

Budget Outturn Quarter 2, 2017/18

SUMMARY

- 1.1 The report summarises the Council's overall financial position at the end of September 2017 against the budget approved by Council on 15 February 2017 as follows:
- **Revenue budget:** The full year forecast projects a pressure of £1.7m against the approved budget of £214.978m outlined in this report. Action plans, developed by relevant Departmental Management Teams (DMTs) to manage cost pressures, are being put in place to manage overspends and ensure budgets are met;
 - **Capital budget:** Capital expenditure is £20.705m, 19.73% of the total original approved capital budget of £104.935m. The year-end forecast is estimated at £85.5m, reflecting known project slippage and the impact of the deferred Waste Project investment into 2018/19;
 - **Reserves:** The General Reserve balance remains at £8.764m;
 - **Treasury:** Total debt is £464.429m and total investments are £90.221m and no new borrowings have been made in the year;
 - **Dedicated Schools Grant (DSG):** The total grant of £215.188m has been allocated to schools and retained educational services, the centrally retained element is expected to be fully spent by the end of the year;
 - **Collection Fund:** Council Tax billed for 2017/18 is just over £106m, of which £57.9m, 54.26% has been collected. Business Rates billed for 2017/18 was £92.3m of which £52.77m, 56.87% has been collected;
 - **Housing Revenue Account (HRA):** The full year forecast is projecting a surplus of £3.100m against an original budget of £2.138m.
- 1.2 Further analysis and explanations of key variances are provided in sections 4 to 11 of the report.
- 1.3 Included in the revenue forecast are planned savings of £9.710m, 69.3% of the £14.016m savings target set by Council. Work continues to deliver all planned savings. A summary of the net revenue cost by directorate is set out below:

Directorate position Quarter 2 2017/18	Original Budget £000's	Actual Spend £000's	% of Budget	Full year forecast £000's	Forecast Variance £000's
Peoples Services	139,325	56,200	40%	143,633	4,308
Communities and Place	38,608	16,678	43%	40,925	2,317
Organisation and Governance	24,845	19,849	80%	27,201	2,356
Corporate	17,468	6,158	35%	12,637	(4,831)
Sub Total	220,246	98,885	45%	224,396	4,150
Original approved use of reserves	(5,268)			(5,268)	-
New Improved Better Care Fund reserve				(2,500)	(2,500)
TOTAL	214,978			216,638	1,660

RECOMMENDATIONS

2.1 Cabinet is requested to note:

- the revenue projected outturn and key budget variances set out in the report in section 4 and the savings to be delivered in the year in section 5;
- the capital programme forecast and actual capital expenditure incurred during the quarter summarised in section 6;
- the reserves position, as set out in section 7;
- the Council's treasury position, and performance in the quarter, section 8;
- the forecast DSG position summarised in section 9;
- the Council Tax and Business Rates Performance as set out in section 10;
- the HRA Performance as set out in section 11;
- the changes already approved under scheme of delegation to the capital programme detailed in Appendix 2.

2.2 Cabinet is requested to approve the following:

- the changes and additions required to the 2017/18 capital programme as detailed in Appendix 3;
- the further use of the Better Care Fund Reserve in People's Directorate as detailed in section 4.

REASON FOR RECOMMENDATIONS

- 3.1 To provide assurance that the Budget, approved by Council on 15 February 2017, is being effectively monitored and major variances reported on a regular basis.
- 3.2 To report significant changes to the budget, including capital and treasury matters in line with the Council's Financial Regulations.



COUNCIL CABINET 8 November 2017

Report of the Cabinet Member for Finance and Governance

SUPPORTING INFORMATION

- 4.1 The following notes, in sections 4 to 11, provide further analysis and explanations of key variances for each element of the financial forecast outturn.
- 4.2 **Revenue Budget**
- 4.3 The full year forecast projects a pressure of £1.7m against approved budget of £214.978m outlined in this report. The key variances by directorate are provided below:
- 4.4 **People's Services Directorate**

The major pressures and underspends by department are set out in the table below and result in a pressure of £1.8m:

