

**2016/17 PROJECTED OUT-TURN
to MARCH 2017
(as at December 2016)**

**Budget and Medium Term
Financial Strategy Management**

Governance Committee 1st February 2017

SUMMARY FORECASTED BUDGET OUT-TURN TO MARCH 2017

The approved revenue budget set by the Council in February 2016 was £13.551m, with no budgeted transfer to or from the general reserve this gave an original net budget requirement to the same value of £13.551m. In October, a supplementary estimate was approved in relation to the additional costs of the Licensing Service Improvement Review including related HR costs in the sum of £0.094m. A further budget increase of £0.070m was approved in December 2016 as match funding to enable the Interim Chief Executive to secure additional capacity support on governance and legal workloads. The revenue budget has therefore been uplifted by a total of £0.164m funded from a transfer from general reserves to a revised total of £13.715m.

This report compares the 2016/17 Original Budget of £13.551m to the forecast Projected Out-turn. This comparison shows a net underspend of £177,000 **before** the additional budget of £0.164m is applied. The main variations are summarised below:

Details	Projected Outturn Variances Under / (Over) spend	
	£000	£000
Expenditure		
Employee Costs – Capacity Support		*(70)
Employee Related Costs		(17)
Premises		30
Transport		22
Supplies and services		(21)
Licensing additional costs		*(94)
Sub Total - Expenditure		(150)
<i>*Approved Supplementary estimates</i>		
Income		
Building Control fees deficit		(43)
Housing Benefit/Council Tax Support net over-recovery		106
Car Parking income		(19)
Consideration for release of restricted covenant		21
Council Tax support admin grant		21
Court costs recovered		(40)
Interest on Investments		23
Investment property income		28
Land Charges income		(12)
Planning application fees		126
Police election & referendum funding		18
Public Realm funding shortfall		(65)
Sub Total - Income		164

Other Minor Variations		16
Budget Efficiency Programme – Appendix Two		(8)
Business Rates Retention	30	
Transfer to BRR Equalisation Reserve	(30)	0
Projected Out-turn Budget Variation – General Fund		22
Collection Fund adjustment in 2016/17 Final Accounts		155
Projected Out-turn Budget Variation – incl. Collection Fund Adjustment		177

Potential Effect on Reserves:	
Transfer to/(from) General Reserves – Original Forecast	0
Transfer to General Reserve – Projected Out-turn Variation	177
Forecast movement	(177)
Plus transfer to the BRR Equalisation Reserve	30
Plus in year allocation from General Reserve	164

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 2016. An explanation is set out below which highlights the salient points and reasons for the budget variation to date.

REVENUE EXPENDITURE

Employee Costs

In December, Cabinet approved a budget increase of up to £70,000 as match funding to enable the Interim Chief Executive to secure additional capacity support on governance and legal workloads. The profile of the expenditure is uncertain and therefore the full £70,000 has been added in 2016/17, however it is proposed that any budget remaining underspent at the 31st March 2017 will be carried over into 2017/18. The forecast additional cost of filling the Chief Executive post on an interim basis is c£17,000 in 2016/17.

The Medium Term Financial Strategy included efficiency targets in relation to a Review of Vacant posts, Staff Vacancy Turnover savings and efficiencies achieved through Business Transformation. The forecast underspending on salaries-related costs against the original budget as a result of vacancies, general turnover, maternity/paternity leave and reduced hours is £437,000. This saving has been taken as a contribution to the efficiency saving targets for 2016/17. (See Budget Efficiency Programme - Appendix Two).

The following posts are currently vacant: -

Democratic Services Manager
Democratic Services Officer
Contaminated Land Officer
Drainage Technician
Quantity Surveyor
Caretaker/Handyperson
P/T Cleaner
Assistant Enforcement & Monitoring Officer
P/T Gateway Officer (2)
ICT Support Analyst
Seasonal Neighbourhood officers (2)

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.

In addition, the following efficiency savings targets have been met on a recurring basis due to the disestablishment of vacant posts as part of the ongoing Business Transformation programme and the restructuring of services. (See Budget Efficiency Programme - Appendix Two).

Recurring savings achieved:

Business Transformation – Print & Post review	£55,000
Shared Assurance Services Restructure	£20,000
Vacant posts - Building Control shared manager	£16,000

Premises

There is an overall forecast full year out-turn variance of a £30,000 underspend against the original budget for premises-related expenditure, of which £29,000 relates to business rates on the Council's properties. This includes:

- a forecast variance of a £7,000 saving in relation to the business rates for the Civic Centre following a successful application for business rates relief in relation to the vacant areas of the building
- a forecast saving in business rates of £31,000 is due to the successful letting of empty investment properties by Property Services which has resulted in an upturn in the property rental income for the year; offset by
- Worden Park car park was revalued due to the increase in parking spaces which has resulted in an increased cost in 2016/17 against the car parking budget of £13,000. This increase includes a backdated charge for prior years and therefore the increase in future years reduces to £7,000.

