

Report To:	CABINET	Date:	13 TH JULY 2017
Heading:	GENERAL FUND & HRA OUT-TURN 2016/17 & BUDGET 2017/18 UPDATE		
Portfolio Holder:	CLLR JACKIE JAMES – CORPORATE SERVICES		
Ward/s:	ALL		
Key Decision:	YES		
Subject To Call-In:	YES		

Purpose Of Report

This report sets out the details of income and expenditure incurred in 2016/17 by the General Fund and Housing Revenue Account, compares it to the approved budgets and explains the significant variances.

The outturn position for 2016/17 compared to the approved budget was:

- General Fund. There was a net surplus of £495K compared to the approved budget for a net surplus of £491K. An improved position of £4K was after movement in reserves.
- Housing Revenue Account. There was a net surplus of £1.779m compared to the approved budget for a net surplus of £516K. An improved position of £1.263m.

This is the unaudited position. The audited statement will be presented to the Audit Committee in September.

The report also recommends amendments to the 2017/18 budget however all changes are fully funded from within the 2017/18 budget or from a specific reserve.

Recommendation(s)

Members are requested:

- (i) Note the revenue outturn for the General Fund.
- (ii) Note the revenue outturn for the Housing Revenue Account.
- (iii) Approve the re-allocation of budgets for 2017/18 as identified at section 2 and approve the increase in the General Fund budget funded from Earmarked Reserves. This has no impact of the General Fund balance position.

Reasons For Recommendation(s)

To report to those charged with Governance the financial position for the end of 2016/17 and comply with the Council's Financial Regulations

Alternative Options Considered (With Reasons Why Not Adopted)

The financial position is as reported within the draft Statement of Accounts therefore there are no other options. The changes to the 2017/18 budget are required to facilitate the progression of specific projects however these are funded from specific earmarked reserves designated for this purpose. Not to approve these changes would prevent some projects from progressing or require them to be financed from the General Fund balance which is not recommended.

Detailed Information

1. Financial Overview for 2016/17

a. The General Fund Revenue Budget Statement

The Directorate Structure is the basis used for the management and delivery of services and for accounting purposes. The Council had 7 Directorates during 2016/17. The statement below shows the revised revenue budget compared with the actual net expenditure by Directorate and by subjective analysis.

	Revised Budget £'000	Actual £'000	Variance £'000
Subjective Analysis:			
Employee Expenses	16,143	16,275	132
Premises Expenses	1,402	1,414	12
Transport Related Expenses	1,273	1,341	68
Supplies and Services	5,880	6,266	386
Transfer Payments	33,910	33,286	(624)
Central & Dept Recharges	10,070	9,728	(342)
Income	(42,089)	(42,643)	(554)
Recharges	(12,968)	(12,883)	85
Total	13,621	12,784	(837)
By Directorate			
Chief Executive Officer	465	465	(0)
Deputy CEO (Resources)	917	98	(819)
Assistant CEO (Governance)	989	1,069	80
Housing Strategy	379	411	32
Corporate Services & Transformation	1,325	1,303	(22)
Planning & Economic Development	2,558	2,474	(84)
Place & Communities	6,988	6,964	(24)
Divisional Expenditure	13,621	12,784	(837)
Financing and Investment Income and Expenditure			
Net Interest	(242)	(197)	45
Minimum Revenue Payment	1,526	1,526	0
Capital Expenditure Financed from Revenue	241	226	(15)
	1,525	1,555	30
Funding			
Government Grants	(4,948)	(4,956)	(8)
Business Rates	(4,651)	(4,933)	(282)
Council Tax	(5,703)	(5,703)	0
Total Funding	(15,302)	(15,592)	(290)
Net General Fund Deficit / (Surplus) for the year before transfers to/from Earmarked Reserves	(156)	(1,253)	(1,097)

Net Contribution to / (from) Earmarked Reserves	(335)	758	1,093
Net General Fund Deficit / (Surplus) for the year after transfer to/ (from) Earmarked Reserves	(491)	(495)	(4)

Employee Costs

Employee costs were over spent by £132k. Direct pay (including Employer's National Insurance and Superannuation contributions) was £404k lower than budget due to vacancies throughout the Authority. This was offset by increased agency costs of £467k. A saving was made on Members' Allowances of £10k. Recruitment Advertising was £101k, reflecting the level of vacancies but also costs associated with recruitment to senior management posts. Other Employee costs, including Training, were £22k better than budget.

