

EAST HERTS COUNCIL

THE EXECUTIVE – 7 JUNE 2016

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

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GENERAL FUND REVENUE AND CAPITAL OUTTURN 2015/16

WARD(S) AFFECTED: All

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**Purpose/Summary of Report:**

- To advise the Executive on the Net Cost of Services Revenue Outturn for 2015/16 and provide explanations for significant variances against the approved Budget.
- To advise Members of the financing arrangements for the 2015/16 Capital Outturn and the planned financing of the updated 2016/17 capital budget allowing for the approved slippage from 2015/16.

<b><u>RECOMMENDATIONS FOR THE EXECUTIVE:</u> that:</b>	
(A)	<b>The Net Cost of Services Revenue Outturn as detailed in paragraph 2.2 for 2015/16 be noted;</b>
(B)	<b>The transfer of the underspend in Contingency budget for 2015/16 to the Transformation Reserve as detailed in paragraph 2.6 be agreed;</b>
(C)	<b>The transfer of fund to reserves as detailed in paragraph 2.4 be agreed;</b>
(C)	<b>The level of General Reserve Balances at 31 March 2016 as detailed within the report be noted;</b>
(D)	<b>The carry forward requests from 2015/16 to 2016/17 budgets as detailed in paragraph 3.7 be agreed;</b>
(E)	<b>The Capital outturn for 2015/16 as detailed in paragraph 4.2 be noted;</b>

(D)	<b>Capital slippage as set out in paragraph 4.3 be approved;</b>
(E)	<b>The Capital Programme for 2016/17 to 2019/20 as detailed in paragraph 4.5 be noted;</b>

## 1.0 Background

- 1.1 The 2015/16 Budget was approved by Executive on 3 Feb 2015. The Net Expenditure Budget approved was £14.476m with a contribution from reserves of £1.687m of which £555k contributes to Net Cost of Services. Budget growth and savings of £277k were also approved as part of the Budget report in Feb 2015. Carry forward requests of £129k were subsequently approved through the Healthcheck process resulting in a 2015/16 budget for net cost of services of £14.882m.
- 1.2 In year budget monitoring and management actions have sought to deliver the spending plans approved by Council. Members have been kept updated throughout the year through the Healthcheck reports where significant variances have been reported.
- 1.3 During the year Council decided to purchase the Old River Lane site in Bishop's Stortford for £19.55m plus associated purchase costs. This investment opportunity presented itself during the 2015/16 financial year as so wasn't included in the original budget. This report sets out the in-year revenue and capital impact of the investment.

## 2.0 Revenue Outturn

- 2.1 The final outturn for the year detailed in this report is still subject to external audit and the final audited accounts will be presented to the Audit Committee in September.
- 2.2 The Council net expenditure outturn position of £14.449m represents an underspend of £433k. This is summarised in the table 1 below and **Essential Reference Paper 'B'**.

**Table 1: Summarised 2015/16 Outturn Position**

	2015/16 Original budget £'000	2015/16 Outturn £'000	Contingency Funding £'000	NHB Priority Spend £'000	Reserve Funding £'000	2015/16 Outturn Position £'000	Overall Variance £'000
Customer and Community Services	6,574	6,004	(7)	(50)	196	6,143	(431)
Neighbourhood Services	3,053	3,153	(13)	(19)	(217)	2,904	(149)
Finance and Support Services	5,255	5,557	(26)	-	(129)	5,402	147
<b>Total:</b>	<b>14,882</b>	<b>14,714</b>	<b>(46)</b>	<b>(69)</b>	<b>(150)</b>	<b>14,449</b>	<b>(433)</b>

2.3 The outturn position for each Directorate shows the total expenditure throughout 2015/16 including expenditure over and above the original budget where funding has been agreed through the Healthcheck reporting process. The additional funding has been allocated from the Contingency budget, the Priority Spend budget and the use of Earmarked Reserves.

2.4 Where a major variation from the original budget has occurred, this is described in the paragraphs below:

### **Environmental Services**

2.4.1.1 An increased customer base in Commercial Waste has resulted in additional income of £42k in 2015/16.

### **Customer Services and Parking**

2.4.1.2 An additional £205k pay and display income is reported due to increased usage of the Council car parks.

2.4.1.3 When the Causeway Car Park, in Old River Lane, Bishop's Stortford, was sold in 2008/09 a lease agreement was entered into which provided a rent free period of 2 years within the total lease period of 35 years. The accounting treatment applied to the lease costs was to create a long term liability to smooth the rent free period over the whole term of the lease. When the Council acquired the Causeway Car Park as part of the Old River Lane investment this liability has been unwound resulting in a credit balance of £393k. This will be transferred to the Commercial Property Fund reserve to fund future development costs and is reflected in table 1 above.

