

Report of The Head of Finance**2014-15 Revenue Outturn****1 Purpose of report**

- 1.1 This report presents members with an overview of the council's revenue expenditure against approved budget for the financial year 2014-15.
- 1.2 The closure of accounts process for the 2014-15 financial year is still ongoing and this work includes reviewing all of the balance sheet accounts for completeness and accuracy. This could result in amendments to the revenue outturn position for 2014-15 which will be reported to a future Resources Committee if required.

2 Executive Summary

- 2.1 The Council set its revenue budget in February 2014 at £10.922m for expenditure, with associated ongoing sustainable funding of £9.342m. This meant that £1.580m approximately was needed from revenue reserves to support the expected level of expenditure when the budget was set.
- 2.2 The use of reserves to support the budget for the medium term is unsustainable as it is a finite resource and both members and officers are aware of the need to reduce expenditure and increase income to address this.
- 2.3 There is still an underlying deficit in the budget which needs to be addressed over the medium term. But as shown later in the report, changes within the year from officers being more aware of the need to both reduce costs and increase income, and additional unanticipated specific grants being received for 2014-15 have resulted in the need to use reserves being significantly reduced. Some of these changes will be ongoing and can be built into future years. Some are specific to the year or are demand led and so cannot be forecast for future years.
- 2.4 It is normal as part of the year end finance report to also propose the changes to ear-marked reserves to be included as part of the closedown process. These changes are detailed in section 6.11, 6.12 and 6.14c of the report.

3 Appendices

- Appendix 1 Revenue monitoring position to 31 March 2015

The Committee is invited to RESOLVE to:

- 4.1 APPROVE the creation of new ear marked reserves as shown in 6.11, 6.12 & 6.14c**
- 4.2 APPROVE the utilisation to existing reserves as shown in 6.14a**
- 4.3 APPROVE the contribution to existing reserves as shown in 6.14b**
- 4.4 NOTE the outturn position, subject to audit, which has been outlined in this report and the reasons for the projected outturn variations at 31st March 2015**

5 Introduction

- 5.1 The anticipated 2014-15 revenue monitoring outturn position was last reported to the March 2015 Resources Committee. Monitoring is reported four times in the year, with three in year reports and the final outturn position in June of the year following. This report reflects the final outturn position as at 31 March 2015, subject to any changes that may result as part of the audit process.

6 2014-15 Revenue Outturn

- 6.1 The council set its revenue budget in February 2014 as £10.922m, using £1.580m of reserves to support revenue spending. The budget monitoring reports show the variance to the use of reserves reflecting any under or over spending on the budget set. The areas that contribute to this movement are summarised in Appendix 1 of the report.
- 6.2 The monitoring of the outturn position is required in order to identify any under or over spends that occur during the year and to identify any mitigating action. An underspend can either be expenditure which is less than budget, or income which has exceeded the budget (or a combination of both), and an overspend is the opposite of this.
- 6.3 The revenue monitoring position reported in March 2015 showed that at the end of January 2015 the forecast use of reserves to balance the budget was £434k, compared to the original budget estimate of £1.580m, which is £1.146m less than originally expected. This was made up of:
 - Total net service underspend - £0.198m
 - Unbudgeted External Funding - £0.948m
- 6.4 The final outturn position has now been calculated and outturn position has improved by £1.239m, from £1.146m to £2.385m, which is broken down as follows:
 - Total net service underspend - £1.208m (an increase of £1.010m)
 - Unbudgeted External Funding - £1.177m (an increase of £0.229m)

6.5 The majority of the increase in unbudgeted external funding relates to the business rates retention scheme and the benefit of pooling (£183k). As part of the new business rates retention scheme any growth an authority achieve in business rates has to be shared 50/50 with central government, which is called a levy. However Wellingborough Council is part of the Northamptonshire pool and as such we can significantly reduce the 50% rate by collectively pooling our rates income and growth. For Wellingborough this means:

- 50% Standard Levy £397k
- Pool Levy £214k
- Difference (Benefit of pooling) **£183k**

6.6 It is recommended to transfer this benefit to the NNDR ear marked reserve which was created last year. This reserve will help to provide resilience to the collection fund balances for future years and also to mitigate against the unpredictable nature of the business rate retention scheme and any cash flow timing differences. This reserve is reviewed annually as part of the year end process to establish need and if it is not fully needed for future years any surplus balances will be moved to general fund. This is considered to be the most prudent method for accounting for a very unpredictable element of our funding and is one that is being adopted in a number of authorities' accountancy teams across the county.

6.7 The balance for unbudgeted external income relates to Section 31 grants we receive from central government to offset the "loss" in business rates income as a result of central government policy. The additional income relates to the difference between the estimated claim and the final claim.

