

QUARTERLY FINANCIAL DIGEST : APRIL – DECEMBER 2017

1 Purpose

- 1.1 This report presents the Financial Digest for the period to 31 December 2017.

2 Recommendations

Members are requested to consider the digest and its contents.

3 Supporting information

- 3.1 This report presents the financial digest for the period to the end of December 2017 for members consideration.
- 3.2 The financial digest is attached as Appendix 1.
- 3.3 The year to date financial information is based on the actual income and expenditure for the 9 months of the financial year, April to December 2017. An estimate of the expected financial outturn position for 2017/18 is also provided.
- 3.4 As at the end of December 2017, an overspend against budgets of £2.323m is reported.
- 3.5 The forecast at the end of the financial year is £487,400 overspend against budget (after the use of reserves). The report provides further detail on the financial position.
- 3.6 This position is marginally reduced from the financial position reported at the end of September 2017.
- 3.7 The financial position is also consistent with that used in budget planning for 2018/19.
- 3.8 Members have previously discussed a number of options to review the content of the Financial Digest report.
- 3.9 A number of proposals were reviewed at the Finance and Services Scrutiny Committee meeting on 5th February. It was generally agreed that more timely and some additional granular information is required, and that over time Members would be presented with options for change aligned to reporting capability.
- 3.10 Work continues to both address the timeliness of reporting and also the content of the Digest. As agreed with Members, an iterative approach will be adapted and proposals tested and addressed in the forthcoming financial year.

4 Income and Expenditure

- 4.1 The table below details the total income and expenditure position for the organisation for the period to the end of December 2017 and forecast for the year.

| Type | YTD Budget £000s | YTD Actual £000s | YTD Variance £000s | Forecast Budget £000s | Forecast Actual £000s | Forecast Variance £000s |
|-------------|---------------------|---------------------|-----------------------|--------------------------|-----------------------------|-------------------------------|
| Cost | 61,379 | 64,596 | 3,217 | 94,264 | 97,386 | 3,122 |
| Income | (47,439) | (48,333) | (894) | (73,812) | (74,764) | (953) |
| Grand Total | 13,940 | 16,263 | 2,323 | 20,452 | 22,622 | 2,170 |

- 4.2 The table shows a total year to date expenditure of £64.596m, which represents an overspend against the YTD budget of £3.217m.
- 4.3 The table shows a year to date total income recovery of £48.333m which is £0.894m above budgeted levels.
- 4.4 The year to date position, by portfolio, is detailed in the table below and further detail by service is provided in the Appendix.

| Portfolio (Spend in £000s) | Year to date Budget | Year to date Actual | Year to date Variance |
|--|---------------------|---------------------|-----------------------|
| Civic Amenities | (128) | (397) | (269) |
| Commercialisation & Business Transform | 2,434 | 2,855 | 421 |
| Communities | 2,181 | 2,256 | 75 |
| Economic Development & Regeneration | (1,048) | (1,170) | (122) |
| Environment & Waste | 3,724 | 3,574 | (150) |
| Growth Strategy | 1,146 | 1,442 | 296 |
| Leader | 2,546 | 3,132 | 587 |
| Resources, Governance & Compliance | 3,084 | 4,569 | 1,485 |
| Grand Total | 13,940 | 16,263 | 2,323 |

*** Brackets in variance denote underspend*

- 4.5 The financial position is largely being driven by above budgeted levels of staff costs in relation to the Council reorganisation. Over the past 12 months, the Council has undergone a series of business reviews in order to position itself as a more commercial organisation. The financial benefit of the re-organisation has realised significant savings in staff costs in the future years and has been central to the Council setting a balanced budget for 4 years in January 2018.
- 4.6 In the nine months to the end of December, £0.943m of salary savings were recognised as a result of business reviews and vacancies. These vacant posts are however being filled by temporary staff (agency and consultants) at a premium cost. For nine months of the financial year, temporary staffing costs are reported as being £2.309m above budgeted levels. As we progress through the year it is anticipated that these vacancies will be filled and the reliance on temporary staff should reduce as staffing structures become more established.
- 4.7 Further staff cost pressures to date include redundancy cost of £1.667m
- 4.8 For non-pay budgets, a reported adverse variance against the YTD budget of £0.18m is reported (0.38% overspend). This relates to spend e.g. maintenance and repairs on premises and properties, utilities costs and also include transport costs and other non pay costs in relation to service delivery.
- 4.9 As at the end of December 2017, income recovery is £0.894 above budgeted levels. The over-recovery includes additional income from rents and lettings, grants and income from planning and garden waste.

