

BUDGET CABINET

TUESDAY 25 FEBRUARY 2020
2.00 PM

Council Chamber - Town Hall
Contact – philippa.turvey@peterborough.gov.uk, 01733 452460

AGENDA

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- 2 Declarations of Interest
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STRATEGIC DECISIONS

- 4 **Medium Term Financial Strategy 2020/21 to 2022/23 - Tranche Two**

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BUDGET
BOOK

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- 5 **Budget Control Report December 2019**

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*Any agenda item highlighted in bold and marked with an * is a 'key decision' involving the Council making expenditure or savings of over £500,000 or having a significant effect on two or more wards in Peterborough. These items have been advertised previously on the Council's Forward Plan (except where the issue is urgent in accordance with Section 15 of the Council's Access to Information rules).*

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| | |
|-------------------------|--------------------------|
| CABINET | AGENDA ITEM No. 5 |
| 25 February 2020 | PUBLIC REPORT |

| | | |
|--------------------------------|---|----------------------------|
| Cabinet Member(s) responsible: | Cllr David Seaton, Cabinet Member for Finance | |
| Contact Officer(s): | Peter Carpenter, Acting Director of Corporate Resources Kirsty Nutton, Head of Corporate Finance | Tel. 452520 Tel. 384590 |

BUDGET CONTROL REPORT DECEMBER 2019

| R E C O M M E N D A T I O N S | |
|---|---------------------------|
| FROM: Corporate Director: Resources | Deadline date: N/A |
| <p>It is recommended that Cabinet notes:</p> <ol style="list-style-type: none"> 1. The Budgetary Control position for 2019/20 at December 2019 includes a forecast overspend of £4m against budget. 2. The key variance analysis and explanations are contained in Appendix A. 3. The estimated reserves position for 2019/20 at December 2019 outlined in Appendix B. 4. The Asset Investment and Treasury Budget Report is contained in Appendix C. | |

1. ORIGIN OF THE REPORT

- 1.1. This report is submitted to Cabinet following discussion by the Corporate Management Team (CMT).

2. PURPOSE AND REASON FOR REPORT

- 2.1. This report is for Cabinet to consider under its Terms of Reference No. 3.2.7 'To be responsible for the Council's overall budget and determine action required to ensure that the overall budget remains within the total cash limit'.
- 2.2. This report provides Cabinet with the forecast for 2019/20 as at December 2019 budgetary control position.

3. TIMESCALE

| | | | |
|--|-----|--|---------------------|
| Is this a Major Policy Item/ Statutory Plan | Yes | If yes, date for Cabinet meeting | 24 February 2020 |
| Date for relevant Council meeting | N/A | Date for submission to Government Dept. | N/A |

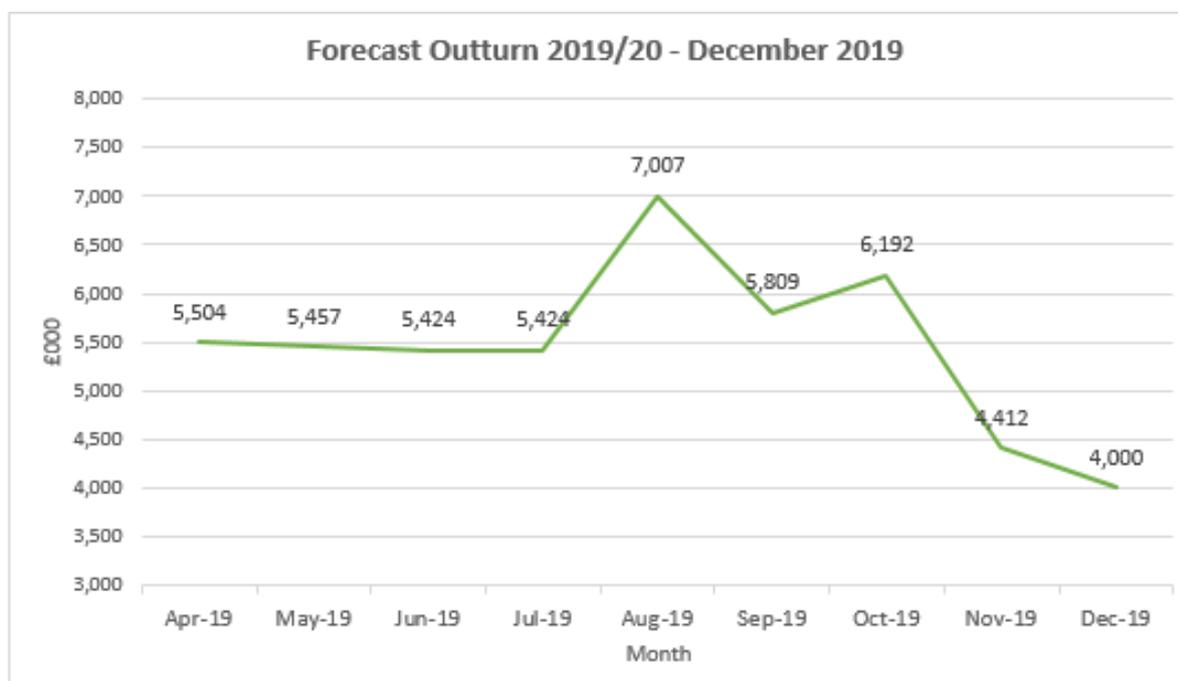
4. DECEMBER 2019 BUDGETARY CONTROL- REVENUE