6.8 The increase in the service underspend of £1.010m is summarised below and detailed in 6.6.

Service Underspend:	
	£'000
a Housing	66
b Planning Income	54
c Operational Property	250
d One-off Investment Property Income	150
e Industrial Estates Service Charges	88
f NCC - Council Tax 2nd Homes Income	102
g Corporate Contingency - Welfare Reform	250
h Corporate Contingency - Pay Award	50
	1,010

6.9 Variance Analysis

- a. Housing – The underspend is as a result of private sector leasing, which is a demand led budget, as costs on repairs & maintenance and leasing were less than anticipated.
- b. Planning Income – After the forecast outturn was reported to

Committee in March, 2 large planning fee applications were received which were not anticipated.

- c. Operational Property – A year end budget review identified an historic contingency budget for operational property which was not being used. It is recommend to transfer this underspend to ear marked reserves and also review the budget in 2015-16.
- d. One-off investment income – 2 payments have been received by the Council at the end of the financial year in relation to a lease amendment licence and option to purchase, officers were aware these negotiations were taking place, however the timing of when the monies would be received was uncertain.
- e. Industrial Estate Service Charge – As part of their lease agreement tenants of out industrial units pay a sum of money to cover repairs and maintenance to the estate in general which is allocated to an ear marked reserve. At year end a calculation is made to identify the actual expenditure incurred and providing there are sufficient monies in the ear marked reserve, offsetting this cost. There were sufficient monies in the reserve and as such this budget has been funded accordingly.
- f. NCC – Council Tax 2nd Home Income. The County Council has until recently run a scheme to fund mutually beneficial projects between the districts and itself. This was funded from the changes districts made to discounts and exemptions on council tax which the county benefited from. The Borough Council agreed with the county that its share of this fund would be used as a contribution to the Superfast Broadband Project. £102k has been drawn down in year and will be placed in a reserve until needed.
- g. Corporate Contingency (Welfare Reform) As part of the medium term financial plan (MTFP), it was recognised that the benefits and welfare systems were facing changes, and at that time it was uncertain how these would impact on our budget. We assumed that benefits claims and subsidies would be under pressure, and that homelessness and other effects of the economic climate could also add additional costs to the borough. To make a provision for these a budget was set at £250k to be used if we saw these pressures filtering through to our costs. The budget has already been reduced in 2015-16, being totally removed over the course of the Medium Term Financial Plan. An ear marked reserve has been created should any of the pressures materialise in the coming year.
- h. Corporate Contingency (Pay Award) – In the MTFP a sum was set aside to offset the cost of employee pay awards, this cost has been absorbed by existing budget by vacancies and other factors and has not been required. It is recommended later in this report to transfer this underspend to the Efficiency and Transformation Reserves, detailed in 6.8.

- 6.10 As the Council is still facing uncertainties regarding future funding levels, especially with an in year budget expected to affect government grants and support to be announced on 8 July 2015, which may also affect other local public sector organisations financial position and any associated budget dependencies for the borough. Coupled with the need to invest in services to facilitate transformation and deliver service efficiencies, it is recommended that the following new ear marked reserves are created from the 2014-15 underspend to mitigate the risks and provide resources to make the necessary changes.
- 6.11 These reserves will be used to fund one-off items of expense and for a specific area only and reasons for their creation are detailed in 6.12

	£'000
a Efficiency & Service Transformation	300
b Organisational Property	250
c NNDR	183
d Leisure Services	180
e Broadband Infrastructure	102
f Wollaston HWRC	100
g ICT Infrastructure	36
h LGA Grant	6
	<hr/> 1,157

6.12 Reasons for the creation of New Ear Marked Reserves

- a. Efficiency & Service Transformation – This will be used to invest in services in order to facilitate change
- b. Organisational Property – This reserve will be used to fund essential maintenance to our operational property portfolio, for example boiler replacement and other Health and Safety urgent repairs, which are, by definition, unfunded.
- c. NNDR - This will add to the existing NNDR reserve and will be used to absorb timing differences and funding volatility as a result of NNDR appeals and fund balances due to the changes to how business rates are funded.
- d. Leisure Services – As part of the negotiations to secure a nil management fee over the period of the new leisure services contract extension it was necessary to give the provider an assurance over the level of return they can expect. New competition to the forecast figures may have had an effect on the ability to provide the service for no fees. As such a reserve to fund any potential future reliance on this assurance has been created. There is a low risk of this but nonetheless a reserve would be a prudent approach given some uncertainty on this matter. In addition to this an amount for some revenue implementation costs, such as redundancy payments, was necessary to be funded by the Borough Council.
- e. Broadband Infrastructure – This reserve has been created as a

result of a grant from Northamptonshire Country Council, and will be used to support the installation of Super-Fast Broadband to the County.

