

**REPORT TO:** CABINET

**DATE:** 21 JULY 2016

**TITLE:** YEAR END JOINT FINANCE &  
PERFORMANCE REPORT 2015/16

**PORTFOLIO HOLDER:** COUNCILLOR JON CLEMPNER

**LEAD OFFICERS:** CORPORATE MANAGEMENT TEAM/ HEADS  
OF SERVICE (01279) 446004

**This is not a Key Decision**

**This decision is not subject to Call-in procedures for the following reasons:  
The recommendations are within the scope of the original budget and  
Corporate Plan approved by Full Council in February 2015.  
This decision will affect no ward specifically.**

**RECOMMENDED that Cabinet:**

- A** Acknowledges the outturn position set out in section three of Appendix A to this report for the year ending 31 March 2016 (1 April 2015 – 31 March 2016), subject to recommendations in paragraphs 20 and 22, as follows:
- i. An under-spend on controllable service budgets of £862,000 or -1.25 per cent of the gross General Fund budget, after allowing for carry-forward requests.
  - ii. A total reduction in the General Fund balance of £488,000 after including the impact of windfall income, non-controllable items, proposed transfers to reserves and budget carry forward requests (from 2014/15), representing an adverse variance of £221,000 to the revised budget (+0.32 per cent of the gross General Fund budget).
- B** Recognises the operational performance that has been achieved across all Council services during 2015/16.
- C** Approves:
- i. The carry forward of £136,800 of budgets from 2015/16 to 2016/17 as set out in paragraph 20 of the report.
  - ii. The transfer to reserves of £637,000 as set out in paragraph 22 and Appendix C of the report.

## **REASON FOR DECISION**

- A** To ensure that Cabinet reviews performance against the Council's approved General Fund Budget and Corporate Plan for 2015/16.
- B** To seek approval for the recommendations set out in the report in relation to transfer to reserves (paragraphs 21 and 22) and carrying forward underspends to ensure that the resources remain to carry out works in 2016/17 (paragraph 20).

## **BACKGROUND**

1. This report sets out the Council's corporate priorities and financial and performance position as at the end of the 2015/16 financial year. The report concludes the formal budget reporting process for the 2015/16 financial year and seeks approval for budget carry forwards across a range of service areas.

## **SUMMARY OF YEAR END FINANCIAL PERFORMANCE - 2015/16**

2. The closure of the Council's 2015/16 accounts is now complete and the draft Annual Statement of Accounts is available and published on the Council's website. The closure of the accounts enables the final contribution to the General Fund Reserve to be calculated representing the variance between the approved budget and the actual income received and expenditure incurred delivering Council services during the year.
3. Careful management of service budgets has once again ensured any in-year pressures that have arisen have been effectively managed within the overall service budgets wherever possible.

## **KEY ISSUES**

4. A review of the 2015/16 financial year indicates that service controllable budgets have underspent by £999,000 or -1.44%. Overall, taking into account the impact of windfall income, non-controllable items, proposed transfers to reserves and budget carry forward requests (from 2014/15), the General Fund carries a total overspend of £221,000, which represents +0.2 per cent of the gross General Fund budget. Section three of Appendix A of this report summarises major budget variations. The variance on controllable budgets stems largely from continual cost control opportunities and from favourable income streams. The variance is modest given the ongoing difficult financial and economic circumstances within which the Council is operating and the wide range and complexity of services delivered by the Council.

5. The following table summarises the year-end financial position:

	£
Total reported overspend	221,000
Less: windfall and non-controllable variations	-1,220,000
<b>Total service variations</b>	<b>-,999,000</b>
Less: carry forward requests included	136,800
<b>Adjusted variation on controllable service budgets</b>	<b>-862,200</b>

6. As has been the case in previous years, careful management of budgets has been exercised across all services to guard against expenditure pressures and offset income reductions. This has enabled services to prepare to operate at lower levels of funding and has protected against the actual overspend that results after the impact of non-service movements such as Business Rates liabilities and reserve movements have been included.
7. At a service level, controllable expenditure has been effectively managed to ensure that any pressures identified in year have been managed by controlling costs and collecting income elsewhere.
8. Earlier in the financial year, development of the 2016/17 budget included the savings already being delivered during 2015/16, and amounting to £277,000.
9. Details of the major variations across all service areas and for non-controllable budgets are contained as a table in Appendix A. Significant variations have previously been reported to Cabinet during the year with the last report in March 2016 identifying that, at that time and based upon data from December 2015, the underspend would be around £0.7m. One of the risks consistently identified within budget reporting has been the potential for significant variations stemming from the new Business Rates funding mechanism; this has been the single most influencing aspect resulting in the outturn movement in the final quarter of the year.

