

**COMMITTEE:**           **AUDIT & GOVERNANCE**           **REF NO: AG/17/04**  
**DATE:**                 **27 JUNE 2017**  
**SUBJECT:**           **FINANCIAL MANAGEMENT & CONTROL**  
**CORPORATE BUDGET MONITORING – OUT-TURN**  
**REPORT**

**PORTFOLIO HOLDER:**   **COUNCILLOR MARTIN COOK**

**HEAD OF SERVICE:**   **PETER TIMMINS**

***Short description of report content and the decision requested:***

The Council is required to report annually on its financial performance.

This report identifies and explains the out-turn financial position for the General Fund, Housing Revenue Account, Shared Revenues Partnership, Capital Programme and Treasury Management activities.

Councillors are requested to note the report and make any observations that they require to be made known to Executive.

***Ward(s) affected:***

All

***List of Appendices included in this report:***

- a) Appendix 1 - General Fund Revenue Budgets carried forward from 2016/17 to 2017/18
- b) Appendix 2 - Prudential Indicator Variances
- c) Appendix 3 - Capital Programme Budget Carry Forwards
- d) Appendix 4 - Head of Internal Audit's Annual Audit Opinion

*This report has been prepared by Seb Duncan, Finance Consultant – Finance and Procurement Tel: 01473 433755           Email: seb.duncan@ipswich.gov.uk*

***This report was prepared after consultation with:***

Corporate Management Team and the Finance Portfolio Holder

***The following policies form a context to this report:***

*Building a Better Ipswich*

*Finance Strategy*

## **LIST OF BACKGROUND PAPERS AS REQUIRED BY LAW**

*(papers relied on to write the report but which are not published and do not contain exempt information)*

1.

## **OTHER HELPFUL PAPERS**

*(papers which the report author considers might be helpful – this might include published material)*

1. 2015/16 Financial Out-turn Report (Committee Ref E/16/03)
2. Financial Strategies & Medium Term Financial Plan 2016/17 onwards (including Budget 2016/17) (Committee Ref E/15/58)
3. Financial Strategies & Medium Term Financial Plan 2017/18 onwards (including Budget 2017/18) (Committee Ref E/16/52)
4. Financial Management & Control Corporate Budget Monitoring 2016/17 Quarter 1 (Committee Ref E/16/26)
5. Financial Management & Control Corporate Budget Monitoring 2016/17 Quarter 2 (Committee Ref E/16/38)
6. Financial Management & Control Corporate Budget Monitoring 2016/17 Quarter 3 (Committee Ref E/16/65)
7. Changes to Financial Standing Orders (Committee Ref C/16/20)

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## **1. Introduction**

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- 1.1 Financial standing orders state that the Chief Finance Officer is responsible for providing appropriate financial information to enable budgets to be monitored effectively. He or she must monitor and control expenditure and income against budget allocations and report to the Executive on the overall position on a regular basis. This report is intended to fulfil that requirement and also report on the Council's capital programme.
- 1.2 The report also provides a commentary on Treasury Management activities and performance during the year.
- 1.3 The report includes as appendix 4, the Internal Audit Manager's annual report on the robustness of the financial controls and processes relied upon to produce the financial information in this report.

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## **2. Background**

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- 2.1 The robust monthly budget monitoring process is based upon service groups. Each Head of Service receives monthly budget monitoring reports from Financial Services and is required to return a "Monthly Monitoring Return" (MMR).
- 2.2 As part of their MMR, Heads of Service report –
  - significant potential year end variances
  - the corrective action they intend to take
  - progress on achieving savings targets
  - movements in service reserves
  - future budget pressures
  - that the budget changes identified reflect the predicted out-turn for their service group.
- 2.3 The Corporate Management Team receives a monthly financial update and Executive receives a quarterly budget monitoring report.
- 2.4 The Council's approved budget is amended for significant variances on a quarterly basis as part of the quarterly reports to Executive. The quarterly reports have also contained details of the projected year end underspends for service groups, together with explanations. This report summarises the year end position, whilst detailing the significant variances occurring in the final quarter.
- 2.5 The budget monitoring process enables Heads of Service to highlight any significant areas of variance compared to expected budget (performance) and to take appropriate action on a monthly basis. This report facilitates the monitoring and control of financial performance.
- 2.6 This report was considered by Executive Committee on 19 June 2017.