Department Quarter 2 2017/18	Original Budget £000's	Actual Spend £000's	% of Budget	Full year forecast £000's	Forecast Variance £000's
Adult Services	88,308	35,900	41%	90,216	1,908
Children's Services	51,017	20,300	40%	53,417	2,400
People's Services	139,325	56,200		143,633	4,308
Use of New Improved Better Care Fund Reserve				(1,600)	(1,600)
Additional Use of Improved Better Care Fund Reserve				(900)	(900)
TOTAL				141,133	1,808

- 4.4.1 The Directorate's full year revenue forecast indicates a cost pressure of £4.308m over its allocated budget of £139.3m; this pressure is partly offset by the use of £2.5m of the Improved Better Care Fund reserve leaving a balance of £1.8m. The main variances can be

explained as follows:

4.4.2 **Adult Services:** Demands on adult social care continue with demographic increases and growing complexities of customers. The service continues to work closely with other agencies, including health and continues to invest in early intervention strategies such as community led support programmes and local area coordination, to alleviate the demands on the service.

4.4.3 **Children's Services:** Increasing, unplanned demand for services to support vulnerable children in the city continues to rise. The number of looked after children appears to be stabilising after a peak earlier in the year but are higher than budgeted for and are the main contributor to the forecast overspend.

There has been some recent positive recruitment of children's social workers which has slightly reduced the need to use agency staff although this still remains as a significant pressure in the service of £400,000.

The service has benefited this year from an early years' top-slice of £500,000 which will fund two teams supporting early years and provide ongoing trajectory funding for early years' provision.

Other pressures identified such as legal fees, transport costs, interpreting are currently being challenged and robust plans are being developed to bring the budget position into balance by the Directorate Management Team to ensure the Directorate stays within its approved net revenue budget.

4.4.4

Actions across the whole of the People's Directorate to bring the budget back into balance include:

- a vacancy freeze on non essential posts
- an expenditure freeze on non essential spend
- the Strategic Director and Head of Finance meeting throughout October with each Service Director and their Heads of Service for a robust discussion about what steps each service with adverse financial forecasts is taking to bring down the forecasted overspend
- additional approval levels established for high cost placements

4.4.5

- additional reviewing capacity and panel scrutiny of high cost placements

The slippage in achieving savings proposals in year, as originally planned, is contributing to the overspend forecast this financial year. Plans are in place to deliver these savings in full for 2018/19 and beyond to ensure the forecast overspend this financial year is contained in future years. £2.5 million of the forecast overspend relates to delayed savings delivery and a detailed analysis of savings is set out in section 5.1.3.

4.5 Communities and Place Directorate

Department 2017/18	Quarter 2	Original Budget (annual) £000's	Actual Spend Qtr2 £000's	% of Budget	Full year forecast £000's	Forecast Variance £000's
Strategic Partnerships, Planning & Streetpride		27,539	10,365	38%	27,788	249
Communities, Environment & Regulatory Services		1,842	661	36%	2,322	480
Leisure, Culture and Tourism		6,813	4,169	61%	7,622	809
Regeneration, Property and Housing		2,414	1,483	61%	3,193	779
Communities and Place		38,608	16,678	43%	40,925	2,317

4.5.1 The Directorate's full year revenue forecast is a total spend of £40.9m, £2.3m over its allocated budget of £38.6m. The main variances can be explained as follows:

4.5.2 The overall pressure has arisen through:

- under achievement of income targets within services operating on a commercial basis
- delayed delivery of planned savings and efficiencies
- unplanned expenditure.

4.5.3 **Income:**

The Directorate's budget included additional income generation which is not expected to be achieved. The net underachievement (partly offset by an over achievement of Parking income) is £418,000 including:

- Parking Services (£165,000)
- Development Control £100,000
- Leisure Centres £363,000
- Various other £120,000

4.5.4 **Savings:**

Delayed implementation of planned savings total £1.240m the details of which are provided in section 5.1.4.

4.5.5 **Expenditure:**

Pressures were also incurred totalling £659,000 on unplanned expenditure; these include pressures on health and safety work as a result of statutory duties (dangerous structures and storm damage), unplanned expenditure in Markets and staffing budgets.

4.5.6 Actions to mitigate overspends

Every effort is being made to manage or mitigate the pressures within the current budget and specific actions include:

- exploring new options for income generation across the service and reviewing the health and fitness and swimming programmes to support higher income generation
- delayed savings totalling £1.240m will be closely monitored through the year and any projected slippage will be reported through the Medium Term Financial planning process
- the £125,000 of unplanned health and safety work will be considered across the Directorate
- Directorate focus on essential spend only.

