Corporate Governance and Standards Report
Ward(s) affected: All
Report of Director of Resources
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Financial Monitoring 2015-16 Period 8 (April to November 2015)

Executive Summary

The report summarises the financial monitoring position for the period 8 (April – November 2015).

At the end of period 8, officers projected a reduction in net expenditure on the general fund revenue account of £1,550,704 compared to latest estimate. This is largely due to a reduction in employee expenditure across all services, savings in the local plan and miscellaneous expenses and additional income from off street car parks. The Council has also received additional interest income from its investments.

A surplus on the Housing Revenue Account, due to lower staffing and repairs and maintenance costs will enable a transfer of £11.2 million to the new build reserve/reserve for future capital at year-end

Recommendation to Corporate Governance and Standards Committee

That the committee notes the results of the Council's financial monitoring for the period April to June 2015 and makes any comments it feels appropriate

Reason(s) for Recommendation:

To allow the committee to undertake its role in relation to scrutinising the Council's finances.

1. Purpose of Report

1.1 At its meeting on 7 October 2015 the Council resolved:

"That the Council approves the commencement of the governance arrangements changes, detailed within the September 2015 report of the Joint Scrutiny Committee's Review of Governance Arrangements task and finish group, with effect from 1 January 2016"

1.2 Recommendation 8 of the Governance Review is: 'That the importance of the Corporate Governance and Standards Committee to the Council be recognised, particularly in the way in which it supports the overview and scrutiny function through ongoing scrutiny of financial matters, including its proposed expanded remit on the treasury management function and budget monitoring'.

1.3 This Committee started its enhanced review of our financial management at its meeting on 24 September 2015, by considering a financial monitoring report for the period April to June 2015. On 26 November it received a report on period 6 (April to September) and this report covers the period April to November 2015.

2. Strategic Priorities

2.1 Councillors have reviewed and adopted an ambitious corporate plan for the period 2015-2020. The plan includes many significant projects and aspirations that will challenge us financially. Monitoring of our financial position during the course of the financial year is a critical part of our management of resources that will ultimately support delivery of the corporate plan.

3 Background

3.1 The Council regularly under takes financial monitoring in a number of ways:

a. two types of general fund revenue budget monitoring report; a full monitor for periods 3, 6, 8 and 10 and a shorter monitor for the other periods (except April) covering the seven key service areas (Industrial Estates, Investment Property, Development Control, Planning Policy, Off Street Parking, Refuse and Recycling, Parks and Countryside)

b. quarterly monitoring of the capital programme

c. monthly and quarterly monitoring of its treasury management activity

d. monitoring at periods 3,6,8 and 10 of the Housing Revenue Account

3.2 The reports are presented to the Council's officer Corporate Management Team (CMT), Chief Finance Officer and deputies, officer capital programme monitoring group and Treasury Management Panel. The monitoring reports for key service areas are emailed to all Councillors. Following the decision by Council to expand the remit of the Corporate Governance and Standards Committee, the Corporate Improvement Scrutiny Committee decided to reduce the remit of the Finance Scrutiny Group, which will now meet once a year, to focus on scrutinising the bids made as part of the business planning process. Financial monitoring for all services is now reported to the Council's Corporate Governance and Standards Committee on a regular basis as recommended by the task and finish group.

3.3 This report sets out the financial monitoring for period 8 for the financial year 2015-16 (April to November). The monitoring report covers:

(a) general fund revenue monitoring (section 4)

(b) housing revenue account monitoring (section 5)

3.4 This report does not cover capital expenditure or treasury management activities as the third quarter figures were not available at the time this report went to print. These will be covered to period 9, along with the revenue position at period 10, as part of a report to this committee on 23 March 2015.

4 General Fund Revenue Account monitoring

4.1 **Appendix 1** shows the summary monitoring report for the general fund revenue account based on the period April to November 2015. Officers have prepared the projected outturn based on eight months actual and accrued data.

4.2 **Appendix 2** shows detailed information for each service split between direct expenditure and income and indirect costs. Variances to the revised budget have been colour coded with notes provided for any variance, which is red, and over £20,000. We monitor the projected outturn against the revised (or latest) budget as this takes into account any virements or supplementary estimates that have been approved since the original budget was set in February 2015.

4.3 At total service unit level the projected outturn is £1,557,146 lower than the latest estimate. There are items within the contributions to reserves that reverse figures within the service units. When these are taken in to account, the projected outturn is £872,042 lower than the latest estimate.

4.4 Net external interest receivable is £465,778 higher than estimate. The major reason for the additional projected interest is the level of balances being higher than anticipated plus better returns than estimated on external funds.

4.5 The Minimum Revenue Provision (MRP), based on the Capital Financing Requirement (CFR) at 31 March 2015 is £293,446. This is £212,884 lower than estimated. The reduction is due to a change in the MRP policy approved by Council in February 2015.

4.6 The overall projected position for net expenditure is £1,550,704 lower than estimate.

4.7 **Appendix 3** shows supplementary estimates and virements approved to date.