### 3. Relevant Policies

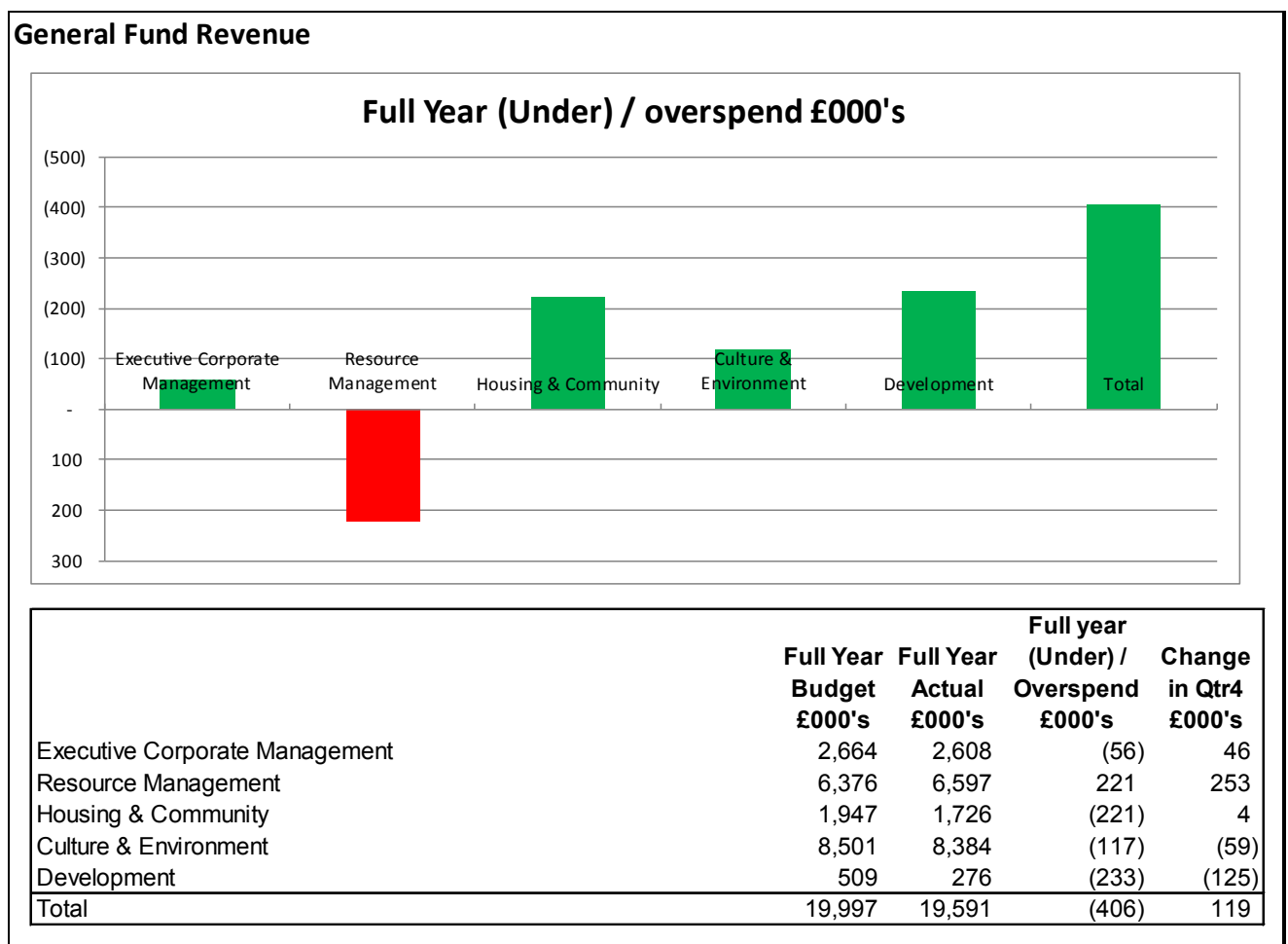
- 3.1 The budget monitoring and control process supports the delivery of the Council's Corporate Plan, "Building a Better Ipswich".
- 3.2 This report has been written having regard to the Finance and Capital Strategies which recognise the importance of financial management and robust budgetary control.