## **GENERAL FUND RESERVE BALANCE**

10. As a result of the final outturn and the completion of the draft Statement of Accounts, the position of the General Fund Reserve balance is set out in the table below:

<b>General Fund Reserve Balance</b>	<b>£ millions</b>
General Fund Opening Balance 1 Apr 2015	4.376
Transfer to Reserves Approved by Cabinet in-year	-0.734
Budget carried over 2014/15 to 2015/16 (Cabinet 23/7/2015)	-0.224
<b>General Fund Balance 2015/16</b>	<b>3.418</b>
Total in-year service budget variations (favourable)	0.999
Net non-service variations	-1.773
In-year technical reserve movements (includes Business Rates)	1.881
Proposed transfers to/ from earmarked reserves	-0.637
<b>General Fund Balance 31 March 2016</b>	<b>3.888</b>
Proposed carry forwards from 2015/16 to 2016/17	-0.137
<b>Effective Closing General Fund Balance 31 March 2016</b>	<b>3.751</b>

11. The General Fund balance moves from its opening balance of £4.376million to a year-end closing balance of £3.888million, which will be reported within the Council's Statement of Accounts. This includes movements in earmarked reserves:
- (a) Previously agreed by Cabinet.
  - (b) Required by application of proper accounting practice.
  - (c) To be approved by Cabinet as part of this report.
12. There is also a proposal contained within the recommendations to this report that carry-overs of budgets amounting to £136,800 be made into the 2016/17 financial year, as set out in paragraph 20. This sum has the effect of reducing the General Fund Balance available at the start of 2016/17 to £3.751million.
13. As part of the 2016/17 budget setting process and as approved in the Medium Term Financial Strategy (MTFS), the recommended minimum level for the General Fund Reserve balance over the life of the current MTFS is £2,500,000. This level was previously increased to ensure that the Council has adequate reserves to meet the financial uncertainty resulting from the Government's Welfare Reform, the Local Government Resource Review proposals and the impacts of the on-going economic conditions in the medium term. Subject to Cabinet decision, the forecast level for 2015/16 will be £1,388,000 above the minimum recommended balance.

## **COLLECTION FUND - BUSINESS RATES**

14. The Collection Fund is maintained by the Council in its statutory role as Billing Authority for Council Tax and Business Rates in the town, and records income generated and the distribution of those funds to the relevant preceptors. The Business Rates Retention Scheme introduced on 1 April 2013 (replacing the redistributive subsidy system) continues to bring

unprecedented volatility and risk to the Council's financial position.

15. The Government determines an annual baseline funding level and allows the Council to retain an element of any Business Rate income above this. However, if Business Rate income falls below the baseline, the Council will bear the loss up to 7.5% of the baseline, after which there is a safety net payment.
16. When setting the budget for 2015/16, it was forecast that Business Rates income retained would be below the baseline funding level. The projected impact of that was forecast to carry a cost to the General Fund of £204,000. The final in-year surplus for Harlow Council's Business Rates for 2015/16 was £730,000 net credit. This was primarily the result of a recovery in income from businesses and because of the dropping out of some Business Rates appeals (many of which generated prior-year deficits). However, 50% of any in-year Business Rates growth must be paid across to the Government; in 2015/16, this requires £297,000 to be repaid to central Government in respect of 2015/16.
17. The accounting arrangements of the Scheme further complicate matters as any surpluses or deficits arising on the Collection Fund can only be accounted for in future years, with a sum of £1,763,000 to be met in 2015/16 in respect of the NDR Collection Fund deficit for 2014/15.
18. To help the Council manage the volatility caused by these accounting arrangements, a Business Rates Safety Net Grant Reserve was established in 2013/14 as an equalisation mechanism to smooth the effect of this volatility on the General Fund revenue budget. In 2015/16, £1,308,000 (being the balance of this reserve) has been drawn down to offset the impact of prior year shortfalls dropping out in 2015/16.
19. Therefore, whilst the net variation in Business Rates for 2015/16 is £1,953,000, the net impact on the General Fund balance after applying the equalisation reserve equates to £645,000 pressure, which is an adverse variance to the original budget of £441,000 (being £645,000 outturn, less £204,000 budget).

## **CARRY FORWARDS AFFECTING THE GENERAL FUND BALANCE**

20. Whilst the General Fund Reserve balance at 31 March 2016 stands at £3,888,000 this will be impacted by the effects of the carry forward requests being made by services. Cabinet is asked to approve the carry forward of 2015/16 budgets of £136,800. These have been reviewed by CMT prior to presentation to Cabinet and are detailed in Appendix B to this report. No

funding is currently provided within the 2016/17 budget for the items identified and if the carry forwards are not approved it is unlikely that the work/ projects will be carried out.

## **TRANSFERS TO RESERVES**

21. During the 2015/16 closure processes a number of transfers to reserves have taken place which result from previous Cabinet approvals amounting to £734,089.
22. It is also recommended that a further £637,000 of service variations be put to reserves. These are detailed in Appendix C to this report and will ensure that the Council has sufficient resources to meet the costs associated with future challenges, without impacting on resources available to fund core services.