4.6 Organisation and Governance Directorate

Department Quarter 2 2017/18	Original Budget £000's	Actual Spend £000's	% of Budget	Full year forecast £000's	Forecast Variance £000's
Finance	4,793	3,964		4,992	199
Governance	6,358	5,626		7,743	1,385
Strategic	7,687	5,219		8,385	698
Digital	6,008	4,117		6,082	74
Organisation and Governance	24,845	19,849	80%	27,201	2,356

4.6.1 The Directorate's full year revenue forecast is a total spend of £27.2m, £2.4m more than its allocated budget of £24.845m. The main variances can be explained as follows:

- Finance: procurement savings not yet allocated to services, £168k
- Governance: unbudgeted overspends in internal audit, insurance and the "busy bees" scheme costs
- Strategic: cost of Delivering Differently project team £645k (to be funded from Delivering Differently project reserve)
- Digital: mainly additional cost of strengthening Information Governance

4.7 Corporate

Department Quarter 2 2017/18	Original Budget £000's	Actual Spend £000's	% of Budget	Full year forecast £000's	Forecast Variance £000's
Corporate costs	17,468	6,158	35%	12,637	(4,831)
Corporate	17,468	6,158	35%	12,637	(4,831)

4.7.1 Corporate

The underspend of (£4.831m) arises from treasury management savings in

respect of a continuing review of the Council's Minimum Revenue Provision. Further opportunities to improve investment performance and cash management are being developed and a review of HRA recharges assessed.

5.1 Savings delivery

- 5.1.1 The Council's Revenue budget for 2017/18 included savings targets for each directorate in order to support a balanced budget position. The achievement of these savings has been included within the overall budget outturn position.

2017/18 Directorate Savings Targets	Savings Targets £'000s	Savings Delivered £'000s	Year End Shortfall £'000s	Forecast Variance %
People's Services	7,232	4,680	2,552	35.28
Communities and Place	3,555	2,315	1,240	34.88
Organisation and Governance	1,360	1,096	264	19.41
Corporate	1,869	1,619	250	13.37
Total	14,016	9,710	4,306	30.72

- 5.1.2 The following notes provide a summary of each directorate's performance in delivering its savings targets:

- 5.1.3 **People's Services:** The £2.552m savings not yet delivered are attributable to:

- £400,000 Education Services Grant; schools not transferring to academy status and hence service reductions not being made in line with the funding reductions
- £125,000 increased commercial activity for sold services to schools requires a cross directorate response
- £2.027m Delivering Differently Programme – Community Led Support has not yet delivered efficiencies in full and any shortfall is being funded from the Improved Better Care Fund additional allocation.

- 5.1.4 **Communities and Place** are planning on achieving £2.315m of the target, a shortfall of £1.240m. Action plans are being developed to achieve or cover until either achieved or alternatives are found. Savings not yet delivered are attributable to:

- Strategic review of libraries service £336,000
- Closure of Moorways, maximise usage and income at Queen's £104,000
- Diversion of garden waste from black bin change in policy £100,000
- Efficiencies in the management and operation of the Housing Management and Repairs services £300,000

- Acquisition of new investment property stock to generate additional rental income £400,000.

5.1.5 **Organisation and Governance** are planning on achieving £1.096m of the target, a shortfall of £264,000.

5.1.6 **Corporate:** Further reviews of MRP opportunities are being explored to ensure the savings target is delivered.

6.1 Capital

6.2 The capital expenditure forecast for 2017/18 has been reviewed and the updated forecast is now £85.525m and detailed at 6.3. There have been £19.410m net changes to the approved budget of £104.935m.