- 4.10 The year to date position, by sector, is detailed in the table below. This view of the financial position reflects the management structure of the Organisation, and is included for information.

| Sector (Spend in £000s) | Year to date Budget | Year to date Actual | Year to date Variance |
|---|---------------------|---------------------|-----------------------|
| Business Delivery, Support & Enablement | 6,568 | 6,492 | (76) |
| Chief Executive Services | 475 | 504 | 29 |
| Commercial & Business Strategy | 2,307 | 3,067 | 760 |
| Commercial Property | 127 | 137 | 10 |
| Community Fulfilment | 2,996 | 3,003 | 7 |
| Customer Fulfilment | 1,466 | 3,059 | 1,593 |
| Grand Total | 13,940 | 16,263 | 2,323 |

** Brackets in variance denote underspend

5 Forecast Outturn

- 5.1 The financial position at the end of the year is forecast to be £2.169m adverse against budget.
- 5.2 The forecast is derived using the year to date financial information and an estimation of anticipated income and expenditure for the last 3 remaining months of the financial year. The financial forecast represents a view of the likely financial outturn for the financial year, given current working assumptions and is informed by budget managers.
- 5.3 The table below shows the forecast variance, by portfolio.

| Portfolio (Nos in £000s) | Forecast Var: Cost | Forecast Var: Income | Forecast : Total variance* |
|---|--------------------|----------------------|----------------------------|
| Civic Amenities | (457) | (164) | (621) |
| Commercialisation & Business Transformation | 540 | (94) | 446 |
| Communities | 21 | 24 | 45 |
| Economic Development & Regeneration | 103 | (209) | (106) |
| Environment & Waste | (31) | (223) | (254) |
| Growth Strategy | 363 | (127) | 236 |
| Leader | 640 | (45) | 595 |
| Resources, Governance & Compliance | 1,943 | (114) | 1,829 |
| Grand Total | 3,123 | (953) | 2,170 |

Brackets in variance denote underspend*

- 5.4 The forecast financial position includes £1.739m of redundancy costs.
- 5.5 The cost of redundancy will be funded from reserves. The use of reserves to meet redundancy costs has previously been agreed to fund these exceptional costs of reorganisation. The council anticipates pay back of costs incurred through staff savings over the next few years.
- 5.6 A forecast overspend of £487,400(after use of reserves) is currently forecast for the period to the end of March 2018.
- 5.7 At an organisational view, the forecast overspend reflects
- Salary underspends of £1.222m
 - Agency and consultancy overspend of £3.144m
 - Redundancy costs of £1.739m
 - Over-recovery of income streams of £0.953m
 - Other related budgetary underspend of £0.539m

- 5.8 2017/18 has been an exceptional year for the Council in that the restructuring has resulted in exceptional staff changes and resultant exceptional costs.
- 5.9 Savings of £1.222m have been realised as a result of business reviews and vacancies.
- 5.10 Significant agency use has been required to meet vacancies and staff turnover during the financial year.
- 5.11 In relation to redundancy costs, a forecast spend of £1.739m have been assumed.
- 5.12 It is anticipated that savings of £0.539m will be realised from non staff related budgets during 2017-18 and this is included in the financial forecast.
- 5.13 The Organisational have benefited from increase income streams to the Council. Successful initiatives through income from waste services, recycling and planning have increased income above budgeted levels.
- 5.14 All opportunities to realise in-year savings through efficiencies are actioned to ensure financial benefit. In year, there have been significant savings arising from the introduction of the new waste fleet in that running costs have been reduced significantly.

6 Financial Performance by Portfolio

- 6.1 The report provides a detail of key issues impacting on each Portfolio.
- 6.2 This is intended to give a high level summary of the financial position and the contributory factors influencing budget management at Portfolio level.
- 6.3 Civic Amenities.

The reported year to date and forecast underspend against budget is largely a factor of savings from salaries, business rates and other building related costs. The savings have been realised through the implementation of service reviews and represent a recurrent saving to the Council.

The forecast includes variations across services in relation to savings with reported savings on insurances and increased contract income.
- 6.4 Commercialisation & Business Transformation

The year to date and forecast overspend is being driven by the higher than budgeted costs in relation to the Commercial solutions initiative. It is anticipated that there will be future payback of these costs as future income costs are developed and established.

Significant redundancy costs (£146,300) have been incurred across the Portfolio
- 6.5 Communities

A forecast underspend of £45,000 is predicted for the financial year 2018-19. The financial position represents a range of pressures in relation to staff costs. Whilst vacancies across services have resulted in savings of circa £167,200 these have largely been offset by agency costs and redundancy costs of £200,900. The exceptional staff costs, resulting from implementation of services reviews, is anticipated to be non-recurrent but provides a framework for a more established staffing structure for 2018-19.

The forecast includes above budgeted levels of income for community services.

6.6 Economic Development & Regeneration

The financial position is being driven by a number of factors. Although there are savings arising from vacancies (£334,700), these have been offset by the use of agency staff, consultancy and redundancy costs (£399,100). Increased income from Pembroke Road and High Street (£170,000) has offset the financial deficit. The portfolio is forecasting a favourable variance to budget of £106,000 for the financial year.

