



2017/18

**Third Quarter
Financial
Review**

1 Background and Introduction

1.1 In accordance with the Council's Financial Procedure Rules and recommended good practice, a quarterly financial report is presented to members. This is the third report for 2017/18.

1.2 The report summarises overall financial performance for 2017/18 with particular emphasis on the key sources of financial risk to the Council. Specific considerations are as follows:

- **General Fund Revenue Account (Section 2)** – considers budgetary performance on the General Account by looking at variations in income and expenditure and the funding received by the Council.
- **Efficiency and Rationalisation Programme (Section 3)** – considers progress in achieving the efficiency and rationalisation savings forecast for 2017/18.
- **Capital Programme (Section 4)** – provides an update to Members on progress against the Council's capital plan
- **Treasury Management (Section 5)** – sets out the key statistics in terms of investments and borrowings;
- **Revenue Collection (Section 6)** – considers progress-to-date in collecting the Council Tax and Business Rates; and

2 General Fund Revenue Account

2.1 This section of the report considers the financial performance of the General Fund Revenue Account against budget by setting out variations in income and expenditure and funding received by the Council.

Service	2017/18 Budget	Expected Outturn 2017/18	Variance
	£	£	£
Alliance Management Team	65,010	50,130	(14,880)
Audit	9,940	9,940	-
ICT	697,810	697,810	-
Human Resources	65,860	55,860	(10,000)
Member Services	311,850	282,450	(29,400)
Property Services	950,080	1,130,800	180,720
Benefits	(289,340)	(316,840)	(27,500)
Planning Applications	(394,960)	(426,190)	(31,230)
Building Control	(105,360)	(96,360)	9,000
Customer Services	113,300	88,300	(25,000)
Legal Services	64,520	38,020	(26,500)
Electoral Services	84,470	37,790	(46,680)
Licensing and Land Charges	(221,710)	(221,610)	100
Regeneration	188,870	187,170	(1,700)
Communities and Cultural	161,050	193,050	32,000
Housing Strategy	58,650	(32,760)	(91,410)
Transformation	7,260	7,260	-
Community Safety and Enforcement	177,360	157,360	(20,000)
Finance, Income and Procurement	(207,390)	(129,390)	78,000
Corporate Finance*	6,701,700	7,920,930	1,219,230
Waste Collection	1,204,610	1,258,680	54,070
Street Scene	309,150	331,990	22,840
Leisure Services	640,890	608,520	(32,370)
Horticulture	583,290	573,470	(9,820)
Visitor Services	(531,000)	(508,840)	22,160
Environmental Health	(8,610)	(6,100)	2,510
Net Total of Services	10,637,300	11,891,440	1,254,140
Net Interest	(357,870)	(380,870)	(23,000)
	10,279,430	11,510,570	1,231,140
Funding : external	(9,751,040)	(10,553,920)	(802,880)
: reserves - contribution/(use)	(528,390)	(1,978,350)	(1,449,960)
Projected (Surplus)/Deficit	-	(1,021,700)	(1,021,700)

* Staff budgets are currently budgeted within Corporate Finance.

2.2 A revenue budget of £10,279,430 was set for 2017/18. The table above shows how this budget has been allocated to services and also reflects:

- The combination of the former Chief Executive and Executive Director services under the Alliance Management Team heading.
- The creation of a Corporate Finance service to record those budgets formerly included within Finance, Income and Procurement but not under the direct control of that service.
- That Corporate Finance currently includes budgeted staff costs, though the intention is that they will be allocated to services during the course of the year.

2.3 The quarter three projected outturn on the General Fund Revenue Account for the year is £9,257,730. This represents a projected surplus for the year of £1,021,700.

2.4 One service area is breaching the £50,000 threshold to be reported as significantly underspending,

- Housing Strategy (£91,410 underspend) – Some £85,000 in Government grants have been received in year to support actions to be taken by the Authority in response to the Homelessness Reduction Act. The majority of initiatives identified under the Council’s Homelessness Strategy will take place next year. It will be necessary therefore to carry forward this funding as an earmarked reserve.