Premises costs

Premises costs were £12k over spent. Maintenance of Public buildings was £16k under spent, and there was an under spend on Utilities of £17k. Costs in relation to Police & Crime Commissioner elections and the EU referendum were £32k over spent, however, these costs will be recouped from the Government when the election claims are finalised. Spending on Landlord Services, in relation to Private Sector housing, was £12k over spent, and Property Insurance was £16k higher than budget. Insurance increased further to revaluation of properties post budget setting.

Transport Related Expenses

Transport costs were £68k over spent. There were over spends on fuel of £36k and vehicle maintenance (including parts) of £49k and other transport related costs of £2k. Offsetting this was a saving on tyres of £19k.

Supplies and Services

Supplies and Services were over spent by £386k.

- There are a wide range of variances against Supplies and Services. These include:-
 - Postage was £74k over spent. The majority related to costs associated with the Police and Crime Commissioner (PCC) election, and the EU referendum. Both of these will be fully reimbursed when the claims are finalised. The income due to the Council is included within the accounts.
 - Printing & Stationery was £38k over spent. Costs in respect of the PCC election, £21k, and the EU referendum, £27k, were largely responsible for the over spend. Both of these will be fully reimbursed. Savings on Publicity (+£15k), and Revenues (+£5k), were partly offset by Elections (-£12k) as a result of the canvassing exercise.
 - Trade Refuse disposal costs were £27k higher than budget, mainly due to payments in respect of the use of Mansfield District Council's Waste Transfer Station.

- Internal Expenses were £221k over spent mainly due to an increase in the Provision for Legal costs in respect of a further Health & Safety case.
- Memberships and subscriptions were £24k over spent, due to payments in respect of the Timewise Nottinghamshire Programme, however, this over spend was met by a contribution from Nottinghamshire Economic Prosperity Committee.
- The cost of Shared Services was £36k lower than budget, due to savings on Regeneration, Human Resources and Financial Management (withdrawing from the shared CIPFA trainee scheme).
- Audit Fees were £15k higher than budget due to additional works completed during the Housing Benefits 2015/16 audit and the Statement of Accounts 2015/16 audit and for work completed in assessing the then proposed transfer of AHL.
- Clothing & Uniform purchases were £15k over spent with the main impact being within Waste Collection and Street Cleansing.
- A number of further smaller difference accounted for the remaining budget variance.

Transfer payments

Transfer payments were £624k less than budgeted. These mostly relate to the payment of Housing Benefits (£627k) which are reimbursed by the Government through subsidy as commented on at the end of the section. The net expenditure variance taking into consideration subsidy income and prior year deductions is an under spend of £414k. Discretionary Housing budget, for which a grant was received, was fully spent in the year.

Internal recharges

Internal recharges were £342k less than budgeted which in part is reflected in a reduction in recharges income. Asset Management charged £37k less to Capital Programme work. Some budgeted recharges within Directorates were not posted due to a change in the Organisation structure, £110k. The Contract Hire charges were also reduced by £169k.

Income

Income for the year was £554k higher than budget.

Grants and contributions, at £36.008m, were £371k higher than anticipated. This was due to grants received for the PCC Election and the EU referendum as mentioned above (£150k). Additional grants were received by Revenues and Benefits (£107k), Planning (£66k), Supported Housing (protected credits) £46k, Leisure related (£32k), New Cross Support team (+£62k), and smaller value grants across the Directorates (£124k). There was a reduction in Housing Benefit subsidy, £212k, (see earlier paragraph regarding Transfer Payments).