Transport related

There is an overall forecast full year out-turn variance of a £22,000 reduction against the original budget for transport-related expenditure. Savings include: diesel fuel costs - £14,000 (annual budget £332,000); staff car allowances (savings due to vacancies during the year) - £6,000; and Hire costs - £2,000.

Licensing and HR Costs

An uplift of £94,167 in the current year's budget has been approved by Cabinet to fund the forecast additional staffing, legal and other support costs incurred in 2016/17.

Supplies and Services

There is an overall net overspend of £21,000 on supplies and services which is made up of various budget over and underspends against the 2016/17 original budget, as set out below:

SUPPLIES & SERVICES BUDGETS	Forecast Outturn Variance £000	Comments
External vehicle repair costs	(37)	<i>Special repair work required to some vehicles in first part of year contributed to forecast overspend at outturn.</i>
Bank charges - Merchant charges	(12)	<i>Due to change of base for calculating charge from transaction numbers to transaction value for debit card transactions plus new rate for non-secure transactions, combined with/increase in transaction values compared to previous years.</i>
Planning Applications - advertising costs	(25)	<i>Relates to Public Notices for planning applications in the LEP. The price of adverts has increased significantly.</i>
Waste Contract	(8)	<i>Contract fee adjustment for change in inflation rate</i>
Transport fleet	(16)	<i>Access platform required for safe access to refuse vehicles for R&M. Previous platform was not adjustable enough and didn't fit every variant of refuse vehicle, this resulted in an accident involving one of the mechanics last year (£6,000). Installation of vehicle trackers to monitor use of assets properly and efficiently (ability to run reports to plan routes effectively) and to know location of lone workers (£10,000).</i>
Other additional costs	(20)	<i>Comprises minor adjustments to budgets re budget pressures in 2016/17, including: Bi-election costs, Replacing operational equipment, Microfilming, Fees</i>
Housing Options – Addressing Homelessness	63	<i>Landlord Incentive scheme introduced as a pilot scheme as a new initiative addressing homelessness.</i>

		<i>£80,000 budget of which £17,000 anticipated to be spent in 2016/17 with balance re-phased into 2017/18.</i>
Leisure Contract fee	11	<i>Impact of changes to pensions costs and inflation on contract fee calculated for 2016/17</i>
Land Charges litigation	23	<i>The budget was based on the potential maximum costs in relation to the legal costs of the property searches litigation as advised in March 2015. Following the final settlement of the claim, the final costs recharged to local authorities were lower than originally forecast.</i>
TOTAL	(21)	

REVENUE INCOME

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

Income Budgets	Annual Budget 2016/17 £	Projected Outturn 2016/17 £	Variance Over / (Under) budget £
Investment Property Rentals	(1,039,906)	(1,067,980)	28,074
Planning Fees	(350,000)	(476,000)	126,000
Trade Waste Charges	(448,834)	(455,857)	7,023
Building Control Fees	(193,000)	(150,000)	(43,000)
Land Charges	(112,000)	(100,000)	(12,000)
Interest on Investments	(165,000)	(188,000)	23,000
Taxi Licensing Fees	(78,800)	(76,411)	(2,389)
Car Parking Charges	(90,000)	(92,512)	2,512
Car Parking Charges – new initiatives	(30,000)	(8,000)	(22,000)

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

Forecast Rental income is £28,000 higher than the original budget forecast for the year. This is mainly attributable to the rental of Worden park kiosk which went out to tender which resulted in an increase in rental income of £25,000; plus other rent reviews and timing differences in the letting of properties compared to the original forecasts.

Planning Fees

The significant increase in income against the profiled budget is mainly due to several major applications received in the first half of the year including: £21,000 received from Roadferry Ltd, £30,000 from Redrow Homes and £35,000 from Countrywide Properties. At this point in the financial

year, an increase in fee income of £126,000 is forecast for the full year, however this is based on assumptions in relation to when upcoming major applications will be received and is therefore not certain and subject to variation.

Fluctuations in income can occur as although development sites are allocated in the Local Plan, in reality it can be very difficult to estimate accurately when those would translate into an application.

Police election & referendum funding

External funding of £18,000 in total has been reclaimed in respect of room hire costs and transportation of equipment in relation to the police election and the government referendum.

Trade Waste Charges

The Income from Trade Waste is anticipated to be £7,000 higher than originally budgeted due to an increase in demand for the service.

