

REPORT TO	ON
Scrutiny Committee Cabinet	8 November 2018 21 November 2018



TITLE	REPORT OF
Budget Monitoring report as at 30 September 2018 (Quarter 2)	Interim Deputy Chief Executive (Resources and Transformation)

Is this report confidential?	No
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### 1. PURPOSE OF THE REPORT

This report provides an update at the second quarter of 2018/19 on the Council's overall financial position and a forecast of the projected outturn to 31<sup>st</sup> March 2019, compared to the budget approved back in February 2018.

### 2. RECOMMENDATIONS

That the Committee note, review and comment on the report.

### 3. CORPORATE PRIORITIES

The report relates to the following corporate priorities

Clean, green and safe		Strong and healthy communities	
Strong South Ribble in the heart of prosperous Lancashire		Efficient, effective and exceptional council	✓

### 4. BACKGROUND TO THE REPORT

The approved revenue 2018/19 budget set by the Council in February 2018 was £14.050m, with no budgeted transfer to or from general balances. This report compares the 2018/19 Original Budget to the forecast Projected Out-turn.

### 5. DETAILS

#### 5.1 Revenue Summary

Table 1 below summarises the approved budget and the key revenue budget variations which have been identified at Quarter 2 which are expected will impact on the outturn position at 31 March 2019. The budget figure incorporates the 2018/19 budget proposals and parish precepts and payments to City Deal (which were netted off in the budget report) are shown as gross.

The Projected Outturn forecast at quarter 2 in respect of the full year 2018/19 is a net underspending of £320,000. This includes an overall saving in staffing-related costs of £150,000. This forecast is based on a set of assumptions including when vacant posts will be filled and therefore any delays in recruitment may result in a higher saving at the end of the financial year.

**Table 1: REVENUE BUDGET SUMMARY – QUARTER 2 2018/19**

Directorate	18/19 Full Year Budget	Projected Variances Over/(Under) spend	2018/19 Projected Outturn
	£000	£000	£000
Chief Executive	1,026	(88)	938
Neighbourhoods & Development	5,533	(175)	5,358
Planning and Property	2,366	(103)	2,263
Finance and Assurance	1,468	(10)	1,458
Legal, HR & Democratic Services	1,196	48	1,244
Customer Experience & Operations	2,004	(49)	1,955
Pension Deficit Contributions	580	0	580
Efficiency Targets:			
Staff Turnover in-year	(100)	105	5
Transformation	(270)	(82)	(352)
Management Restructure	(200)	200	0
<b>Net Cost of Services</b>	<b>13,603</b>	<b>(154)</b>	<b>13,449</b>
Investment Property	(865)	21	(844)
Interest payable / (receivable)	59	(115)	(56)
Parish Precepts	365	0	365
Provision for repayment of debt	969	0	969
Contribution to / (from) reserves	(81)	(72)	(153)
<b>Funding Requirement</b>	<b>14,050</b>	<b>(320)</b>	<b>13,730</b>
Funding:			
New Homes Bonus – City Deal	(984)	0	(984)
New Homes Bonus – SRBC	(407)	0	(407)
Retained Business Rates	(4,606)	0	(4,606)
Council Tax (incl. Parishes)	(8,053)	0	(8,053)
<b>Total Funding</b>	<b>(14,050)</b>	<b>0</b>	<b>(14,050)</b>
<b>Net (Surplus) Deficit</b>	<b>0</b>	<b>(320)</b>	<b>(320)</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 2018. These are set out in Table 2 below.

**Table 2: Projected Revenue Outturn Variations at Quarter 2 2018/19**

Directorate	Projected Variances At 2 <sup>nd</sup> Qtr. Over/(Under) spend	Detail	Staffing Related	Non-staffing
	£000		£000	£000
Chief Executive	(88)	Staffing related costs – Delays in recruiting to the two Deputy CEO posts, and turnover in PR.	(88)	
Neighbourhoods & Development	(175)	Staffing related costs – Delays in recruiting to the AD post (42k) and several other vacancies.	(188)	
		Garden Waste income - higher take up than forecast in first year of scheme **		(322)
		Trade Waste income - reduction in take up on renewal		34
		Trade Waste – lower disposal charges payable due to reduced take up		(20)
		Vehicle repair and Maintenance forecast saving - sweeper maintenance work brought in-house **		(30)
		Commercialisation of depot – forecast saving in works to depot (offset by reduced contribution from Transformation Reserve)		(18)
		Grounds Maintenance income increase – new contract		(4)
		Car Parking – forecast shortfall in permits & PCN fines income		14
		Reduction in Pest Control income due to removal of Rats & Mice charges		7
				** Additional income and transformational savings achieved
Planning and Property	(103)	Staffing related costs – Delay in recruiting to the AD post (5k), three vacant apprentice posts (36k) and minor underspends due to reduced hours and turnover.	(53)	
		Place Promotion Budget £100k of which £5k spent and £45k proposed (subject to Cabinet approval)		(50)
Finance and Assurance	(10)	External Audit fees reduction		(10)
Legal, HR & Democratic Services	48	Staffing related costs – Delay in recruiting to the Director and AD posts is offset by costs for Monitoring Officer, but there are costs for a redundancy (15k) and extra HR support (14k)	28	
		Forecast increase in external legal fees largely due to planning appeal and public enquiry costs		20