4.8 Unlike the old formula grant system, not all of the income and payments relating to the Business Rates Retention Scheme are fixed. The tariff and retained income figures do not change from the budgeted amount, but the levy and s31 grant income do. The levy that we pay to the government is 50% of the estimated retained income above our baseline funding level. Within the budget, we assumed that we would transfer our share (the remaining 50%) to the Business Rates equalisation reserve. After the 2014-15 accounts were closed, the government changed the calculation of the levy for that year. This means that we will need to pay over an additional £67,081 in 2015-16 for which we did not raise a creditor. In order to maintain the net effect of the BRRS on the General Fund we have adjusted this contribution as set out below:

	2015-16 Revised Estimate (£)	**2015-16 Projection (£)**	**Variance (£)**
BRRS – tariff	28,059,754	28,059,754	0
BRRS – levy re 2015-16	879,482	1,166,096	286,614
BRRS – levy re 2014-15	0	67,081	67,081
Contn to BRRS equalisation reserve	879,482	583,010	(296,472)
	29,818,718	29,875,941	57,233
BRRS – s31 grant	(643,239)	(700,462)	(57,233
BRRS – retained income	(32,066,981)	(32,066,981)	0
BRRS – net position	**(2,891,502)**	**(2,891,502)**	**0**

4.9 The table above shows an increase in our levy payment, because we think that business rate income will be higher than originally estimated, and a small increase in s31 grant income, which is related to certain rate reliefs that we have granted. In order to maintain the overall impact on the general fund, we have reduced the contribution to the business rates equalisation reserve.

Major Service Variances

4.10 Appendix 2 gives reasons for variances at a service level that are above £20,000. There are some services with projected larger variances in total net expenditure and these are summarised in the table below. The table includes only items that have an impact on the bottom line and excludes additional spend financed from a reserve, an approved carry forward or items financed by savings elsewhere in the budget.

	Higher net cost (£000)	Lower net cost (£000)
Community Services Directorate		
Housing Surveying Services – vacancies and Legionella contract		(96)
Gypsy Caravan sites – electricity and repairs/maintenance		(53)
Community meals (vacancies, grant support and lower operating		(77)

	Higher net cost (£000)	Lower net cost (£000)
costs)		
Corporate Services Directorate		
Corporate services - Intern vacancies		(116)
Corporate services - Bank and charge card charges and consultants advice	76	
Electoral Registration		(78)
Development Directorate		
Building Control – lower applications received	84	
Planning policy – delay in Local Plan		(136)
Business and Tourism		(97)
Environmental Directorate		
Refuse and Recycling – additional salary costs	121	
Off Street Parking – additional income		(226)
Crematorium		(137)
Guildford House		(71)
Resources Directorate		
Asset Development - vacancies		(133)
Miscellaneous Expenses – saving on centrally held budgets, including £140,000 from the allowance for the non-achievement of additional rent income that will not be required as we have achieved the target		(204)
Council Tax	79	
Total	**360**	**(1,424)**

5 Housing Revenue Account

5.1 **Appendix 4** shows the budget monitoring report for the Housing Revenue Account (HRA) for the period April to November 2015. The report shows that HRA gross service expenditure is projected to outturn at 96.3% of the budgeted level, whilst income is projected to be 98.9% of the budgeted level, creating a surplus of £378,754. The projected outturn would enable a transfer of £11.2 million to the new build reserve/reserve for future capital. The principal variations are:

5.2 The rental income estimate for 2015-16 reflected a cautious view around Right to Buy (RTB) sales and de-commissioning of units. However, it is currently projected that rental income will be £334,480 lower than budget largely because of an increase in RTB activity and revised profiling of new build properties coming in to use

5.3 It is projected that employee related expenditure; net of temporary staffing, vacancy credit and redundancy costs will result in a saving against budget of £195,342.

5.4 Focus remains on carrying out planned rather than responsive maintenance, facilitated by the benefits accruing from past levels of expenditure on planned capital and revenue maintenance works. Historically a lower than budgeted level of repair and maintenance expenditure has resulted. We are projecting a saving of around 7.3%.

5.5 In accordance with the business plan, with the exception receipts from right to buy sales, the estimates for the year do not provide for any repayment of HRA debt principal or for setting aside any amounts towards the repayment of debt, with priority in the early years of the business plan given to the provision of additional housing.

5.6 Tenancy arrears remain stable and are consistent with the assumptions contained in the business plan. Particular attention is paid to introductory tenancies (tenants of less than 12 months), as they often have no previous experience of managing a household budget or of renting a property. The Money Advisor is focusing on applicants and new tenants to help them manage their money more effectively.

Implication of changes announced in the Summer Budget 2015 and changes proposed in the Housing and Planning Bill, Welfare Reform and Work Bill.