Public Realm funding

Over the last few years, there has been a progressive reduction in the funding from Lancashire County Council in respect of Public Realm Functions undertaken on behalf of the County Council. The impact of this in 2016/17 is £65,000.

Building Control fees

There was a shortfall in Building Control income of £19,000 at the half year and the current projected outturn is £150,000, a forecast reduction of £43,000. The Building Control Technician post being vacant in this period has impacted on the team's ability to generate fee income. However this doesn't have a significant impact on the Building Control Fee Earning account as the fall in income is offset by reductions in salary costs and therefore it is anticipated that the service will break even and may even make a small surplus.

Land Charges Income

The trend for land charges income received in 2016/17 is down compared with income levels in the same period in previous years and therefore if the current trend continues there is likely to be a shortfall in income estimated to be circa. £12k by the end of the year, against the £112,000 budget. Factors which impact on land charges income are; a slow-down in property sales and more purchasers undertaking their own searches (rather than via solicitors/conveyancers).

Another factor which may impact on income levels in the future is the proposed changes in the VAT treatment of property searches income. In the past these charges have been regarded as outside the scope of VAT on the presumption that only the local authorities could provide the service but HMRC have reviewed this treatment and concluded that it is a business supply and therefore local authorities should commence accounting for standard rate VAT on these charges. HMRC have advised that they will not be seeking to recover VAT in relation to past supplies. The Council will implement this change with effect from 1st April 2017.

Interest on Investments

Short-term investment income is forecast to be in the region of £188,000 at the year-end which is £23,000 higher than originally forecast due to a combination of increased balances and better rates obtained following changes to the Treasury Strategy.

Car Parking

The 2016/17 Original Estimate included net additional car parking income of £30,000 after set up costs. This forecast increase in income related to the extension of car parking charges and the permit scheme at Withy Grove Park and Worden Park. In June 2016, Cabinet approved the commencement of a consultation process in relation to these proposals. Income achieved in 2016/17 (£8,000) was as a result of the sale of parking permits to Runshaw College, leaving a shortfall of £22,000 against the £30,000 target for the year. The target of £80,000 from 2017/18 onwards is currently under review within the MTFs and budget setting process for 2017/18.

Treasury Management Update

[This is provided in detail as a separate item on this agenda].

Release of Restricted Covenant

This income is in relation to the release of a restrictive covenant and consent to build on a plot of land adjoining land belonging to the Council at Kellet Lane, Bamber Bridge which was approved by delegated decision in September 2016 (£20,000 consideration and £1,000 fees).

Housing Benefit & Local Council Tax Support

The recovery of overpayments is greater than budgeted mainly as a result of making changes to working practices which have resulted in an increase in the amount collected. Some of the larger amounts which have been recovered are due to capital which wasn't declared therefore the claimants weren't entitled to benefit. It is a volatile budget and therefore difficult to forecast the full impact of this to the end of the year, but based on the current recovery profile the current out-turn forecast increase is £106,000.

Government Funding

(a) Collection Fund

At the introduction of Council Tax a Transitional Relief Grant was made available to those who applied for it. It was funded from the general fund and applied to reduce Council Tax bills. Subsequently, if that Council Tax bill fell into arrears and was written off the transitional relief grant is written back as income to the Council. This income was credited to the balance sheet each year and accumulated to the value £121K. After reviewing this balance in 2016/17 it has been agreed with the external auditors that it should now be released to general fund and be part of General Fund balances or transferred to an earmarked reserve.

Similarly, there is a balance of £33k on the Collection Fund relating to Community Charge income where debts have been written off so the income no longer needs to be held in balances and can be released as General Fund income.

Both these adjustments have been actioned as one-off adjustments in 2016/17.

(b) Other

The Council receive an annual grant in respect of Council Tax Support and Housing Benefit administration costs. The grants vary year on year and there was an increase in the 2016/17 final allocation, due to funds being transferred from New Burdens.

Efficiency savings /additional income against targets

The approved revenue budget for 2016/17 includes an efficiency saving target of £516,000 plus an additional £100,000 target in relation to staff vacancy turnover. Progress against the individual efficiency targets and the recurring savings achieved is set out in Appendix Two below.

The employee related budget efficiency targets within the Business Transformation (BT) projects will not be achieved in this year, however, they are being offset by general budget savings accruing on staff vacancies. That said, however, it is important to note that this is not a recurring budget efficiency savings and therefore these targets will need to be added to the total budget deficit for 2017/18 to achieve a balanced budget. The BT projects will be delivered in 2017/18. It is important that the Medium Term Financial Strategy includes a detailed and robust plan to address the increased budget deficit over the next three years.

