

**SCRUTINY REPORT**

**OVERVIEW & SCRUTINY BOARD**

**Report Title: Budget Outturn 2015/16**

**Executive Member - Finance and Governance- Councillor Nicky Walker**

**Executive Director - Commercial and Corporate Services – Tony Parkinson**

**Date 2<sup>nd</sup> August 2016**

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**1. PURPOSE OF THE REPORT**

To report the full year budget outturn for 2015/16 in respect of the Revenue Budget, Capital Budget, Treasury Management position and General Reserves.

**2. SUMMARY OF RECOMMENDATIONS**

a. It is recommended that Members note:-

- i. The overall revenue saving for 2015/16 of £0.5 million (0.4% of budget).
- ii. The Capital Programme investment of £38.3m and under spend of £20.7m
- iii. The Council’s borrowings at 31 March 2016 and
- iv. The movement in balance sheet general reserves.
- v. The creation of £5.1m of specific reserves

**3. IF THIS IS A KEY DECISION WHICH KEY DECISION TEST APPLIES?**

|  |                                     |
|--|-------------------------------------|
| It is over the financial threshold (£150,000)  | <input checked="" type="checkbox"/> |
| It has a significant impact on 2 or more wards | <input type="checkbox"/>            |
| Non Key  | <input type="checkbox"/>            |

**4. DECISION IMPLEMENTATION DEADLINE**

For the purposes of the scrutiny call in procedure this report is

|               |                                     |
|---------------|-------------------------------------|
| Non-urgent    | <input checked="" type="checkbox"/> |
| Urgent report | <input type="checkbox"/>            |

If urgent please give full reasons

## 5. BACKGROUND AND EXTERNAL CONSULTATION

On the 4<sup>th</sup> March 2015 the Council approved its revenue and capital budget for 2015/2016 based on a Council Tax increase of 1.85%. This report summarises the delivery of that budget and explains any major variances within the revenue and capital budget and the progress made in delivering the agreed £14.1m of revenue savings. The report also summarise the Council's treasury management position at the end of March 2016.

## 6. THE REVENUE BUDGET OUTTURN

The final revenue outturn position resulted in an under spend of £0.5m, or 0.4% of the Council's total revenue budget of £119.9m. The following table summarises the outturn by Directorate:-

| <b>Directorate</b>                 | <b>Budget</b>  | <b>Outturn</b> | <b>Variance</b> |             |
|------------------------------------|----------------|----------------|-----------------|-------------|
|                                    | £'000          | £'000          | £'000           | %           |
| Economic Development & Communities | 17,686         | 16,774         | (912)           | 5.2%        |
| Wellbeing, Care and Learning       | 69,323         | 65,787         | (3,536)         | 5.2%        |
| Commercial and Corporate Services  | 31,847         | 30,916         | (931)           | 2.9%        |
| <b>Total Service outturn</b>       | <b>118,856</b> | <b>113,477</b> | <b>(5,379)</b>  | <b>4.5%</b> |
| Central Costs                      | 1,062          | 5,964          | 4,902           |             |
| <b>Revenue Outturn</b>             | <b>119,918</b> | <b>119,441</b> | <b>(477)</b>    | <b>0.4%</b> |

The explanation for the major variances by directorate are summarised below together with the key issues or achievements managed by the area.

### a. Economic Development & Communities – budget under spend £0.9m

| <b>Economic Development &amp; Communities</b> | <b>Budget</b> | <b>Outturn</b> | <b>Variance</b> |
|---|---------------|----------------|-----------------|
| <b>Outcomes</b>                               | £'000         | £'000          | £'000           |
| Economic Development                          | 11,899        | 11,950         | 51              |
| Supporting Communities                        | 5,122         | 4,379          | (743)           |
| Improving Public Health                       | 655           | 445            | (220)           |
| <b>Revenue Outturn</b>                        | <b>17,686</b> | <b>16,774</b>  | <b>(912)</b>    |

#### i. Economic Development highlights

1. Planning application activity was lower than expected but additional departmental savings partly offset the reduced income (£72k)
2. Higher parking income (£140k) and earlier than planned delivery of savings (£300k) were partly offset by increasing demand for passenger transport £267k and reduced income from Engineering services £137k

