

**PROJECTED OUT-TURN 2015/16  
as at December 2015**

**Medium Term Financial Strategy  
(MTFS)**

**Governance Committee 27<sup>th</sup> January 2016**



**Chorley**  
Council

Working in **Synergy** on shared services

The approved revenue budget set by the Council in February 2015 is £13.194m less a £0.185m transfer from general reserves, giving a net budget requirement of £13.009m.

This report compares the 2015/16 Original budget to the forecast Projected Outturn. This comparison shows a net underspend of £607,000. The main variations are summarised below:

<b>Description</b>	<b>Projected outturn variance Under / (Over) spend £'000</b>
<b>Expenditure</b>	
Salaries savings	352
Agency costs saving – Building Control	14
Review of Members' Remuneration	(161)
Premises	55
Supplies & Services	56
<b>Sub Total Expenditure</b>	<b>316</b>
<b>Income</b>	
Planning application fees shortfall	(125)
Civic Centre rental income shortfall	(60)
Building Control fees shortfall	(51)
Taxi Licensing income reduction	(13)
Trade Waste charges	24
Provision of Refuse Bins at New Properties	28
Property rentals additional income	45
Housing Benefit & Council Tax Support net over-recovery	62
Interest on investments	100
Additional New Homes Bonus	279
<b>Sub Total Income</b>	<b>289</b>
Other net minor movements	(14)
Budget Efficiency Programme – Appendix Two	16
<b>Net Budget Variation – Projected Outturn</b>	<b>607</b>
<b>Effect on Reserves:</b>	
Transfer from General Reserves – Original Forecast	(185)
Transfer to General Reserve – Projected Outturn	422
<b>Forecast movement</b>	<b>(607)</b>

There are a number of factors that have impacted on the Council's financial performance when compared against the original budget set last year in February 2015. An explanation is set out below which highlights the salient points and reasons for the budget variation to date.

## REVENUE EXPENDITURE

### Employee Costs

There is an estimated total net underspend in employee related costs of £352,000 and the main reasons are vacancies, staff working reduced hours and savings due to staff on maternity and paternity leave. Due to the uncertainties in relation to the financial settlement, a more rigorous approach has been taken to vacancies during the period leading up to the setting of the budget and therefore the forecast savings are higher than anticipated in the previous reporting period.

With regard to reduced hours, the forecast saving is partly due to arrangements in relation to phased retirement and other agreed reductions in hours. This estimate to the end of the year includes assumptions on what expenditure is committed to cover additional work that may need to be accommodated. Therefore the actual out-turn may vary from this point in time dependant on decisions made over the next few months.

The Building Control service had a temporary arrangement with Preston to share a manager whilst a service review and restructure was undertaken. This arrangement ended during the year, saving the Council £14,000 in 2015/16 and £16,000 in future years.

Members' annual remuneration was increased with effect from May 2015 following acceptance by Council of the recommendations of the Independent Remuneration Panel. The forecast additional cost in 2015/16 is £161,000, the funding of this budget variation will form part of the closure process when options can be considered when all in year expenditure commitments have been incurred and the final out-turn position is known.

### Premises

There is an overall underspend of £55,000.

The forecast savings in utilities costs of £26,000 are mainly due to improvements to the heating and ventilation systems at the Civic Centre as well as increased energy-saving measures. As this downward trend in utilities costs is permanent, the base budget has been reduced to reflect the ongoing impact of these measures.

The forecast saving in business rates of £29,000 is due to the successful letting of empty investment properties by Property Services which has resulted in an upturn in the property rental income in the first half of the financial year and this trend is expected to continue. An allowance was made for possible voids in the base budget of 7.5% whereby the rate of void properties at the half year was 6.0%.

## Supplies and services

There is a budget provision of £60,000 for Homelessness Temporary Accommodation costs, this forecast has been reduced by £10,000 due to a reduction in the number of individuals or families presenting as homeless and requiring B&B accommodation. Although this revision allows for anticipated B&B costs to the end of the year it should be highlighted that this budget head is sensitive to small volumetric change and it would only need a small increase in homelessness presentations to alter this estimated out-turn position before the end of the year.

The Leisure services fees have been reviewed and recalculated following the change in the way employers' pensions costs are charged and this has resulted in a lower fee being chargeable.

There is an £19,000 reduction in external audit fees payable. Before the Audit Commission closed on 31st March 2015, it was asked to set the scale fees for audits for 2015/16. In April the Council were notified that the 2015/16 scale fee set by the Commission had reduced compared to 2014/15 and that this had been enabled by the procurement exercises run by the Commission across both the local government and health sectors.