6.3 The table below analyses the main variances by service against the profiled quarter 2 budget and the actual spend.

2017/18 Capital Programme by Service Area	Approved Capital Budget	Actual Spend	% of Budget	Current full year forecast	Forecast Variance
	£000's	£000's	£000's	£000's	£000's
Schools	11,238	2,654	23.62	9,508	(1,730)
Housing General Fund	3,233	443	13.7	2,795	(438)
Property Improvement	7,061	898	12.72	10,326	3,265
Flood Defence	13,952	2,843	20.38	13,717	(235)
Highways & Transport	14,345	3,454	24.08	18,669	4,324
Vehicles Plant & Equipment *	25,564	2	0.007	821	(24,743)
Regeneration	13,100	4,544	34.69	13,555	455
Information and Communication Technologies (ICT)	2,747	439	15.98	2,402	(345)
Housing Revenue Account (HRA)	13,695	5,428	39.63	13,732	37
Total	104,935	20,705	19.73	85,525	(19,410)

*deferral of the Waste Plant investment £25m

6.4 Capital expenditure to date is well below the original approved budget due to the heavy profiling of schemes' spend towards the end of the third quarter when schemes have started on site, for example most school schemes are delivered through the school holidays and therefore actual expenditure will be expended from October through to December.

- 6.5 At the end of 2016/17 a total of £4.217m of the capital programme budget was carried forward into 2017/18; a further increase of £9.733m has been previously approved by Cabinet and further changes requiring approval, of (£29.542m) to reduce the programme, are detailed below and in Appendix 2.
- 6.6 **Schools**
The schools' capital programme requires net changes of £1.402m as detailed in Appendix 2. The significant changes being:
- £500k, expenditure brought forward for the Murray Park expansion
 - £522k reallocation for the Bemrose school expansion
 - £100k increase in contribution to Bemrose (Secondary) School additional school places
 - Provision of a grant contribution to West Park Academy.
- 6.7 **Highways and Transport**
The Highways and Transport capital programme requires net changes of £1.003m as detailed in Appendix 2. The significant changes are:
- £349k reallocations to utilise underspend on structures maintenance
 - £961k slippage to 2018/19 for the A52 scheme
 - 200k addition for Cycle Derby
 - £2.433m addition for the Street Lighting scheme to replace lighting bulbs with LED technology.
- 6.8 **Property Improvement**
The Property Improvement capital programme requires net changes of £62k increase as detailed in Appendix 2.
- 6.9 **Queensferry Gardens Children's Home Refurbishment Project completion**
Queensferry Gardens Children's Home is currently partially completed due to the contractor going into insolvency on 14 April 2017. There is a remaining balance within the 2017/18 capital programme amounting to £379,000.
- 6.10 **Vehicles Plant and Equipment**
The Vehicles Plant and Equipment capital programme require net changes of (£24.950m) as detailed in Appendix 3. This includes:
- £25.0m slippage for the waste disposal – new treatment plant. It is envisaged that the plant will be fully operational in Spring 2018 offset by:
 - £50k for a new cemeteries digger
 - £11k Vehicle Plant Equipment programme.
- 6.11 **Flood Defence**
The Flood Defence capital programme requires net changes of (£1.457m) due to the purchase of Aida Bliss and Prime site plans being delayed.

6.12 **Regeneration**

The Regeneration capital programme requires net changes of (£3.740m) as detailed in Appendices 2 and 3. The significant changes are:

- £360k contingency slippage for the Infinity Park Derby (IPD) risk provision
- £200k slippage on the IPD Wayfinding scheme
- £1.700m reallocation of the Holmeleigh Way funding which is not now progressing to the Brook realignment
- £600k slippage on the T12 Phase 2 scheme due to a leaking high pressure gas main on site
- £200k slippage on the City Living scheme
- £300k slippage for the ihub plot preparation. Planning permission will be sought in January and work is expected to start on site in February.

6.13 **Housing General Fund**

The Housing General Fund capital programme requires net changes of (£711k) as detailed in Appendix 2. The significant change is:

- £474k slippage on the Affordable Housing External Registered Provider (RP) scheme.

6.14 **HRA**

The HRA capital programme requires net changes of (£1.185m) as detailed in Appendix 3. The significant changes are:

- (£325k) reductions to the Housing maintenance programme due to fewer modernisations
- (£250k) slippage on the Emergency call system replacements
- (£1.0m) slippage on the Knoll new build scheme as detailed design has stalled due to capacity in architects
- (£700k) slippage on Perth Street new build scheme
- £690k addition for Lexington Road bungalows
- £500k addition for Mill Hill flats
- (£300k) reduction on the Ashlea new build scheme.