- f. Wollaston Household Waste Recycling Centre – Resources Committee agreed at the meeting on 18 March to instruct Wellingborough NORSE to operate this facility for a 12 month period commencing on 1 April 2015, as this decision was made after the budget was set this reserve will be used to fund the first year operating costs.
- g. ICT Infrastructure – This reserve has been created from the underspend the service achieved in year and will be used to fund one-off projects designed to improve our ICT infrastructure, for example public Wi-Fi.-
- h. LGA Grant This grant was awarded under the LGA’s productivity support scheme. A bid was made for part funding for consultants to look at the operating model for the crematorium and other potential commercial solutions.

6.13 The 2014-15 budget was originally balanced by using £1.580m of reserves, the impact of approving these ear marked reserves is detailed below:

Summary of Outturn Position and Budget Implementation Reserve

	£'000
2014-15 underspend before reserves as per 6.4	2,385
Less:	
Budgeted Use of Reserves	-1,580
Transfer to EMR as per 6.11	<u>-1,157</u>
Balance to be funded from Reserves as per 6.14a	-352

6.14 Table 1 shows the movement on ear marked reserve:

	£'000	£'000
Revenue Ear Marked Reserves as at 1.4.14		-3,745
a Use of reserves in year:		
Budget Implementation	352	
Efficiency & Restructuring	113	
Property Service Charges	88	
Planning	301	
Personal Searches	5	
Homelessness Prevention	12	
Neighbourhood Planning	4	875
b Increase in reserves in year:		
Individual Electoral Registration	-2	
Site Delivery Fund	-10	
Local Solutions	-18	
Community Rights	-16	
New Burdens	-16	-62
Total Service Ear Marked Reserves		813
c New Reserves In Year		
Efficiency & Service Transformation	-300	
Organisational Property	-250	
NNDR Pooling Benefit	-183	
Leisure Services	-180	
Broadband Infrastructure	-102	
Wollaston HWRC	-100	
ICT Infrastructure	-36	
LGA Grant	-6	-1,157
Estimated Ear Marked Reserves as at 31.3.15		-4,089
Revenue General Fund Reserves as at 31.3.15		-3,984
Total Revenue Reserves as at 31.3.15		-8,073

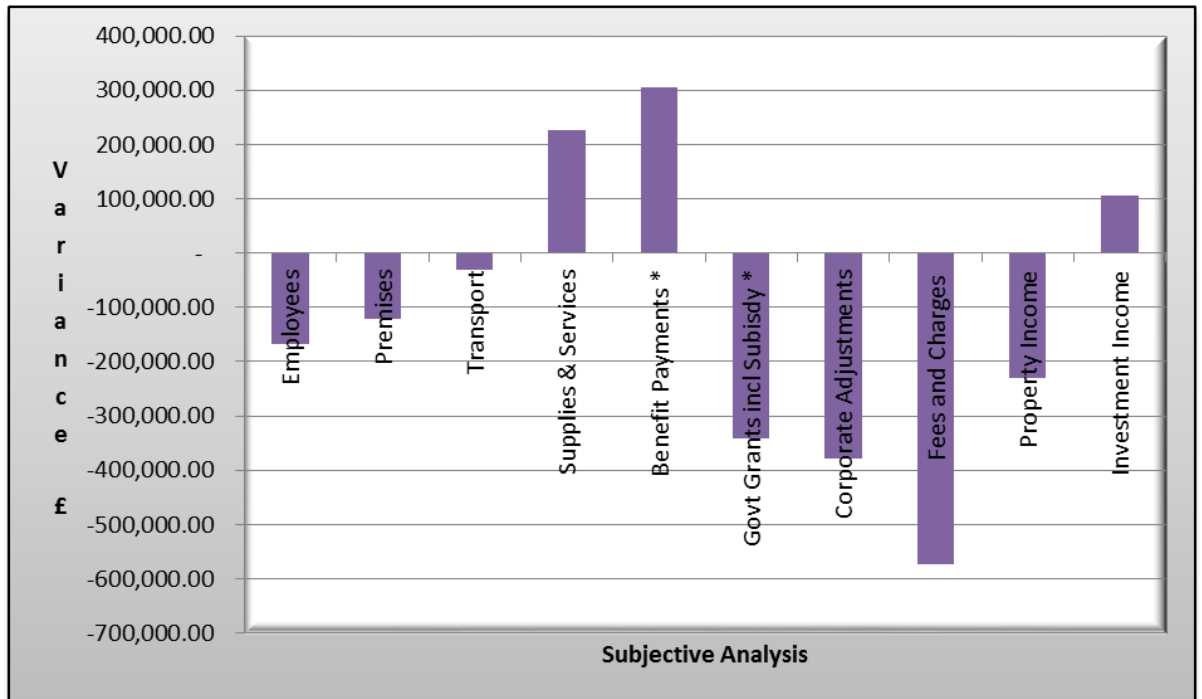
6.15 Table 2 compares the actual outturn against the budget set and the variance for the year, before and after the application of new ear marked reserves:

Table 2

	Original Budget 2014/15	Revised Budget 2014/15	Actual Expenditure to 31st March 2015	Variance at Period 13 Before Reserves	New Ear Marked Reserves	Revised Variance After Reserves
	£000's	£000's	£000's	£000's	£000's	£000's
Environmental Protection	315	315	283	-32	0	-32
Health Protection	189	189	169	-20	0	-20
Housing	559	571	450	-121	0	-121
Planning Policy and Regeneration	778	709	698	-11	0	-11
Planning and Building Control	160	305	220	-85	0	-85
Environmental Maintenance	3,053	3,049	3,001	-48	0	-48
Waste and Transport	962	961	1,050	89	100	189
Community Support	2,066	2,181	2,166	-15	180	165
Organisational Development	232	232	190	-42	0	-42
Democratic Services	782	781	685	-96	0	-96
Property and Facilities	-443	-353	-881	-528	250	-278
Information Technology Shared Service	965	1,023	987	-36	36	0
District Law Shared Service	149	149	99	-50	0	-50
Accountancy	366	340	326	-14	108	94
Internal Audit	65	65	65	0	0	0
Revenues and Benefits	149	149	240	91	0	91
Other Income and Expenditure	-79	-111	-355	-244	300	56
Corporate Management	211	211	167	-44	0	-44
Parish Precepts	443	443	441	-2	0	-2
2014/15 Budget Requirement	10,922	11,209	10,001	- 1,208	974	- 234
Use of General Fund Reserves	-1,580	-1,580	-352	1,228	0	1,228
Ear Marked Reserves	-174	-461	700	1,161	-1,157	4
New Homes Bonus	-848	-848	-855	-7	0	-7
Collection Fund	-40	-40	-41	-1	0	-1
Council Tax	-3,287	-3,287	-3,306	-19	0	-19
Section 31 Grant	0	0	-534	-534	0	-534
Business Rates	-2,556	-2,556	-3,175	-619	183	-436
Government Funding	-2,437	-2,437	-2,438	-1	0	-1
2014/15 Funding	- 10,922	- 11,209	- 10,001	1,208	- 974	234

6.16 A detailed breakdown of the service expenditure variances by service area with explanatory notes is shown at Appendix 1.

6.17 The analysis in table 2 shows in which area of service delivery the budgets were set and variances arose. However, it is also useful to show the variance against types of budgets set. The chart that follows details how the outturn compared to the budget, summarised by analysing the type of income or expenditure.



6.17 Subjective Analysis Notes:

- Government grant includes the subsidy received from the DWP to contribute towards housing benefit costs; this is partially offset by an increase in benefit payments.
- Corporate Adjustments, includes such things as depreciation costs and the transactions required to reflect movements in reserves, which is in line with proper accounting practice.
- Fees and Charges, includes such things as planning fees, hackney carriages and licensing, which are demand led budgets and difficult to accurately forecast.

7 Revenue budget 2015-16

7.1 The 2015-16 budget is being monitored and an update on the forecast outturn position and a refresh of the strategic financial assumptions will be reported to Resources Committee in September 2015.

7.2 There are already some areas that it is becoming apparent may need to be amended in year as the monitoring progresses

7.3 Accountancy staff work with budget managers to ensure that budgets are correctly recorded. There is a scheme of virement in the financial regulations that allows for the changes below £10k to be made in year. Any changes above this limit have to be agreed in line with the council's decision making processes. The first monitoring report for 2015-16 later in the year will reflect any changes that have been or need to be made to budgets.

8. Legal Powers

Local Government Act 2003

9. Financial and Value for Money Implications

The financial accounts will be reviewed on completion of the closure of accounts process to see if there is a need for virements. These will be reported to future Resources Committees if required.

10. Risk Analysis

Nature of risk	Consequences if realised	Likelihood of occurrence	Control measures
Error in reported position	Over spend and reduced Reserves and Balances	Low due to level of quality assurance	Robust financial arrangements.
Changes in Service outturn positions	Revised outturn	Low until the Annual Audit has been completed	Robust financial arrangements.

11. Implications for Resources

None identified.

12. Implications for Stronger and Safer Communities

No specific implications.

13. Implications for Equalities

No specific implications.

14. Author and Contact Officer

Samantha Knowles, Principal Accountancy Manager

15. Consultees

SMT
Budget Managers
Service Accountants

16. Background Papers

Financial Services budget monitoring working papers.
2015-16 – 2018/19 Medium Term Financial Plan