### 4. General Fund Summary Items

- 4.1 The General Fund Summary includes the "Additional Commitments Contingency" and the "Invest to Save Fund" these are held to cover the costs of possible future events and to support the delivery of the Transformation Programme respectively.
- 4.2 The Additional Commitments Contingency was used during the year to address emerging budget issues as detailed in the Quarterly Budget Monitoring Reports to this committee.
- 4.3 All other General Fund revenue budgets are allocated to service groups.

### 5. Service Group Financial Performance – General Fund

- 5.1 The year-end position for the General Fund Service Groups is shown below:



5.2 This identifies a full year underspend of £406k a reduction of £119k in the quarter. The detailed movements in the quarter are identified below:

	£000's
<b>Executive Corporate Management</b>	
Transitional Vacancies	(2)
Additional Staffing Costs	36
Contribution to Invest to Save Fund	30
Misc	(18)
	<u>46</u>
<b>Resource Management</b>	
Transitional Vacancies	(57)
Housing Benefit Subsidy (following 2015/16 audit) - see para 5.3	272
External Audit fees	47
Reduced court costs recovered (council tax)	61
Community Development - various underspends	(59)
Reduced professional fees across service group	(46)
Transfer to Savings Programme	56
Misc	(21)
	<u>253</u>
<b>Housing &amp; Community</b>	
Transitional Vacancies	(48)
Community Protection ZBB (one-off)	(105)
Environmental Health ZBB (one-off)	(38)
Transfer to Savings Programme	84
Contribution to Invest to Save Fund	121
Misc	(10)
	<u>4</u>

	£000's
<b>Culture &amp; Environment</b>	
Transitional Vacancies	(3)
Cemetery/crematorium income (after target was reduced in Q1)	(114)
Parks - additional vehicle/material costs	70
Parks - additional utility/cleaning costs	34
Parks - year end income	(33)
Commercial Development - including Events	121
Trade Waste - additional income	(97)
Recycling - additional income	(25)
Recycling - reduced costs	(34)
Waste & Fleet - reduced staffing costs	(74)
Sport & Leisure - reduced utility costs	(40)
Museums - additional income	(17)
Museums - reduced costs	(22)
Transfer to Savings Programme	120
Contribution to Invest to Save Fund	64
Misc	(9)
	<u>(59)</u>
<b>Development</b>	
Transitional Vacancies	(69)
Planning - additional income	(140)
Building Control - additional income	(20)
Building Control - various underspends	(51)
Property Services - business rate savings due to higher occupancy	(50)
Property Services - lower running costs	(47)
Property Services - additional income from property rentals	(84)
Property Services - staffing costs recovered	(31)
Building & Design - staffing costs not recoverable from capital	43
Building & Design - increased professional fees	35
Transfer to Savings Programme	150
Contribution to Invest to Save Fund	129
Misc	10
	<u>(125)</u>

5.3 Local Authorities are eligible for additional “reward” subsidy where they are able to keep the Local Authority Error rate below a certain threshold. During the audit of the 2015/16 Housing Benefit Subsidy Claim errors were identified that increased the Local Authority Error rate over the threshold set by the Department For Work and Pensions(DWP). As a result the additional “reward” subsidy of £220k was reclaimed by the DWP, along with £52k of subsidy which had been identified during the course of the audit. In context the value of the total claim for Housing Benefit is £53.8m, and therefore £52k error represents 0.09% of the total population.