6.15 **ICT**

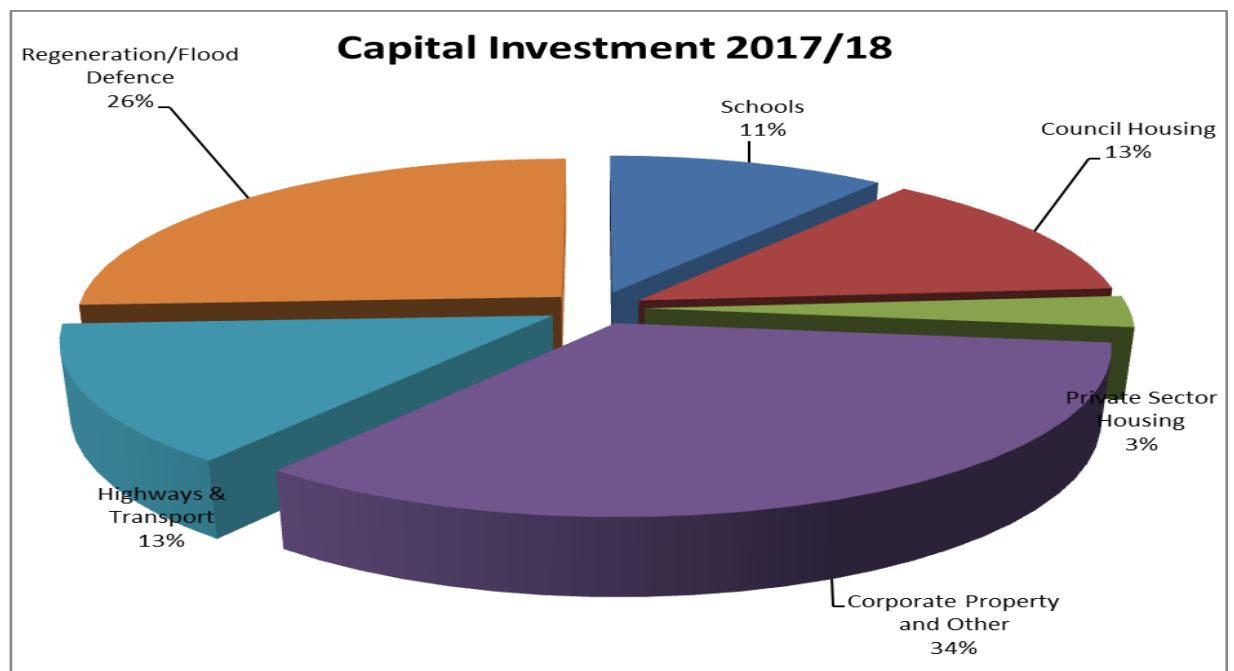
The ICT capital programme requires net changes of nil, however a new scheme has been added for an online portal of £240,000, and this has not increased the ICT programme as the costs have been agreed to be met from the current ICT budget envelope. The portal is the replacement of the Council's existing digital platform and Customer Relationship Management (CRM) system with a resilient, secure and fully responsive platform capable of being expanded to cover a broader range of Council services.

