Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

10 NOVEMBER 2017

REPORT OF FINANCE AND CORPORATE RESOURCES PORTFOLIO HOLDER

A.13 CORPORATE BUDGET MONITORING REPORT FOR THE SECOND QUARTER OF 2017/18

(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To provide an overview of the Council's actual financial position against the budget as at the end of September 2017.

EXECUTIVE SUMMARY

- The Council's financial position against the approved budget has been prepared for the period to the end of September 2017 and is the second such report for 2017/18.

- In respect of the position at the end of September 2017, it is still relatively early in the financial year and therefore some expenditure or income trends may still be emerging / evolving. However any significant issues arising to date have been highlighted and comments provided as necessary.

- The position to the end of September 2017, as set out in more detail in the Executive Summary attached, shows that overall the actual General Fund Revenue position is behind the profiled budget by **£3.354m.** After allowing for significant one-off budgets such as the Fit for Purpose Budget where commitments or decisions are still to be made, the position is revised to **£1.192m** behind the profiled budget. As has been the case in previous years, the variance at the end of the first and second quarters primarily reflects the timing of expenditure and income although as previously mentioned, underlying trends are likely to emerge or be confirmed over the next quarter.

- In respect of other areas of the budget such as the Housing Revenue Account, capital programme, collection performance and treasury activity, apart from additional details set out later on in this report, there are no further issues to highlight to date.

- Any emerging issues will be monitored and updates provided in future budget monitoring reports along with their consideration as part of the Financial Strategy and budget setting framework for 2018/19 where a longer term response may be required.

- As set out in the Long Term Financial Sustainability Plan / 10 Year Forecast considered by Cabinet at its 5 September 2017 meeting, supporting a favourable outturn position through managed actions forms a significant strand of the process going forward. Some potential favourable variances that are likely to remain over the remainder of the year are emerging but because a more comprehensive review is currently being undertaken as part of the revised budget process, no adjustments are proposed at this point in time but will be included within the revised budget position for 2017/18 that will be reported to Cabinet in December 2017.

- Other emerging issues have also arisen that require budget adjustments and/or specific recommendations with further details highlighted below.

- A half year treasury management review has been carried out with a summary set out later on in this report along with an associated recommendation to temporarily increase the aggregate limit of funds that can be placed overnight with the Council's bankers for the period that the offices will be closed over the Christmas break.

RECOMMENDATION(S)

It is recommended that:

(a) The financial position as at the end of September 2017 be noted;

(b) in respect of the 2017/18 budget, the central agency staff budget be increased by £0.150m funded by a transfer from associated vacancy savings accrued to the end of September 2017;

(c) in respect of the Council's Treasury Management Practices, the aggregate amount of money that can be placed overnight with the Council's bankers be increased temporarily from £1.000m to £1.500m for each day the offices are closed over the Christmas break.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Effective budgetary control is an important tool in ensuring the financial stability of the authority by drawing attention to issues of concern at an early stage so that appropriate action can be taken. Financial stability and awareness plays a key role in delivering the Council's corporate and community aims and priorities.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are considered in the body of the report.

Risk

A number of variances will be subject to change as the year progresses although at this stage it is expected that any adverse position can be managed within the overall budgets. The budget position will be monitored and reviewed as part of both the future budget monitoring arrangements and Financial Strategy Processes.

LEGAL

The Local Government Act 2003 makes it a statutory duty that Local Authorities monitor income and expenditure against budget and take appropriate action if variances emerge.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications arising from this report.

PART 3 – SUPPORTING INFORMATION

BACKGROUND

The Council's financial position against the approved budget has been prepared for the period ending 30 September 2017.

This is the second such report on the Council's financial position against the budget for 2017/18, and so some expenditure or income trends may still be emerging. However comments are provided below where necessary.

GENERAL FUND REVENUE

The position to the end of September 2017, as set out in more detail in the Executive Summary attached, shows that overall the actual position is behind the profiled budget by **£3.354m**.

After allowing for significant / one-off budgets such as the Fit for Purpose Budget where commitments or decisions are yet to be made, this position is revised to **£1.565m** behind the profiled budget with further details as follows:

Variance As Set out In Executive Summary	**(£3.354m)**
Less Variances to date for Significant / One-off Budgets	
Fit For Purpose	£0.320m
Contingency	£0.161m
New Homes Bonus	£0.706m
Local Plan	£0.602m
Variance Excluding Significant / One-off Budgets	**(£1.565m)**

After further excluding the variance for employee costs of **£0.373m**, which is covered separately below, the remaining net variance is **£1.192m**

As set out in the appendices, elements of this remaining variance are due to the timing of expenditure and income or where commitments / decisions have yet to be made.