Other Income, at £6.605m, was £153k above budget. Reductions in doubtful debts accounted to a net effect of an additional contribution of £220k.

There were a number of other variances:

When AHL was returned to the Council, the Supported Housing reserve was credited to the General Fund (+£69k), the sale of 'end of life' refuse bins was £10k better than budget, income

from Glass recycling was also up on budget (+£39k). Income from Vehicle sales was £32k, and fees and charges from Cemeteries were £12k better than budget. Other favourable variances occurred in the removal of Bulky Waste (+£23k), Selective Licencing (+£27k), various Licencing activities (+£34k), and Service Charges from a number of properties (+£17k). Partly offsetting these gains were Planning Fees (-£19k), Pest Control (-£40k), and Rents from several properties (-£50k).

Recharges

Income in respect of recharges, as mentioned under Internal Recharges, was £85k lower than budget.

There were also increased charges to the HRA of £102k for Service Director (agency and new service post) and additional redundancy costs post transfer, less lower Contract Hire fees to the HRA.

In summary the Divisional Net Service Expenditure is £0.837m lower than budgeted.

Financing and Investment Income and Expenditure

The variance relating to these costs was £30k higher than anticipated.

The net interest was £45k lower than budgeted. Direct Revenue Financing to fund the Capital Programme was £15k less than budgeted due to slippage.

Funding

Funding was £290k better than budgeted mainly due to higher Business Rates (+£282k). The two main variances are:-

- an increase of £46k in the Section 31 Small Business Rates and Empty Rate Relief grant. Higher amounts were claimed by business rate-payers than originally envisaged therefore additional grant is payable by the Government.
- returned Business Rates as part of the Nottinghamshire pooling arrangement of £181k. The remaining £55k is a result of paying a lower levy and returned pooling payments from preceptors.

In summary, the Net Surplus before Movement to Reserves is £1.253m, £1.097m better than budgeted.

Transfer to /from Reserves

The Council made a net contribution to reserves of £758k as opposed to a planned withdrawal from reserves of £335k. The Council also reclassified £65k of its Section 106 monies from capital to revenue. A fundamental review of earmarked reserves has been undertaken to re-

align to the Council's priorities and to essentially support progress of the transformation agenda, deliver efficiencies and release savings over the medium to long term. The movements are recorded in the note 24 within the Statement but the principle changes are:-

1) Merging and reallocation of the Corporate Improvement Fund and the Corporate Change & Renewal Fund.

There have been reductions in the planned use of the Corporate Improvement Fund by £143k and Corporate Change and Renewal Fund by £50k due to accommodating costs within year. Further to the review, these reserves have closed and been transferred to create new reserves for specific initiatives.

Corporate Change Reserve:-

Purpose: To provide the finance injection to fund emerging commercial services (including business development support). Also to fund changes in service delivery through service reviews, financing including redundancy costs to enable that change to take place. Closing Balance as at 31st March 2017 - £1.7m.

2) Re-naming of Asset Renewal Reserve to Asset Repair & Renewal Reserve

There has been slippage during 2016/17 in respect of capital projects reducing the planned withdrawal from the Asset Renewal Reserve by £43k. This funding, for the Kingsmill Reservoir de-silting project will be required in 2017/18. A further £180k has been contributed to the reserve to support investment in the Council's land & building assets. Investment will be identified further to stock condition surveys and as part of the asset rationalisation programme.

Asset Repair & Renewal Reserve:-

Purpose: To part fund investment into the Council's land, building & vehicles further to stock condition surveys and to progress the asset rationalisation programme. Closing Balance as at 31st March 2017 - £804k.

3) Creating a new Commercial Property Investment Reserve

As part of the drive to generate income streams to the Authority the Council to date, has committed to purchase commercial property up to £10 million. Such ventures are not without risk and therefore as part of managing this risk a reserve has been established to fund possible void periods or reduction in valuation

Commercial Property Investment Reserve:-

Purpose:- To provide funding to mitigate risk of void periods or fluctuations within the property market relating to Commercial Property Investment. Closing Balance as at 31st March 2017 - £400k.

