

# TEWKESBURY BOROUGH COUNCIL

<b>Report to:</b>	Executive Committee
<b>Date of Meeting:</b>	21 November 2018
<b>Subject:</b>	Financial Update – Quarter Two Performance Report
<b>Report of:</b>	Head of Finance and Asset Management
<b>Corporate Lead:</b>	Deputy Chief Executive
<b>Lead Member:</b>	Lead Member for Finance and Asset Management
<b>Number of Appendices:</b>	Four

## **Executive Summary:**

The budget for 2018/19 was approved by Council in February 2018 with the reserves being approved at Executive Committee in June 2018. This report is the second quarterly monitoring report of the Council's financial performance for the year.

The report highlights a quarter 2 surplus of £572,086 on the revenue budget and details the expenditure to date against both the capital programme and the approved reserves.

## **Recommendation:**

**To consider the financial performance information for the second quarter 2018/19.**

## **Reasons for Recommendation:**

The Executive Committee is responsible for recommending the budget to Council and for the management and delivery of the approved budget during the financial year.

The quarterly financial report is to notify Members of any known significant variations to budgets for the current financial year, highlight any key issues, and to inform Members of any corrective action to be taken if required.

## **Resource Implications:**

As detailed within the report.

If the budget is in deficit at year end then the Council will have to use reserves to fund the overspend, meaning that these resources are not available to fund other activities or future financial management of the Council's projected medium-term budgets. The Council currently has a £550,000 General Fund balance, £850,000 to cover shortfalls in the medium term financial plan and a £415,000 retained business rates reserve.

## **Legal Implications:**

None associated with the report.

**Risk Management Implications:**

A financial deficit will result in the utilisation of the limited reserves available to the Council. The financial performance of the Council is monitored on a monthly basis and reported to Members quarterly. Active management of the budget takes place to reduce the projected deficit whilst maintain delivery of services.

**Performance Management Follow-up:**

Budgets will continue to be monitored on a regular basis by budget holders supported by Finance. Quarterly monitoring reports will be presented to Members with the outturn position reported to the Committee in June 2019.

**Environmental Implications:**

None.

**1.0 INTRODUCTION/BACKGROUND**

1.1 This report provides the Quarter 2 (Q2) monitoring position statement for the financial year 2018/19. The purpose of this report is to notify Members of any known significant variations to budgets for the current financial year, highlight any key issues, and to inform Members of any action to be taken if required.

**2.0 REVENUE BUDGET POSITION**

2.1 The financial budget summary for Q2 shows a £572,086 (£81,867 at Q1) surplus against the profiled budget. Below is a summary of the expenditure position for the Council split out between the main expenditure types.

2.2	Services expenditure	Budget £	Budget Q2 £	Actual Q2 £	Variance £
	Employees	9,319,411	4,425,221	4,198,974	226,247
	Premises	610,297	351,728	336,806	14,922
	Transport	165,777	81,793	57,675	24,118
	Supplies & Services	1,913,446	756,414	746,293	10,120
	Payments to Third Parties	5,438,570	2,834,477	2,905,627	(71,151)
	Housing Benefit Service Cost	20,276,485	10,900,639	10,926,639	(26,000)
	Income	(27,162,098)	(3,229,976)	(3,256,273)	26,297
		<b>10,561,888</b>	<b>16,120,294</b>	<b>15,915,741</b>	<b>204,553</b>

**Corporate Codes**

Treasury activity	117,260	58,630	20,662	37,968
Investment Properties	(1,928,859)	(1,187,935)	(1,216,351)	28,416
Corporate Savings Targets	(67,500)	(33,762)	0	(33,762)
New Homes Bonus	50,000	0	0	0
Business rates	(2,694,620)	0	(334,901)	334,901
	<b>6,038,169</b>	<b>14,957,237</b>	<b>14,385,151</b>	<b>572,086</b>

Note: With regards to savings and deficits, items in brackets and red are overspends

### **2.3 Surplus on service expenditure**

The budget position in relation to the Heads of Service responsibility shows a budget surplus of £204,553 as at the end of September (£60,753 Q1).

As can be seen the majority of the savings, £226,247, are related to employee cost. Employee costs savings are generated mainly through staff vacancies particularly in One Legal and Development Services, although the saving in Development is being offset by a deficit on the income budget for that service in Q2. Services have managed vacancies during the period by utilising current staff to cover work in the short term, limiting where possible use of agency staff. Democratic services has a vacant post which is maintained to offset overtime and other pressures during elections. Savings are being made against this post as there have been no significant elections so far this year.

A range of small savings are also being made across premises, transport and supplies and services against budget which is also contributing to the overall surplus being reported.

The surplus on income for the Council is £26,697 (£19,940 at Q1). £129,060 of the surplus is from Community Services and is in relation to the Garden Waste service bringing in income above target as a result of the implementation of the new sticker system and the fixed renewal date of 1 April. There is additional income showing in Corporate Services - this relates to additional grant income for the Benefits team, received from central government, which had not been budgeted for. This money is to help with any cost of transition of claimants to Universal Credit.

The positive position on income is being offset by planning application income being below the expected budget. This is a significant income stream for the Council but is currently in a deficit of £133,602 (£87,092 Q1) against target. The service is confident of delivering the total income for the year. The number of major planning applications over £10,000 are in line with expectations, and for those applications under £10,000 it is expected that the income target will be delivered now the Borough Plan is being progressed. Once implemented it is expected that developers will put in new planning applications with clarity over what the Council is expecting from them.