Appendix B provides further narrative around variances with the following highlighting significant issues at the end of September 2017:

<u>EXPENDITURE BUDGETS</u>

Salaries / Employee Costs

Overall employee expenses are behind profile by **£0.373m.** *(compared with £0.186m behind the profiled budget at the end of the first quarter)*

As previously discussed, departments continue to challenge how they deliver their services so opportunities are taken to review staffing levels, such as when vacancies emerge, rather than automatically recruit on a like for like basis. Although the above variance may not necessarily translate into on-going budget reductions, it does reflect the one-off savings from vacancies over the first half of the year.

A comprehensive review of employee costs is underway to inform the revised budget for 2017/18 and base budget going into 2018/19 as part of the wider budget setting process. Any adjustments required to reflect any restructures completed to date along with accrued savings will therefore be included as part of that process.

It is however proposed to use a part of the favourable position accruing to date to support an increase to the central agency budget with further details set out further on in this report.

INCOME BUDGETS

In addition to comments set out in the Appendices, some important variances to highlight to date are as follows:

- Parking income is ahead of the profiled budget by **£0.130m**. *(compared with £0.064m ahead of the profiled budget at the end of the first quarter)*
- Crematorium income is still running slightly behind the profiled position with a variance of **£0.045m** to date *(compared with £0.043m behind profile at the end of the first quarter).* However as previously discussed, income can fluctuate over the year and potentially follow a different trend to previous years and although income has not recovered over the second quarter it may well do so over quarters 3 and 4. This will be reviewed as part of the revised budget process currently underway.
- Beach Hut income is **£0.057m** ahead of the profiled budget to the end of September 2017 which is **£0.042m** ahead of the full year budget. *(compared with £0.022m ahead of the full year budget at the end of the first quarter)*
- Planning income continues to remain very strong with income ahead of the profiled budget by **£0.298m** at the end of September 2017. *(compared with £0.117m ahead of the profiled budget at the end of the first quarter)*

DELIVERY OF SAVINGS 2017/18

Included within the 2017/18 budget were a number of items where actions were required to secure the necessary savings. A brief update against significant items is set out below:

- **Office Transformation** – only modest savings of **£0.020m** were included in 2017/18 from the closure of Clay Hall and other minor properties. The more significant savings will accrue from the closure of the Weeley site. The associated business case supporting the Office Transformation project has recently been approved and the project is now underway and is planned to be completed over the next two years.
- **CAROS** – a saving of **£0.010m** was included for 2017/18 representing the natural growth in rents within the scheme as it currently stands. This remains an on-going action that will be delivered via the negotiation of new leases as the previous ones expire.
- **Open Spaces and Play Areas** – the delivery of the expected savings of **£0.042m** in 2017/18 remain on-going.
- **Reduction in the number of Public Conveniences** – Work remains on-going to deliver budgeted savings of **£0.060m** in 2017/18, following the approval of a Public Convenience Strategy earlier in the year. As highlighted in **Appendix D**, a number

of toilets have been earmarked for closure with the service now identifying costs of the associated decommissioning works.

As highlighted, work remains on-going to deliver these savings, but it is acknowledged that although the total saving expected will be realised, the timing of when they impact on the budget may differ to that initially expected given the lead in times and associated decisions that are required. Therefore the position will remain under review and updates provided in the next quarter's budget monitoring report and / or included as part of the revised budget process for 2017/18 where necessary.

As part of reporting the first quarters position to members earlier in the year, the following career track update was provided:

"it is also worth highlighting the progress being made by the Council in becoming a registered training provider, which effectively replaces the current Career Track Service following the new Apprenticeship Levy arrangements introduced by the Government. All existing contracts with Colchester Institute are continuing throughout the majority of the year. However Government delays in the implementation of new training agreements with training providers mean that recruitment and the financial drawdown of money from the apprenticeship levy 'pot' has been significantly delayed. The impact these delays will have on the budget will be monitored over the reminder of the year"

Unfortunately information / guidance is still awaited from the Government which will have an impact on the 2017/18 budget. Discussions are underway with the relevant service to identify what budget adjustments are required as part of the revised budget process for 2017/18.

