



## CABINET REPORT

<b>Report Title</b>	<b>Finance Monitoring to 31 August 2017</b>
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**AGENDA STATUS: PUBLIC**

<b>Cabinet Meeting Date:</b>	18 October 2017
<b>Key Decision:</b>	YES
<b>Within Policy:</b>	YES
<b>Policy Document:</b>	NO
<b>Directorate:</b>	Management Board
<b>Accountable Cabinet Member:</b>	Cllr B Eldred
<b>Ward(s)</b>	N/A

### 1 Purpose

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- 1.1 The purpose of this report is to assist Cabinet in monitoring the delivery of the Corporate Plan within the agreed capital and revenue budgets for the General Fund (GF) and Housing Revenue Account (HRA).
- 1.2 To inform Cabinet of the latest forecast outturn position for the Council's capital programme for 2017-18 and changes to the Programme approved under delegated powers.
- 1.3 During the course of this financial year regular monitoring reports will be provided to Cabinet, detailing the latest forecasts for revenue and capital and additionally focusing on key financial issues on a cyclical basis. This report provides detail of proposed changes to the Prudential Code and Treasury Management Strategy that are currently being consulted upon by CIPFA.
- 1.4 The report seeks approval to put forward a bid for pilot status for 100% business rates retention.

- 1.5 The report also seeks approval for an addition to the HRA capital programme and notes an NPH budget virement.

## **2 Recommendations**

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- 2.1 That Cabinet reviews the contents of the report and identifies actions to be taken to address any issues arising from it.
- 2.2 That Cabinet agree the principle of the Council submitting a bid to be a pilot for 100% Business Rates retention in partnership with other Northamptonshire local authorities.
- 2.3 That authority be delegated to the Chief Executive, in consultation with the Chief Finance Officer and the Leader of the Council, to finalise such a bid, subject to satisfactory completion of financial modelling, assessment of the potential financial benefits and risks, and suitable governance procedures being in place.
- 2.4 That Cabinet note that under the Management Agreement with Northampton Partnership Homes (NPH) a restricted virement has been authorised which moves £150k from the Capital investment managed budget to the Operational Management fee pot.
- 2.5 That Cabinet agree the creation of an HRA Capital Budget of £500k for Repurchase of Right-to-buy properties and/or spot purchases, to be funded from 141 receipts and additional non 141 capital receipts received in year.

## **3 Issues and Choices**

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### **3.1 Report Background**

- 3.1.1 The monitoring report to Cabinet in September included an update on the financial pressures facing the Housing Strategy and Wellbeing service area and the mitigating actions being taken to address these pressures. This report provides an update on this volatile area of the Council's budget, as well as providing updated forecasts as at the end of August 2017 for all revenue and capital budgets.

### **3.2 Business Rates Localisation – 100% Retention Pilot**

- 3.2.1 The Department of Communities and Local Government (DCLG) have announced a pilot scheme for 100% Business Rates Retention within "functional economic areas" for the one year period 2018/19, to gather knowledge on how the scheme will work across England, with particular interest in two-tier areas. The closing date for applications is 27<sup>th</sup> October 2017.
- 3.2.2 The scheme is anticipated to bring significant additional resources to the local area, some of which will be required to be used to promote the financial stability and sustainability of the functional economic area. Additional risks will also be transferred from Central Government, which will need to be assessed.
- 3.2.3 The Northamptonshire Business Rates Pool and Northampton Borough Council are working together to fully evaluate the proposed pilot, including completing financial modelling on potential increases in retained rates within Northamptonshire and

assessing what the additional risks may be to all authorities and how these can be mitigated.

- 3.2.4 It is expected that the Council will have to re-join the Northamptonshire Business Rates Pool in order to submit an application as a 'functional economic area', and the change in the mechanism for distributing retained rates as set out in the pilot proposed by DCLG means that the governance arrangements for the Pool will need to be reviewed, revised and agreed by all Councils in the Pool as appropriate.
- 3.2.5 Further details surrounding the pilot are set out in Appendix 1
- 3.2.6 Cabinet is therefore asked to agree the principle of submitting a bid for the pilot for 100% Business Rates retention in partnership with other Northamptonshire local authorities. This has the potential to generate significant benefits to the Council and the residents of Northampton.
- 3.2.7 Cabinet is also asked to delegate the authority to the Chief Executive, in consultation with the Chief Finance Officer and the Leader of the Council, to finalise such a bid, subject to satisfactory completion of financial modelling, assessment of the potential financial benefits and risks, and suitable governance procedures being in place.