## REVENUE INCOME

The table below provides a summary of the Council's main income streams:

<b>Income Budgets</b>	<b>Annual Budget 2015/16 £</b>	<b>Projected Outturn 2015/16 £</b>	<b>Variance Over / (Under) budget £</b>
Investment Property Rentals	(984,040)	(1,029,906)	45,866
Planning Fees	(475,000)	(350,000)	(125,000)
Trade Waste Charges	(416,106)	(440,343)	24,237
Building Control Fees	(193,000)	(142,000)	(51,000)
Land Charges	(112,000)	(112,000)	0
Interest on Investments	(100,000)	(120,000)	20,000
Taxi Licensing Fees	(97,600)	(84,800)	(12,800)
Car Parking Charges	(87,890)	(90,000)	2,110

These income targets are highlighted as they are affected by changes that can be out of the Council's control, for example the national economic climate and impact on bank rates and customer behaviours. Due to their scale any material variations against budget have the ability to impact significantly on our overall revenue budget position.

## **Investment Property Rental Income**

Rental income is £46,000 higher than budgeted. The main causes of the variance are five new properties with rents totalling £34,000 and a back-dated rental review for £13,000, with the balance being due to timing differences in the letting of properties compared to the original forecasts.

## **Planning Fees**

In recent years the total value of planning fees has been increasing. The outturn for 2014/15 was £518,000 against an original budget of £400,000. The 2014/15 and 2015/16 budgets were revised upwards to £475,000 to reflect the upward trend. So far this year, however, there have not been any large scale planning applications submitted meaning income is below target and the out-turn forecast has been revised down, accordingly. The bigger sites that are expected to come on line are currently addressing the necessary infrastructure matters prior to being brought forward for inspection. Although the sites are allocated in the Local Plan, in reality it can be very difficult to estimate accurately when those would translate into an application.

## **Trade Waste Charges**

The Income from Trade Waste is anticipated to be £24,000 higher than originally budgeted due to an increase in demand for the service.

## **Building Control fees**

There is a forecast shortfall in Building Control income of £51,000 against the profiled budget to December. Following a review of the service a Senior Building Control Officer has been appointed and a marketing action plan has been developed with new marketing materials produced. The Senior Building Control Officer has made contact with a number of contractors and architects to create more cross boundary work. This action is intended to increase commercial building work and therefore higher fee income rates. Letters are also being sent out with all planning approval letters, this new joint team approach seeks to provide stimulation of business for the service. In addition a business case for social media has been developed. The new customer survey has been sent out and the first completed forms are now being returned. Information gleaned will be used to develop the business generation strategy further.

## **Land Charges Income**

Although there was a slight increase in demand for property searches at the beginning of the year, land charges income is demand-led and therefore fluctuates during the year and it is currently on target. The income in the last 3 years has out-turned at: 2012/13 = £122k; 2013/14 = £119k; 2014/15 = £103k.

## **Interest on Investments**

The short-term investment income is projected to be £20,000 above the original budget due to an increase in cash available to invest compared to the original forecast and also the maximisation of cash placements returns in accordance with the new Treasury Strategy which expanded the Counter Party List.

One factor which has had a positive impact on cash flow is additional housing benefit subsidy received in May (£2.0m) in respect of 2014/15. In addition, the Council received £80,000 in relation to the interest owed by Heritable Bank plc following the Icelandic banking crisis in 2008. The majority of the money owed has now been repaid with almost 98% returned to-date. An increased rate of return on investments is expected to increase to the end of the year due to the revised Treasury Management Strategy and the subsequent expansion of the Council's Counterparty List.

## **Treasury Management Update**

Council on 30 September 2015 approved a revised list of investment counterparties for the remainder of 2015/16. The revised list included increasing the amounts which could be invested in UK-incorporated financial institutions, which should minimise the need to place deposits with the Debt Management Office (DMO) at the current low rate of 0.25%. In addition, non-UK banks of high credit quality, as defined by the Capita Asset Services credit rating methodology, were added to the list. Investments with banks or building societies could include Certificates of Deposit (CDs), as well as call accounts and term deposits. Enhanced money market funds (variable net asset value – VNAV) are included on the revised list.

Following Council approval of a revised list of investment counterparties for 2015/16, it has been possible to minimise use of the Debt Management Office (DMO), which pays only 0.25% for investments. Cash was placed with the DMO for 6 days in October as during the transitional period various accounts were being opened. Subsequently the DMO has been used for one day, to avoid the total in the Council's own bank exceeding the approved maximum.

As previously reported, a number of term deposits with other local authorities will mature from February onwards, which means that the sums cannot yet be reinvested with alternative counterparties. However, as sums have become available to reinvest, new counterparties have been used. So far these include Coventry Building Society, Goldman Sachs International Bank (UK) Limited, and Landesbank Hessen - Thuringen Girozentrale (known as Helaba, a high credit quality German bank entitled to accept deposits through a branch in the UK). The impact of using additional counterparties has been to increase the average rate earned on term deposits from 0.49% (25/9/15 – before the changes to the counterparties list) to 0.70% (15/1/16). Term deposits have been placed with Santander UK: £2m in the 95-day notice account at 0.90%, and £2m in the 180-day notice account at 1.15%.