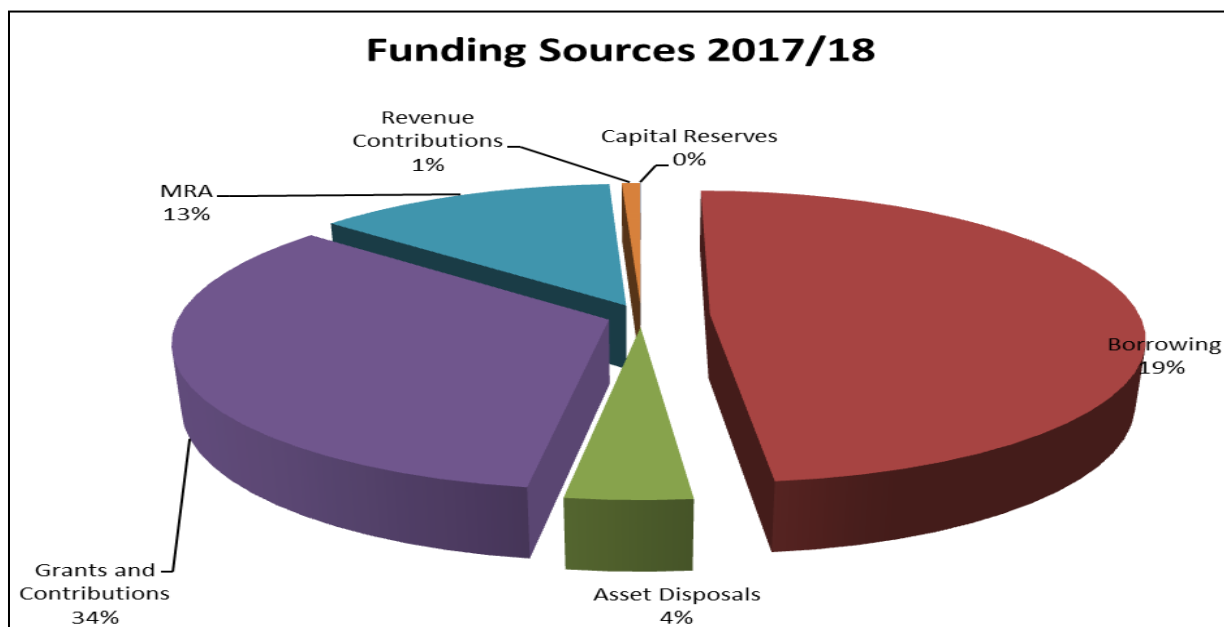
6.16 **S106 Contributions**

In November 2006 the Council secured £117.8k funding for highway improvements, through a S.106 agreement. The funding has to be spent by 15 February 2018 or it will have to be returned to the developer. Other S.106 monies have been allocated as follows:

Strategy Area	Scheme	Developer	Ward	£	S106 ref no
Highways & Transport	A52	Woodford Cedar Limited	Alvaston	92,204	LocoWay2-0
Highways & Transport	A52	Woodford Cedar Limited	Alvaston	25,619	LocaWay2-0a
Highways & Transport	Cycle Derby	Miller & Redrow	N/A	200,000	RadLa1-02

6.17 The following graphs summarise where the capital programme is planned and funded:





7 Usable Reserves

- 7.1 **General Fund Balance:** At 30 September 2017 the General Fund Balance is £8.764m and remains within the recommended target range.
- 7.2 **Earmarked Reserves:** These are held to fund specific projects, such as the Council's regeneration fund programme and include other reserves which are not available to the Council for general use, such as School Balances. At 30 September 2017 this totalled £69.731m of which School balances were £10.5m.
- 7.3 **PFI Reserves:** At 30 September the PFI Reserve Balance is £24.846m.

8 Treasury Management

- 8.1 All Treasury Management activities in quarter 2 were in accordance with the Treasury Management Strategy 2017/18, approved by Council Cabinet on 15 February 2017 and are within CIPFA's Prudential Code for Capital Finance in Local Authorities.
- 8.2 The Treasury Management forecast at Quarter 2 2017/18 is £3.070m underspend (0.909m forecast underspend as at Quarter 1). This arises from changes to the Council's MRP and SFR calculation to reflect recommendations by the Council's Treasury Management Advisors, Arlingclose.

- 8.3 As at the 30 September 2017 the total debt portfolio of the Council (including HRA debt) was £464.429m offset by investments of £90.221m resulting in an overall net debt position of £374.208m. No additional borrowing has been completed in 2017/18 to date. The loan portfolio is set out in the table below:

External Borrowing	£m As at 31/03/17	£m As at 30/09/17
Fixed Rate PWLB	305.897	305.336
Fixed Rate Market (LOBO)	20.000	20.000
Other Local Authorities	35.000	35.000
Other Loans	2.864	2.721
Other Long-term Liabilities:		
- Transferred Debt from other Local Authorities	2.931	2.931
- PFI Financing*	98.441	98.441
Total Gross External Debt	465.133	464.429
Investments	(69.696)	(90.221)
Total Net External Debt	395.437	374.208

*The PFI Financing figure as at 31/03/17 has been revised to agree to the figure in the draft 2016/17 statement of accounts; previously this had been an estimated figure.

9 Delegated Schools Grant (DSG)

- 9.1 This ring fenced grant is used specifically for school related and educational services. In 2017/18, Derby City Council's allocation was £215.188m of which £183.704m (85.4%) was delegated to schools. The balance of £31.484m is used to support other educational expenditure including non- maintained special educational needs places and specialist support services.
- 9.2 DSG balances are currently £6.955m of which £2.365m has been earmarked for specific purposes as agreed by School's Forum and Council Cabinet; the remainder is to be retained and used for the purposes defined within the Schools funding regulations, with approval from the Schools.