### 3.3 Key Financial Indicators

Dashboard Indicator Description	Variation from Budget	
	General Fund	Housing Revenue Account
	£000	£000
Controllable Budgets	(103)	(296)
Debt Financing and Recharges	(17)	81
Total	(120)	(215)

### 3.4 General Fund Revenue Budget (Blue)

- 3.4.1 Overall forecast expenditure is £120k (0.4%) below budget. The following table summarises the variations from budget for the General Fund.

Service Area	£000
Regeneration, Enterprise & Planning	4
Housing	201
Borough Secretary	22
Director of Customers & Communities	(330)
Corporate	0
<b>Controllable Total</b>	<b>(103)</b>
Debt Financing	(17)
<b>General Fund Total</b>	<b>(120)</b>

#### 3.4.1.1 **Regeneration, Enterprise and Planning**

Additional costs of interim staff are almost entirely offset by additional lettings income in the Asset Management function.

#### 3.4.1.2 **Head of Housing and Wellbeing**

Forecast overspend due to the vacancy/sickness target forecast not being met (£86k), increase in caseloads in temporary accommodation (£25k), lower anticipated licencing income (£50k), and withdrawal of Probation Service contribution (£18k).

**Homelessness and Temporary Accommodation** – Over the past 18 months there has been a sharp rise in the number of homelessness applications within the Borough with a subsequent increase in the use of temporary accommodation to deal with this additional demand and a resultant loss on the amount of Benefit Subsidy that can be recovered from the Government.

The Head of Housing and Wellbeing has set out a package of measures that seeks to alleviate these issues and reduce by half the overall caseload living in temporary accommodation (from 187 to 95) and to reduce the number of Bed and Breakfast placements by 90% over the next 12 months (from 93 to 10). The progress towards these targets will be monitored on an ongoing basis to determine the financial impact upon the authority.

#### 3.4.1.3 **Director of Customers and Communities**

Overall forecast underspend reflecting additional deductions made through the Environmental Services Contract (£378k) and staffing savings.

- 3.4.2 Where applicable Budget Managers are working to mitigate the pressures on their services and bring forecasts back in line with budgets.
- 3.4.3 Particular focus will be given to monitoring areas of known high risk where expenditure and income is demand-led, i.e. homelessness, car parking income and development control income.
- 3.4.4 The outturn position, as reported to Cabinet in June, highlighted a number of significant variances against budgets in 2016/17. All budgets will be reviewed as part of the 2018/19 budget process to assess their robustness and any scope to reduce budgets without affecting service delivery.

### 3.5 **Controllable HRA Revenue Budget (Blue)**

- 3.5.1 The forecast underspend position on HRA controllable budgets of £238k relates mainly to staff vacancy savings within NPH, as well as a forecast additional £53k (2.5%) of service charge income.
- 3.5.2 HRA Debt Financing forecast at £81k above budget due to lower opening balances than budgeted, and lower estimated average rate of interest assumed on investments (0.60% compared to 0.77% budgeted)

## **3.6 Capital Programme**

### **3.6.1 General Fund Capital Programme**

- 3.6.1.1 The General Fund Approved Capital Programme budget stands at £23m including the carry forwards from 2016/17 and the additional funding for Delapre Abbey approved by Cabinet in June. No significant underspends or overspends are currently forecast. A number of schemes are forecast to require significant carry forwards to 2018/19, including £7.7m in relation to the Vulcan Works, £4.9m the Central Museum and £0.8m in relation to St Peters Waterside. A report to a future Cabinet meeting will provide full detail on the latest position in relation to the Vulcan Works.
- 3.6.1.2 As part of the 2017/18 budget process enhanced governance of the capital programme was approved, in order to ensure that cost estimates are robust before schemes are commenced. This included the creation of a “Development Pool” in which schemes remain until the costs and phasing of the scheme is firmed up. This will help to reduce the level of over and underspends and carry forwards in the capital programme. As at the end of August the six schemes that were placed in the Development Pool in the February budget report remained there, with a total estimated value of £3.9m. Most significant of these is £2m earmarked for the St James Mill Link Road. None will be commenced until a fully costed business case is produced and agreed.
- 3.6.1.3 The financing of the capital programme assumes that around £5m of capital receipts will be received during 2017/18. There has only been one significant receipt of £1m to date and it is therefore imperative that no new schemes are added to the capital programme unless a clear and certain funding source is identified.
- 3.6.1.4 Funding for Disabled Facilities Grants is partly covered by central government funding through the Better Care Fund. The full 2017/18 allocation of £1.198m has been passported by the County Council to the Borough. The remainder of the £1.475m expenditure on DFGs is funded by the Borough Council’s own resources.
- 3.6.1.5 Any further additions to the capital programme, including further strategic property purchases, will be subject to the development of a robust business case. In line with Financial Regulations, any proposed additions to the programme greater than £250k and/or requiring additional funding from Council resources, will be brought to Cabinet for approval.

