

draft

**Budget Management
Report
Month 6 2017/18**

As at September 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 September 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 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.

| Month 6 Budget Summary | 2017/18 Full Year Budget (excluding recharges) | 2017/18 Profiled Budget to September | Actual to September | Variance Under/ (over) spend | Forecast outturn Variance |
|--|---|---|--------------------------------|---|--|
| Directorate | £000 | £000 | £000 | £000 | £000 |
| | | | | | |
| Chief Executive | 2,768 | 1,950 | 1,930 | 20 | |
| | | | | | |
| Development Enterprise & Community | 2,472 | 1,243 | 1,114 | 129 | |
| | | | | | |
| Governance & Business Transformation | 3,207 | 1,749 | 1,705 | 44 | |
| | | | | | |
| Neighbourhood, Environment & Asset Management | | | | | |
| <i>Investment Property</i> | <i>(818)</i> | <i>(722)</i> | <i>(751)</i> | <i>29</i> | |
| <i>Other services</i> | <i>4,708</i> | <i>2,171</i> | <i>2,232</i> | <i>(61)</i> | |
| Total | 3,890 | 1,449 | 1,481 | (32) | |
| Budgets Not In Directorates: | | | | | |
| Pensions contributions | (909) | (455) | (468) | 13 | |
| Pensions deficit payments | 1,468 | 1,468 | 1,468 | 0 | |
| Parish Precepts | 398 | 398 | 398 | 0 | |
| Investment Interest | (109) | (55) | (83) | 28 | 50 |
| Interest Payable | 120 | 60 | 60 | 0 | |
| Provision for Repayment of Debt | 1,017 | 1,018 | 989 | 29 | 29 |
| Transfers from General Reserves | (418) | 0 | 0 | 0 | |
| Transfers to & from Earmarked reserves | 321 | 446 | 446 | 0 | |
| Total Net Expenditure | 14,197 | 9,271 | 9,040 | 231 | 79 |

| Month 5 Budget Summary | 2017/18 Full Year Budget (excluding recharges) £000 | 2017/18 Profiled Budget to September £000 | Actual to September £000 | Variance Under/ (over) spend £000 | Forecast outturn Variance £000 |
|--|--|--|---|--|---|
| Directorate | | | | | |
| Funding: | | | | | |
| Council Tax | (7,896) | 0 | 0 | 0 | |
| RSG | (346) | (180) | (180) | 0 | |
| Transition Grant | (92) | (46) | (46) | 0 | |
| New Homes Bonus (<i>incl. City Deal</i>) | (1,646) | (832) | (837) | 5 | 5 |
| s31 Grant | (705) | (317) | (317) | 0 | |
| Retained Business Rates | (3,512) | 5,070 | 5,070 | 0 | |
| Total Funding | (14,197) | 3,695 | 3,690 | 5 | 5 |
| | | | | | |
| TOTAL | 0 | 12,966 | 12,730 | 236 | 84 |

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 six months was a £20,000 net underspend. This was mainly due to: (1) the balance of unspent budget to September in relation to the £200,000 budget for Corporate Support (£36,000). This will be used to part fund interim staff costs in the second half of the year, and; (2) unbudgeted severance pay (£16,000). It is anticipated that this will be offset by vacancy savings and therefore no outturn variance is forecast.

Development Enterprise & Community

The overall variance in the period was a £129,000 net underspend. The main reason for this in-year variation is improved levels of income achieved in relation to Building Control fees and Planning Fee income.

The increase in Building Control income achieved against the profiled budget to September is £24,000. This is partly attributable to the number of school applications received which has boosted fee income levels in the period. Planning fee income to September is (£99,000) higher than the profiled budget. 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. Three major applications totalling £113,000 were received in August and September in relation to sites at Wesley Street and Brindle Road, Bamber Bridge.

Governance & Business Transformation

There is an overspend to September of £44,000 in the budgets for this directorate which is partly due to unforeseen severance costs (£36,000). There were offsetting underspends including £22,000 in relation to the landlord incentive scheme due to a lower take up than anticipated in the budget forecasts.

Recovery of housing benefit overpayments is £14,000 less than budgeted in the first 6 months of the year. 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 this stage but this budget will continue to be closely monitored each month and any permanent, material variation reported accordingly.