The following manufactured underspend is also noted:

- Electoral Services (£46,680 underspend) - The service budgets to make an annual contribution in to an earmarked reserve in order to smooth the costs of the council’s elections over the term of the administration. The budgeted underspend to fund this contribution for 2017/18 is £26,680. A further £20,000 underspend is anticipated as a result of the costs relating to Individual Elector Registration currently being below the level of funding received from Central Government in the form of Section 31 grant.

2.5 There are five areas of significant overspend projected on the General Fund Revenue Account:

- Property Services (£180,720 overspend); The most significant pressure on the service budgets is a projected overspend of £208,000 on repairs. However owing to the nature of the repairs it is proposed that the Authority’s earmarked Health and Safety reserve is used to meet £99,320 of the additional costs. Savings against Non-Domestic Rates and Utility budgets are reducing the overall overspend. This position does not take account of any year end underspend that may occur on the facilities management contract.
- Finance, Income and Procurement (£78,000 overspend); The Recovery function is projected to be £50,000 over budget owing to lower than expected summons income primarily due to the changes implemented on the calculation of summons/liability order costs. There has also been a £6,000 uplift in the Authority’s insurance premiums. Local taxation are implementing system modifications in line with changes to Non-Domestic Rates legislation. The additional costs, of around £25,000, will be funded out of an existing earmarked reserve at the year end.

- Corporate Finance (£1,129,230 overspend); The Authority budgets to make an annual contribution towards reducing its share of the deficit on the Local Government Pension Scheme as administered by Staffordshire County Council. The annual level of contribution is set by the Scheme's Actuary for the three years following each triennial valuation. After recent valuations authorities have been offered the option of making their annual contributions in one lump sum at the beginning of the period in return for a cash discount. The level of the District's cash backed contingency reserves was considered sufficiently high for the council to take advantage of this offer and thereby gain a £100,000 discount on the £2m payable (reserves would still be £650,000 above the required level of contingency at the end of 2017/18).

The actual payment of £1.9m has resulted in a £1,383,000 overspend above the £517,000 budgeted. This overspend will be met out of the District's contingency reserves at the year end. These reserves will be replenished by the following two years' budgeted contributions that will not now be paid over to the County.

Corporate Finance records the Authority's performance against its efficiency savings target and the consolidation of savings against corporate budgets such as for employee costs. This "cashing-up" exercise is currently predicting a £170,000 underspend.

- Waste Collection (£54,070 overspend) - While income from container hire is running some £15,000 above budget this is more than offset by overspends elsewhere. Repair costs of the ageing vehicle fleet are £15,000 above expectations and gate fees are £16,000 above budget. But the largest single factor is a reduction in the income generated by paper recycling. This reflects both a reduction in the tonnages collected and the price earned.

2.6 The level of funding anticipated for the year is £2,202,840 above that budgeted due to the following:

External Funding: (£802,880)

- Business Rates Retention (£802,880):
 - An increase of £174,510 in the level of retained business rates is anticipated owing to increases in business rates income prudently not assumed in the budget because of uncertainties surrounding the 2017 revaluation and appeals provision.
 - Following new information provided by the Valuation Office Agency, the DCLG has adjusted the tariff payable on business rates for the year for all Councils. This has had a positive effect for this Council and increases the level of retained business rates by £114,500.
 - An increase of £429,110 is anticipated resulting from additional S31 grants to fund the new reliefs not known at the budget setting stage for Local Discretionary Relief, Supporting Small Businesses, Pub Relief and the change in thresholds on Small Business Rate Relief. These grants are credited to the General Fund in the year and the associated reliefs have the opposite effect of increasing the Collection Fund deficit to be distributed the following year.

- The resulting reduction in NNDR income from these additional reliefs also has the effect of reducing the net levy payable to the Staffordshire Pool, which improves the Council's retention by £84,760.
- The overall variance in Business Rates Retention continues to be subject to change over the remaining periods with the fluctuations in business rates appeals as the 2010 outstanding appeals are heard.

In line with the Medium Term Financial Plan requirements, any surplus against budget will need to be earmarked in order to support the increased deficit in 2018/19 as a result of accounting for business rates appeals and reliefs.