### **Communications, Engagement and Cultural Services**

- 2.4.1.4 Income from ticket sales at Hertford Theatre (Pantomime and cinema) and private hire has exceeded budget by £173k, offset by a corresponding increase in costs of £113k, resulting in net £60k underspend.

### **Business Development**

- 2.4.1.5 Following the community right to challenge the management fee to Bishops Stortford Town council for running the Market has exceeded the approved budget by £47k.
- 2.4.1.6 The NGMP Graduate programme and the Corporate Project Coordinator post are funded from reserve contributions totalling £96k.

### **Community Safety and Health**

- 2.4.1.7 Disabled Facility grant income £118k higher than budget, grant allocation determined by HCC.

### **Housing Services**

- 2.4.1.8 Expenditure of £33.5k relating to Housing condition survey and single person homelessness funded through use of reserves

### **Democratic and Legal Services**

- 2.4.1.9 A group of Property Search Companies sought to claim refunds of fees paid to the Council to access land charges data. The parties have reached a confidential agreement on the claims which this council has funded through the use of the general reserve.
- 2.4.1.10 The Council has also funded the cost of elections in May 2015 through the use of reserves.

### **Revenues and Benefits**

- 2.4.1.11 Following an increase in housing benefits overpayments the provision for bad debts has increased by £124k above budget.

### **Strategic Finance**

- 2.4.1.12 The purchase of the Old River Lane site in Bishop's Stortford has resulted in unbudgeted net income of £477k in 2015/16. As this was not included in the original budget this balance will be transferred to the Commercial Property Fund reserve to fund future development costs and is reflected in table 1 above.

2.4.1.13 There was also lower than expected use of the consultant costs budget of £30k in 2015/16 in Property and Asset Management.

### **Corporate Service Budgets**

2.4.1.14 A collective agreement was reached with Unison in September 2015 on the proposed changes to the employee expenses policy with respect to car mileage rates, removing the essential lump payment of £1,239 per annum and reducing the mileage rate from 65p per mile to the HMRC rate of 45p per mile. To reach this agreement a compensation payment was made to employees in January 2016. This has been approved by both Local Joint Panel and HR Committee. The cost of the compensation payment is £238k which was approved by Executive on 1 December 2015, to be funded from the Transformation Reserve, will now be met from existing revenue budgets.

2.4.1.15 A number of redundancy payments have been agreed during the year totalling £486k. These costs will be funded from the Transformation Reserve with no impact on in-year service budgets.

### **Other Corporate Budgets**

2.5 The total Priority Spend budget for 2015/16 is £697k. The purpose of this budget is to fund initiatives that promote the economic prosperity of the District. As per Table 1 the use of the priority spend budget is £69k. Therefore the budget remaining unallocated is £610k. This has been transferred into the New Homes Bonus priority fund reserve as agreed by Executive on 8 June 2015, please see **Essential Reference Paper 'C'** for a breakdown of what the funding was spent on in 2015/16.

2.6 The original Contingency budget for 2015/16 is £370k, which allows for unforeseen events to be funded in-year. The call on this funding as per Table 1 is £46k, with a remaining balance of £324k. Details of the items funded from the contingency budget can be found in **Essential Reference Paper 'D'**.

2.7 The 2015/16 budgeted investment and interest income figure was £867k. Due to improved rates on direct property investments the 2015/16 outturn figure for investment income is £1,089k. The £222k difference will not impact on Revenue budgets as this will be transferred to the Interest Equalisation Reserve.

2.8 Recharges of central support services such as Human Resources, Strategic Finance, and IT to the users of these services, such as

Neighbourhood Services are the total cost of these central support services. These recharges are simply a re-distribution of these costs with a net zero effect on the net expenditure figure shown above. There is a revenue budget to recharge salary costs to capital projects of £25k which has been utilised in full and is included in the table above.

- 2.9 Capital charges are ‘notional’ charges for the use of capital assets and are not ‘real’ cash-backed payments requiring a source of financing. They are required primarily for producing the annual Statement of Accounts. The charges are excluded from the net expenditure figure shown above as they have a net zero effect.
- 2.10 Pension Fund £1m funded from reserve.
- 2.11 The funding from Earmarked Reserves within the Net Cost of Services of £220k represents an underspend of £335k compared to the budgeted contribution to reserves of £555k.
- 2.12 The net expenditure underspend outlined above has resulted in an outturn underspend of £433k as shown in the table below. This balance will be added to the Council’s reserve balances in the Transformation Fund reserve.

