

Report to: **Executive**
Date: **9 March 2017**
Title: **Quarter 3 Revenue Budget Monitoring
2016/2017**
Portfolio Area: **Support Services – Cllr S Wright**
Wards Affected: **All**
Relevant Scrutiny Committee: **Overview and Scrutiny Panel**

Urgent Decision: **N** Approval and clearance obtained: **Y**

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Recommendations:

That the Executive resolves to:-

- i) Note the forecast income and expenditure variations for the 2016/17 financial year and the overall projected overspend of £27,000 (0.3% of the total Budget £8.752 million)
- ii) Recommend to Council to transfer funding of £160,000 from the Business Rates Retention Earmarked Reserve into the Consolidated Income and Expenditure Account in 2016-17.

1. Executive summary

1.1 This report enables Members to monitor income and expenditure variations against the approved budget for 2016/17, and provides a forecast for the year end position.

1.2 The gross service expenditure budget for 2016/17 was set at £43 million (£8.752 million net). **Actual net revenue expenditure is forecast to be over budget by £27,000 when compared against the total budget set for 2016/17.** This equates to 0.3% of the overall net budget.

1.3 The £27,000 could be met by unearmarked (general fund) revenue reserves and would reduce the balance on the reserve from £1.810 million (at 31/3/16) to £1.783 million (at 31/3/17) as shown in Appendix A.

1.4 It is recommended to Council to transfer funding of £160,000 from the Business Rates Retention Earmarked Reserve into the Consolidated Income and Expenditure Account in 2016/17. Annually transfers are made from Earmarked Reserves to the Comprehensive Income and Expenditure Account as part of the closure of the Accounts. In 2014/15 the Council gave delegated authority to the S151 Officer (Finance Community of Practice Lead) to determine the appropriate financing arrangements for the 2014/15 year for this. In 2015/16 a recommendation was made to Full Council as part of the budget monitoring report. Any decision to utilise funding from Earmarked Reserves can only be taken by Full Council (or be delegated to the S151 Officer).

1.5 As the accounting entries can be identified at an early stage, a recommendation is made to Council to agree the accounting entries in 2016/17.

2. Background

2.1 The Council's financial procedure rules require that reports must be made on budget monitoring on a regular basis to the Executive as part of the Council's arrangements for budget management.

2.2 The accounting regulations have now changed for 2016/17 and this allows Councils to present their income and expenditure account in the same format as their reporting structure. Therefore the budget monitoring report details the variations from budget in each of the four categories of Customer First, Commercial Services, Support Services and Strategy and Commissioning.

3. Outcomes/outputs

3.1 Budget overview

Table 1 below provides an analysis of the projected variances against budget.

TABLE 1: 2016/17 BUDGET FORECAST

	2016/17 Budget expenditure /(income) £000	Budget variations £000	£000	Note
APPROVED BUDGET			8,752	
Reductions in expenditure/additional income				
Customer First				
Employment Estates income	(1,342)	(45)		A
Business Support flood scheme	-	(34)		B
Access agreement income	-	(34)		C
Licensing income – shellfish export certificates	-	(20)		D
Commercial Services				
Car Parking income	(2,872)	(60)		E
Trade Waste income	(754)	(40)		F
Dartmouth Lower Ferry income	(807)	(20)		G
Strategy and Commissioning				
Members travel and printing	36	(10)		H
Financing and Investment				
Land and Investment Properties	-	(60)		I
Sub total of variations			(323)	
Increases in expenditure/reductions in income				
Customer First				
Planning Applications (income)	(700)	65		J
Follaton House income	(244)	45		K
Planning legal fees	34	15		L
Salaries	3,441	45		M
Commercial Services				
Recycling credits income	(756)	85		N
Manual workers – Environmental Services salaries	631	75		O
Waste round review	(125)	40		P
Trade waste income – business rated domestic properties	(50)	20		Q
Torr Quarry transfer station – haulage costs	151	30		R
Pannier markets income	(120)	10		S
Salaries	4,209	25		T