2017/18 BUDGET ADJUSTMENTS / OTHER ISSUES

Given ongoing conditions within the wider employment market, two departments within the Council continue to have a limited reliance on agency staff to support the effective delivery of services. Although restructuring opportunities are being explored to provide a longer term solution, a small number of agency staff are expected to remain engaged over the remainder of the year within Planning and Environmental Health.

It is forecast that this will cost **£0.150m** over the second half of the year, which is over and above the existing central agency staff budget of **£0.100m.** However there are corresponding vacancy savings accruing within the same services, which are available to fund this cost. It is therefore proposed to transfer existing employee budgets across to the central agency budget with a recommendation included above to enable this adjustment to be made.

Within the last quarter's budget monitoring report, an update on the implementation of the 20% increase in planning fees that was agreed by Cabinet in June 2017 was provided. Although the original implementation date was the 1 July 2017, this continues to be delayed with guidance still awaited from the Government. It is now expected that a further update will be provided within the budget setting process that will be reported to Cabinet in December 2017.

HOUSING REVENUE ACCOUNT – REVENUE
An overall position is set out in the Executive Summary with further details included in **Appendix C**.

As at the end of September 2017, the HRA is **£0.113m** ahead of the net profiled budget *(compared with £0.048m ahead of the profile at the end of the first quarter).* Apart from the issue regarding rents and repair costs set out below, there are no significant issues to highlight to date as this largely reflects the timing of expenditure such as the maintenance and repairs to the tenant's properties.

As reported in earlier quarters, rental income remains behind profile (**£0.141m** at the end of September 2017 compared with **£0.100m** at the end of the first quarter). This largely reflects the on-going issue regarding the increase in the average period properties remain void. As previously highlighted, there is a mix of reasons that contribute to this position such as the condition of some properties when vacated by tenants, asbestos removal work being undertaken before properties are relet and the number of long term voids in sheltered blocks. Although it is expected that this trend should start to reverse over time as asbestos work reduces along with decisions being made about the long term future of sheltered accommodation, the service is also taking the opportunity to undertake more significant repair works during any void periods for reasons of efficiency, as work would otherwise have to be done at a later date when a tenant was in occupation. This has therefore not only had an impact of income budgets but it has also had a knock on impact on the timing of repair work which has led to the associated expenditure budget moving ahead of the profiled position at the end of the second quarter. The overall void position is therefore under review as part of the revised budget process for 2017/18 along with determining any on-going impact in 2018/19 and beyond.

Increased period of voids also increases the level of council tax payable on empty properties which therefore presents a secondary impact to the overall HRA positon.

CAPITAL PROGRAMME – GENERAL FUND

The overall position is set out in **Appendix D.**

As at the end of September 2017 the programme is behind profile by **£0.034m**. *(compared with £0.562m behind profile at the end of the first quarter).*

As was the case at the end of the first quarter, a number of schemes have yet to incur any significant expenditure but updates are provided against a number of the larger schemes to inform Members about the progress being made to deliver them.

There are no significant issues to highlight at the present time with additional comments set out in **Appendix D.**

CAPITAL PROGRAMME – HOUSING REVENUE ACCOUNT

As at the end of September 2017 the programme is behind profile by **£0.787m. (***compared with £0.229m behind profile at the end of the first quarter).*

This budget relates primarily to the on-going major repairs and improvements to the Council's own dwellings. There are no specific issues to highlight at this stage and the expectation is that expenditure / commitments will be broadly in line with the budget over the course of the year as work is progressed and procurement processes completed.

As reported at the end of the first quarter, additional capital receipts are now starting to be retained from qualifying right to buy disposals. These are called 1 for 1 receipts and their retention requires the Council to have spent them on delivering affordable / social housing within three years from when they were received. To provide additional controls /

governance around this issue and to ensure that the money is spent in accordance with the retention requirements, attention is being drawn to this issue within **Appendix D** with ‘spend by’ dates now included.

COLLECTION PERFORMANCE

A detailed analysis of the current position is shown in **Appendix E**.

There are no significant issues to highlight at the present time. Income will continue to be collected over the reminder of the year with recovery arrangements and action taken as necessary.

Although the collection of general debt is running slightly ahead of the position for the same period last year, there is still a significant impact from the issue previously highlighted regarding theatre income where action is being taken to recover money owed in connection with a potential fraud committed against the Council.