Neighbourhood Environment & Asset Management

The overall budget variance in the six months to September was a £32,000 net overspend which is partly due to unforeseen severance costs (£68,000) offset by net savings of £36,000. There is an overall underspend of £57,000 on premises costs of which £34,000 relates to reactive repair and maintenance budgets which invariably do not conform by nature to predetermined spend profiles, £15,000 savings on business rates due to lower voids than forecast £8,000 on non-material variations.

The income budget for New Bins consists of £45,000 for new properties and the new approved budget of £30,000 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 September | Variance to September | Forecast Outturn Variance |
|------------------------------|---------------|-----------------|---------------------|-----------------------|---------------------------|
| | £ | £ | £ | £ | £ |
| Building Control Fees | (150,000) | (75,030) | (98,605) | 23,575 | 0 |
| Car Parking Charges | (92,512) | (46,274) | (51,850) | 5,576 | 0 |
| Domestic Waste - new bins | (75,000) | (30,006) | (18,808) | (11,198) | 0 |
| Domestic Waste - spec collns | (32,000) | (16,004) | (20,780) | 4,776 | 0 |
| Land Charges Income | (100,000) | (50,020) | (53,648) | 3,628 | 0 |
| Licensing - Premises | (63,000) | (47,974) | (47,649) | (325) | 0 |
| Market Rents | (135,000) | (67,524) | (65,576) | (1,948) | 0 |
| Pest Control Income | (23,000) | (10,335) | (10,309) | (26) | 0 |
| Planning Application Fees | (375,000) | (187,572) | (286,658) | 99,086 | Under review |
| Property Rental | (1,122,756) | (908,330) | (893,347) | (14,383) | 0 |
| Short Term Interest | (109,000) | (54,520) | (83,194) | 28,674 | 50,000 |
| Taxi Licensing Income | (82,411) | (44,677) | (41,913) | (2,764) | 0 |
| Trade Waste Income | (476,810) | (465,032) | (464,983) | (49) | 0 |

Interest on Investments

Short-term investment income is £29,000 above the profiled budget to the end of September. The increase in interest is a combination of increased average balances and better rates obtained than forecast. Returns on investments and comparatives for the previous reporting period are set out below:-

| | Average Balance Periods 1 - 6 | Average Rate Periods 1 -6 | No of days | Interest Earned |
|---------|----------------------------------|------------------------------|---------------|--------------------|
| 2016/17 | £31,701,090 | 0.682954% | 183/365 | £108,549 |
| 2017/18 | £32,842,813 | 0.505237% | 183/365 | £83,194 |

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

Rental income to September is £14,000 lower overall than budgeted for the period. This is a reduction from the income position reported in June due to a large unit being vacated and not re-let yet due to an investigation regarding the previous occupants. This is mitigated partly by the letting of smaller units and consequently although the overall floor area occupied remains at 96% let, there has been a marginal increase in the number of units let from 95% at the end of the first quarter to 96% let at the end of September. 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 September 2017 shows that the Council is performing well and generally in line with its profiled budget whilst also accommodating additional project costs and one-off staffing 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 September 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 ongoing realisation of the variation at out-turn will be dependent on the continued receipt of Planning Fess income which cannot be guaranteed at this stage in the year.
- 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) - Wherside 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 September totalled £1.626m which is 33.5% of the total budget for the year of £4.852m. Directors have provided a spend profile of schemes 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-turn estimated at this early stage in the year shows that there is an expected variance of £1.475m. 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.

The projected reduction in balances from March 2017 to March 2018 of £5.3m is based on the following assumptions:

| | |
|---|----------------------|
| Budgeted contribution from General Fund balances | -£0.3m |
| Use of Borough Investment Account reserve in 2017/18 | -£3.8m |
| Asset Management Reserve – Capital Programme | -£1.3m |
| Asset Management Reserve – Revenue Contribution to reserve | +£0.5m |
| Business Rates Retention – add. S31 Grant and forecast growth | +£0.4m |
| ICT strategy – Capital Programme | -£0.4m |
| Other reserve – release of carry forward | -£0.4m |
| Total | <u>-£5.3m</u> |

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 |