- 5.4 During the quarter, services contributed £344k to the Transformation Invest to Save Fund to further support the delivery of the Big Ticket items and to support projects such as Agile Working. Services also contributed £410k to the Big Ticket savings programme during the quarter – detail can be found in section 7.2
- 5.5 The full year service underspend of £406k was after items totalling £893k had been deferred to 2017/18 (see appendix 1).

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## 6. General Fund Service Reserves

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- 6.1 Service reserves are available to fund new initiatives or one-off items of expenditure and are not to be used to offset an overspend i.e. to be used for proactive rather than reactive purposes. The General Service Reserve has been created to deal with the reactive issues and is controlled by the Corporate Management Team. The table below shows the opening balance for each service group reserve, together with the transfers to/from those reserves during the year:

	2016/17 Opening Balance £000's	Net transfers to/(from) Quarter 1 £000's	Net transfers to/(from) Quarter 2 £000's	Net transfers to/(from) Quarter 3 £000's	Net transfers to/(from) Quarter 4£000's	Cumulative Balance at Quarter 4 £000's
Executive Corporate Management	100	-	-	-	(15)	85
Resource Management	50	-	(11)	-	(6)	33
Housing & Community	50	-	-	-	-	50
Culture & Environment	50	-	-	-	(7)	43
Development	50	-	-	-	(7)	43
General Service Reserve	700	140	(79)	(50)	(20)	691
<b>TOTAL</b>	<b>1,000</b>	<b>140</b>	<b>(90)</b>	<b>(50)</b>	<b>(55)</b>	<b>945</b>

- 6.2 The Service Reserve movements in quarter 4 consist of a £6k transfer to cover recruitment costs, £14k for a Market Strategy, £20k to deal with a pest control issue at the Museum Store and £15k for IT costs.

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## 7. General Fund Savings

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- 7.1 During quarter 4 significant progress has been made against the Big Ticket items following a detailed review of the savings identified by service groups during the year, with just £63k of the 2016/17 savings target outstanding.
- 7.2 The table below shows the final position on the 2016/17 savings targets:

2016/17						
	Opening	Q1	Q2	Q3	Q4	Outstanding
	£000's	£000's	£000's	£000's	£000's	£000's
Customer Access Strategy	477	-	-	(477)	-	-
Procurement	40	-	-	-	-	40
Property Investments & Rental Income	71	-	-	-	-	71
Vol Severance & Vol Redundancy	(25)	-	(25)	-	-	(50)
Investment Strategy	-	-	-	-	-	-
Zero Based Budgeting	144	(61)	(59)	(7)	(175)	(158)
Income Generation	495	(100)	-	-	(235)	160
Transformation Savings	119	-	(91)	(28)	-	-
	<u>1,321</u>	<u>(161)</u>	<u>(175)</u>	<u>(512)</u>	<u>(410)</u>	<u>63</u>

7.3 The Quarter 4 savings are summarised below:

	£000's
<b>Resource Management</b>	
Community Dev & Democratic Services	37 ZBB
Finance & procurement	6 ZBB
Human Resources	1 ZBB
IT	5 ZBB
Head of Resource Management	2 ZBB
Audit Partnership	5 ZBB
	<u>56</u>
<b>Housing &amp; Community</b>	
Housing Advice	15 Income Generation
Environmental Health	57 ZBB
Community Protection	12 ZBB
	<u>84</u>
<b>Culture &amp; Environment</b>	
Parks & Cemeteries	15 Income Generation
Waste & Fleet	45 Income Generation
Waste & Fleet	50 ZBB
Museums Service	10 Income Generation
	<u>120</u>
<b>Development</b>	
Planning & Development	<u>150</u> Income Generation
	<u>150</u>

7.4 The £410k of savings detailed above has been identified as on-going savings. The Big Ticket target for 2017/18 onwards is £1m.