TREASURY ACTIVITY

A detailed analysis of the current position is shown in **Appendix F.**

The Council agreed the Treasury Strategy for 2017/18 on 28 March 2017 and in accordance with Financial Procedure Rules this strategy and associated activity have been subject to a half yearly review with the outcomes set out below:

The Economy and the outlook for next 6 months

A more detailed analysis has been provided by the Council’s treasury advisors with highlights set out as follows:

After the UK experienced strong growth in 2016, growth in the first half of 2017 was the slowest for a half yearly position since 2012. The main reason for this has been the sharp increase in inflation, caused by the devaluation of sterling, feeding increases in the cost of imports into the economy. This has caused, in turn, a reduction in consumer disposable income and spending power and so the services sector of the economy, accounting for around 75% of GDP, has seen weak growth as consumers cut back on their expenditure.

The Bank of England Inflation Reports during 2017 have flagged up that they expected Consumer Prices Index (CPI) inflation to peak at just under 3% in 2017, before falling back to near to its target rate of 2% in 2019. At the present time it looks likely that the Bank of England will increase the Bank Rate to 0.5% in November or, if not, in February 2018. The big question after that will be whether this will be a one off increase or the start of a slow, but regular, increase in Bank Rate.

Some forecasters are indicating that they expect growth to improve significantly in 2017 and into 2018, as the fall in inflation will bring to an end the negative impact on consumer spending power while strong export performance will compensate for weak services sector growth.

Investments

Investment returns are slightly behind budget, mainly as a result of the reduction in the bank base rate in August 2016, with the impact now being fully felt with the weighted average interest rate now only 0.38% against a target of 0.40%. However, the anticipated increase in the base rate later in 2017 or early 2018 should help reduce this variance by the end of the year.

In August 2017, the Council purchased an Investment Property in Clacton at a cost of **£3.245 million**, as shown in the General Fund Capital programme **Appendix D**. The Council will receive rental income in 2017/18 of **£0.122 million**, and in 2018/19 of **£0.206 million**, rising by 1.95% each year until the current lease expires in March 2027. This is an annual full year rate of return on the purchase price in excess of 6%.

The closure of Council Offices between Christmas and New Year 2017 means that daily treasury management actions will not be able to be undertaken for a short period. Despite planning to maintain adequate headroom across the Council's current accounts, significant council tax and non-domestic rates payments are expected during the Christmas closedown period and along with other income the current **£1.000m** limit that can be placed overnight with the Council's current account bankers is likely to be exceeded. A similar situation occurred last year which was brought to the attention of members. Accordingly, it is requested that the limit be temporarily increased to **£1.500m** for this period. Officers will monitor the wider market conditions / intelligence and will only place money up to this revised limit if there are no adverse indicators around Lloyds bank that would increase risks. During the year Lloyds Bank have seen a strengthening position in terms of their overall ratings from the main rating agencies increasing confidence in them and therefore the proposed approach set out above.

Borrowing
The borrowing rates that the Council can access remain relatively low. Due to the low yield on investments, the Council has maintained the position of not replacing the **£1.000m** external loan which matured in March 2014 and no additional borrowing is currently planned in 2017/18.

Other
The Chartered Institute of Public Finance and Accountancy, (CIPFA), is currently conducting an exercise to consult local authorities on revising the Treasury Management Code and Cross Sectoral Guidance Notes, along with the Prudential Code. CIPFA is aiming to issue the revised codes during November. A particular focus of this exercise is to reflect on activities which are not traditional treasury type investments e.g. investment property. One potential recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments. Officers are monitoring developments and will report to members when the new codes have been agreed and issued and on the likely impact on the Council.

Notwithstanding the above, operationally there are no significant matters to highlight at the end of September with investment and borrowing activity on-going in line with the Treasury Strategy and associated practices / requirements.

BACKGROUND PAPERS FOR THE DECISION
None

APPENDICES
Front Cover and Executive Summary Appendix A – Summary by Portfolio / Committee

Appendix B – General Fund Budget Position by Department
Appendix C – Housing Revenue Account Budget Position
Appendix D – Capital Programme
Appendix E – Collection Performance – Council Tax, Business Rates, Housing Rent and General Debts
Appendix F – Treasury Activity
Appendix G – Income from S106 Agreements