10 Collection Fund

- 10.1 As at 30 September 2017 the amount of Council Tax billed for the 2017/18 financial year is just over £106m and of that we have collected £57.9m, which is 54.26%. Compared with the position 12 months ago we have collected over £3.5m more of the current year Council Tax debt.
- 10.2 Non Domestic Rates: As at 30 September 2017 the amount of Business Rates billed for the 2017/18 financial year is around £92.6m of which we have collected £52.77m or 56.87%. Compared with the position 12 months ago we have collected over £0.35m more of the current year Business Rates debt. Bad Debt write-offs are set out in a separate report to Cabinet within Finance Matters.

11 Housing Revenue Account (HRA)

- 11.1 The Housing Revenue Account (HRA) reports on the management of the Council's housing stock.

Department Quarter 2 2017/18	Original Budget (annual) £000's	Actual Spend Qtr2 £000's	% of Budget	Full year forecast £000's	Forecast Variance £000's
HRA	(2,138)	(3,167)	148.13%	(3,100)	962

- 11.2 The HRA has budgeted to achieve a surplus of £2.138m for the current financial year and is currently projecting full year surplus of £3.100m, in line with the September outturn. A review of recharges made to the HRA is underway to ensure they remain relevant and proportionate.

OTHER OPTIONS CONSIDERED

- 12 No other options are considered. The report is prepared to demonstrate the Council has met its statutory obligation to deliver a balanced budget.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Estates/Property officer Service Director(s) Other(s)	Director of Governance and Monitoring Officer Interim Director of Finance and Section 151 Officer Chief Officer Group
For more information contact: Background papers: List of appendices:	Mark Taylor; mark.taylor@derby.gov.uk None Appendix 1 – Implications Appendix 2 – Changes to the Capital Programme Appendix 3 – Reserves Summary

IMPLICATIONS

Financial and Value for Money

- 1.1 The financial and value for money implications are set out in the report.

Legal

- 2.1 The report confirms that the Council is effectively monitoring its statutory duty to deliver a balanced budget.

Personnel

- 3.1 None directly arising.

IT

- 4.1 These were assessed in full when the budget was approved by Council.

Equalities Impact

- 5.1 None directly arising.

Health and Safety

- 6.1 None directly arising.

Environmental Sustainability

- 7.1 The report sets out the implications of the capital programme.

Property and Asset Management

- 8.1 Resources are being effectively monitored.

Risk Management and Safeguarding

- 9.1 The report demonstrates that a key risk of “not balancing the Councils budget” is being managed.

Corporate objectives and priorities for change

- 10.1 The budget includes the financial resources to deliver key objectives and priorities.

Appendix 2

Changes to the Capital Programme made under delegation

Scheme Area	Latest Approved Capital Programme 2017/18 £000	Revised Capital Programme 2017/18 £000	Change £000's
Schools			
Various movements within programme budget	1,235	1,380	145
Bemrose School Secondary Expansion	978	1500	522
Total Delegated Changes Schools	2,213	2,880	667
Housing General Fund			
Healthy Housing Assistance	65	135	70
Disabled Facilities	1,823	1,663	(160)
Empty Property Assistance	255	180	(75)
Community Energy Savings Project	434	300	(134)
CPO 151 Lower Dale Rd	0	62	62
Affordable Housing External RP	686	212	(474)
Total Delegated Changes Housing General Fund	3,263	2,552	(711)
Highways & Transport			
Various movements within programme budget	14,868	13,238	(1,630)
Cycle Derby	445	645	200
Total Delegated Changes Highways & Transport	15,313	13,883	(1,430)
Regeneration			
Site Consolidation (Sadler Square)	37	20	(17)
Total Delegated Changes Regeneration	37	20	(17)
Total Net Changes	20,826	19,335	(1,491)

Appendix 3

Summary of Reserves at September 2017

Reserves	£000's
General Reserve	8,764
Earmarked Reserves	59,231
Balances Held By Schools	10,525
PFI Scheme reserves	24,846
Earmarked Reserves to support the capital programme	2,494
TOTAL	105,835