Dartmouth Lower Ferry overtime	40	20		U
Support Services				
Salaries	1,570	20		V
Financing and Investment				
Investment income	(148)	15		W
Sub total of variations			510	
Transfers from Earmarked Reserves				
Business Rates Retention Earmarked Reserve	N/A	(160)	(160)	X
PROJECTED OUTTURN			8,779	
PROJECTED OVERSPEND (Net impact on the Comprehensive Income and Expenditure account for 2016-17)			27	

Notes

- A. **Employment Estates** – There is predicted to be additional income in the region of £45,000 mainly in respect of boat launch fees and annual licence fees.
- B. **Business Support flood scheme** – In 2013/14 the Council received a business support flood scheme grant of £55,000. Despite extensive promotion only £21,000 of grant has been awarded. Funding was provided to nine businesses in the South Hams with a maximum award of £2,500 per business. The unused element of the grant can be treated as additional income in 2016/17.
- C. **Access agreement** – Unbudgeted income of £34,000 has been received this year in respect of an access agreement. This is a net receipt and reflects costs incurred of £27,500.
- D. **Licensing** – Export of live crabs to China requires an export certificate issued by the Council. A fee is charged for this certificate. Due to reasons beyond the control of the Council, the trade ceased in 2015/16 and a cost pressure was built in to the 2016/17 budget. However, this trade has now resumed and it is anticipated that £20,000 of unbudgeted income will be received in 2016/17.
- E. **Car parks** - Car parking income is showing an uplift of £60,000 on an overall income budget of £2.9 million. This is encouraging and shows an uplift in motorists using car parks which is also replicated in other traffic dependent services like the Lower Ferry. Car parking income needs to be monitored over a longer period to consider sustained usage trends against the profiled income target.

- F. **Trade waste** – Additional income of £40,000 is anticipated in 2016/17. However, this will be partly offset by 'Q' below.
- G. **Dartmouth Lower Ferry** – Members will recall that the 2016/17 income target for Dartmouth Lower Ferry was reduced by £100,000 following a downturn in income. The 2016/17 income budget of £807,000 is predicted to be exceeded by £20,000. This reflects the implementation of tariff reviews during 2016/17 suggested as part of the current service review.
- H. **Members** – It is anticipated that the Members travel and printing budgets will be underspent by £5,000 each.
- I. **Land and Investment Properties** – Unbudgeted income of £60,000 has been received this year in respect of an easement over Council land.
- J. **Planning** – There is predicted to be a shortfall in income from planning applications of £65,000. Although the number of applications has increased, their individual value has reduced. In previous years additional income has been generated from a number of one off large applications for renewable energy.
- K. **Follaton House** – It is anticipated that there will be a shortfall in the letting income for Follaton House. This is likely to be in the region of £35,000 against the income target of £231,000 due to a delay in tenants moving in. In addition there is a shortfall in room hire income of £10,000.
- L. **Planning** – Members will recall that £30,000 was built in to the 2016/17 budget for legal fees in respect of planning. However, this has already been fully utilised and is predicted to be overspent by a further £15,000.
- M. **Salaries (Customer First)** – There are additional one off staffing and agency costs of approximately £45,000, mainly due to temporary resources being used to backfill positions, for example within Planning Specialists where the Council has had difficulty in recruiting to permanent posts. The cost of an agency worker is higher than a budgeted permanent post on the Establishment. These costs include the maternity leave cover for the Planning Community of Practice Lead.
- N. **Recycling** – There is an anticipated cost pressure of £85,000. Income from recycling credits will reduce by £60,000 due to the Waste Disposal Authority bringing dedicated leaf sweepings into the Devon County contract. This is partly offset by a reduction in the amount paid out as a gate fee for this service (£25,000). In addition there will be a further shortfall in recycling credits of £50,000 due to both a reduction in the tonnage of material collected and the market value of the materials.

