

Budget Management Report Quarter 1 2017/18

As at June 2017

1. Revenue Budget Performance

The approved 2017/18 revenue budget set by the Council in February 2017 was £13.182m. The current budget as set out in the table below is £14.197m, a difference of £1.015m. This is due to the budget being updated to reflect the two transactions of receiving City Deal New Homes Bonus and the payment out to LCC (£965k), plus additional s31 funding received (£50k) which has been set aside in earmarked reserves as it will be required to fund costs in relation to business rates reliefs in 2018/19. Both these adjustments have no impact on the bottom line budget.

This report compares the profiled 2017/18 budget to the end of June 2017 with net expenditure incurred to the same period end and also the forecast underspend at year end on certain budget heads where permanent variances have occurred.

The profiled budget to June excludes Capital Charges in relation to depreciation (£3.5m) as these are charged to services in the final quarter of the year. Other material budgets, including Shared Financial Services contract costs and investment property income, are profiled in the first quarter to match when expenditure and income is committed. These items have been shown separately in the table for information.

The period end variances are summarised by Directorate which is consistent with the reporting of the Council's revenue outturn expenditure and income in the Statement of Accounts.

Quarter 1 Budget Summary	2017/18 Full Year Budget (excluding recharges)	2017/18 Profiled Budget to June	Actual to June	Variance Under/ (over) spend	Forecast outturn Variance
Directorate	£000	£000	£000	£000	£000
Chief Executive					
<i>Shared Financial services</i>	633	633	607	26	
<i>Capital Charges (depreciation)</i>	2	0	0	0	
<i>Other services</i>	1,785	745	707	38	
Total	2,420	1,378	1,314	64	
Development Enterprise & Community					
<i>Capital Charges (depreciation)</i>	808	0	0	0	
<i>Other services</i>	2,537	1,107	1,048	59	
Total	3,345	1,107	1,048	59	30
Governance & Business Transformation					
<i>Capital Charges (depreciation)</i>	214	0	0	0	
<i>Other services</i>	3,233	1,051	1,059	(8)	
Total	3,447	1,051	1,059	(8)	
	2017/18	2017/18			

Quarter 1 Budget Summary	Full Year Budget (excluding recharges)	Profiled Budget to June	Actual to June	Variance Under/ (over) spend	Forecast outturn Variance
Directorate	£000	£000	£000	£000	£000
Neighbourhood, Environment & Asset Management					
<i>Investment Property Income</i>	(1,123)	(807)	(840)	33	
<i>Capital Charges (depreciation)</i>	2,522	0	0	0	
<i>Other services</i>	5,016	933	1,049	(116)	
Total	6,415	126	209	(83)	
Budgets Not In Directorates:					
Pensions contributions	(909)	(227)	(235)	8	
Pensions deficit payments	1,468	1,468	1,468	0	
Corporate Efficiency Target - turnover	(100)	(100)	(71)	(29)	
Parish Precepts	398	398	398	0	
Investment Interest	(69)	(18)	(44)	26	40
Interest Payable	120	30	30	0	
Depreciation and revenue funded from capital (reversals) *	(3,546)	0	0	0	
Provision for Repayment of Debt	1,017	1,018	989	29	29
Transfers to & from reserves	191	766	766	0	
Total Net Expenditure	14.197	6.997	6.931	66	99
Funding:					
Council Tax	(7,896)	0	0	0	
RSG	(346)	(93)	(93)	0	
Transition Grant	(92)	(23)	(23)	0	
New Homes Bonus (<i>incl. City Deal</i>)	(1,646)	(439)	(444)	5	5
s31 Grant	(705)	(146)	(146)	0	
Retained Business Rates	(3,512)	2,632	2,632	0	
Total Funding	14.197	1.931	1.926	5	5
TOTAL	0	8,928	8,857	71	104
Virement of underspent budgets to Business Transformation project					(70)
TOTAL (NET UNDERSPEND)					34

*Depreciation costs are included in the full year directorate budgets and reversed out below the line in accordance with accounting practice.

2. Revenue Budget Variations

There are a number of factors that contribute on the Council's budget management performance when compared against the original budget set in February 2017. An explanation is set out below which highlights the salient points and reasons for the budget variations.

Chief Executive

The overall variance in the first quarter was a £64,000 net underspend. This was mainly due to the balance of unspent budgets to June in relation to Corporate Support £22,000 and Internal audit fees £12,000 plus various minor variations to the profiled budget.

Development Enterprise & Community

The overall variance in the first quarter was a £59,000 net underspend. Of this, £30,000 relates to the Leisure services contract fee which is revised on an annual basis for inflation and pensions costs. Therefore this period end saving will be an outturn variance.

There is an increase in Building Control income against the profiled budget to June of £14,000. This is partly attributable to the number of school applications received which has boosted fee income levels in the period.

There is a small increase in planning fee income (£8,000) against the profiled budget in the 1st quarter. No projected out-turn variance is forecasted at this early stage of the year, however this is a volatile budget which will be closely monitored during the year against the forecast. Some expected large scale planning applications have been included in the current forecasts.