5.7 Fundamental changes announced by the Chancellor of the Exchequer as part of the summer budget, and proposals contained in the Housing and Planning Bill, and the Welfare Reform and Work Bill have created significant uncertainty. Whilst the details are yet to be finalised, it is clear that the imposition of one or more of these proposed changes would have a seismic impact on the financial health of the HRA. It would restrict our ability to deliver new social housing in the short to medium term, and undermine our ability to service the debt inherited as part of self-financing in the longer term. The main proposals and the impact this could potentially have on the HRA are detailed below:-

Rental Income

5.8 The Chancellor announced a cut in social housing rent of 1% a year for the next four years.

5.9 Over the four-year period, this will remove £12.2 million from the rental stream. We will face an on-going reduction, as our base income in 2020-21 will be approximately 12% lower than currently anticipated.

5.10 The Chancellor's announcement will have a significant impact on our ability to generate surplus to support our new build programme, whilst at the same time servicing the debt inherited in the self-financing settlement. This reduction is likely to coincide with a period when inflation in the economy steadily increases. This will add pressure to repair and maintenance or other expenditure headings.

Pay to stay

5.11 Social housing tenants with household incomes of £40,000 and above in London, and £30,000 and above in the rest of England will be required to pay a level of rent either at market level or closer to it. Unless the data is provided by HMRC to social landlords for the purpose of determining income it is likely to be administratively complex. Local Authorities will be required to pay any additional rental income to the Treasury based on an estimated number, with a deduction for any administration costs incurred. This policy has been subject of a consultation and the Council has responded. Current indications suggest that this policy will be implemented from April 2017, subject to the outcome of the consultation process.

Enforced sale of tenanted stock

5.12 The Right to Buy (RTB) is to be introduced to Housing Association tenants. It was announced recently that Housing Associations will voluntarily extend the RTB to their tenants through the National Housing Federation's agreement with the Government.

5.13 The Government have undertaken to reimburse the costs incurred by Housing Associations. They propose to fund those costs by requiring stock holding councils to sell 'high value' homes as they become vacant.

A redistributive basis has yet to be determined for the centrally pooled receipt, but this will not be a local system and is unlikely to reflect local housing need. Whilst the principles were set out in the Housing Bill, operational detail will follow through secondary legislation.

There are two options currently under consideration:

- Actual sale of high value homes <u>or</u>
- A formula driven approach

5.14 A formula driven approach would effectively be a levy on the level of vacant or void properties anticipated throughout the year. An amount would be calculated and paid annually to government based upon a formula that includes property values, number of bedrooms and tenancy turnover.

5.15 Until more detail is known regarding the required payment from us, it is difficult to make accurate assumptions as to the impact on the viability of our current Business Plan. The most likely outcome would be the sale of a number of void properties for a defined period resulting in a reduction of rental income moving forward, and a reduction in the ability to meet housing need.

5.16 Whilst it is anticipated that we will be able to offset the debt attributable to each unit, it remains unclear whether this compensation will take account of the contribution the unit would have made over the course of the 30-year settlement period.

6 Consultations

6.1 The accountants prepare the budget monitor in consultation with the relevant service managers.

7 Equality and Diversity Implications

7.1 There are no direct equality and diversity implications as a result of this report. Each service manager will consider these issues when providing their services and monitoring their budgets.

8 Financial Implications

8.1 The financial implications are contained throughout the report.

9 Legal Implications

9.1 The Local Government Act 1972, Section 151 states that each local authority has a statutory duty to make arrangements for the proper administration of their financial affairs. In addition, the Accounts and Audit Regulations 2015 impose an explicit duty on the Council to ensure that financial management is adequate and effective and that they have a sound system of internal control, including arrangements for the management of risk.

9.2 Proper administration is not statutorily defined; however, there is guidance, issued by the Charted Institute of Public Finance and Accountancy (CIPFA) on the responsibilities of the Chief Financial Officer (CFO). This states that local authorities have a corporate responsibility to operate within available resources and the CFO should support the effective governance of the authority through development of corporate governance arrangements, risk management and reporting framework. Regular monitoring of the Council’s actual expenditure to budget and forecasting of the expenditure for the full year is part of the proper administration and governance of the Council.

9.3 There are no further direct legal implications because of this report.

10 Human Resource Implications

10.1 There are no human resource implications because of this report.

11 Summary of Options

11.1 This report explains the position after eight months of the financial year. There are no specific recommendations and therefore no options to consider.

12. Conclusion

12.1 The report summarises the financial monitoring position for period 8 (April – November) for the 2015-16 financial year.

12.2 At the end of period 8, officers were projecting a reduction in net expenditure of £1,557,146 on the general fund revenue account. The main reasons for this are set out in the table in paragraph 4.10

12.3 The Executive will decide the treatment of any balance when it considers a report on the 2015-16 final accounts in June 2016.

12.4 A surplus on the Housing Revenue Account, due to lower staffing and repairs and maintenance costs will enable a transfer of £11.2 million to the new build reserve/reserve for future capital at year-end.

12. Background Papers

12.1 None

12. Appendices

- Appendix 1 – General fund revenue account summary
- Appendix 2 – General fund services - revenue detail
- Appendix 3 – General fund supplementary estimates and virements
- Appendix 4 – Housing Revenue Account Summary