#### ii. Supporting Communities highlights

1. Stronger Families team is now fully resourced and planned savings delivered ahead of target (£440k)
2. Grant funding opportunities were optimised through closer working with the Public Health team (£439k)

iii. Improving Public Health highlights

1. Synergies with core council activities have allowed the Public Health funding to be optimised to maximise front line service delivery (as set out in (ii,2 above)
2. Successfully appointed Harrogate and District NHS Foundation Trust as the new provider for health visiting and school nursing services.
3. Plans for developing an integrated well-being hub in the town centre being finalised as an opportunity to strengthen public health provision across the town,
4. Successfully secured the DCLG Rogue Landlord funding (£100k) in January 2016 and aligned this with the delivery of the selective landlord licensing scheme.
5. There were also staffing cost savings in Public Protection (£122k).

**b. Wellbeing, Care and Learning – budget under spend £3.5m**

| <b>Wellbeing, Care and Learning</b> | Budget        | Outturn       | Variance       |
|-------------------------------------|---------------|---------------|----------------|
|                                     | £'000         | £'000         | £'000          |
| Learning & Skills                   | (928)         | (628)         | 300            |
| Safeguarding and Children's Care    | 28,553        | 28,623        | 70             |
| Social Care                         | 41,698        | 37,792        | (3,906)        |
| <b>Revenue Outturn</b>              | <b>69,323</b> | <b>65,787</b> | <b>(3,536)</b> |

i. Learning & Skills – schools transferring to academies.

1. 11 Catholic schools converted to academy status which resulted in reduced grant income £127k and late re-allocations of administration budgets £260k

ii. Safeguarding & Children's Care - increasing demand met by planned contingency.

1. Costs of the Return to Middlebrough strategy and preventing children entering care resulted in increased costs £225k together with late administration budget re-allocations £463k were offset by increased funding from the community Support Fund (£140k).
2. The demand led contingency of £3,012k was not fully utilised despite increased pressure in Fostering £656k and placements in Residential care £2,206k resulting in an overall underspend of (£821)k.
3. More Looked After children were placed with family or friends (£356k)

iii. Social Care – demand contained and savings delivered.

1. Staff savings in prevention services (£277k) resulted from vacant posts, budgets set at the top of pay scales and a significant number of individuals not within the Local Government Pension Schemes. Additional income (£205k) was

received from the Clinical Commissioning Group for day care services provided

2. Savings in Lifelong Services (£706k) were primarily a combination of staff savings identified above, reduced costs for medical assessments of service users and additional health income for services provided such as day care.
3. The demand led contingency was over-provided for (£1,376k) and a structured review of high cost placements following the closure of the Independent Living Fund further reduced costs.
4. Delays in multi-agency Support to Care Homes project led to underutilisation of the Better Care Fund (£661k)
5. While savings in the Supporting People budget were made (£450k) and additional funding not fully utilised (£325k), some planned savings were not delivered in the administration budget £174k

### c. Commercial & Corporate Services – budget underspend £0.9m

| <b>Commercial &amp; Corporate Services</b>    | Budget        | Outturn       | Variance     |
|---|---------------|---------------|--------------|
|   | £'000         | £'000         | £'000        |
| Environment, Property and Commercial Services | 14,259        | 14,804        | 545          |
| Finance and Investment                        | 6,472         | 5,266         | (1,206)      |
| Organisation and Governance                   | 11,116        | 10,846        | (270)        |
| <b>Revenue Outturn</b>                        | <b>31,847</b> | <b>30,916</b> | <b>(931)</b> |

#### i. Environment, Property & Commercial Services – Waste management costs and lower than planned income

1. Additional Waste Recycling contract costs prior to service coming back in house £250k and to meet an 8% increase in waste volume £200k offset by other savings
2. Cost pressure in Building Maintenance in advance of planned savings being delivered £126k together with reduced income at Ayresome Industries £100k offset by accelerated savings in other services (£153k).
3. Increased costs in respect of staff voluntary redundancies and reductions in income (Golf Centre and Sports Village) partly due to bad weather in last quarter £270k
4. The overspends were partly offset by a one-off saving in service management (£135k)