4) Creating an Economic & Place Reserve

Regenerating the District is important to providing prosperity for all. This reserve is to help deliver this agenda.

Purpose: To provide funding for feasibility studies to unlock external funding or to support projects that will result in economic growth or support inward investment / pump prime the development of a BID. Closing Balance as at 31st March 2017 - £150k.

5) Creating a Technology Investment

As the transformation agenda continues the need for IT investment has become ever pressing. This is essential to provide the customer experience expected from an organisation of this size and to drive efficiencies within the organisation.

Purpose: To support the upgrading of out of date technology / to support the introduction of new technology / to support the move to digital delivery of services and improve customer experience / to support the move to more agile working. Closing balance as at 31st March 2017 - £515k

6) Transferring the Supported Housing Reserve

This reserve has been transferred from AHL and is used to contribute towards the operation of the Call Monitoring service whilst it seeks to build the customer base and break-even. Closing Balance as at 31st March 2017 - £36k

7) Insurance Reserve - update

In year there was a withdrawal from the Insurance Fund of £44k to fund new in-year claims and increases to the provision. Such movements are not budgeted for as this is based upon claims received and settled during the period. A further £100k has been added to the Reserve to fund future liability claims including those transferred as a result of the liquidation of MMI and Independent Insurance Company. Closing balance as at 31st March 2017 - £336k

8) Elections Reserve – update

The condition of polling booths is poor and a further £20k is required to replace these. £20k has therefore been added to the reserve to enable purchase in 2017/18. Closing Balance as at 31st March 2017 - £58k.

9) Revenue Grant Reserve – update

There has been a reduction in the contribution from the Revenue Grant Reserve of £83k. This is due to unspent grants received during the period, which are to be used for specific

projects in future years being transferred to the Revenue Grant Reserve plus slippage on some grant funded projects requiring a reduced contribution from the reserve. Closing Balance as at 31st March 2017 - £969k.

All other movements in reserves are not material and largely as budgeted.

The Net General Fund surplus after Movement in Reserves is £495k, £0.004m better than budgeted.

b. Housing Revenue Account

	Revised Budget £'000	Actual £'000	Variance £'000
Income			
Rents, Charges and Contributions	(24,448)	(24,371)	77
Other Grants	0	(34)	(34)
Interest and Investment Income	(68)	(116)	(48)
Balances returned from AHL	(500)	(742)	(242)
Total Income	<u>(25,016)</u>	<u>(25,263)</u>	<u>(247)</u>
Expenditure			
Borrowing and Capital Financing Charges	2,374	2,853	479
Repairs and Maintenance	6,655	6,498	(157)
Supervision and Management	5,860	5,579	(281)
Interest Payable and Appropriations	3,564	3,563	(1)
Other Expenditure	243	147	(96)
Direct Revenue Financing	643	869	226
Transfer to/from Major Repairs Reserve	5,111	3,798	(1,313)
Total Expenditure	<u>24,450</u>	<u>23,307</u>	<u>(1,143)</u>
Surplus for the year	<u>(566)</u>	<u>(1,956)</u>	<u>(1,390)</u>
Net Contribution to / (from) Earmarked Reserves	50	177	127
Net Housing Revenue Account Deficit / (Surplus) for the year after transfer to/ (from) Earmarked Reserves	<u>(516)</u>	<u>(1,779)</u>	<u>(1,263)</u>

The Housing Revenue Account (HRA) outturn shows the income and expenditure arising from the provision of the Council's landlord functions. The HRA is ring fenced and required to operate with a positive working balance.

The outturn for the HRA shows an in year surplus of £1.956m, before movement in reserves, and an in-year surplus of £1.779m after movement in reserves bringing the total HRA balance at 31 March 2017 to £23.746m.

Income

Actual income from rents, charges and contributions is less than the budget provision due to the sales of properties under Right to Buy not included in the rent estimates offset by income received for three years of renewable heating incentives of £52k.