- O. **Environmental Services manual workers** – There is an anticipated cost pressure of £75,000 in respect of salary costs for waste and recycling, street and beach cleaning and public conveniences. This is due to overtime (£25,000) and agency costs (£50,000). The additional costs have arisen due to a combination of factors relating to the winter tonnage increases and pressures on the rate of pay for manual staff.
- P. **Waste Round review** – There is a cost pressure of £40,000 in Household Waste collection. This reflects the fact that the savings which were envisaged from the round review are not achievable in 2016/17.
- Q. **Trade Waste income for business rated domestic properties** – Based on the uptake to date new additional income of £30,000 is anticipated for 2016/17. This falls short of the income target of £50,000, however the variance of £20,000 will be offset by other additional trade waste income in 2016/17 – see 'F' above. Work is ongoing to ensure the income target for 2017/18 is met. A number of those eligible to pay the charge may well not pay for the service until the tourist season for 2017 commences although they have been invoiced within 2016/17.
- R. **Torr Quarry transfer station** – A cost pressure of £30,000 has arisen from additional haulage costs due to the increase in waste tonnages. The Waste and Recycling Task and Finish Group will be reporting back to the April Executive meeting with a review of the waste and recycling service to look at ways of improving this position.
- S. **Pannier markets** – A reduction in income is anticipated of £10,000. This has been the case for the past few years and this position has now been addressed in the 2017/18 Budget, by ensuring that income expectation is now in line with profiled consistent trends.
- T. **Salaries (Commercial Services)** – There are additional one off staffing costs of £25,000, to obtain future savings within Facilities Management.
- U. **Dartmouth Lower Ferry** – It is projected that overtime costs will be £20,000 overspent against the budget of £40,000. During 2015/16 a business case was commissioned on the running of the Dartmouth Lower Ferry business. A proposal for the future service operation is currently being explored by the Task and Finish Group and discussions with the workforce and union are on-going.
- V. **Salaries (Support Services)** – There are additional staffing and agency costs of approximately £20,000, mainly due to temporary resources being used to backfill positions.

W. **Investment income** – A shortfall in investment income of £15,000 is expected following the cut in the Bank Base Rate from 0.5% to 0.25% on 4 August 2016. The Council is investigating alternative investment vehicles in order to be able to reduce this cost pressure.

X. **Business Rates** – It is recommended to transfer £160,000 from the Business Rates Retention Earmarked Reserve of £9.9 million into the Consolidated Income and Expenditure Account in 2016/17. This is in effect releasing business rate income into the Income and Expenditure account. The Business Rates Retention Earmarked Reserve was set up to deal with the volatility in business rates income (particularly around the appeals provision) and the accounting arrangements from the Localisation of Business Rates.

4. Review of Earmarked Reserves

4.1 The Council annually undertakes a review of the level of its Earmarked Reserves as part of the budget setting process. A schedule of Earmarked Reserves is attached at Appendix A with their proposed use.

5. Prudential Indicators

5.1 The prudential code indicators were approved in the Treasury Management Strategy report to the Executive on 10 March 2016. The indicators are monitored during the year through the normal revenue and capital monitoring processes. Any exceptions are reported to the Executive together with any remedial action or revision required. To date all Treasury Management limits have been adhered to.

6. Income and Reserves

Income monitoring is an integral part of financial management. Current income forecasts are as follows:

Service	Actual Income 2015/16 £'000	Income Budget 2016/17 £'000	Projected Income 2016/17 £'000	Deficit/ (Surplus) £'000	Deficit/ (Surplus) %
Car Parks	2,884	2,872	2,932	(60)	(2.0%)
Dartmouth Ferry	835	807	827	(20)	(2.5%)
Employment Estates	1,367	1,342	1,387	(45)	(3.4%)
Licensing	211	200	232	(32)	(16.0%)
Planning Applications	912	700	635	65	9.3%
Land Charges	203	170	170	-	-
Recycling	658	756	646	110	14.5%
TOTAL	7,070	6,847	6,829	18	

7. Proposed Way Forward – Management Actions

7.1 The table below sets out the relevant management actions for the revenue expenditure and income variations shown above. It is best practice for the Council to state whether there are any corrective actions that need to be taken for the variances identified in 2016/17.