4.1. The revenue budget for 2019/20, agreed at Full Council on 6 March 2019, was approved at £150.768m.

| | £m |
|-------------------------------------|----------------|
| Approved Budget 2019/20 | 150.768 |
| Use of reserves per MTFS | 3.084 |
| Revised Budget 2019/20 | 153.852 |
| Drawdown of reserves during 2019/20 | 3.808 |
| NNDR Timing Issue | (0.889) |
| Revised Budget 2019/20 | 156.771 |

4.2. The 2019/20 year-end outturn position is currently forecast to be overspent by £4m, which will need to be met from the Capacity Building Reserve. The Council has made significant progress over recent months to bring expenditure back within the revised budget. This has included implementing a number of additional financial and recruitment controls, increased communication and engagement with staff to raise awareness of the financial position and the delivery of CMT led Financial Improvement Programme, for the current and future years.

4.3. The following chart outlines the trend of the forecast outturn position, demonstrating that the forecast trajectory is moving in the right direction. These control measures and proactive management actions will continue to reduce the £4m overspend as close to nil as possible before the 31 March 2020.



4.4. The following table outlines a summary of the budgetary control position, in comparison to the previous month, highlighting an improvement of the position by £0.412m.

| | Revised Budget 2019/20 | Forecast Spend 2019/20 | Cont. to reserve | Forecast Variance 2019/20 | Forecast Variance 2019/20 | Previous Month Variance | Movement |
|-----------------------------|------------------------|------------------------|------------------|---------------------------|---------------------------|-------------------------|--------------|
| Directorate | £000 | £000 | £000 | £000 | % | £000 | £000 |
| Chief Executives | 1,561 | 1,455 | 0 | (106) | -7% | (106) | (0) |
| Governance | 4,312 | 4,277 | 0 | (35) | -1% | (4) | (31) |
| Place & Economy | 19,134 | 19,357 | 0 | 223 | 1.2% | 464 | (241) |
| People & Communities | 83,824 | 87,781 | 0 | 3,957 | 5% | 4,081 | (124) |
| Public Health* | 201 | 245 | 0 | 44 | 22% | 37 | 7 |
| Resources | 39,044 | 37,500 | 1,077 | (467) | -1% | (555) | (88) |
| Customer & Digital Services | 7,713 | 8,142 | 0 | 429 | 6% | 545 | (116) |
| Business Improvement | 981 | 937 | 0 | (44) | -5% | (49) | 5 |
| Total Expenditure | 156,771 | 159,694 | 1,077 | 4,000 | 3% | 4,412 | (412) |
| Financing | (156,771) | (156,771) | 0 | 0 | 0% | 0 | 0 |
| Net | 0 | 2,923 | 1,077 | 4,000 | 0 | 4,412 | (412) |

*Public Health budget is netted down, due to the inclusion of the £10.6m grant, being off-set against expenditure at this level. Therefore, if the variance was compared to the total expenditure it would only equate to 0.4%, not 22%, as shown in the table above.

4.5. The following changes in position have contributed towards this improved position:

- Additional Income generation within Legal Services £0.124m;
- Savings in Highways £0.109m;
- Further staffing savings £0.123m;

However there has been some additional forecast pressures such as:

- Shortfall in Planning Fee income £0.132m
- Additional costs of £0.153m associated with the transfer of the Fostering and Adoption teams from TACT.

Further details regarding these pressures are outlined within Appendix A of this Report.

5. APPENDICES

5.1. Further information is provided in the following appendices:

- Appendix A – Detailed 2019/20 revenue budgetary control position at December 2019 and explanation of Key variances.
- Appendix B – Reserves position
- Appendix C – Asset Investment and Treasury Budget Report

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Appendix A – Detailed Revenue Budgetary Control position and explanation of Key Variances and Risks

Chief Executives

| | Revised Budget 2019/20 | Forecast Spend 2019/20 | Cont. to reserve | Forecast Variance 2019/20 | Forecast Variance 2019/20 | Previous Month Variance | Movement |
|-------------------------------|------------------------|------------------------|------------------|---------------------------|---------------------------|-------------------------|--------------|
| Budget Group | £000 | £000 | £000 | £000 | % | £000 | £000 |
| Chief Executive | 205 | 202 | 0 | (3) | -2% | (0) | (3) |
| Human Resources | 1,356 | 1,253 | 0 | (103) | -8% | 0 | (103) |
| Total Chief Executives | 1,561 | 1,455 | 0 | (106) | -7% | (0) | (106) |

Savings have been achieved through deleting vacant posts and reviewing agency staff across the organisation.

Governance

| | Revised Budget 2019/20 | Forecast Spend 2019/20 | Cont. to reserve | Forecast Variance 2019/20 | Forecast Variance 2019/20 | Previous Month Variance | Movement |
|---------------------------|------------------------|------------------------|------------------|---------------------------|---------------------------|-------------------------|-------------|
| Budget Group | £000 | £000 | £000 | £000 | % | £000 | £000 |
| Director of Governance | 104 | 200 | 0 | 96 | 93% | 96 | 0 |
| Constitutional Services | 1,991 | 2,020 | 0 | 29 | 1% | 29 | (0) |
| Legal Services | 2,031 | 1,876 | 0 | (155) | -8% | (125) | (30) |
| Performance & Information | 186 | 181 | 0 | (5) | -3% | (4) | (1) |
| Total Governance | 4,312 | 4,277 | 0 | (35) | -1% | (4) | (31) |

Additional income £0.124m has been achieved in Legal Services through the negotiation of a new Service Level Agreement (SLA) with Rutland and Fenland local authorities, along with other minor savings.