Other Grants includes additional income of £33k for carbon saving works completed for non-traditional properties. This has been placed in a HRA Earmarked Reserve to fund future Eco-Friendly projects.

The Interest & Investment Income is higher due to the internal interest received on the higher surplus than initially budgeted.

The return of balances from Ashfield Homes (AHL) estimate was based on the £500K working balance held by AHL. In addition to this, the Company returned £133K of in year returned management fee and £109k of earmarked HRA reserves.

Expenditure

Borrowing and capital financing charges are £479k higher than budgeted mainly due to depreciation charges being £462k greater than planned due to increase in property valuations in 2015/16.

Repairs and Maintenance is under budget by £157k due mainly to

- An underspend of £120k in delivering the housing depot service across the housing capital schemes, courts and repairs areas, mainly through vacancies and a mild winter period reducing the number of adverse weather required repairs,
- A reduction in expenditure on the maintenance of equipment and consultants of £34k,
- The delayed completion of the Domestic Legionella surveys during the Company transfer, £20k will be required in 2017/18 to continue the scheme.
- The above variances are partly offset by an increase in the housing repairs vehicle charges of £17K

Supervision and management is under spent overall by £281k, there are a wide range of variances against supervision and management. These principally include the following;

- Due to early transfer of AHL, budgets relating to the management team were no longer required. These budgets retained for any unexpected expenditure relating to the transfer of £101k,
- Underspends have occurred across the Housing Courts in which repairs, maintenance and cleaning is £67k lower than the revised budget, along with a saving of £32k achieved on utility costs mainly due to the mild winter,
- The Brook Street Office through various budgets is £42k lower than estimated,
- Vacancies across the Housing Management Service amounting to £59k,
- Housing Environmental improvements of £25k,
- Move Assist scheme underspent by £15k, costs amalgamated with the Decoration Voucher scheme through the capital programme,
- Tenant Participation is underspent by £11k with the service not committing to schemes during the transfer of the Housing Service,
- There were a number of smaller variances contributing to a further net under spend of £25k.

- The above variances are partly offset by recharges for the Service Director and additional redundancy costs post transfer of £102k.

Within other expenditure there were council tax payments made for empty council houses which were £30k under spent and there has been a decrease in the contribution to the bad debt provision of £66k compared to the budget.

Direct Revenue Financing has increased by £226K. This is to compensate for a reduction in the use of 1-4-1 Right to Buy receipts.

Transfers to the Major Repairs Reserves (£1.313m) are lower than forecast as a result of both reduced capital expenditure and an increase in the depreciation charge which is used to fund expenditure in the major repairs reserve.

Earmarked Reserves

Contributions to Earmarked Reserves relates to £33k Eco-funding mentioned above, £35k increase in the HRA Insurance Reserve, £52k for a HRA IT Reserve and £57k for a HRA Corporate Change and Renewal Reserve. A separate HRA IT Reserve and Corporate Change and Renewal Reserve have been created from the transfer of Housing Management services from Ashfield Homes and the committed plans of the Housing Service that were in place.

2. Budget Update 2017/18

- 2.1 The Council approved the Revenue Budget on 20th February 2017. Since the approval of the budget events have taken place which have required a revision to the budget. All of the proposed changes are funded either through a reallocation of existing budget or by creating a new budget but one which is funded through an earmarked reserve set up for that purpose.
- 2.2 The following new items of expenditure are being funded in part from savings progressed through actions taken through the Officer Decision Records. Reductions in budget are shown in brackets. The £13.5k reduction overall will be used to contain any further pressures should they arise or will be taken as a savings at the Revised Budget stage in October 2017. Those shown in bold represent permanent reductions/increases to the General Fund base budget (£33k reduction overall) into 2018/19 and beyond.

