level that was due to be implemented this year has been delayed to 2014/15.

At this point in the year, it is anticipated that expenses recovered in relation to the collection of Council Tax and Business Rates will exceed the original forecast by approximately £70,000. This is due to an increase in the volume of recovery action and the issue of court summons for non-payment of Council Tax compared to the previous year.

## EFFICIENCY SAVINGS/ADDITIONAL INCOME AGAINST TARGETS

The revenue budget approved for 2013/14 includes an efficiency saving target of £515,000 which has been allocated to specific services and projects. Progress to-date in meeting these targets and the projected outturn position is set out in Appendix 2. The Appendix shows that as at 31<sup>st</sup> December 2013 the forecast full year savings achieved in respect of the efficiency programme (expressed as a full year figure) are £445,000, which is a shortfall of £70,000. This variation comprises of shortfalls in Catering services (£50,000) and Forward Planning (£20,000). Decisions taken to implement changes to both the catering service and planning services have ensured that the savings will be realised fully in 2014/15.

## BASE BUDGET REVIEW

Additional income and recurring reductions in costs have been identified and these items have formed part of the 2014/15 budget setting process in 2013/14 which will set the Council's proposed budget and MTFs for approval in February 2014. The budget efficiencies identified to date are set out below for information. This process is embedded into the in-year budget management process and will continue to identify efficiencies contributing to reducing the forecasted budget gap.

| <b>Budget</b>                           | <b>Forecast Saving<br/>2013/14<br/>£000</b> | <b>Details</b>   |
|---|---|--|
| Employees                               | (47)  | Removal of vacant post and reduced overtime costs                            |
| Premises                                | (30)  | Reduction in repair and maintenance and utility costs                        |
| Supplies and Services                   | (120)                                       | Savings in contract costs plus savings in office supplies and printing costs |
| Transport                               | (28)  | Reduced vehicle repair & maintenance costs and equipment hire costs          |
| Benefits subsidy                        | (155)                                       | Increase in subsidy grant income   |
| Capital financing costs                 | (10)  | Impact of capital expenditure on the revenue budget                          |
| <b>Total forecast net budget saving</b> | <b>(390)</b>                                |  |

## **BUSINESS RATES RETENTION**

The Business Rates Retention regime was implemented as a core income stream in April 2013. The scheme transferred the risk of in-year fluctuations from Central Government to Local Government; however, it also provided an opportunity for the Council to benefit in financial terms should the tax base increase.

The monitoring statement in Appendix 3 sets out the forecast for the year compared to that originally estimated in the NNDR1 form. This form being the submission prior to the financial year to Central Government on expected performance. As changes in the tax base now impact directly on income, regular monitoring has taken place. The statement shows the movement in the year and the variable elements which make up the net yield which is then subject to redistribution between Central Government, LCC, the LFA and South Ribble, (the Police Service has been protected from the possible risk of a reduced business rate tax base).

An assessment of the performance to December, against our original forecast for the year, shows that the increase in yield reported at the half year has now been offset in part by losses as a result of valuation appeals. This demonstrates the volatility of this funding stream and also the fact that some influencing factors are outside of the direct control of the Council.

Uncertainty surrounding the year end position is also exacerbated by the fact that the technical detail regarding the year end calculations is yet to be published by Central Government. This is coupled with a question mark over the treatment and value of the compensatory grant to be received to cover the cost of the Small Business Rate Relief scheme that was extended by Central Government.

The Government extended the increase in Small Business Rate Relief (SBRR) in 2013/14, and a grant is due to be paid to compensate local authorities for their loss of income as a result of this extension. At the time of writing this report, confirmation and details of when, and on what basis this grant will be paid, had not been issued by central government. This information will be reported at the end of the year with the overall revenue outturn, when the full financial implications are known

## **CAPITAL PROGRAMME**

Details of the Council's capital expenditure by project are contained in Appendix 4. The projected spend is compared to the full year's budget accompanied with a summary explanatory note. The total forecasted out-turn is a total spend of £2.508m compared to the budget of £3.240m. Of the £0.732m underspent, £0.497m has been re-phased into 2014/15.



## Appendix 2

### Efficiency savings proposals 2013/14

| Directorate                             | Service                     | Savings Target<br>(Full Year)<br>£000 | Projected Savings<br>in<br>2013/14<br>£000 | Notes  |
|---|-----------------------------|---------------------------------------|--|--|
| Regeneration and<br>Healthy Communities | Catering Services           | 110                                   | <b>60</b>                                  | It is important to note that the catering function has been reviewed and the savings target achieved for 2014/15. The saving achieved in 2013/14 (£50k) reflects that the decision made with regard to the closure of the service was made part way through the financial year.  |
|   | Health & Safety<br>Contract | 34                                    | <b>34</b>                                  | External contract has expired and savings have been realised through delivering the service in-house on a partnership basis.   |
| Chief Executive                         | Chief Finance<br>Officer    | 110                                   | <b>110</b>                                 | Deletion of vacant post as the role is currently being covered by the Chief Executive as a combined role.  |
| Neighbourhoods                          | Neighbourhoods<br>Services  | 176                                   | <b>176</b>                                 | Savings achieved following a critical review and rationalisation of the vehicle fleet including the purchase of new refuse collection vehicles with cheaper operating costs. (£45,000).<br>The capital investment of £100,000 per annum in essential parks and open spaces work has removed the need to increase the revenue budget for repair and maintenance from current levels. (£30,000).<br>Increased income from LCC for carrying out additional works as part of the Locality Agreement. (£10,000).<br>Changes to service delivery negotiated with our waste collection partner (Enterprise – now Amey) which has resulted in lower contract payments whilst still maintaining front line delivery. (£6,000).<br>Restructuring of the Neighbourhood Officer support arrangements coupled with more joined up and efficient working with Community Safety has enabled the deletion of 3.5 vacant FTEs from the staffing establishment whilst maintaining frontline service delivery. (£85,000). |

| Directorate                               | Service                   | Savings Target<br>(Full Year)<br>£000 | Projected Savings<br>in<br>2013/14<br>£000 | Notes   |
|---|---------------------------|---------------------------------------|--|---|
| Planning and Housing                      | Property Services         | 20                                    | <b>20</b>                                  | Discussions are on-going with a neighbouring authority with a view to the service being delivered through a partnership contract which would realise recurring budget savings for the Council. The Savings achieved to-date is due to vacant posts which have only been partially backfilled.   |
|   | Forward Planning          | 20                                    | <b>0</b>                                   | Additional savings of £45,000 have been secured from 2014/15 onwards as a result of the deletion of a Planning Officer post, following an internal review of the Forward Planning service.  |
| Shared Services                           | Shared Financial Services | 30                                    | <b>30</b>                                  | Improvements to systems and processes with Shared Financial Services facilitated a budget efficiency saving. This was achieved by deleting a Management Accountancy post without any subsequent cuts to service provision.  |
|   | Shared Assurance Services | 15                                    | <b>15</b>                                  | The departure of 2 senior officers provided an opportunity to streamline management overheads in the Internal Audit Team. The level of supervision in the Team could be reviewed in the light of a move to core levels of audit coverage post CPA/CAA. The restructure had no impact on Internal Audit Plans and the number of productive auditor days available. |
| <b>Total</b>                              |                           | <b>515</b>                            | <b>445</b>                                 |   |
| <b>Forecast Savings shortfall 2013/14</b> |                           |                                       | <b>70</b>                                  |   |