Place & Economy

| | Revised Budget 2019/20 | Forecast Spend 2019/20 | Cont. to reserve | Forecast Variance 2019/20 | Forecast Variance 2019/20 | Previous Month Variance | Movement |
|--|------------------------|------------------------|------------------|---------------------------|---------------------------|-------------------------|--------------|
| Budget Group | £000 | £000 | £000 | £000 | % | £000 | £000 |
| Director, Opportunity Peterborough & Joint Venture | 91 | 64 | 0 | (27) | -30% | (27) | 0 |
| Development and Construction | 122 | 152 | 0 | 30 | 25% | (66) | 96 |
| Peterborough Highway Services | 4,086 | 3,365 | 0 | (721) | -18% | (466) | (255) |
| Sustainable Growth Strategy | 1,533 | 1,492 | 0 | (41) | -3% | (39) | (2) |
| Waste, Cleansing and Open Spaces | 13,051 | 13,181 | 0 | 130 | 1% | 130 | 0 |
| Westcombe Engineering | 179 | 192 | 0 | 13 | 7% | 13 | 0 |
| Energy | 260 | (91) | 0 | (351) | -135% | (260) | (91) |
| City Centre Management | 281 | 791 | 0 | 510 | 182% | 503 | 7 |
| Service Director Environment & Economy | (467) | 211 | 0 | 678 | -145% | 674 | 4 |
| Total Place & Economy | 19,134 | 19,357 | 0 | 223 | 1.2% | 464 | (241) |

Development and Construction

There is a predicted shortfall in planning fee income £0.132m with various minor savings offsetting this.

Peterborough Highways Services

Highways Development forecast underspend is a combination of additional Section 278 and Section 38 income from developers and savings on professional services and contractors £0.445m, additional permit income £0.128m arising from work relating to City Fibre. There are also savings in Concessionary Fares of £0.139m, however these are offset by Employee Costs £0.100m.

Waste, Cleansing and Open Spaces

Waste treatment costs are forecast to be £0.199m lower than expected, and other minor variances of £0.051m are included. However, the overall forecast is offset with a reduction in wholesale electricity prices at the Energy for Waste Plant. The budget was based on the higher prices experienced in the previous financial year, the forecast year-end difference is £0.380m.

Energy

Additional income of £0.342m is from the Empower loan as a result of further loan extensions as the refinancing process continues. Additional information is contained in [this CMDN published in November](#).

City Centre Management

There is a forecast pressure in relation to a reduction in the income generated through stall rental at the Market of £0.103m. Also included is the adverse position from the cancellation of the Perkins Great Eastern Run (PGER) of £0.160m. Investigations continue as to whether this loss of income could be mitigated via an insurance claim. Other variances relating to Pedestrian Area Income, Information Centre, and Business Improvement District project costs result in a forecast pressure of £0.247m.

Service Director Environment & Economy

This is the balance remaining after transferring the budget from savings achieved to offset the savings target that was set earlier in the year as part of the Budget Realignment process.

People & Communities

| | Revised Budget 2019/20 | Forecast Spend 2019/20 | Cont. to reserve | Forecast Variance 2019/20 | Forecast Variance 2019/20 | Previous Month Variance | Movement |
|---|------------------------|------------------------|------------------|---------------------------|---------------------------|-------------------------|--------------|
| Budget Group | £000 | £000 | £000 | £000 | % | £000 | £000 |
| Adults | 43,857 | 43,757 | 0 | (100) | 0% | (45) | (55) |
| Commissioning and Commercial Operations | 17,408 | 17,156 | 0 | (252) | -1% | (247) | (5) |
| Children's & Safeguarding | 11,205 | 11,266 | 0 | 61 | -1% | (90) | 150 |
| Director | (2,698) | 879 | 0 | 3,577 | -133% | 3,579 | (2) |
| Education | 6,024 | 6,166 | 0 | 142 | 2% | 351 | (209) |
| Communities | 7,982 | 8,512 | 0 | 530 | 7% | 534 | (3) |
| DSG | 45 | 45 | 0 | (0) | 0% | 0 | (0) |
| Total People & Communities | 83,824 | 87,781 | 0 | 3,957 | 5% | 4,081 | (124) |

Further Breakdown into the key service areas:

| | Revised Budget 2019/20 | Forecast Spend 2019/20 | Cont. to reserves | Forecast Variance 2019/20 | Forecast Variance 2019/20 | Previous Month Variance | Movement |
|--|------------------------|------------------------|-------------------|---------------------------|---------------------------|-------------------------|--------------|
| | £000 | £000 | £000 | £000 | % | £000 | £000 |
| Adults: | | | | | | | |
| ISP | 34,106 | 34,209 | 0 | 103 | 0% | 64 | 39 |
| ASC Teams | 8,251 | 8,126 | 0 | (125) | -2% | (86) | (39) |
| Block Contracts | 6,060 | 6,017 | 0 | (43) | -1% | (20) | (32) |
| Financing | (5,933) | (5,930) | 0 | 3 | 0% | 0 | 3 |
| Home Service Delivery Model | 1,373 | 1,335 | 0 | (38) | -3% | (3) | (35) |
| Total Adults | 43,857 | 43,757 | 0 | (100) | 0% | (45) | (55) |
| Commissioning & Commercial Operations: | | | | | | | |
| Permanency Service | 3,242 | 3,242 | 0 | 0 | 0% | (250) | 250 |
| Clare Lodge | (381) | (306) | 0 | 75 | -20% | 80 | 5 |
| Commissioning & Commercial Operations - Other | 14,547 | 14,220 | 0 | (327) | -2% | (77) | (250) |
| Total Commissioning & Commercial Operations | 17,408 | 17,156 | 0 | (252) | -1% | (247) | (5) |
| Childrens & Safeguarding: | | | | | | | |
| Children's Social Care | 7,489 | 7,642 | 0 | 153 | 2% | 0 | 153 |
| Childrens - Other | 3,716 | 3,624 | 0 | (92) | -2% | (90) | (2) |
| Total Childrens & Safeguarding | 11,205 | 11,266 | 0 | 61 | -1% | (90) | 151 |
| Director: | | | | | | | |
| Director | 1,453 | 1,442 | 0 | (11) | -1% | (9) | (2) |
| Department Savings target | (563) | (563) | 0 | 0 | 0% | 0 | 0 |
| P&C Remaining Departmental Saving Target | (3,588) | 0 | 0 | 3,588 | -100% | 3,588 | 0 |
| Total Director | (2,698) | 879 | 0 | 3,577 | -133% | 3,579 | (2) |
| Education: | | | | | | | |
| HTS & CSC Transport | 4,379 | 4,666 | 0 | 287 | 7% | 270 | 17 |
| School Improvement Traded Service | (772) | (772) | 0 | 0 | 0% | 0 | 0 |
| Education - Other | 2,417 | 2,272 | 0 | (145) | -6% | 81 | (226) |
| Total Education | 6,024 | 6,166 | 0 | 142 | 2% | 351 | 209 |
| Communities: | | | | | | | |
| Housing | 2,202 | 2,646 | 0 | 444 | 20% | 480 | (36) |
| Cultural Services | 2,678 | 2,736 | 0 | 58 | 2% | 65 | (7) |
| Targeted Youth Support Service (TYSS) | 1,634 | 1,585 | 0 | (49) | -3% | (50) | 1 |
| Prevention Enforcement Service (PES) | (1,311) | (1,204) | 0 | 107 | -8% | 71 | 36 |
| Regulatory Services | 687 | 605 | 0 | (82) | -12% | (63) | (19) |
| Communities - Other | 2,092 | 2,144 | 0 | 52 | 2% | 31 | 21 |
| Total Communities | 7,982 | 8,512 | 0 | 530 | 7% | 534 | (4) |
| DSG | 45 | 45 | 0 | 0 | 0% | 0 | 0 |
| Total People and Communities | 83,824 | 87,781 | 0 | 3,957 | 5% | 4,081 | (124) |

Adults

There is a forecast saving of £0.123m relating to staffing costs in this department.

Commissioning and Commercial Operations

The favourable variance has arisen mainly from reduced Children's Social Care placement spend of £0.250m

Director

This is the balance remaining after transferring the budget from savings achieved to offset the savings target that was set earlier in the year as part of the Budget Realignment process.

Education

There is a forecast pressure of £0.287m relating to Special Educational Needs Transport. This is the result of new contracts and price increases to current contracts. The cost of providing this provision is also affected by demography of the home and school locations and the number of children requiring transport, which has increased due to the rise in the number of children with an Educational Health Care Plans (EHCP). The revised forecast reflects the requirements for the 2019/20 academic year.

There is a forecast underspend within the Education - Other budget due to an increase in the level of direct revenue financing (DRF) accounting treatment relation to City College £0.203m expenditure.

Communities

The temporary accommodation budget is forecast to overspend by £0.518m, a small reduction on the previous month. This pressure had arisen largely due to an increase in homeless presentations. At the peak there was 416 households in temporary accommodation, 110 of which were in Bed and Breakfast. The Council has employed a housing specialist who is working to support the housing needs team imbed new practises and prevention techniques to better manage the future demand for temporary accommodation. This has included a training programme for staff, better practices around the use of bed and breakfast accommodations and improvements to the customer journey. The Council are continuing to build on a portfolio of housing supply to meet this demand, which includes working closely with local housing organisations and increasing the use of private rented accommodation. The Council is starting to see an improvement in the households in temporary accommodation with the number of Bed and Breakfast in use reducing by 67% to 36. This trajectory is expected to continue, with the current prediction being that there will no longer be a requirement for Bed and Breakfast accommodation at the end of March 2020.

Public Health

| | Revised Budget 2019/20 | Forecast Spend 2019/20 | Cont. to reserve | Forecast Variance 2019/20 | Forecast Variance 2019/20 | Previous Month Variance | Movement |
|---|------------------------|------------------------|------------------|---------------------------|---------------------------|-------------------------|----------|
| Budget Group | £000 | £000 | £000 | £000 | % | £000 | £000 |
| Children 0-5 Health Visitors | 4,057 | 4,057 | 0 | 0 | 0% | 0 | 0 |
| Children 5-19 Health Programmes | 983 | 983 | 0 | (0) | 0% | (0) | 0 |
| Sexual Health | 1,942 | 1,942 | 0 | (0) | 0% | (0) | 0 |
| Substance Misuse | 2,198 | 2,201 | 0 | 3 | 0% | 6 | (3) |
| Smoking and Tobacco | 281 | 281 | 0 | 0 | 0% | 0 | 0 |
| Miscellaneous Public Health Services | 1,391 | 1,402 | 0 | 11 | 1% | 1 | 10 |
| Public Health Grant | (10,621) | (10,621) | 0 | 0 | 0% | 0 | 0 |
| Public Health Remaining Dept Savings target | (31) | 0 | 0 | 31 | -100% | 31 | 0 |
| Total Public Health | 201 | 245 | 0 | 44 | 22% | 37 | 7 |

Minor forecast variances reported.