## **SUMMARY OF QUARTER FOUR OPERATIONAL PERFORMANCE – 2015/16**

23. Section four of Appendix A details information about the Council's operational performance. The Council performed on target or above target for 53 out of 57 (93 per cent) of performance indicators. Ninety- six per cent of all Corporate Plan milestones were successfully completed or on track for completion on 31 March 2016. Details of all of the Council's performance indicators can be found on the Council's website, [www.harlow.gov.uk/performance/](http://www.harlow.gov.uk/performance/)
24. Despite an extraordinarily challenging financial environment, the Council made performance improvements in several key areas linked to its corporate priorities during the fourth quarter of 2015/16 including:
  - (a) **NI154 Net additional homes provided:** The increase in performance for this indicator reflects the continued build out of the major strategic housing site at New Hall. In addition a number of small individual plots comprising one to four dwellings have been completed.
  - (b) **CS50 Average waiting time of calls received by Contact Harlow:** A positive effect of the abandoned call rate reducing has meant that calls are being answered more quickly than previously anticipated.
  - (c) **NI157a Processing of major applications within 13 weeks (%):** The Service has been proactive at both pre-application stage and actual application assessments by working with Developers to secure amendments early, address issues raised in consultation and prevent delay to the determination of applications.

25. Four out of 57 (seven per cent) of performance indicators did not perform as well as expected. Each has a detailed Improvement Action Plan which explains why the performance was not as good as expected. Areas of reduced performance include:

**(a) Household Waste Recycled (%):** There has been a national trend towards reduction in the volume of recycling collected and a significant increase in the volume of residual waste collected this year. This is likely to be associated with perceived gradual recovery from recession. Total waste collection service performance (tonnage) remains good.

**(b) Household Waste Composted (%):** There has been a significant increase in the **volume** of household refuse collected this year. If the tonnage of compostable material collected remains broadly constant while residual waste increases, the percentage of total waste recycled will be depressed. This appears to be the most significant factor affecting this indicator.

**(c) Average number of working days / shifts lost to sickness and absence:** The main reason for the increase in sickness absence for the year is attributable to long-term sickness. For the period 2015/16, there was a notable increase to 29 employees (22 in 2014/15) who were long-term sick.

## **SIGNIFICANT RISKS / OPPORTUNITIES**

26. The Council is operating in a period of major change driven by both the world-wide economic condition and the legislative changes being introduced by the Government. Some of the key changes that will or are already impacting on the Council include -

- i. The risk associated with the Government's localisation of Council Tax Support and Business Rates.
- ii. Variations in income from fees and charges as public spending habits respond to the economic climate.
- iii. Continued long-term austerity measures placed upon councils by the Government.

27. Section six of Appendix A details information about four exceptional risks (rated 20 or higher – high likelihood, high impact) recorded in the Council's Risk Register as of March 2016\*:

- i. The Government's fiscal policy in respect of deficit reduction reducing public sector funding combined with the Council's limited ability to raise income could result in a reduction in the Council's financial resilience.

- ii. The town requires a suitable housing mix to attract new and retain existing residents for an evolving and sustainable community. Supply must be balanced with demand and housing need, taking into account national housing and planning policies. As part of that mix, housing for local people that is genuinely affordable remains a high priority for the Council.
- iii. If priority allocation and funding by the Highways Agency and Government is not achieved then the timely delivery of M11 Junction 7a will be put at risk.
- iv. If there is a lack of private sector investment and/or disinvestment by retailers and landowners in the Town Centre then this could lead to a further decline in its attractiveness as a shopping and leisure destination and a place for inward investment.

\* These risks relate to 31 March 2016 and may have changed between that period of time and the meeting of Cabinet.

## **IMPLICATIONS**

### **Place**

Any specific implications are set out in the report.

Author: **Graeme Bloomer, Head of Place**

### **Finance (Includes ICT)**

Any specific implications are set out in the report.

Author: **Simon Freeman, Head of Finance**

### **Housing**

Any specific implications are set out in the report.

Author: **Andrew Murray, Head of Housing**

### **Community Wellbeing (includes Equalities and Social Inclusion)**

Any specific implications are set out in the report.

Author: **Jane Greer, Head of Community Wellbeing**

### **Governance (includes HR)**

Any specific implications are set out in the report.

Author: **Brian Keane, Head of Governance**

### **Background Papers**

None

### **Appendices**

Appendix A – Joint Finance and Performance Report, Year End 2015/16

Appendix B – Carry forward details 2015/16

Appendix C – Proposed end-of-year General Fund Earmarked Reserve  
Movements

**Glossary of terms/abbreviations used**

DSF - Discretionary Services Fund

MRP - Minimum Revenue Provision

MTFS – Medium Term Financial Plan

NHB - New Homes Bonus