Use of Reserves: (£1,449,960)

Earmarked;

- Property Services £99,320 use: the cost of resolving urgent health and safety works at the Council's properties is to be covered out of this reserve.
- Electoral Services £26,680 contribution: this is a budgeted annual contribution in to a reserve earmarked to spread the cost of the District's elections over the term of a council.
- Finance, Income and Procurement £25,000 use: the cost of updating the Business Rates software following legislative changes is to be funded out of a reserve created from Government funding received in prior years.
- Corporate Finance £2,500 use: the Authority occasionally suffers a charge arising from its historical liability with Municipal Mutual Insurance. The Authority's Insurance Reserve is used to fund these irregular charges.
- Communities and Cultural £60,730 use: To facilitate the fact that Local Strategic Partnership projects often take place in a different year to when the funding is received an earmarked reserve is used to carry funds between years. The use of this reserve reflects the level of such activities being progressed by the service in 2017/18.
- Housing Strategy £84,910 contribution: The Authority has received significant funding from Central Government towards the cost of satisfying the requirements of the Homelessness Reduction Act. As the majority of actions will only come into effect after the financial year end an earmarked reserve is to be used to carry the funding forward to future years.
- Horticulture £4,000 reduced use: Works on Recreation Grounds and Open Spaces are part funded each year by drawing down on Section 106 monies previously received from Developers as part of their planning obligations. Only £8,000 of the £12,000 originally budgeted is now likely to be applied in 2017/18.

Contingency;

- The £1,383,000 overspend arising within Corporate Finance (2.5 above) has created a demand on the Authority's resources that will be met out of contingency reserves at the year end.

3. Efficiency and Rationalisation Programme

3.1 This section of the report considers the financial performance of the Council's Efficiency and Rationalisation Programme in 2017/18.

3.2 The Council's Medium-Term Financial Plan (approved in February 2017) included a new four-year (2017/18 – 2020/21) Efficiency and Rationalisation Strategy targeting savings of £3.14 million. This is required to balance the forecast budget deficit position of £2.7m and also the carry forward of unachieved efficiencies from 2016/17 of £0.4m

3.3 The Efficiency and Rationalisation Strategy has the effect of both reducing expenditure and increasing income. The need to grow income is now more of a priority as the Council moves more towards being self-financing. The strategy has been developed with the underlying principles of protecting frontline service delivery. It is also intended that the strategy is a tool to enable the Council to ensure that its service spending is determined by the established priorities set out in the Corporate Plan.

3.4 There are five areas of focus:-

- Major Procurements - There is the opportunity to focus attention on a number of large service functions which are currently provided by an external contractor / supplier. A number of significant contracts are coming to an end. This will also allow a fundamental review of these services with proper consideration of the current financial constraints. The contract commitments have sometimes restricted the opportunity to align services across the alliance with High Peak. The individual projects will focus on Waste Collection & Environment Services, Leisure Management and Facilities Management
- Asset Management Plan – continuation of the existing priority of rationalising the Council's asset base with a focus around priorities in order to allow for the necessary capital investment
- Growth – development of a clear focus upon housing and economic growth based upon the established Local Plan.
- Income Generation – focus on increasing the yield from existing sources on income and a drive towards identifying new sources of income
- Rationalisation – a commitment to reducing expenditure on non-priority areas of spend e.g. management arrangements, channel shift, non-statutory services

3.5 The 2017/18 budget provides for the achievement of £661,000 of such savings in year – with a significant focus on income generation and management structure review.

3.6 At the end of Quarter 3, £480,970 has been taken against the overall Efficiency programme. This relates to management review savings, additional income from car parking and recycling, channel shift project savings, the result of agency/vacancy reviews within Operational Services and a reduction in postage and printing costs.

- 3.7 In addition there are a number of vacant staff posts to be reviewed (in line with the service review process and as a result of other efficiency projects) which will potentially contribute to the overall efficiency programme. Therefore, at this stage, the Council is on course to meet the overall savings requirements for the year.
- 3.8 The Authority carries a reserve of £492,000 earmarked to support the Strategy which can be drawn on to offset any remaining one-off and short term costs from the service review process and consequent shortfall against the 2017/18 efficiency target. This requirement will be monitored throughout the year.