Resources

| | Revised Budget 2019/20 | Forecast Spend 2019/20 | Cont. to reserve | Forecast Variance 2019/20 | Forecast Variance 2019/20 | Previous Month Variance | Movement |
|--|------------------------|------------------------|------------------|---------------------------|---------------------------|-------------------------|-----------|
| Budget Group | £000 | £000 | £000 | £000 | % | £000 | £000 |
| Director's Office | 199 | 212 | 0 | 13 | 6% | 14 | (1) |
| Financial Services | 7,367 | 7,032 | 377 | 42 | 1% | 5 | 37 |
| Capital Financing and Capital Receipts | 15,748 | 13,287 | 700 | (1,761) | -11% | (1,761) | 0 |
| Corporate Items | 7,668 | 7,956 | 0 | 288 | 4% | 279 | 9 |
| Peterborough Serco Strategic Partnership | 7,567 | 8,391 | 0 | 824 | 11% | 824 | 0 |
| Cemeteries, Cremation & Registrars | (1,453) | (1,516) | 0 | (63) | 4% | (88) | 25 |
| Corporate Property | 1,948 | 2,138 | 0 | 190 | 10% | 172 | 18 |
| Total Resources | 39,044 | 37,500 | 1,077 | (467) | -1% | (555) | 88 |

Capital Financing and Capital Receipts

The forecast outturn is a combination of the following factors:

- Less borrowing was undertaken for the capital programme in 2018/19 than budgeted for in the MTFS resulting in less budget being required to fund existing borrowing;
- Forecast interest rates for new borrowing are lower than those forecast at the time the MTFS was set. However, it should be noted that Treasury announced an increase in the interest rate for Public Works Loan Board (PWLB) by one percentage point, meaning the typical rate for a loan is now 2.8% instead of 1.8%.
- Further capital programme reviews for 2019/20 have been undertaken to ensure that a realistic profile of scheme delivery is being costed to enable forecast for borrowing and timings to be more realistically estimated. The impact of its review reflected in the forecast outturns;
- The level of interest receipts forecast to be generated from loans the council has issued has been reduced from those contained in the MTFS as a result of the early repayment of loans from a housing association received at the end of 2018/19 and the delay in the drawdown of the loan granted to the hotel build in Fletton Quays;

- There has been an increase in the use of Capital Receipts to redeem debt, which impacts on the minimum revenue provision costs.
- The Council has received the annual dividend from ESPO (Eastern Shires Purchasing Organisation), which was declared and received at £0.133m above the budget for this income.

Corporate Items

There is a pressure on the Corporate Items service area due to a reduction in direct revenue funding (DRF) of £0.250m. This is due to a reduction in the value of school's capital expenditure and associated funding being transferred from revenue into capital. This is a byproduct of the number of schools converting to academy status.

Peterborough Serco Strategic Partnership (PSSP)

Within PSSP there is a risk that ADP (Annual delivery plan costs) which is currently costing the Council £0.065m per month will create an adverse variance against the budget unless costs are switched off or charged to a budgeted project. Within the forecast variance three months of cost at £0.195m has been assumed, which relates to August to October 19 (April -July was funded through budget realignment exercise), this is pending a Notice of Change (NoC) to the contract. It is anticipated that the NOC will change the allocation of these costs so that they are retrospectively fully allocated to projects being delivered. In addition there are BTSI variable costs that have been charged to the PSSP cost centre on a monthly basis (pending a breakdown from Serco for any potential reallocation to budgeted projects), but at present this is considered unlikely and so included in this variance a forecast of £0.112m has been assumed for costs incurred to date.

The council had been receiving and budgeting for additional income from recovering housing benefit overpayments. Incidences of overpayment are now reduced, as rent allowance payments and housing subsidy both reduce in line with the roll-out of Universal Credit. This together with the improved collection of arrears means that the additional income is no longer sustained £0.500m

Corporate Property

The main forecast variances in this area are legal costs of £0.137m and the use of temporary staffing of £0.063m incurred as part of the purchased and leased properties activity undertaken to reduce greater pressures in Homelessness Service. Maintenance costs were £0.028m which are higher than expected.

Customer and Digital Services

| | Revised Budget 2019/20 | Forecast Spend 2019/20 | Cont. to reserve | Forecast Variance 2019/20 | Forecast Variance 2019/20 | Previous Month Variance | Movement |
|--|------------------------|------------------------|------------------|---------------------------|---------------------------|-------------------------|--------------|
| Budget Group | £000 | £000 | £000 | £000 | % | £000 | £000 |
| Director Customer & Digital Services | 0 | 0 | 0 | 0 | 0% | 0 | 0 |
| ICT | 6,840 | 7,393 | 0 | 553 | 8% | 664 | (111) |
| Marketing & Communications | 517 | 478 | 0 | (39) | -8% | (66) | 27 |
| Resilience and Health & Safety | 356 | 271 | 0 | (85) | -24% | (53) | (32) |
| Total Customer and Digital Services | 7,713 | 8,142 | 0 | 429 | 6% | 545 | (116) |

ICT

The savings target of £0.562m which was allocated as part of the Budget Realignment task has not yet been achieved. There are £0.118m of capital financing charges relating to ICT work that were not originally budgeted which are offset by £0.127m of other variances and reduced costs within third party software budgets.