BUSINESS RATES RETENTION - BRR

Regular monitoring is being undertaken as increases or reductions in the tax base will impact on current and future years funding. The current trend is marginally favourable, with the Council's share of net growth to date in the region of £30,000 against the base forecast. Prior to the Council entering the Lancashire Pooling Agreement any growth against the government baseline would have resulted in an additional levy payment and therefore an in-year budget overspend. The pooling agreement for 2016/17 currently means that additional income generated by tax base growth is retained locally following a 10% contribution to Lancashire County Council.

CITY DEAL

The City Deal financial model is under review at Executive Level to take account of changes to income generation assumptions made within the original finance model and to consider the impact of proposed Government changes to the key funding streams to City Deal as set out in the Provisional Settlement for the four years 2017/18 to 2020/21. The Council's revenue and capital budgets in relation to City Deal are being updated as part of the 2017/18 budget setting process. This includes the commitments made, and profiling of payments into City Deal and the receipt from City Deal including additional income received via New Homes Bonus, Community Infrastructure Levy and Business Rates.

OVERALL COMMENTARY AND FINANCIAL OUTLOOK

The financial position as at 31st December 2016 shows that the projected out-turn is expected to be a total underspend of £177,000 which includes one-off adjustments to the Collection Fund. It should be noted, however, the budget plan has been deviated from in 2016/17 and although the Budget Efficiency Programme for 2016/17 is expected to be delivered this year recurring budget savings still need to be secured. This is an area identified for improvement as the budget deficit position continues to the end of the new MTFS period being 2017/18 to 2019/20.

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 Provisional Local Government Settlement published four years funding reductions including: significant reductions in New Homes Bonus funding; the withdrawal of Revenue Support Grant and 100% of core funding from local taxation sources, in effect, the Council will retain what it earns for itself.

In summary, the 2016/17 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. In addition 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

Details of the Council's capital spending, by project is contained in Appendix Three. The original budget for 2016/17 was £5,420,616 which increased to £7,072,762 as a result of the following:-

- 1) slippage of schemes from 2015/16 (£681,568);
- 2) additional scheme approvals £831,201:
 - £610,100 relates to the purchase of the industrial units at Momentum Business Park approved by Council on 30th March 2016
 - £9,146 relates to Walmer Bridge Improvements Scheme approved by Cabinet 7 September 2016
 - £165,955 relates to Bamber Bridge Regeneration Scheme approved by Cabinet 7 September 2016
 - £46,000 relates to S106 Contribution to Fox Lane Sport and Social Club for Improvements to playing fields and car park approved by delegation on 18th November 2016
- 3) additional funding received for Disabled Facilities Grants – (£209,377).
- 4) City Deal masterplanning budgets reclassified as revenue (reduction £70,000).

The projected spend is compared to the full year budget accompanied by a briefing note to provide an update from the Budget Holder on any current and forecasted performance and scheme delivery to the end of the year.

The expenditure (actual plus committed) at the end of December totalled £1.958m which is 28% of the total budget for the year of £7.073m. The current projected out-turn for 2016/17 is £2.937m which is 42% of the current revised budget. This variance is due to re-phasing of expenditure into future years, less the impact of projected increases in expenditure.

The Capital programme for 2016/17 was agreed and signed off by Budget Holders and discussion during this year have revealed that projects were profiled on bases other than capacity and resource availability. It is imperative that the 2017/18 budget setting process includes a Capital Programme profile that is deliverable as continual re-profiling continues to be appraised by the Governance Committee on a quarterly basis. A report on the Capital Programme and recurring out-turn variations will be submitted to the next Governance Committee. An exercise is currently being finalised with Budget Holders to challenge deliverability and robust forward estimating.

Budget Efficiency Programme 2016/17

Budget Efficiency Targets	Budget Efficiency Savings Targets (FY) 2016/17	Projected Outturn 2016/17	Target Exceeded/ (Shortfall) 2016/17	Recurring Budget Efficiency Savings
	£000	£000	£000	£000
Business Transformation:				
Environmental Health	(100)	-	*(100)	-
Neighbourhoods	(50)	-	*(50)	-
Print and Post Review	(30)	(55)	25	(85)
Revenues and Benefits Self-Serve	-	-	-	-
Shared Assurance Services Restructure	(20)	(20)	-	(20)
Review of Vacant Posts	(216)	(16)	** (200)	(16)
Base Budget Review	(100)	(80)	*(20)	(80)
Sub-Total	(516)	(171)	(345)	(201)
Staff Turnover Savings	(100)	(437)	337	(100) annual target
Total – Full year	(616)	(608)	(8)	(301)

* to be delivered in 2017/18

** will not be delivered in 2016/17 or 2017/18