Directorate	Projected Variances At 2 <sup>nd</sup> Qtr. Over/(Under) spend	Detail	Staffing Related	Non-staffing
Customer Experience & Operations	(49)	Staffing related costs – Delay in recruiting to the Director post (31k) and vacancies in IT (31k)	(64)	
		IT supplies and services – budget pressures identified (including GDPR)		30
		Revenues and Benefits supplies and services forecast saving		(15)
Budgets not in directorates	223	Transformation savings targets – savings / increased income in year		(82)
		In-year Turnover savings not allocated	156	
		Management Restructure savings not allocated	59	
		Management Restructure severance costs funded from reserves	90	
Investment Property	21	Forecast shortfall in rental income – empty properties Station Road, Bamber Bridge (£23k) offset by minor variations (£-2k)		21
Interest payable / receivable	(115)	Interest on short-term investments		(115)
Contribution to / (from) reserves	(72)	Reduction in contribution from Transformation Reserve		18
		Contribution from restructure reserve	(90)	
Funding	0			0
<b>TOTAL</b>	<b>(320)</b>		<b>(150)</b>	<b>(170)</b>

## 5.2 Revenue income

With regard to managing risk in the budget management process, the main income streams are reported in detail as these budget heads are subject to variations caused by circumstances outside the direct control of the Council. At this stage in the year some of the Council's main income streams, such as Garden waste charges, are performing extremely well and have in some cases exceeded the levels anticipated. These variations are reflected in the projected out-turn forecasts.

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.

Table 3 below provides a summary of the Council's main income streams:

**Table 3: Key Income Budgets**

<b>Income Budgets</b>	<b>Annual Budget 2018/19 £000</b>	<b>Income to 30 Sept 2018 £000</b>	<b>Projected Outturn 2018/19 £000</b>	<b>Variance (Over) / Under budget £000</b>
Investment Property Rentals	(1,106)	(975)	(1,085)	21
Garden Waste income	(455)	(777)	(777)	(322)
Planning Fees	(480)	(231)	(480)	-
Trade Waste Charges	(484)	(450)	(450)	34
Building Control Fees	(170)	(102)	(170)	-
Land Charges	(105)	(55)	(105)	-
Interest on Investments	(105)	(123)	(220)	(115)
Taxi Licensing Fees	(73)	(44)	(73)	-
Car Parking Charges/Permits	(108)	(54)	(103)	5
Car Parking PCN fines	(30)	(11)	(21)	9

**5.2.1 Investment property rentals**

The forecast shortfall in rental income is due to empty property at Station Road, Bamber Bridge (£23k) offset by various minor variations (£-2k). The property at Station Road has been subject to a flood that had caused extensive damage to the property. In October, Cabinet approved capital expenditure to refurbish the property at Station Road and convert flats with office accommodation at ground floor. Approval was also granted to enter into a legal agreement with Methodist Action NW for them to manage the property with an initial lease term of seven years, with an option to extend the lease. There will be an initial shortfall in income from this property until the conversion work has been undertaken but subsequently there will be more income certainty for the Council going forward, with the risk of voids transferred to the housing charity as part of the lease.

There have been no write-offs of property rentals in the period April to September 2018, other than very minor balances.

**5.2.2 Interest on Investments**

The forecast for Short-term investment income has been revised to £220,000 to reflect both increased average cash balances and improved rates of interest earned. In 2017/18 the total interest earned to March was £179,000.

Returns on investments and comparatives for the previous reporting period are set out below:-

	<b>Average Balance Periods 1 - 6</b>	<b>Average Rate Periods 1 - 6</b>	<b>No of days</b>	<b>Interest Earned</b>
2017/18	£32,842,806	0.497%	183/365	£81,840
2018/19	£37,291,001	0.657%	183/365	£122,893

**5.3 Transformation savings target (£0.270m)**

Income and transformational savings of £0.352m has been secured in the first half of the financial year, largely due to additional income from Garden Waste charges.

In addition, a number of initiatives are underway which will contribute to the delivery of some budget savings and/or additional income and these include:

- My Neighbourhoods transformation project – potential merging of teams and development of a Place-based model
- Commercialisation of the depot – investment in depot facilities/workshop, discussions with waste contractor re ongoing vehicle maintenance
- Review of Gateway and ICT services which will be further progressed with the roll-out of the digital strategy
- Review of admin function

Although no decisions have been made at this stage that will secure recurrent savings, further detailed updates will be provided in the budget papers. With regard to 2019/20 and future years, these targets will need to be reviewed as part of the overall budget forecasts to ensure a balanced budget position can be achieved and maintained.