Business Improvement

| | Revised Budget 2019/20 | Forecast Spend 2019/20 | Cont. to reserve | Forecast Variance 2019/20 | Forecast Variance 2019/20 | Previous Month Variance | Movement |
|-----------------------------------|------------------------|------------------------|------------------|---------------------------|---------------------------|-------------------------|----------|
| Budget Group | £000 | £000 | £000 | £000 | % | £000 | £000 |
| Director Business Improvement | 0 | 0 | 0 | 0 | 0% | 0 | 0 |
| Programme Management Office | 981 | 937 | 0 | (44) | -5% | (49) | 5 |
| Total Business Improvement | 981 | 937 | 0 | (44) | -5% | (49) | 5 |

Savings have been delivered through a staff restructure.

Financing

| | Revised Budget 2019/20 | Forecast Spend 2019/20 | Cont. to reserve | Forecast Variance 2019/20 | Forecast Variance 2019/20 | Previous Month Variance | Movement |
|---|------------------------|------------------------|------------------|---------------------------|---------------------------|-------------------------|----------|
| Budget Group | £000 | £000 | £000 | £000 | % | £000 | £000 |
| Council Tax | (71,925) | (71,925) | 0 | 0 | 0.00% | 0 | 0 |
| Council Tax - Adult Social Care precept | (5,450) | (5,450) | 0 | 0 | 0.00% | 0 | 0 |
| NDR Income | (45,727) | (45,727) | 0 | 0 | 0.00% | 0 | 0 |
| NDR Levy | 306 | 306 | 0 | 0 | 0.00% | 0 | 0 |
| NDR S31 grants | (4,553) | (4,553) | 0 | 0 | 0.00% | 0 | 0 |
| NDR Tariff | 2,424 | 2,424 | 0 | 0 | 0.00% | 0 | 0 |
| Revenue Support Grant | (10,246) | (10,246) | 0 | 0 | 0.00% | 0 | 0 |
| Parish Precept | (672) | (672) | 0 | 0 | 0.00% | 0 | 0 |
| New Homes Bonus | (4,713) | (4,713) | 0 | 0 | 0.00% | 0 | 0 |
| Section 31 Grant | (8,616) | (8,616) | 0 | 0 | 0.00% | 0 | 0 |
| Contribution from/to Grant Equalisation Reserve | (3,084) | (3,084) | 0 | 0 | 0.00% | 0 | 0 |
| Contribution from/to Reserves | (3,808) | (3,808) | 0 | 0 | 0.00% | 0 | 0 |
| Collection Fund - Council Tax | (201) | (201) | 0 | 0 | 0.00% | 0 | 0 |
| Collection Fund - NDR | (506) | (506) | 0 | 0 | 0.00% | 0 | 0 |
| Total Financing | (156,771) | (156,771) | 0 | 0 | 0.00% | 0 | 0 |

Prior to the NNDR1 form being submitted a thorough review of the Business Rates forecast and provision was undertaken. This resulted in the cash flow risk that had previously been identified in relation to 2019/20 income from Section 31 grants, being updated to £0.889m lower than budget. This income will be received in 2020/21 instead and it has been agreed that the general fund reserve is used in 2019/20 and fully replenished in 2020/21 to mitigate the impact of this timing change. This is within the financial regulations (the Councils Constitution).

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Appendix B - Reserves

The Council's departmental reserves and the Capacity Building Reserve are monitored throughout the year and feed into the budget setting process accordingly. The following table summarises the expected balance for all reserves for 2019/20 to 2021/22:

| Summary of Reserves | Balance Brought Forward 1.4.19 | Forecast Balance 31.03.20 | Forecast Balance 31.03.21 | Forecast Balance 31.03.22 |
|--|--------------------------------|---------------------------|---------------------------|---------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| General Fund Balance Note 3 | 6,000 | 5,111 | 6,000 | 6,000 |
| Available Reserves | | | | |
| Capacity Building Reserve Note 2 | 14,973 | 11,031 | 7,832 | 7,832 |
| Grant Equalisation Reserve Note 1 | 4,214 | 0 | 0 | 0 |
| Departmental Reserve | 6,890 | 1,147 | 1,147 | 1,147 |
| | 26,076 | 12,178 | 8,980 | 8,980 |
| Ring-Fenced Reserves | | | | |
| Insurance Reserve | 3,398 | 3,775 | 3,775 | 3,775 |
| Schools Capital Expenditure Reserve | 482 | 482 | 482 | 482 |
| Parish Council Burial Ground Reserve | 54 | 54 | 54 | 54 |
| Hackney Carriage Reserve | 226 | 226 | 226 | 226 |
| Lease Consolidation Reserve | 615 | 574 | 495 | 495 |
| Public Health Reserve | 364 | (0) | (0) | (0) |
| | 5,140 | 5,111 | 5,032 | 5,032 |
| | | | | |
| Total Available and Ring-Fenced reserves and General Fund Balance | 37,217 | 22,400 | 20,012 | 20,012 |