4. Capital Programme

4.1 This section of the report provides an update to members on the Council's Capital Programme

4.2 The table below shows a high level (service) summary of the General Fund Capital Programme position at 31st December 2017. Further detail – on a scheme by scheme basis – is contained in Annex A:

Service	2017/18 Approved Budget	Q3 Changes	2017/18 Revised Budget	Expected Outturn 2017/18	Expected Variance 2017/18
	£	£	£	£	£
Housing Standards	1,039,630	-	1,039,630	501,630	(538,000)
Property Services	1,480,560	5,180	1,485,740	932,840	(552,900)
ICT	1,240	-	1,240	104,310	103,070
Environmental Services	-	-	-	-	-
Leisure Services	20,960	-	20,960	14,000	(6,960)
Regeneration	751,760	-	751,760	51,760	(700,000)
Horticulture	76,000	31,930	107,930	107,930	-
	3,370,150	37,110	3,407,260	1,712,470	(1,694,790)
External Contributions	1,266,060	42,410	1,308,470	775,850	(532,620)
Capital Receipts	-	-	-	-	-
Capital Reserve	422,500	-	422,500	420,000	(2,500)
Planning obligations	22,000	(5,300)	16,700	16,700	-
Borrowing	1,659,590	-	1,659,590	499,920	(1,159,670)
	3,370,150	37,110	3,407,260	1,712,470	(1,694,790)

4.3 The 2017/18 General Fund Capital Budget as updated and approved by Cabinet on 5th December 2017 was set at £3,370,150. An increased budget of £37,110 has been included in Quarter Three; resulting in a revised 2017/18 budget of £3,407,260.

4.4 The changes made to the programme in quarter three which have all been funded from external contributions are listed below:

- **Play Areas Increased budget - £31,930;** projects at Wentlows Road, Tean -£25,930 and Hot Lane, Biddulph, £6,000. Both projects which have been completed were successful in securing further external funding; providing additional resources to invest in the sites. The Council working in partnership with parish councils and local community groups have led on the two projects resulting in improved quality of play facilities at both sites for local children.
- **Biddulph Town Hall Refurbishment - Increased budget £5,180;** a minor adjustment is required to the budget to account for additional electrical works specifically requested and paid for by occupiers of the building.

4.5 There are four significant projected capital spend variances to note at this stage:

- **Disabled Facilities Grants (DFGs) (£508,000 underspend)** – as reported at quarter two, based on the latest level of demand for mandatory grants towards disabled adaptations of properties, the forecast of DFGs to be completed in 2017-18 is £500,000 against a budget of £1,008,000. Since the change in the funding mechanism for DFGs in 2015-16 the level of support from central government has increased significantly but presently this isn't being matched by the value of DFG's approved. A county-wide review of the approval process is currently being undertaken including the commissioning of new home improvement agency arrangements; the award of a new 5 year contract is expected to be announced in February. This will facilitate improvements in the processes in order that completions can be achieved to ensure that grants are approved at the new higher level of resources available.
- **Property Services (£552,900 underspend)** A number of projects have been re-profiled into future years following the on-going review and prioritisation of works contained within the Asset Management Plan.
- **ICT (£103,070 overspend)** the implementation of the ICT Strategy has been accelerated resulting in a forecast overspend of £103,070 in 2017-18. As previously reported the costs are being met from re-profiling the overall ICT provision within the latest approved 4 year Capital Programme. This is the final stage of the IT infrastructure upgrade; the programme objectives are to ensure the infrastructure is fit for purpose to support the Council's future business priorities. The proposed timeframe of works is 18 weeks with the works scheduled to be completed in this financial year to ensure ongoing PSN (Public Sector Network) compliance
- **Regeneration- Growth Fund (£700,000 underspend)** – to date no schemes have been presented for approval under this initiative; the budget has now been removed as part of the Medium Term Financial Plan. Therefore, individual schemes will be assessed and the resources applied as required.

5. Treasury Management

5.1 This section of the report sets out the key treasury management statistics in relation to the Council's investments and borrowings. This report comprises a high level treasury management summary. The Audit and Accounts Committee receives detailed operational updates on treasury management.

Investments

5.2 Cash investments held on the 31st December 2017 totalled £10.3 million. Interest earned on these investments to the end of quarter 3 totalled £24,600. The average level of funds available for investment to the end of quarter 3 was £9.6million.