Governance & Business Transformation

There is a small net overspend of £8,000 in the budgets for this directorate.

Recovery of housing benefit overpayments is £13,000 less than budgeted in the first 3 months of the year whilst other net benefits income is £9,000 less than budgeted, which gives an overall variance of £22,000 at the end of June. The nature of housing benefits profiles throughout the year is volatile and fluctuates year on year and therefore variations invariably occur. No out-turn variance is anticipated at the end of the first quarter but this budget will continue to be closely monitored each month and any permanent, material variation reported accordingly.

Neighbourhood Environment & Asset Management

The overall variance in the first quarter was a £83,000 net overspend. Despite the Neighbourhoods, Environmental and Asset Management Directorate currently showing an overspend as at the end of the first quarter this will be corrected during the course of the year due to the successful measures implemented in 2017/18 to meet the Business Transformation project carried forward from 2016/17.

There is an overall underspend of £23,000 on premises costs of which £12,000 relates to reactive repair and maintenance budgets which invariably do not conform by nature to predetermined spend profiles and £11,000 on non-material variations.

The income budget for New Bins consists of £45k for new properties and the new approved budget of £30k which is profiled to be received across the later part of the year. Income for new properties is behind the current profile, however, developments are coming forward and it is expected that this income stream will come back into line later in the year.

Income

The income budgets below are highlighted as a detailed separate item in order to report transparently on budget heads that have a higher risk profile due to the fact they are affected by factors that may be out of the direct control of Budget Holders. Due to their value, any material variations against budget have the ability to impact significantly on our overall revenue budget position and need to be closely monitored.

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

Description	Annual Budget £	Profiled Budget £	Actual to June £	Variance to June £	Forecast Outturn Variance £
Building Control Fees	(150,000)	(39,531)	(53,645)	14,114	0
Car Parking Charges	(92,512)	(23,145)	(26,263)	3,118	0
Domestic Waste - new bins	(75,000)	(11,256)	(3,800)	(7,456)	0
Domestic Waste - spec collns	(32,000)	(8,004)	(10,596)	2,592	0
Land Charges Income	(100,000)	(25,020)	(26,311)	1,291	0
Licensing - Premises	(63,000)	(10,156)	(10,293)	137	0
Market Rents	(135,000)	(33,774)	(32,004)	(1,770)	0
Pest Control Income	(23,000)	(4,001)	(3,178)	(823)	0
Planning Application Fees	(375,000)	(93,822)	(102,130)	8,308	0
Property Rental	(1,122,756)	(807,602)	(840,095)	32,493	0
Short Term Interest	(69,000)	(17,262)	(43,586)	26,324	40,000
Taxi Licensing Income	(82,411)	(29,559)	(28,201)	(1,358)	0
Trade Waste Income	(476,810)	(465,030)	(464,083)	(947)	0

Interest on Investments

Short-term investment income is £26,000 above the profiled budget to the end of June. The increase in interest is a combination of increased average balances and better rates obtained in the first quarter. Comparative returns on investments for the reporting period over the last three years are set out below:-

	Average Balance Qtr. 1	Average Rate Qtr. 1	No of days	Interest Earned
2015/16	£26,566,036	0.477134%	91/365	£31,602
2016/17	£30,924,123	0.706599%	91/365	£53,368
2017/18	£31,635,639	0.552615%	91/365	£43,586

Although a favourable out-turn variance is anticipated, the likelihood is that the average rate will reduce as the year goes on as greater cash balances present greater difficulty to place cash within the constraints of the Treasury Strategy.

Investment Property

Rental income in the first quarter is £32,000 higher overall than budgeted for the period. This variation comprises of an increase against the forecasted overall number of voids. Overall the occupancy of the council's investment property at the end of the first quarter was 95% let and 5% unlet. The budget assumptions on void rates will be reviewed and updated.

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 favourable, with the Council's share of net growth to date in the region of £55,000 against the anticipated increase of £100,000. 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 2017/18 currently means that additional income generated by tax base growth is retained locally following a 10% contribution to Lancashire County Council.

The impact of the Lancashire Pooling Agreement is very positive and resulted in £5.1m being retained within Lancashire in 2016/17, this will have a favourable impact on the risk profile of BRR and therefore on the budget planning assumptions if the borough's outstanding appeals profile does not experience an influx of additional appeals into the Valuation Office Agency (VOA).

A review of the risk profile of BRR is currently being undertaken as part of the Council's Medium Term Financial Strategy and its Strategic Review of Reserves the outcome of which will impact on the budget challenge assessment in future years.

3. Overall Commentary

It is pleasing to report that the financial position as at 30th June 2017 shows that the Council is performing well and in line with its profiled budget whilst also accommodating additional project costs. It is important to note, however, that this is based on a number of forecasting assumptions made with regard to expected spending patterns and levels of income received. Therefore, it is too early to predict accurately the projected year-end position.