Reserves Notes

- 1- £3.1m was drawn down as part of the budget setting process, the remaining balance has been moved to the Capacity Building reserve.
- 2- Capacity Building Reserve:
 - a. Includes commitments for the cost of redundancy and transformation, associated with delivery of savings plans outlined in the 2019/20 and 2020/21 MTFS.
 - b. The present forecast overspend in 2019/20 of £4m will be required to be funded from the Capacity reserve. If this is fully mitigated, as is the corporate plan, this increases reserves by this amount.
 - c. The reserve also assumes that the Council will be successful in its Capitalisation Direction application, which provide the Council the ability to borrow £9m, to fund revenue costs for fund transformation and redundancy. (As outlined in section 5.7 of the 2020/21 MTFS report- presented to this Cabinet meeting, and in the following section)
- 3- General Fund Balance - £0.889m will be used in 2019/20 for the Business Rates timing issue in relation to the receipt of section 31 grants and will be replenished when the income is received in 2020/21.

Capitalisation Direction Application

In January 2020 the council made an application to MHCLG to fund the costs of transformational activities, including expenditure incurred through acceptance of voluntary redundancies, through a Capitalisation Direction. Capitalisation is the means by which the Government, exceptionally, permits local authorities to treat revenue costs as capital costs. It is a relaxation of the accounting convention that revenue costs should be met from revenue resources.

Permission is given through capitalisation directions, which the Secretary of State has the power to issue under section 16(2)(b) of the Local Government Act 2003. The effect of a direction is that specified revenue expenditure becomes treated as capital expenditure, so that instead of having to be charged to revenue, it may be funded from capital sources e.g. borrowing, thereby increasing a local authority's financial flexibility.

The application was made on best estimates of costs likely to be incurred through transformational activity of service provision and costs of voluntary redundancy. The assumptions used in the initial estimate have been refined and the Council currently anticipates costs of £9.0m against the original estimated £10.2m requested. The revised estimate is outlined in the following table:

| | Service Transformation £000 | Redundancy £000 | 2019/20 £000 | Service Transformation £000 | Redundancy £000 | 2020/21 £000 |
|---|--------------------------------|--------------------|-----------------|--------------------------------|--------------------|-----------------|
| Actual Costs | 1,795 | 529 | 2,324 | - | - | - |
| Estimated Costs | 592 | 4,822 | 5,414 | - | 1,217 | 1,217 |
| Total Costs | 2,387 | 5,351 | 7,738 | - | 1,217 | 1,217 |
| Capitalisation Direction Total 2019/20 and 2020/21 | | | | | | 8,955 |

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Appendix C – Capital Programme and Treasury Budget Report as at December 2019

Introduction

The following report provides an update on the Council's Capital Programme and the Treasury activity as at December 2019. It also provides an estimate of the borrowing requirement for 2019/20 to fund this plan.

Capital Programme 2019/20

The revised Capital Programme budget as at December 2019 is £98.2m, which includes £25.0m for Invest to Save (I2S) Schemes. The agreed investment as per the Medium Term Financial Plan (MTFS) was £114.1m. The movement between the MTFS position and the £124.4m as at April 2019 was a result of reprofiling of budget from 2018/19.

Work has been undertaken to reduce the capital programme to a target of £80m per year, excluding invest to save. Invest to save is shown separately due to the projects only proceeding where they lead to savings which cover the associated capital financing costs in the year they occur. As a result, reducing the budget on these projects does not lead to revenue savings. By the inherent nature of these projects the expenditure is less likely to suffer from the same constraints as the Council not having the project officer capacity to deliver a programme over £80m. Continued review and rephasing of scheme completion dates has meant that the target capital programme level has now been met and the current capital programme excluding invest to save now stands at £73.2m. This in turn has led to forecast underspends to be reported in revenue which is contributing to the overall management and forecast position for the council.

The actual expenditure as at December 2019 is £42.1m excluding expenditure undertaken by schools (57.2% of the revised budget to date). The latest forecast for expenditure is £98.2m, therefore the Council is expecting to spend a further £56.1m before March 2020.

The Council has a Capital Review Group (CRG) which meets monthly to ensure that the capital programme is not aspirational in terms of the timing of the delivery of schemes, to challenge and ensure the future five years programme is in line with the capital strategy, and monitor the expenditure and progress of schemes.

The following table shows the breakdown of the Council's Capital Programme over the directorates and how this investment is to be financed. This includes amounts approved by Council on 15 January 2020 as part of the Tranche One 2020/21 MTFS.

| Directorate | MTFS Budget £000 | 1st April Budget £000 | Revised Budget FY* £000 | Revised Budget YTD £000 | Actual YTD £000 |
|-----------------------------|---------------------|--------------------------|----------------------------|----------------------------|--------------------|
| Customer & Digital Services | 3,800 | 4,415 | 4,463 | 3,347 | 1,859 |
| Governance | 90 | 90 | - | - | - |
| People & Communities | 34,671 | 31,521 | 24,682 | 18,512 | 14,235 |
| Place & Economy | 27,873 | 31,560 | 21,629 | 16,221 | 12,456 |
| Resources | 11,700 | 20,051 | 22,378 | 16,784 | 13,545 |
| TOTAL | 78,134 | 87,637 | 73,152 | 54,864 | 42,095 |
| Grants & Contributions | 26,826 | 32,855 | 33,809 | 25,357 | 20,545 |
| Capital Receipts | 23,150 | 23,150 | 23,150 | - | - |
| Borrowing | 28,158 | 31,632 | 16,193 | 29,507 | 21,550 |
| TOTAL | 78,134 | 87,637 | 73,152 | 54,864 | 42,095 |
| Invest to Save | 35,999 | 36,799 | 25,000 | 18,750 | - |
| Invest to Save Borrowing | 35,999 | 36,799 | 25,000 | 18,750 | - |