#### **5.4 Use of Reserves**

The management restructure has resulted in one-off costs in relation to redundancy which will be funded from the organisational restructure reserve in 2018/19 (£90k). Works to facilitate the commercialisation of the depot, which are funded from the Transformation reserve, are forecast to cost £60k, a saving of £18k against the original forecast.

#### **5.5 Capital**

Details of the Council's capital spending by scheme is contained in Appendix A. The projected spend is compared to the full year budget accompanied by an explanatory note where applicable.

The total full year capital budget is £8.760m. The budget includes £0.401m slippage from 2017/18 and additional approved budgets £0.208m (City Deal funded schemes £0.125m and Affordable Housing s106 funded scheme £0.083m).

£1.880m (21.5%) was spent and committed as at 30<sup>th</sup> September 2018. It is expected that the total spend at year end will be £7.752m, forecast re-phasing of expenditure into 2019/20 £0.972m with an in-year saving of £0.036m identified. Similarly to revenue budget monitoring, the statement set out in Appendix A contains current assumptions only and budget holder advice in respect of spending to the end of the year. These forecasts will be updated through the year and any variations identified and reported.

#### **5.6 Revenue Funding**

2017/18 was the last year the Council received Revenue Support Grant (RSG) funding. New Homes Bonus funding from housing growth up to a cash limit is payable to the City Deal Fund for the period of the City Deal and therefore not retained by the Council. The introduction of a growth threshold in the calculation of New Homes Bonus unfortunately resulted in no new NHB for 2018/19.

Consequently, from 2018/19 onwards, the Council's core funding is restricted to a basis of 100% locally sourced taxation in the form of Council Tax and Business Rates Retention (BRR). BRR presents a financial risk to the authority as it is subject to year on year, and also in year, variations and volatility outside the direct influence of the Council, for example as a result of appeals, revaluations and technical changes to the BRR scheme late in the year. However it is also an opportunity to benefit directly from growth in the business sector, for which the City Deal programme is a key enabler. The current forecast is that the retained income for 2018/19 will be in line with the budget.

## 5.7 Summary

In summary, the financial position at the end of the 2<sup>nd</sup> quarter of 2018/19 shows the Council is forecast to underspend against the original budget. The main reason for this is increases in income, predominantly due to the take up of the Garden Waste collection service and interest earned on short-term investments both exceeding the budget forecast. This is partly offset by some cost pressures identified, including increased costs for IT software required to meet GDPR requirements and increases in external legal fees. Also, targets for cost savings and income generation were included in the 2018/19 budget. At this stage in the year recurring budget savings/income has been secured and a number of transformational initiatives are being progressed. A prudent approach has therefore been taken with regard to the budget forecast at this stage in the year and any transformation savings achieved during the year will be reflected in future budget monitoring reports.

The current forecasts are based on a number of assumptions made in the budget with regard to expected spending patterns and levels of income received to the end of the year. The current position will be closely monitored during the year with particular regard to budgets that are subject to fluctuation and therefore present a higher risk to the Council's financial sustainability over the medium to long term.

With regard to the wider context and the Council's financial position in the longer term it should be noted that although the budgetary savings and additional income achieved contribute towards achieving a balanced out-turn position, these need to be a recurring benefit to ensure that any budget gap can be reduced in future years. This will be addressed as part of the budget-setting process.

The Capital Programme currently reported forecasts only minor variations at the end of the year. As the year progresses the phasing will be updated, and the impact on funding requirements will also be assessed.

## 6. WIDER IMPLICATIONS AND BACKGROUND DOCUMENTATION

In the preparation of this report, consideration has been given to the impact of its proposals in all the areas listed below, and the table shows any implications in respect of each of these. The risk assessment which has been carried out forms part of the background papers to the report.

### 6.1 Comments of the Statutory Finance Officer

The financial implications are contained within the report.

### 6.2 Comments of the Monitoring Officer

The purpose of the report is to provide detailed information to Governance committee on the council's overall financial position. There are no direct legal implications arising as such.

<b>Other implications:</b> ▶ <b>Risk</b>	Risk is identified in the report. The main risk area is the inclusion of assumptions. Assumptions have been made with regard to estimating future costs and external influences that will affect projections in future months. Therefore any conclusions drawn from the contents of the report should be treated with some caution.
▶ <b>Equality &amp; Diversity</b>	This report is not considered to have any adverse impact on equality.
▶ <b>HR &amp; Organisational Development</b>	There are no HR & Organisational Development implications.
▶ <b>Property &amp; Asset Management</b>	There are no Property & Asset Management implications.

▶ <b>ICT / Technology</b>	There are no ICT implications.
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**7. BACKGROUND DOCUMENTS**

- Budget Report and Medium Term Financial Strategy – February 2018
- Appendix A - Capital Programme Monitoring 2018/19 (Qtr. 2)

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