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**8. General Fund Summary Position**

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8.1 In addition to what has been reported in the previous sections, there was also a favourable variance of £148k relating to Treasury Management activity. This gives a total of £1.436m available for allocation in 2017/18:

	£m
Service Underspend (para 5.1)	0.406
Savings Target o/s (para 7.2)	(0.063)
Unused Service Reserves (para 6.1)	0.945
Treasury Management	0.148
Available for allocation	<u>1.436</u>

8.2 The £1.436m has been applied as follows:

£750k to the General Service Reserve, with the remaining £686k added to the working balance.

8.3 The limited use of the individual service reserves allocated during 2016/17 has removed the requirement to hold these at service level. The General Service Reserve provides potential funding for budget pressures outside the service groups' control and reduces the pressure on the Additional Commitments Contingency and will be administered by CMT.

8.4 In addition, the following contingencies have been carried forward to 2017/18:

- Transformation Invest to Save - £581k
- Additional Commitments - £94k

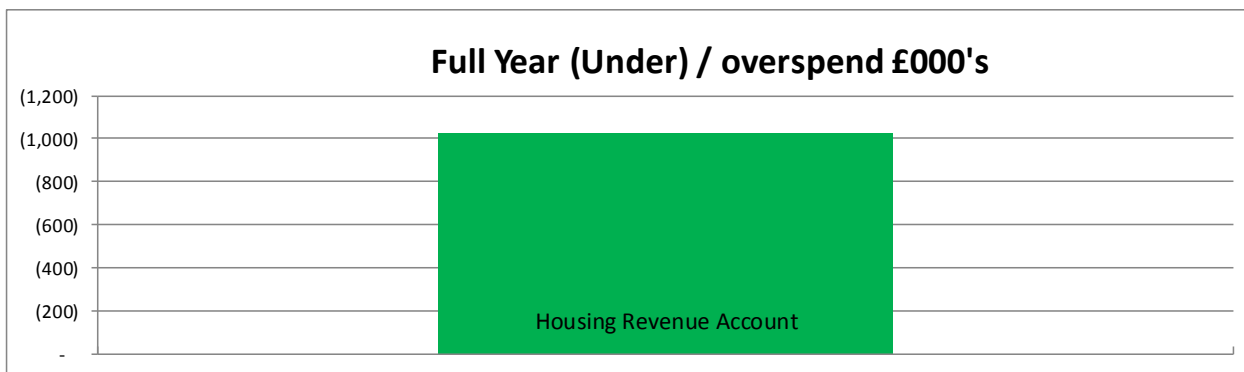
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**9. Housing Revenue Account Out-turn**

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9.1 The year-end position for the Housing Revenue Account is shown below:

## Housing Revenue Account



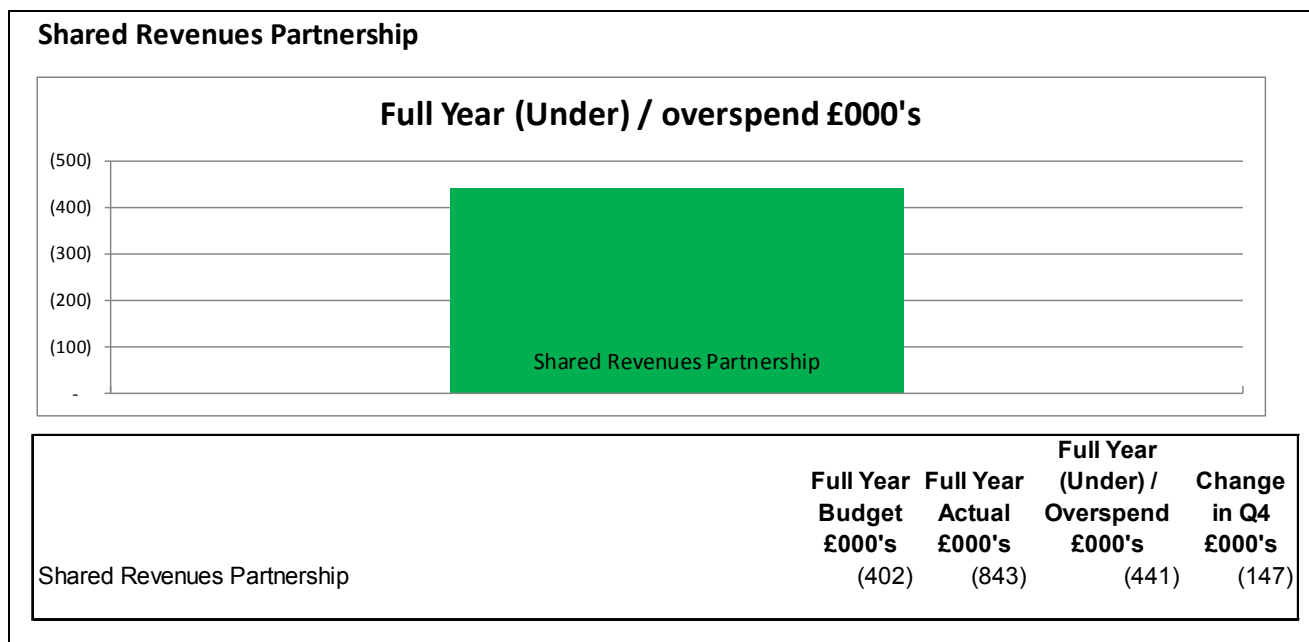
	Full Year Budget £000's	Full Year Actual £000's	Full Year (Under) / Overspend £000's	Change in Q4 £000's
Housing Revenue Account	1,776	745	(1,031)	(749)