*The Revised Budget column represents the forecast expenditure referred to earlier in the report (£25m + £73.2m= £98.2m)

Borrowing and Funding the Capital Programme

It is a statutory duty for the Council to determine and keep under review the level of borrowing it considers to be affordable. The Council's approved Prudential Indicators (affordable, prudent and sustainable limits) are outlined in the Treasury Management Strategy approved as part of the MTFS and reviewed through the year by Audit Committee. The Council borrows only to fund the Capital Programme. The current plan assumes that 42.0% of the budgeted expenditure will be funded by borrowing.

The Council's total borrowing as at the end of December 2019 was £469.6m (see following table). The level of debt is measured against the Council's Authorised Limit for borrowing of £785.5m which must not be exceeded and the Operational Boundary (maximum working capital borrowing indicator) of £670.6m. These limits are set to enable borrowing in advance of need to take advantage of favourable loan rates in consideration of future years capital programme.

The Council's Total Borrowing as at 31 December 2019

| Borrowings | Less than 1yr £000 | 1-2yrs £000 | 2-5yrs £000 | 5-10yrs £000 | 10+yrs £000 | Total £000 | Ave. Interest Rate % |
|------------------------|-----------------------|----------------|----------------|-----------------|----------------|----------------|-------------------------|
| PWLB | - | 5,628 | 11,000 | 22,520 | 330,439 | 369,587 | 3.5 |
| Local Authority | 77,500 | 5,000 | - | - | - | 82,500 | 0.9 |
| Market Loans | - | - | - | - | 17,500 | 17,500 | 4.5 |
| Total Borrowing | 77,500 | 10,628 | 11,000 | 22,520 | 347,939 | 469,587 | 3.1 |
| % of total Borrowing | 17% | 2% | 2% | 5% | 74% | | |
| Borrowing Limit (PI) | 40% | 40% | 80% | 80% | 100% | | |

The majority of the debt is taken on a 10+yr basis from the PWLB. On 9 October 2019 the Treasury and PWLB announced an increase in the margin over gilt yields of 100bps on top of the current margin of 80 bps which the Council has paid prior to this date for new borrowing from the PWLB. There was no prior warning that this would happen and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing. The market response to the sudden PWLB rate change is still emerging and the Council's

longer term borrowing strategy will be reviewed to take account of this and factored in to the future MTFS.

In the short term as part of capital financing management the Council will continue to take advantage of shorter term Local Authority loans which are currently available below bank rate. This approach minimises in-year interest cost and flexibility and is supported by the Council's current debt redemption profile.

The latest UK economic data is pointing to the prospect of an early rate cut by the Bank of England's Monetary Policy Committee, who are next due to meet on 30th January. This further supports the strategy of shorter term borrowing until such a move is fully priced into the market.

The following table shows the activity in loans held by the Council for the year to date, with £159.2m of loans being repaid and new loans of £171.2m taken to date.

| Loans Portfolio £000 | | |
|--|-----------|----------------|
| April 2019 b/f | | 457,587 |
| repayment of loans to date | (159,180) | |
| new loans in year | 171,180 | |
| net increase/(decrease) to date | | 12,000 |
| Loans portfolio as at December 2019 | | 469,587 |

Total interest payable on existing loans for the year (£469.6m) is expected to be £14.6m.

The Council currently holds £14.6m of S106, POIS and CIL funding, of this £3.0m is earmarked for specific projects. The Capital Review Group (CRG) will continue to review the funding at the monthly meetings with a view to allocate the remaining funding to reduce the borrowing costs to the Council. CRG invites the S106 Officer to the meeting to discuss current investment projects which may be able to use this funding to reduce this funding balance further.

Investments

The Council aims to achieve the optimum interest on investments commensurate with the proper levels of security and liquidity. In the current economic climate the Council considers it appropriate to keep investments short term to cover cashflow fluctuations. This financial year investment returns have been from Barclays (the Council's banking provider), CCLA Money Market funds, the Debt Management Office and Local Authorities.

Capital Receipts Used To Fund Minimum Revenue Provisions

Capital Receipts are used to repay debt, and this debt repayment is factored into the Minimum Revenue Provision as approved in the MTFS. Close monitoring of the receipts from asset sales is maintained as any change to the budget will have a direct impact on the revenue position.

Capital Receipts are monitored on a monthly basis and each sale given a status of Red, Amber or Green to identify the likely receipt before March 2020. The £10.8m Capital Receipts in the MTFS will be used to repay debt and forms part of the calculation of the reducing the overall debt through MRP.

| Capital Receipts To Off Set Revenue MRP Charge RAG Status | MTFS Budget £000 | Revised Budget £000 | Received to Date £000 | Not yet received £000 |
|--|------------------------|---------------------------|-----------------------------|--------------------------|
| Green | 8,361 | 8,361 | 8,361 | - |
| Amber | 2,458 | 2,458 | - | 2,458 |
| Red | - | - | - | - |
| Total (not inc Investment Assets) | 10,819 | 10,819 | 8,361 | 2,458 |
| Investment Assets | - | - | - | - |
| Total Capital Receipts | 10,819 | 10,819 | 8,361 | 2,458 |

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