6.7 Environment & Waste

A forecast underspend of £253,700 is forecast for the financial year. Whilst the Portfolio have experienced cost pressures in relation to staffing (£210,000), the financial position has benefited from both reduced costs in relation to vehicle savings resulting from the introduction of the new fleet (£180,000) and also over-recovery of income in relation to waste collections and income from recycling and bins sales (£300,000).

6.8 Growth Strategy

Staffing cost pressures in relation to planning services are the main factor underlying the forecast overspend against budget of £236,000 for the portfolio. The planning department have experienced significant change resulting from the service reviews. Agency and redundancy costs have only been partially offset by staff savings from vacancies (£400,000 cost pressure) but additional income from building control and planning fee income of £100,000 has offset the overall financial deficit for the service. Within the portfolio, savings have also been realised through staff vacancies in the strategy and partnerships service.

6.9 Leader

The financial position and forecast variance relate mainly to staff costs arising from the organisational change undertaken during 2017-18. Of the forecast overspend of £594,900, £534,700 relates to staff cost overspends. The departments have depended on agency and consultancy to provide services, and have incurred £259,000 of redundancy costs. Increased repair and maintenance costs, and some non-recurrent office refurbishment have also resulted in above budgeted costs (£60,000)

6.10 Resources, Governance & Compliance

A significant overspend of £1,829,100 is forecast. The sector has incurred in-year spend on agency, consultancy and redundancy of £1,729,000. Service pressures particularly across Housing Benefits, Finance and Payroll services and Personnel services have resulted in these exceptional costs. Staff turnover has also resulted in additional costs associated with recruitment. The management team are working to review staffing arrangements to ensure future spend is aligned to budget.

7 Budget profiling

7.1 Spend does not incur evenly throughout the year.

7.2 Budgets are profiled to reflect when spend will be incurred/ income received.

8 Reserves and Provisions

- 8.1 Detail of the earmarked reserves and provisions held by the Council are detailed on page 13 of the digest. After allowing for known movements, the balance of reserves is forecast to be £35.541m at 31st March 2018. These are held against specific risks and commitments.

9 Capital Spend

- 9.1 As well as the revenue budget the digest, on page 14 also reports on the level of capital spend to 31st December 2017. Whilst the year to date spend of £5.743m represents only 43% of the total anticipated spend, there is no perceived risk on the delivery of the schemes and it is anticipated that spend will increase in line with plans over the last 3 months of the year.

10 Investment and Borrowing

- 10.1 On page 15 there is information on the level of investments and borrowings during the first six months of the financial year. No new borrowing has been taken out during the year and so the current level remains at £23.5m.
- 10.2 The council had £56.1m invested at the end of December, in a combination of banks, building societies and money market funds.

11 Options considered

- 11.1 The financial forecast represents a view of the likely financial outturn for the financial year, given current working assumptions. We are working within a very dynamic environment and the financial outlook is being reviewed on an on-going basis to both reduce financial risks that may impact adversely on the financial forecast and also to identify opportunities to improve on the current forecast position.
- 11.2 As part of routine financial management arrangements, budget holders' are being asked to review all of their areas of responsibility to assess areas where spend can be minimised and income opportunities optimised. Budget managers have been encouraged to review anticipated staff costs and agency costs over the coming months, with an emphasis to drive costs down whilst still maintain service delivery. The strategic team will also review possible mitigating actions and opportunities to improve the forecast position.

12 Risks and Mitigations

- 12.1 The financial environment is challenging and the focus of the Council remains to delivering financial stability.
- 12.2 2017/18 is an exceptional year and budget managers are being encouraged to manage any in-year pressure including in built staff savings to be managed through e.g. turnover.
- 12.3 The last year has been a time of transition as staff changes have been made in line with the cultural change environment. Having largely completed this, 2018/19 represents a time for consolidation as revised staffing establishments will be in place. The dependency on high cost agency staff will be targeted to reduce risk of in-year overspends.

12.4 Escalation processes will be in place, during 2018-19, to monitor performance in year against the agreed plan.

12..5 The key financial management messages for the Organisation, based on the forecast outturn for 2017-18 and the financial plan for 2018-19 will be highlighted as being:

- Reduce agency spend and dependency on temporary staffing solutions
- Identify where things could be done more efficiently, and at reduced cost
- Maximise all opportunities to increase income to the Council
- Reduce spend on non-pay items where possible

13 Resource Implications

13.1 The resource implications are as detailed within the digest. The digest represents the main forum for reporting budget performance to members.

14 Response to Key Aims and Objectives

14.1 Budget monitoring helps us to ensure resources are deployed in a way that is consistent with our key aims and outcomes.

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Background Documents

Appendix : Financial Digest December 2017