#### ii. Finance and Investment – one-off savings in commissioning and better income recovery

1. Savings made in the commissioning service (£250k) and a windfall rebate from North East Purchasing Organisation (£121k) and other savings
2. Reduction in demand on Community Support Fund (£348k), better Court Fee collection (£346k) and increased recovery of Housing Benefit overpayments (£161k)
3. Under recovery of support service costs charged to non general fund services £377k

iii. Organisation and Governance – additional savings on services returned from Kier contract offset by marketing and legal costs

1. Additional savings have been generated in Policy & Performance (£118k) and HR (£291k) following the return of these services from Kier and on Democratic Services (£114k)
2. Additional costs were incurred in Legal due to increased child care cases £114k and in Marketing due to a delay in the implementation of a review of the service £111k

**d. Central Costs – budget over spend £4.9m**

| <b>Central Costs</b>   | Budget       | Outturn      | Variance     |
|------------------------|--------------|--------------|--------------|
|                        | £'000        | £'000        | £'000        |
| <b>Revenue Outturn</b> | <b>1,062</b> | <b>5,964</b> | <b>4,902</b> |

i. Central costs – increased Business Rates Retention support grant (Section 31) offset by budget pressures and increased reserve requirements

1. Additional Business Rates Retention grant to meet the cost of changes in the tax was received in the year (£1,157k) and moved to reserves (Section 31 Grant)
2. Increased costs to support budget pressures £612k and accelerated completion costs on the Welding Institute project to meet European funding deadlines (£413k)
3. Increased capital financing reserve requirement pending completion of investment strategy review £3,217k and other planned reserve movements £1,933k

**e. Savings Delivery**

The following table summarises the success achieved in delivering the agreed savings targets required to deliver a balanced budget in 2015/16. The overall performance demonstrates the ability of management teams to respond to their challenging savings:

| <b>Directorate Savings Delivery</b> | Target        | Delivered     | Variance     |             |
|-------------------------------------|---------------|---------------|--------------|-------------|
|                                     | £'000         | £'000         | £'000        | %           |
| Economic Development & Communities  | 3,520         | 3,399         | (121)        | 3.4%        |
| Wellbeing, Care and Learning        | 2,109         | 1,716         | (393)        | 18.6%       |
| Commercial and Corporate Services   | 8,440         | 8,291         | (149)        | 1.8%        |
|                                     |               |               |              |             |
| <b>Total Savings Delivery</b>       | <b>14,069</b> | <b>13,406</b> | <b>(663)</b> | <b>4.7%</b> |

**7. THE CAPITAL BUDGET OUTTURN**

Capital expenditure is defined by the Council as expenditure which creates, enhances the value of or extends the life of an asset which is held on the Council's balance sheet.'

The Council continues to invest in the development of Middlesbrough to create a **Fairer, Safer, Stronger** Middlesbrough by 2025. During 2015/16 the Council invested almost £40m in the town through its own resources and external funds.

The year has seen the completion of two major projects, The Welding Institute (TWI) (total cost £6.9m) and the Middlesbrough Sports Village (total cost £21.6m) supporting the development of the town as the vibrant centre of the Tees Valley.

During the year, a further £3.3m was approved to increase the capital budget from £55.6m to £58.9m of which £38.3m was spent in the year. The capital outturn position reflects significant slippage of £20.7m in part resulting from poor weather conditions and major project delays; this shortfall is still planned to be spent in future years. A full review of the capital programme is underway to improve the way projects are monitored. The following tables summarise the in-year changes to the capital programme and the outturn by Service area:-

| <b>Changes to the Approved Capital Programme by Service</b> | <b>Original Budget<br/>£000's</b> | <b>Changes<br/>£000's</b> | <b>Revised Budget<br/>£000's</b> |
|---|-----------------------------------|---------------------------|----------------------------------|
| Outcome 1 – Economic Development                            | 32,048                            | 631                       | 32,679                           |
| Outcome 2 – Supporting Communities                          | 42                                | 0                         | 42                               |
| Outcome 4 – Learning & Skills                               | 5,704                             | 2,350                     | 8,054                            |
| Outcome 6 – Social Care                                     | 2,796                             | 133                       | 2,929                            |
| Outcome 7 – Environment Property & Commercial Services      | 9,132                             | (90)                      | 9,042                            |
| Outcome 9 – Organisation & Governance                       | 5,879                             | 364                       | 6,243                            |
| <b>Total</b>  | <b>55,601</b>                     | <b>3,388</b>              | <b>58,989</b>                    |