### **3.6.2 HRA Capital Programme**

- 3.6.2.1 The approved HRA Capital Programme for 2017/18 totals £35.29m, including the carry forward of £275k from 2016/17. A forecast underspend of £445k on ICT capital investment is due to a review being undertaken of ICT investment requirements.
- 3.6.2.2 Under the Management Agreement with NPH Cabinet are asked to note that a restricted virement has been authorised moving £150k from the Capital Investment ICT managed budget into the Operational Management Fee pot. This is effectively a technical virement realigning capital budget to revenue to account appropriately for ICT staffing costs that cannot be capitalised as time is not being spent on building hardware or writing software.
- 3.6.2.3 **141 Right to Buy Receipts** – The 2017/18 capital programme includes a number of NPH managed schemes that are budgeted to deliver additionality to the HRA stock and meet the required spend levels needed to fully use the retained 141 RtB receipts as per the 2012 agreement the Council has with government. For quarter 1 and forecast for quarter 2 NPH have delivered on these projects which is likely to ensure that no 141 RtB receipts have to be repaid to Treasury. There is currently no fall back for the final 2 quarters of the year if NPH do not deliver the planned projects and Cabinet are being

asked to mitigate this risk by creating a budget for Buy backs and/or further spot purchases of £500k. This is to be funded from 30% RtB receipts £150k and 70 % from additional non-141 RtB receipts, £350k, which are forecast to come in over the budgeted amount. This effectively brings forward the use of those receipts from future years.

### **3.7 CIPFA Consultation – Prudential Code and Treasury Management**

3.7.1 A consultation by CIPFA in August 2017 set out proposed changes to the Prudential Code and Treasury Management code, with responses required by the end of September. A summary of the proposed changes is set out in Appendix 2.

3.7.2 Although a number of the proposed changes are matters of detail, one fundamental change is the recognition that local authorities operate in a commercial environment and that this creates risks that need to be recognised and managed. As a result there will be a new requirement from 2018/19 for the Council to formally approve the Capital Strategy as part of the budget setting process. The Capital Strategy will include a long-term assessment of the financing implications of the proposed capital programme.

### **3.8 Choices (Options)**

3.8.1 Cabinet is asked to note the reported financial position and agree the recommendations. There are no alternative options, other than not to agree the recommendations.

## **4 Implications (including financial)**

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### **4.1 Policy**

4.1.1 The Council agreed a balanced budget for the Capital Programme and Revenue Budgets for both the General Fund and the HRA in February 2017. Delivery of the budget is monitored through the budget monitoring framework.

### **4.2 Resources and Risk**

4.2.1 This report informs the Cabinet of the forecast outturn positions for capital and revenue, for both the General Fund and HRA, as at the end of July 2017. It also highlights the key risks identified to date in delivering those budgets and where performance measures are significantly over or under performing.

4.2.2 All schemes included in the capital programme, or put forward for approval, are fully funded, either through borrowing, internal resources or external funding arrangements.

### **4.3 Legal**

4.3.1 There are no direct legal implications arising from this report.

### **4.4 Equality and Health**

4.4.1 There are no direct equalities implications arising from this report.

4.4.2 A full Community/Equalities Impact Analysis has been completed for the 2017/18 Budget and is available on the Council website.

#### **4.5 Consultees (Internal and External)**

4.5.1 Heads of Service, Budget Managers and Management Board are consulted as part of the budget monitoring process on a monthly basis.

#### **4.6 How the Proposals Deliver Priority Outcomes**

4.6.1 Performance monitoring (including financial monitoring) by exception and using it to improve performance is good practice in terms of efficient and effective management. It contributes directly to the priorities of sustaining “effective and prudent financial management” and being “an agile, transparent organisation with good governance”.

#### **4.7 Other Implications**

4.7.1 There are no other implications arising from this report.

### **5 Background Papers**

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5.1 Cabinet and Council Budget and Capital Programme Reports February 2017

Appendix 1 – 100% Business Rates Retention Pilot

Appendix 2 – Consultation on Prudential Code and Treasury Management Code

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