	Budget variations overspend/ (underspend) £000	Management Action
Reductions in expenditure/additional income		
Employment Estates income	(45)	Keep under review.
Business Support flood scheme	(34)	No action – this is one off income.
Access agreement income	(34)	No action – this is one off income.
Licensing income – shellfish export certificates	(20)	Keep under review. It is not proposed to build this additional income in to the 2017/18 budget.
Car Parking income	(60)	Keep under review and monitor increased usage of car parks over a longer period.
Trade Waste income	(40)	Additional income of £25,000 has been built in to the 2017/18 budget.
Dartmouth Lower Ferry income	(20)	Keep under review. It is not proposed to build this additional income in to the 2017/18 budget.
Members travel and printing	(10)	These savings have been reflected in the 2017/18 budget.
Land and Investment Properties – easement income	(60)	No action – this is one off income.
Planning income	65	The 2017/18 income budget has been reduced by £135,000.
Follaton House income	45	£35,000 is a one off pressure in 2016/17 due to the delay in tenants moving in. The reduction in room hire income of £10,000 has been built in to the 2017/18 budget.
Planning legal fees	15	No management action required – this is a one off cost pressure.
Recycling credits income	85	This income shortfall has been built in to the 2017/18 budget.
Manual workers – Environment Services salaries	75	This cost pressure has been built in to the 2017/18 budget.

	Budget variations overspend/ (underspend) £000	Management Action
Waste round review	40	This cost pressure has been included in the 2017/18 budget.
Trade Waste income – business rated domestic properties	20	This will be kept under review. An additional £25,000 of income has been built in to the 2017/18 budget.
Torr Quarry transfer station - haulage costs	30	This cost pressure has been built in to the 2017/18 budget.
Pannier markets income	10	This income shortfall has been built in to the 2017/18 budget.
Salaries	90	Most of this overspend relates to one off costs and has now been addressed, for example the appointment of the Planning CoP Lead. This will be kept under review during 2017/18.
Dartmouth Lower Ferry overtime	20	During 2015/16 a business case was commissioned on the running of the Dartmouth Lower Ferry business. A proposal for the future service operation is currently being explored by the Task and Finish Group and discussions with the workforce and union are on-going.
Investment income	15	Keep under review. A cost pressure of £25,000 has been included in the 2017/18 budget.

8. Issues that may impact on the budget monitoring position in the next month/Risks

The budget monitoring position assumes that collection rates will remain at previous levels.

For Business Rates, it has been assumed that the Council is still in a situation where it is eligible for a safety net payment. For 2016/17 this is projected to be around £1.8million due to the level of Business Rates appeals outstanding. This is regularly monitored and any change to this position will be reported to Members.

9. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	The Statutory Powers that apply to this report are the Local Government Act 1972 Section 151 and the Local Government Act 2003 Section 28.
Financial	Y	<p>The report identifies an overall overspend of £27,000 which is 0.3% of the overall budget set for 2015/16 of £8.752million.</p> <p>It is recommended to Council to transfer funding of £160,000 from the Business Rates Retention Earmarked Reserve into the Consolidated Income and Expenditure Account in 2016-17. Annually transfers are made from Earmarked Reserves to the Comprehensive Income and Expenditure Account as part of the closure of the end of year Accounts.</p> <p>As the accounting entries can be identified at an early stage, a recommendation is made to Council to agree the accounting entries in 2016-17. Only Council can approve the use of Earmarked Reserves.</p>
Risk	Y	<p>1) Budget variances – continual budget monitoring at all levels within the Council ensures early identification of variances. Reporting to the Executive provides an opportunity for Members to identify and instigate remedial action where appropriate.</p> <p>2) Resource Planning – the Executive takes into account any significant issues when developing the Council’s Medium Term Financial Strategy.</p>
Comprehensive Impact Assessment Implications		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.

Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

Supporting Information

Appendix A – Schedule of Reserves (Earmarked Reserves and Unearmarked Reserves).

Background Papers:

Finance Community of Practice budget monitoring working papers.
Executive 15 September 2016 - Medium Term Financial Strategy for the five year period 2017/18 to 2021/22.

Approval and clearance of report

Process checklist	Completed
Portfolio Holder briefed	Yes
SLT Rep briefed	Yes
Relevant Exec Director sign off (draft)	Yes
Data protection issues considered	Yes
If exempt information, public (part 1) report also drafted. (Committee/Scrutiny)	N/A