When current term deposits mature, use of additional counterparties including EU banks registered in the UK will be considered. However, some local authorities are recognising that to attract cash deposits they need to offer competitive interest rates, and therefore reinvesting with councils may offer a satisfactory rate of return as well as achieving a high level of security.

## **Housing Benefit & Local Council Tax Support**

Recovery of overpayments is forecast to be £62,000 greater than budgeted as a result of proactive, positive activity within the function.

## **Government Funding**

Additional New Homes Bonus has been received in year due to banding changes and a small one-off reallocation to local authorities in year.

In addition, the forecast out-turn for Business Rates Retention (BRR) is currently being assessed. Indications are that there is a requirement to increase the provision set aside to pay for back dated appeals and therefore this lower projected income level results in a temporary financial benefit in 2015/16. With regard to the Appeals process the tax base can experience a negative shift due to decisions made by the Valuation Office Agency in the formal appeals process outwith Council processes and direct control. This forecasted out-turn is a change in the performance of BRR following the January 2016 assessment for the Government NNDR1 return and 2016/17 Budget Preparation round since the last report to Governance Committee.

The current performance against our forecasts shows that the current position is less favourable following the most recent review of outstanding Appeals being dealt with by the VOA. The throughput by the VOA has slowed down considerably due to the diversion of resources to the national revaluation exercise. As a result a more pessimistic approach has been taken for forecasting which has resulted in a reduction on overall BRR income in 2015/16. That said, due to the complexities of the system we now expect this will result in a reduced levy payment to Central Government and therefore an improved financial position to 31/03/16. The 'cost' to South Ribble will fall in 2016/17, however, due to an increase in the tax base this status is not permanent and the one-off adjustment reduces the additional income in 2016/17 to circa. £0.300m.

## **Efficiency savings /additional income against targets**

The approved revenue budget for 2015/16 includes an efficiency saving target of £590,000 of which £390,000 relates to the savings secured from the Waste and Recycling Collection service procurement plus a £200,000 general efficiency target. The £200,000 has now been allocated to specific services and projects following a review of budgets by the Core Managers' team. Progress against these targets and the projected out-turn position is set out in Appendix Two. The total 2015/16 target has been achieved.

## OVERALL COMMENTARY

With regard to savings achieved to date this should be considered in the context of the continued budget gap contained within the Council's Medium Term Financial Strategy and the uncertainty of future levels of funding. The recent Spending Review in 2015 (SR2015) and the Provisional Local Government Settlement published four years funding reductions and consultation on a revised New Homes Bonus regime that will mean significant funding reductions for the Council in excess of £2.300m. The contents of the settlement also confirmed that revenue Support Grant would be totally withdrawn and that 100% of funding would come from local taxation sources, in effect, the Council will retain what it earns for itself. The settlement also contained a new reduction system in funding called the 'tariff adjustment' the detail of which is still to be disclosed.

In summary, the 2015/16 budget has been revised but should be treated with some caution as there may still be variations, particularly in demand led services and assumptions made in respect of the funding of future expenditure commitments and Budget Holder carry over requests may be subject to amendment. The position is closely monitored with particular regard to volatile budgets that are subject to fluctuation and therefore present a higher risk.

## CAPITAL PROGRAMME

The Original approved budget for 2015/16 was £3,831,441. After the re-phasing of budgets from 2014/15 (£442k) and additional schemes and re-phasing approved in year (£216k), this increased the approved budget to £4,488,592. The capital programme has been revised to take into account the latest forecasts of expenditure and any anticipated re-phasing between financial years. The latest projected capital outturn for 2015/16 is £3,235,202, a reduction of £1,253,390.

**Budget Efficiency Targets 2015/16**

Budget Efficiency Targets	2015/16 Part Year Effect			Future Years' Full Year Effect	Budget Target compared to Actual (d) – (e)
	Budget Target	Actual Achieved	Over / (Under) Achieved (b) – (a)		
	£000	£000	£000		
<i>Column</i>	<i>(a)</i>	<i>(b)</i>	<i>(c)</i>	<i>(d)</i>	<i>(e)</i>
<b><i>Completed Projects</i></b>					
Waste Contract savings	490	490	0	600	110
2015/16 Budget savings target – Core Managers	200	173	(27)	112	(88)
	<b>690</b>	<b>663</b>	<b>(27)</b>	<b>712</b>	<b>22</b>
<b><i>Offsetting Additional Costs</i></b>					
Waste Contract Management / contingency fund	(100)	(57)	43	(100)	-
<b>Net Saving</b>	<b>590</b>	<b>606</b>	<b>16</b>	<b>612</b>	<b>22</b>