9.2 This identifies a full year underspend of £1.031m, a favourable increase of £749k in the quarter. The detailed movements in the quarter are identified below:

	£000's
Planned mtce - general building works catch up (retendered)	120
Backdated Rent reviews	(276)
Software Licenses	(22)
Responsive Repairs - reduced usage of subcontractors / materials	(85)
Various minor underspends - printing/equipment/training	(68)
Lower bad debt provision than anticipated	(90)
Reduced interest received	38
Debt Charges Principal & interest - reduced costs	(151)
Capital charges increased	38
Unused Contingencies - Lost Rent (RTB Sales same level as last yr - an increase had been assumed)	(99)
Overachieved Transitional Vacancy target	(135)
Misc	(19)
	<u>(749)</u>

## 10. Shared Revenues Partnership Out-turn

10.1 The year-end position of the Shared Revenues Partnership is shown below:



10.2 This identifies a full year underspend of £441k, a favourable increase of £147k in the quarter. The detailed movements in the quarter are identified below:

	£000's
Transitional Vacancies	(30)
Additional Grants	(51)
Rating List consultant	14
Various minor underspendings (depreciation, printing, postages, training, professional fees)	(80)
	<u>(147)</u>

10.3 The £441k together with the unused carry forward from 2015/16 of £402k gives an overall carry forward of £843k into 2017/18, which will be used in the first instance to clear the 2017/18 budgeted shortfall of £320k. Work will take place in 2017/18 through a Service Review and zero based budgeting exercise to address this budgeted shortfall in the longer term.

## 11. Treasury Management and Prudential Indicators

11.1 The annual report on treasury management activities will be considered by Audit Committee on 27 June 2017 and Council on 26 July 2017 and will provide a complete picture of the Council's treasury management activities for 2016/17.

11.2 The Council did not undertake any long or short term borrowing during the year, but repaid £3.216m (General Fund £515k, HRA £2.701m). The Council's overall

borrowing as at 31 March 2017 was £127.922m (General Fund £18.271m, HRA £109.651m).