### **2.4 Deficit on service expenditure**

In terms of deficits being reported at Q2 there is an overspend being shown against Benefit Claimant payments. The Q1 monitoring reported that the Housing Benefits team had processed higher than predicted level of overpayments going back over several years. Over the second quarter this trend has not continued and with lower levels of overpayments being identified the impact on the budget has been reduced by £34,000 to a predicted overspend of £26,000 by year end. It is hoped that this trend will continue which will further reduce the reported overspend.

In addition, the first quarter outturn position for the Ubico contract has indicated a forecast full year deficit of £141,622. A pro rata sum has been included within the Q2 figures. Ubico is reporting overspends on Grounds Maintenance and agency staff. Ground Maintenance forecast additional costs are due to the additional work required over the summer partly covered by employing additional staff. In addition, there has been an increase in diesel costs and maintenance of vehicles and equipment. Agency forecast costs are high due to the additional staff mentioned above and a high level of both long term and short-term sick.

### **2.5 Attached at Appendix A is a summary of the position for each Head of Service, which shows the current variance against their budget. Where the main types of expenditure headings within the Head of Service's responsibility have a variance over £10,000, a short explanation for the reason for the variance has been provided.**

## **2.6 Corporate codes**

The Corporate codes include the other sources of financing which are needed to balance the budget. Treasury activity has been positive in the first half of the year, resulting in a net surplus of £37,968. Full details of treasury activity are highlighted at section 5 and contained in full at Appendix D.

Investment properties have also produced a healthy surplus of £28,416 in the first half of the year. This is as a result of securing an additional investment property sooner than expected.

The retained business rates scheme is also progressing very well in the first half of the year although Members will be aware of the volatility of the scheme and therefore guarantees cannot be given about continuing positive performance into the second half of the year. However, significant growth and further compensation from the government for changes introduced at a national level have resulted in a retained surplus above budget of £334,901. This is the Council's position within the 50% individual Council scheme as information on the countywide 100% pilot is currently being collated. Whilst Tewkesbury is performing well, information on the other authorities is required in order to understand the likely windfall from being in the pilot.

The income that Tewkesbury is now receiving from the retained business rates scheme, as opposed to the significant losses it suffered in the early years, is encouraging and will support the Council's ambitions in developing its future communities. However, it should also be remembered that the national scheme is being amended from 2020 with a reset of the system potentially removing benefit from the growth currently being enjoyed. Therefore, any surplus generated in this or next year should be seen as a windfall amount until the national system is fully designed and understood.

## **3.0 CAPITAL BUDGET POSITION**

**3.1** Appendix B shows the capital budget position as at Q2. This is currently showing an underspend against the profiled budget.

**3.2** The underspend is because of the commercial property that was purchased was less than the profiled budget expectation. It is anticipated that the full allocation will be spent before the year end with another purchase already scheduled for October and further options being considered. The refurbishment of the Council Offices is almost complete and is showing an overspend against the agreed budget. The overall costs increased due to issues such as the discovery of asbestos. Contributions from our partners and revenue resources are being used to offset this additional cost.

## **4.0 RESERVES POSITION**

**4.1** Appendix C provides a summary of the current usage of available reserves.

**4.2** Reserves have been set aside from previous years to fund known future costs and the strategic planning of the authority's operation. The information in the appendix does not take account of reserves which have been committed, but not yet paid.

**4.3** Whilst the Q2 position shows that there remains a significant balance on the reserves, the expectation is that the balances will be spent in the future. Finance has asked for updates from all departments about their plans to ensure that earmarked reserves are either used for their intended purpose, or released back to the general fund.

## **5.0 MID YEAR TREASURY MANAGEMENT REPORT**

- 5.1** At the half year point of the financial year, treasury investment activities have resulted in an average return of 1.39% on its investments which, at the end of September, totalled £28,918,000. This performance and level of return has generated interest of £157,253 in the first half of the year against the budget estimate of £109,800 resulting in a surplus of £47,453. This is considered to be an excellent return given the impact of the sustained low rates during the investment period and is commensurate with the risk taken on investments.
- 5.2** The Council's investment performance has been boosted by further investment into the CCLA property investment fund. The fund, which is supplemental to the Council's direct property investment, is now worth over £3/4 billion and is producing monthly income returns of circa 4.5%.
- 5.3** The Council's drive to invest in commercial property has resulted in a requirement to borrow funds to cover direct investments and day-to-day cashflow. The budget had anticipated a borrowing cost of £168,430 at the mid-year point but actual costs have totalled £177,923 as early borrowing was required to finance the commercial property purchase.
- 5.4** Overall, the Council's treasury management activities in the first half of the year have been efficiently managed and resulted in a surplus of nearly £38,000 on budget.

## **6.0 CONSULTATION**

- 6.1** Budget holders have been consulted about the budget outturn for their service areas. The feedback has been incorporated in the report to explain differences between budgets and actual income and expenditure.

## **7.0 RELEVANT COUNCIL POLICIES/STRATEGIES**

- 7.1** Budget monitoring is on the approved budget for 2018/19 which has been prepared in line with the Medium Term Financial Strategy.

## **8.0 RELEVANT GOVERNMENT POLICIES**

- 8.1** None.

## **9.0 RESOURCE IMPLICATIONS (Human/Property)**

- 9.1** None.

## **10.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)**

- 10.1** None.

## **11.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)**

- 11.1** None.

## 12.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

12.1 None.

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**Background Papers:** None.

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**Appendices:**

- A – Quarter 2 Revenue Position by Service.
- B – Quarter 2 Capital Position.
- C – Quarter 2 Earmarked Reserves Update.
- D – Mid-Year Treasury Management Report.