**Table 2: Outturn variance summary**

	Variance £'000
Net Cost of Services	(168)
Contingency Budget	(46)
Priority Spend budget	(69)
Reserves	(1.020)
<b>SUBTOTAL:</b>	<b>(1,303)</b>
ORL Additional income	870
<b>TOTAL:</b>	<b>(433)</b>

- 2.13 Any ongoing implications of 2015/16 variances will be taken into account in future financial planning. Further scrutiny of the areas where significant variances have been identified will take place as part of the 2016/17 integrated financial and service planning process.

### 3 Reserves/Balances

- 3.2 The Council is generally well placed with regard to establishing appropriate Earmarked Reserves and Balances.
- 3.3 The Executive meeting on 2 February 2016 reviewed the Councils earmarked reserves in support of the MTFP.
- 3.4 A significant risk is posed by potential budget reductions and changes in the allocation of funding to Local Government. There is significant uncertainty with respect to the future New Homes Bonus allocations and Non Domestic Rates income. The DCLG have already consulted on proposed changes to the New Homes Bonus, the results of which are still to be published. A number of working groups have been set up by the DCLG and LGA to discuss future changes to Non Domestic Rates.
- 3.5 The following tables show the appropriations during the year together with the level of funds which will be available at 31 March 2016:

**Table 3: General Reserve balances**

	Balance at 1 Apr 2015 £'000	Contribution to/(from) reserve £'000	Balance at 31 Mar 2016 £'000
General Fund Balance	3,854	-	3,854
General Reserve	1,313	(123)	1,190
<b>Total General Reserves</b>	<b>5,167</b>	<b>(123)</b>	<b>5,044</b>

- 3.6 The current MTFP, which was approved by Executive on 2 February 2016, anticipated a total General Reserve balance of £5.04m at 31 March 2016. The General Reserve balances are in line with the MTFP projections.
- 3.7 The balance at 31 March 2016 does not reflect any provision for carry forward the approval of this report.
- 3.8 It is proposed to add £53k to the General Reserve to fund the following carry forward requests from 2015/16 to 2016/17:
- 3.8.1.1 The Head of Revenues and Benefits has requested that £43k of the Revenues and Benefits Shared Service salary budget be carried forward to 2016/17 to cover two fixed term contracts of 8 month duration. These posts will work exclusively on a business rates project to verify reliefs for East Herts properties only.

3.8.1.2 The Parking Services Manager has requested £10,000 of the one-off revenue budget for Southmill Road Residents Parking Scheme be carried forward to 2016/17. Implementation of the scheme was delayed in 2015/16 meaning the intended six month review has not yet taken place and will do so in 2016/17. Modifications are often required at this point and must be funded.

3.9 The balances on earmarked reserves are being finalised as part of the annual statement of accounts process. A full breakdown of these reserve balances will be presented in the draft (unaudited) accounts presented to the Audit Committee for consideration at their June meeting.

#### 4 Capital Outturn

4.2 The progress of the capital programme for 2015/16 has been reported to the Executive throughout the year as part of the Healthcheck process.

4.3 The 2015/16 outturn total capital expenditure is £22,446m. The outturn position is summarised in the table below:

**Table 4: Capital Outturn Summary**

	2015/16 Original Budget £'000	2015/16 Revised Budget £'000	2015/16 Outturn £'000	(Under)/ Overspend £'000	Slippage to future years £'000
Customer & Community	782	638	588	(74)	25
Neighbourhood Services	928	845	580	(290)	24
Finance & Support Services	1,009	20,661	21,278	374	243
<b>TOTAL</b>	<b>2,719</b>	<b>22,144</b>	<b>22,446</b>	<b>10</b>	<b>292</b>

4.4 The movement from the revised budget as at December 2015 of £22,144m to the outturn total of £22,446m is made up of:

4.4.1 A net £10k underspend, where schemes are complete and funding is longer required.

4.4.2 £292k slippage recommended to be carried forward into the 2016/17 capital programme. The slippage is detailed in the paragraphs below for approval:

4.4.2.1 Refuse containers replacement programme, £19k slippage to 2016/17.



- 4.4.2.2 Replacement litter bins, £2.8k slippage to 2016/17.
- 4.4.2.3 Commercial waste bins, £11k slippage to 2016/17, to fund the potential purchase of trade waste recycling containers. A feasibility report is being completed to ascertain if this is a viable option.
- 4.4.2.4 Hartham Pavilion refurbishment, £1k to slippage to 2016/17. This scheme is currently being reviewed following a contract specification review, £57.6k of this budget has previously been approved to slip to 2016/17 capital programme.
- 4.4.2.5 Installation of play equipment at Buryfield Recreation ground, £2.7k slippage to 2016/17. This scheme is complete, the slippage relates to the retention which is due to be paid in September 2016.
- 4.4.2.6 Community Capital grants, £24.5k negative slippage from 2016/17. Expenditure against this scheme is dependent on successful applicants completing their projects within the 1 year time frame. Based on officers experience £81k was approved to slip to the 2016/17 capital programme during 2015/16. However, some organisations have claimed their grants quicker than anticipated, therefore negative slippage will apply.
- 4.4.2.7 Historic Building grants, £1k negative slippage from 2016/17. Due to lower take up of grants during the first part of 2015/16 £36.7k was approved a slippage to 2016/17. However increased take up during the latter part of 2015/16 has resulted in £1k of negative slippage from 2016/17.
- 4.4.2.8 River and watercourse structures, £7.8k slippage to 2016/17. Flood alleviation works have been identified during 2015/16 and work is ongoing in 2016/17.
- 4.4.2.9 Air quality capital grant scheme, subway improvements, 1.1k slippage to 2016/17. Works on both the subways are complete, the remaining budget of £1.1k to slip to 2016/17 to fund information signage.
- 4.4.2.10 Air pollution monitoring equipment, £20k slippage to 2016/17. This scheme is fully funded by a contribution from HCC, the scheme is not completed in 2015/16.
- 4.4.2.11 Replacement of chairs and desks, £5.6k negative slippage to apply. This is a demand led budget, due to a significant increase in demand for specialist chairs negative slippage from 2016/17 is requested.

- 4.4.2.12 ICT – replacement infrastructure, £12.1k slippage to 2016/17. The 2015/16 schemes have been completed, the balance is to slip to 2016/17 rolling programme to fund schemes in 2016/17.
- 4.4.2.13 ICT – merging licensing and environment health IT systems, £8.9k slippage to 2016/17. The licensing system is now live, the timescales for Environmental health are being reconsidered.
- 4.4.2.14 Establishment of LES and internet links to replace MPLS, £24k slippage to 2016/17. The wide area network is complete, work continues to relocate the Telephony infrastructure. Work scheduled to be completed in quarter 2 2016/17.
- 4.4.2.15 Service desk and utilities, £25k slippage to 2016/17. Work to harmonise security software is ongoing into 2016/17 with implementation expected March 2017.
- 4.4.2.16 Rolling programme – ICT projects, the balance unspent of £171k is to slip to 2016/17 to fund appropriate ICT schemes, based on provision of a business case.
- 4.5 The 2015/16 capital programme has been financed from the following sources:

**Table 5: Capital Financing**

	£'000
Capital Receipts	2,151
Government Grants	318
Third Party Contributions	161
Revenue Contribution	18,815
Internal Borrowing	1,001
<b>Total Capital Financing</b>	<b>22,446</b>

- 4.6 The future capital programme is detailed in the table below:

**Table 6: Capital Programme 2016/17 to 2019/20**

	2016/17 Original budget £'000	2015/16 Approved Slippage £'000	2015/16 Outturn Slippage £'000	2016/17 Revised budget £'000	2017/18 Budget £'000	2018/19 Budget £'000	2019/20 Budget £'000
Business & Technology Shared Service	675	151	251	1,077	310	555	467
Communications, Strategy & Policy	20	-	-	20	-	-	-
Housing & Health	2,028	105	1	2,134	908	908	908
Operations	1,029	275	49	1,353	718	189	284
Planning & Building Control	92	(23)	(1)	68	55	55	55
Strategic Finance & Property	764	171	(7)	928	436	286	286
Total:	4,608	679	292	5,578	2,427	1,993	2,000

## 5.0 2015/16 Annual Statement of Accounts

5.1 Regulations require the Council's Annual Statement of Accounts to be approved by Members after the annual audit has taken place. Approval and publication must take place by 30 September following the relevant accounting year. The Council's Constitution delegates the scrutiny and approval of the accounts to the Audit Committee. The Accounts are required however to be signed by the Council's Section 151 Officer by 30 June following the relevant accounting year.

5.2 In order to adopt best practice the Accounts will be submitted to the Audit Committee for consideration on 15 June 2016 in order to give the Committee an early opportunity of viewing the (unaudited) accounts. Members should also note that in the wider interest of transparency and public accountability the unaudited accounts will also be available on the Council's website.

5.3 The audited accounts will be submitted for approval at the meeting of the Audit Committee on 21 September 2016.

## 6.0 Implications/Conclusion

6.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

## Background Papers

Budget Report to Executive; 2 February 2016.

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