- a. The major changes to the capital programme were required to support the development of key projects (The Welding Institute and Hemlington Grange electricity supply).

| <b>Capital Programme Outturn by Service</b>            | <b>Budget<br/>£000's</b> | <b>Outturn<br/>£000's</b> | <b>Variance<br/>£000's</b> |
|--|--------------------------|---------------------------|----------------------------|
| Outcome 1 – Economic Development                       | 32,679                   | 22,044                    | (10,635)                   |
| Outcome 2 – Supporting Communities                     | 42                       | 25                        | (17)                       |
| Outcome 4 – Learning & Skills                          | 8,054                    | 4,619                     | (3,435)                    |
| Outcome 6 – Social Care                                | 2,929                    | 2,061                     | (868)                      |
| Outcome 7 – Environment Property & Commercial Services | 9,042                    | 6,792                     | (2,250)                    |
| Outcome 9 – Organisation & Governance                  | 6,243                    | 2,753                     | (3,490)                    |
| <b>Total</b>   | <b>58,989</b>            | <b>38,294</b>             | <b>(20,695)</b>            |

- b. The total value of capital investment of £38.3m was funded by £11.5m of external funding and £26.8m from council resources.
- c. The capital programme consists of a large number of projects, many of which are small schemes (less than £100k). The following table highlights the major projects which make up a substantial proportion (65%) of the total capital expenditure in the year:

| <b>Summary of Major Capital Projects</b>   | <b>Projects<br/>£m's</b> | <b>Total £m's</b> |
|--|--------------------------|-------------------|
| <b>Economic Development</b>                |                          |                   |
| Gresham Phase 2a                           | 1.1                      |                   |
| Highways maintenance                       | 1.4                      |                   |
| Middlehaven                                | 1.2                      |                   |
| The Welding Institute Phase 1              | 6.9                      |                   |
| Street lighting replacement                | 2.5                      |                   |
| Southfield Road paving                     | 1.2                      |                   |
|  | <b>14.3</b>              | <b>22.0</b>       |
| <b>Learning and Skills</b>                 |                          |                   |
| Newport Primary classrooms                 | 0.6                      |                   |
| Pallister Primary                          | 1.2                      |                   |
|  | <b>1.8</b>               | <b>4.6</b>        |
| <b>Social Care</b>                         |                          |                   |
| Disabled Facilities Grant                  | 1.1                      |                   |
| Disabled Adaptations                       | 0.3                      |                   |
|  | <b>1.4</b>               | <b>2.1</b>        |
| <b>Environment and Commercial Services</b> |                          |                   |
| Critical Compliance works                  | 1.4                      |                   |
| Energy efficiency                          | 0.3                      |                   |
| Middlesbrough Sports Village               | 2.2                      |                   |
| New vehicles                               | 1.4                      |                   |
|  | <b>5.3</b>               | <b>6.8</b>        |
| <b>Organisation and Governance</b>         |                          |                   |
| Agresso Financial system                   | 1.0                      |                   |
| Town Hall and Civic wifi                   | 0.2                      |                   |
| CRM refresh                                | 0.4                      |                   |
| ITR information portal                     | 0.2                      |                   |
|  | <b>1.8</b>               | <b>2.8</b>        |
| <b>Total Capital Expenditure in year</b>   | <b>24.8</b>              | <b>38.3</b>       |