General Fund

<u>Description</u>	<u>Directorate</u>	<u>W.e.f.</u>	<u>Value (£)</u>
Service Review Savings- Waste	Place & Communities	01/04/17	(11,000)
Markets Review – reduction in number of Market Assistants & increase in income	Place & Communities	01/04/17	(20,000)
Local arrangements for the Tour of Britain (one-off cost)	Place & Communities	01/04/17	10,000
Selective Licensing (additional staff costs)	Place & Communities	01/04/17	(48,500)

less additional fee income over year 1)			
De-commissioning of Huthwaite LC (one-off cost)	Place & Communities	01/04/17	11,000
Trade Waste – saving strategy (part-year implementation therefore initial saving reduced in 17/18)	Place & Communities	01/07/17	12,000
HR Shared Service – temporary support for 12 months (one-off cost)	Resources & Business Transformation	12/04/17	35,000
ADC proportion of costs for improvements further to DWP re-location to Council Offices (Security & Digital Zone)	Resources & Business Transformation	01/08/17	7,000
Reduction in Communications Pay Budget partly offset by cost of Communications Support fund (split between General Fund and HRA to be apportioned via recharge)	Resources & Business Transformation	01/06/17	(9,000)
		TOTAL	(13,500)

HRA

<u>Description</u>	<u>Directorate</u>	<u>W.e.f.</u>	<u>Value (£)</u>
Successful bid for Domestic Violence project from DCLG – ADC's element relating to rental income & repairs contributions (one-off income)	Housing & Assets	01/04/17	(30,000)

2.3 The following budget revisions are proposed however these shall be funded from the relevant earmarked reserve and shall no impact upon the General Fund balance.

Purpose	Funded from Earmarked reserve	Value (£)
Redundancy & Pension Strain costs further to service review outcomes & reduction in Establishment. The current budget includes provision for £200k however additional £400k is sought to fund further Establishment reductions. This is an estimate only and if unutilised funds will remain in the CCR	Corporate Change Reserve (CCR)	£400,000
Within Revenues & Benefits Bar codes are being added to invoices to facilitate quicker & easier payment for customers. This is an IT development through the Council's software provider	Revenue Grants Reserve	£12,500
Locality & Community Empowerment require a budget to fund the shadow bid process & stock condition survey associated with second phase of Leisure Centre review.	Joint Use Leisure Reserve	£20,000 (submitted to Cabinet June 2017)
Consultancy costs associated with alternative financing models (Company structures, joint ventures etc)	Economic & Place Reserve	£10,000

- 2.5 There is one re-classification of budgets further to the transfer of Ashfield Homes Ltd back to the Council. When the transfer of budgets took place this was on a like for like basis. Under the Company accounts, subcontractor invoice budgets/expenditure were aligned against employee expenses as Gross Salaries acceptable under Generally Accepted Accounting Principles (GAAP).
- 2.6 The Council is required to follow CIPFA's Code of Accounting Practice in which case subcontractor expenditure is classified under the Supplies & Services section of the accounts. A reclassification of these costs (budget £1,871,340) from the Employee costs to the Supplies & Services line is therefore required. This has no impact upon the HRA Reserves balance or the management of these budgets.
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Implications

Corporate Plan:

The Revenue budget and outturn reflects the priorities in the Corporate Plan.

Legal:

No adverse Legal implications could be identified. The report ensures compliance with Financial Regulations.

Finance:

This report is effective from 13/07/2017 and has the following financial implications:

Budget Area	Implication
General Fund – Revenue Budget	The out-turn position will be utilised to update the Medium Term Financial Strategy. Increases in budget for 17/18 have been funded from in-year savings.
General Fund – Capital Programme	None
Housing Revenue Account – Revenue Budget	The out-turn position will be utilised to update the Medium Term Financial Strategy and the 30 year HRA Business Plan. A further £30k income is expected to the HRA.
Housing Revenue Account – Capital Programme	None

Human Resources / Equality and Diversity:

No adverse HR or Equality and Diversity implications could be identified

Other Implications:

None

Reason(s) for Urgency (if applicable):

N/A

Exempt Report:

N/A

Background Papers

Statement of Accounts 2016/17 (unaudited). Published on the Council's web-site

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