5.3 The Council has budgeted to receive £39,000 in investment income in 2017/18. The budget was set with the expectation that the low interest environment would continue, however the rates available on fixed investment opportunities reduced further still in the first half of the year and internal borrowing is reducing balances available for investment. The effects of these factors are partially offset by increasing interest rates following the increase in the Bank of England base rate in November. Therefore a net shortfall of £7,000 is anticipated against the budget.

Ascent Joint Venture

5.4 Ascent (the joint venture company set up to deliver affordable housing across the district) had drawn the full £5 million debenture facility by the end of 2014/15. Interest is charged at 2%, therefore the budgeted interest income for the year is £100,000; this is on target.

5.5 The balance on the loan facility to Ascent remains at £14 million. There have been no further drawdowns of the loan during 2017/18, nor are any anticipated. The first tranche of the loan (£7m) was due for repayment in October 2017, the fifth anniversary of the original drawdown. This was refinanced for a period of 1 year whilst the Ascent LLP business plan is reviewed.

5.6 Interest charged is based on the PWLB rate on the date of the drawdown plus a 1.25% risk premium. The budget of interest income related to the loan was set at £474,270 – this included £373,660 due from the original loan drawdowns and £100,610 relating to the continuation of the first tranche of the loan. The refinanced loan is charged interest at 2.61%, which is lower than the original drawdowns in this tranche (average 3.53%) due to the shorter period; therefore there is an anticipated shortfall of £15,000 against the budget.

Borrowing

5.7 Total debt outstanding as at 31st December 2017 stood at £13.2 million. £12 million has been used to fund the Ascent Loan, the remaining £1.2 million relates to finance leases.

- 5.8 The Council has budgeted to incur £255,400 in interest charges in 2017/18. This was based on the existing Ascent Loan Balance of £14 million and a £1.7 million general fund borrowing requirement in the current year capital programme.
- 5.9 The refinancing of a maturing debt of £2 million relating to the Ascent Loan in 2016/17 has been delayed, instead being funded internally to date. In addition to this, no 'new' external borrowing has taken place to date. The delayed borrowing is estimated to produce savings on total borrowing costs of £45,000.
- 5.10 Opportunities for new borrowing as it is required will be monitored during the year considering the actual borrowing requirement and the cost of carry of any borrowings taken.

6 Revenue Collection

6.1 This section of the report details progress to date in collecting the Council Tax, Business Rates and Sundry Debt.

6.2 The Quarter 3 collection rate outturn for the year 2017/18 was as follows:

- Council Tax – 84.5% of Council Tax was collected by 31st December 2017, compared to 84.8% for the same period last year.
- Business Rates – 81.7% of Business Rates was collected by 31st December 2017, compared with 81.2% for the same period last year.

6.3 At the end of Quarter Three the value of sundry debt that was over 60 days old was £105,034 which compares with £251,658 at 30th December 2016.

ANNEX A**Capital Programme Update 31st December 2017**

Capital Schemes	2017/18 Approved Budget	Q3 Changes	2017/18 Revised Budget	Expected Outturn 2017/18	Expected Variance 2017/18
	£	£	£	£	£
<u>Housing Standards</u>					
Private Sector Grants	1,009,630	-	1,009,630	501,630	(508,000)
Landlord Accreditation Scheme	30,000	-	30,000	-	(30,000)
Total Environmental Health	1,039,630	-	1,039,630	501,630	(538,000)
<u>Property Services</u>					
Asset Management Plan	1,480,560	5,180	1,485,740	932,840	(552,900)
Total Property	1,480,560	5,180	1,485,740	932,840	(552,900)
<u>ICT</u>	1,240		1,240	104,310	103,070
Total ICT	1,240	-	1,240	104,310	103,070
<u>Leisure Services</u>					
Sports - Small Schemes	20,960	-	20,960	14,000	(6,960)
Total Leisure Services	20,960	-	20,960	14,000	(6,960)
<u>Regeneration</u>					
Moorlands Partnership Grants	51,760	-	51,760	51,760	-
Growth Fund Provision	700,000	-	700,000	-	(700,000)
Total Regeneration	751,760	-	751,760	51,760	(700,000)
<u>Horticulture</u>					
Play - Projects	76,000	31,930	107,930	107,930	-
Total Horticulture	76,000	31,930	107,930	107,930	-
Total Programme	3,370,150	37,110	3,407,260	1,712,470	(1,694,790)