- d. The capital programme set out in the current Medium Term Financial Plan is currently under review to ensure that only deliverable, value added projects are included with major projects being subject to rigorous financial valuation. Once this process is complete, the revised capital programme will be used as the base for future control and monitoring of the capital programme and its impact of the Council's revenue budget
- e. The Medium Term Financial position for the capital programme is set out below, compared to the position at December 2015, illustrating the Council's continuing commitment to invest in the town:

| <b>Rolling five year Capital Investment Programme by Service 2014 - 2019</b> | View at 31 Dec 2015<br>£000's | View at 31 March 2016<br>£000's | Change<br>£000's |
|--|-------------------------------|---------------------------------|------------------|
| Outcome 1 – Economic Development   | 106,462                       | 111,319                         | 4,857            |
| Outcome 2 – Supporting Communities   | 42                            | 42                              | 0                |
| Outcome 3 – Improving Public Health  | 750                           | 750                             | 0                |
| Outcome 4 – Learning & Skills  | 25,793                        | 25,520                          | -273             |
| Outcome 6 – Social Care  | 9,500                         | 9,556                           | 56               |
| Outcome 7 – Environment Property & Commercial Services                       | 43,294                        | 43,294                          | 0                |
| Outcome 9 – Organisation & Governance  | 15,129                        | 15,178                          | 49               |
| <b>Total Increase in Gross Expenditure</b>                                   | <b>200,970</b>                | <b>205,659</b>                  | <b>4,689</b>     |

## 8. TREASURY MANAGEMENT

### a. Borrowing Position:

There have been no new long-term loans taken during the year.

It has been part of the Treasury Management policy to utilise the Council's surplus cash reserves to fund the capital programme over the last few years. As a result the Council's short term borrowings have increased by £22m toward the end of 2015/16 and cash levels, are being closely monitored to ensure the Council has sufficient resources to meet its operating and investment requirements.

### b. Borrowing Limits

Council approved, on 2<sup>nd</sup> March 2016, borrowing of up to a maximum of £199.9m during this financial year (The Authorised Limit).

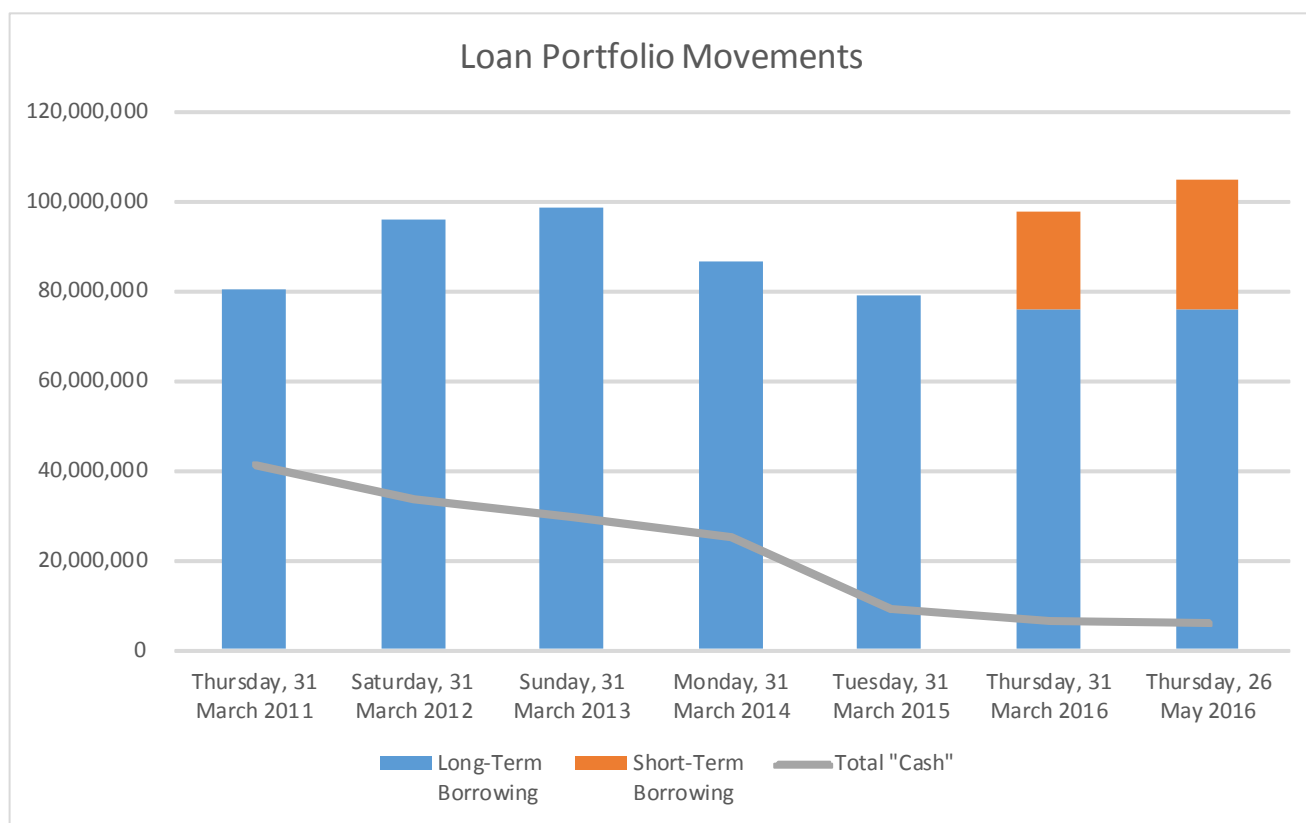
The balance of Borrowing was £100.8m at the end of the year (£78.8m Long-Term Borrowing, and £22.0m of Short-Term Borrowings). The short term borrowing has increased to £29m at the end of May and may require re-balancing with longer term debt in the coming months.