In summary, financial performance against budget as at 30th June 2017 is consistent with the period's anticipated spending level, however all Budget Holders and Directors are required to closely monitor all spend to ensure that no overspending on individual budget heads occurs.

The current position is being closely monitored with particular regard to volatile budgets that are subject to fluctuation and therefore present a higher risk, updates are being reported during the course of the year. All material budget variations, the potential impact on future budget forecast and the resulting movement in reserves are reported to Members in accordance with the reporting cycle and as soon as practicably possible. The impact of external factors on budget performance are highlighted through this report and therefore the outcome of the Resource Review into City Deal will be included in future reports when it's outcome is published.

It is important to note that the updated start position as at 01/04/17, after the accounts have been closed for the previous year, and any significant in-year variations will be applied to the 2018/19 Budget setting process which support the refresh of the Corporate Plan and Priorities.

The key messages to date are:

- There is a favourable, yet non-material budget variation with regard to the revenue budget. This underspend is being used to fund costs in respect of the Business Transformational Change Programme.
- The Capital Programme reported highlights a forecasted variation at the end of the year. Some Capital Resources will be rolled forward to allow the scheme to be completed in the next financial year. ICT expenditure commitments are currently under review so that they are aligned to delivering maximum efficiencies within the BT programme.
- The impact of the year end out-turn position and any significant in-year variations will be included in the 2018/19 Budget setting round. The outcome of which will be to support the Corporate Plan and Corporate Risk Register that will be refreshed over the forthcoming months and progress the Council in one of its strategic aims of becoming financially self-sufficient.

Reporting Parameters

Year-end balance sheet and collection fund adjustments that impact on the revenue budget are outwith the scope of this report. Nevertheless with effect from the half year report the budget management report will be aligned to performance report of the Corporate Plan and include a wider context with regard to a Revised Estimate in respect of Capital Resources and Earmarked Reserves forecasts.

4. Capital Programme

Details of the Council's capital spending, by project is contained in **Appendix Two**. The original budget for 2017/18 was £4,404,522 which increased to £4,852,470 as a result of:

- 1) slippage of schemes from 2016/17 (£427,948);
- 2) additional approval (£20,000) - Whernside Way drainage works, funded from a grant of £20,000 from the Environment Agency as part of their Flood Resilience Grant programme.

The projected spend is compared to the full year budget to provide an update on any current spend progress. The expenditure (actual plus committed) at the end of June totalled £0.686m which is 14.1% of the total budget for the year of £4.852m. Directors have provided a spend profile of schemes over the remaining three quarters in order to provide a more accurate budget variation reporting for Members when the programme will also be aligned to investment priorities within the Corporate Plan and long term investment priorities of the Council. The projected out-turns estimated at this early stage in the year shows that there is an expected variance of £1.509m. It should be noted that these are projections may change, for example, ICT expenditure has halted whilst future commitments are currently being assessed as part of the Business Transformational change programme and a proportion of the variance will be rolled over into the next financial year to ensure that projects are still delivered albeit in a different financial year than originally planned. The impact

on Capital Funding will be reported in the next monitoring report when more information is available with regard to future Capital Expenditure.

5. General and Earmarked Reserves

A summary of Revenue Reserves & Balances as at 1st April was reported as part of the Budget Out-turn Report in June and also in the Statement of Accounts which provides an update to forecasted Revised Estimate contained in the budget report for 2017/18. No adjustments were made to reserves in the first quarter but by means of reporting a post-period material adjustment there is a cabinet recommendation going to Council in September that requests a Business Transformation Earmarked Reserve is created in the sum of £0.500m to pump prime investment to achieve budget efficiency savings. The repayment of this invest to save funding 'pot' should be taken into account as part of each business case presented within the Business Transformational change programme.

As previously reported underspends during the year in respect of both capital and revenue net expenditure will cause variations to the balances shown below.

Revenue Reserves	Actual Balance 31 March 2017 £'000	Projected Balance 31 March 2018 £'000	Projected Balance 31 March 2019 £'000	Projected Balance 31 March 2020 £'000
Total General Fund Reserves	4,597	4,297	4,036	4,436
Earmarked Reserves:				
Asset Management	1,494	689	19	219
Borough Council Elections	82	112	142	52
Borough Investment Account	3,824	0	0	0
Building Control	22	22	22	22
Business Rates Retention	3,250	3,674	3,938	4,015
Housing Needs Survey	87	62	52	72
ICT Strategy	988	617	510	400
Leisure Sites Repair & Maintenance	160	160	160	160
Local Development Framework	80	80	80	80
Performance Reward Grant	68	48	42	42
New Burdens Funding	222	222	147	147
My Neighbourhoods	45	45	45	45
Public Open Space funds	1,535	1,476	1,417	1,358
Organisational Restructure costs	385	385	385	385
Vehicles & Plant Replacement	21	21	21	21
Other Earmarked Reserves	1,733	1,350	1,222	988
Total Earmarked Reserves	13,996	8,963	8,203	8,006
Total Reserves	18,593	13,260	12,239	12,442