- 11.3 Council on 24 February 2016 agreed the overall borrowing limit for 2016/17 of £195m to take account of the Council's anticipated borrowing during the year, plus headroom for any additional schemes that could be added. The Council cannot exceed its overall borrowing limit and any changes to it have to be agreed by Council. The borrowing limit for the HRA is £144.885m. The Council's borrowing requirement as at 31 March 2017 was £170.179m (£121.722m HRA and £48.457m GF). Due to the differential in borrowing and investment interest rates the Council has used internal borrowing of £42.257m from reserves.
- 11.4 Surplus cash arising within the General Fund or the HRA is pooled and invested in accordance with the Treasury Management Policy Statement approved by the Council. At 31 March 2017, the Council had total investments with financial institutions of £33.710m.
- 11.5 The Council has also set up an asset management company, Ipswich Borough Assets, and loans totalling £10.348m have been made to the company during the year. All loans made to the company have been undertaken at the appropriate market rate of interest for the asset purchased.
- 11.6 The Local Government Act 2003 allows local authorities to determine locally their levels of capital investment and associated borrowing. To ensure probity, affordability and accountability this activity complies with the code of best practice known as the 'Prudential Code', which requires the Council to determine a number of key indicators prior to setting its council tax each year. The Council's approved and out-turn indicators for 2016/17 are set out in appendix 2.
- 11.7 In the light of the Capital Expenditure Outturn position, the Prudential Indicators are being reviewed. In particular the authorised borrowing limit is likely to increase, in order to ensure that there is sufficient headroom for borrowing in 2017/18, including that required to fund Ipswich Borough Assets investments which in turn contribute to the Council's Medium Term Financial Plan. Any changes to the prudential indicators will be recommended as part of the Treasury Management Outturn report to be considered by Council in July.

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## **12. Capital Programme and Resources**

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- 12.1 The 2016/17 Capital Programme was updated at each quarter throughout the year with reports to Executive to take account of when expenditure was due to happen, and budgets were regularly re-profiled during the year.
- 12.2 The detailed Capital Programme is shown in Appendix 3. For information purposes additions to the capital programme during the last quarter are shown in paragraph 12.3 and these are reflected in Appendix 3. A summary of the 2016/17 position follows:

	Budget @ Qtr 3	Actuals	Budget C/Fs	Savings
	£000's	£000's	£000's	£000's
HRA Programme	11,608	10,062	-1,360	-186
GF Programme	23,287	19,448	-3,664	-135
Contingency	1,390	0	-990	-400
<b>Total</b>	<b>36,285</b>	<b>29,550</b>	<b>-6,014</b>	<b>-721</b>

12.3 The following significant items have all been added to the 2016/17 capital programme during the last quarter:-

Scheme	Type of addition/removal	Amount
Ipswich Borough Assets	Loan	£3,840,642
Cornhill Regeneration Project	External Funding received	£1,600,000
Leases Funded by Loan	Met from borrowing costs as reduces leasing costs	£43,867

### 13. Risk Management

Risk Description	Consequence of risk	Risk Controls	Probability of risk occurring taking account of controls (scale 1-6) 1 – almost impossible 6 – very high	Impact of risk, if it occurred taking account of actions (scale 1 – negligible; 4 – catastrophic)	Actions to mitigate risk
Over/under commitment of resources	Disruption of service provision	Budget Monitoring Process	2	2	Business Planning/ Resource Allocation Process
Misstatement of Accounts		Adherence to Guidance notes	3	2	Appropriately trained and qualified finance staff  Corporate Financial Systems  Financial training for non-finance staff  Budget Control Process as outlined in section 2 of this report.

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**14. Environmental Impact Assessment**

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- 14.1 This report is focused purely on the financial out-turn of the Council for 2016/17.
- 14.2 Any potential environmental impacts, arising from over or underspends on a particular service, would be the subject of a further report.

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**15. Equalities and Diversity Implications**

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- 15.1 This report is focused purely on the financial out-turn of the Council for 2016/17.
- 15.2 Any potential equality and diversity impacts, arising from over or underspends on a particular service, would be the subject of a further report.

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**16. Conclusions**

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- 16.1 There has been “active” management of the overall revenue spending of the Council during the year. The end of year General Fund underspend, which more than covered the minor shortfall against the 2016/17 savings targets, together with the progress made against the on-going targets provide further assurance that the Transformation Programme savings targets assumed as part of the Medium Term Financial Plan can be delivered.
- 16.2 For the Capital Programme, the regular profiling exercise provided accurate monitoring information.

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**17. Recommendations**

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- 17.1 That Audit & Governance Committee notes the report and make any observations that they require to be made known to Executive.**