At no time during the year has either the Operational Borrowing Limit (£178.7m), or the Authorised Limit, been reached.



### c. Loan Portfolio Trend

The graph below illustrates the change in the Council's cash and loan position of recent years. Since 2011 cash balances have been run down to fund the capital investment programme without additional borrowings. During 2015/16 the Council has taken short term loans to continue this strategy and this will require revision in the new financial year.



## 9. RESERVES

The following table sets out a summary of the Council's level of general balances as at 31<sup>st</sup> March 2016 which has decreased from £15.4m at the start of the year to £11.6m at the end.

|   | £000's  | £000's        |
|---|---------|---------------|
| Balance at Start of year                    |         | 15,439        |
| Movements in Reserves                       |         |               |
| Revenue budget savings (2015/16)            | 477     |               |
| Budgeted contribution from general balances | (2,172) |               |
| Approved use of prior year savings          | (2,150) | (3,845)       |
| <b>Balance at end of year</b>               |         | <b>11,594</b> |

The Council's reserves policy will be reviewed in line with the updated Medium Term Financial Plan during the year and be subject to Council approval.

- a. Approval was granted at Executive to create the following specific balance sheet reserves following the closure of the accounts at 31 March 2016:-

|  | <b>£'000</b> |
|--|--------------|
| S31 grant reserve (business rates appeals) | 1,156        |
| Mutual Municipal Insurance reserve         | 450          |
| Taxi Licensing surplus refund              | 326          |
| Investment capital financing contingency * | 3,217        |
| <b>TOTAL</b>                               | <b>5,150</b> |

\* This reserve is required to cover the Council's cost of investing in its capital programme , a review of which is currently underway.

10. **IMPACT ASSESSMENT (IA)**

Not applicable.

11. **OPTION APPRAISAL/RISK ASSESSMENT**

Not applicable.

12. **FINANCIAL, LEGAL AND WARD IMPLICATIONS**

The financial implications are set out in the report, there are no legal implications to note and the report covers all Wards.

13. **RECOMMENDATIONS**

It is recommended that:-

- a. Members note the 2015/2016 revenue budget under spend of £0.5million and the slippage in the capital programme of £20.7 million
- b. Members note the Council's borrowing position at the end of March 2016
- c. Members note the Council's general reserve balance of £11.6 million and the creation of new specific reserves totalling £5.2m

14. **REASONS**

- a. to consider the implications of the outturn of the Council's finances and Medium Term Financial Plan.
- b. to provide Members with a summary of performance against the approved Council budget

15. **BACKGROUND PAPERS**

The Budget Report to Council March 2015.

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