

EAST RENFREWSHIRE COUNCIL13 December 2017Report by Head of AccountancyREVIEW OF BUDGETING**PURPOSE OF REPORT**

1. The recent Best Value Assurance Report on East Renfrewshire Council noted that the Council is in a strong financial position and that expenditure is managed effectively but it also advised that budgets should be more realistic in view of historic annual underspends. The purpose of this report is to explain the main reasons for historic underspends and to advise of past and future actions to align budgeted and actual spending.

RECOMMENDATION

2. The Council is asked to note:-
- a. the reasons for historic underspends;
 - b. the resulting actions taken in setting the 2017/18 revenue budget;
 - c. subsequent transfers of centrally held budgets during 2017/18;
 - d. the actions taken in compiling 2018/19 budget proposals; and
 - e. that consideration will be given to utilising reserves in future to permit contingency budgets to be minimised.

BACKGROUND

3. The Council has a strong record of financial monitoring and control, with all departments generally operating within budget each year. Directors are encouraged to apply savings measures early, keep net expenditure within budgeted levels and discouraged from "spending up" towards year end where underspends are evident. In addition, the Council has taken a prudent approach in making contingency provisions within budgets and in assessing potential income levels.

4. The above approach has also helped the Council in its aims of building up reserves to support known future demands for capital investment in schools and for transformational and modernising change initiatives. Further, this has assisted the Council's policy to move towards, and thereafter to maintain, unearmarked General Fund reserves at the level of 4% of net expenditure.

5. The Best Value Assurance Report acknowledged this but also noted that annual transfers to reserves were higher than planned in recent years as demonstrated in the table below.

| Year | Increased T/f to General Fund Reserves £m | Increased T/f to Other Reserves £m | Increased T/f to all Reserves £m | Reasons for Increased Transfer |
|---------|---|------------------------------------|----------------------------------|--|
| 2015/16 | 2.0 | 7.8 | 9.8 | Savings applied early Lower restructuring costs Higher Council Tax collection |
| 2016/17 | 2.7 | 5.3 | 8.0 | Lower than planned loan charges Savings applied early Lower restructuring costs Higher Council Tax collection |

REPORT

Reasons for Underspends

6. Departmental expenditure and income are generally well controlled with only a small number of significant variances typically arising:-

- a. Education – As with all departments, any savings arising from service reviews are applied as early as possible and will therefore contribute to any year end underspend. More significantly for Education, however, underspends often arise in Devolved School Management budgets as headteachers prudently hold back expenditure until late in the year so as to allow for absence cover during the peak winter sickness period. In recent years a lower level of sickness has been experienced and there have also been difficulties in attracting supply teachers to provide cover. This has contributed to larger underspends at year end as the Council does not permit carry forward. In addition, new initiatives in school meals and wraparound care have also generated significant increases in income above budgeted levels.
- b. HSCP – Due to demographic pressures HSCP has historically had to struggle to operate within budget and has not produced significant underspends. The new financial arrangements for IJBs allow them to retain any surplus and therefore the contribution of the Council to the IJB is fixed with no opportunity for the Council to retain any surplus.
- c. Environment – The department generally finds its budgets very tight. In the last few years any headroom within budget has tended to come from increased income from fees associated with new development applications. These are demand led and extremely difficult to forecast.
- d. Corporate & Community Services and Chief Executive's Office – These departmental budgets mainly relate to staff costs. Underspends here have largely arisen due to early application of service review savings by non filling of vacancies wherever possible.

7. Centrally held, corporate budgets have been a major contributor to recent years' underspends. In particular it is very difficult to predict the incidence of one off costs associated with redundancy and early retirements as these vary greatly between years

according to the timing of service reviews and the service history of the individual staff affected. It has also been difficult to forecast the demand for utilisation of the Council's Welfare Contingency and Council Tax Reduction budgets due to the protracted roll out of Universal Credit and other benefit changes.

8. Another significant factor in year end underspends is variation in the financing costs (loan charges) relating to the Council's capital plan. Due to the rephasing of capital expenditure and the favourable interest rates during 2016/17 overall financing costs were £1.4m less than budgeted. Full budget provision is made for all borrowing anticipated to be needed in the coming year but there is always an element of slippage which will arise during the year, leading to lower borrowing and repayments. Likewise prudent assumptions are made on interest rate trends but wherever possible accountancy staff draw down new borrowing to take advantage of slight reductions in the rates offered from time to time.

9. A final factor in the increased underspends in recent years is the upsurge in local housebuilding, leading to increased Council Tax income from the larger number of households. Although an uplift is assumed each year in the budget, numbers have been rising faster than forecast.

Action Taken - 2017/18 Budget

10. In closing the 2015/16 accounts and in advance of setting the 2017/18 budget, historic underspending trends were re examined and net reductions of around £1m were applied to 2017/18 departmental expenditure and income budget plans as a direct result, thus avoiding more difficult saving decisions for that year.

11. Council Tax income levels were also reassessed in light of the latest housebuilding information and an additional £0.7m factored into the 2017/18 budget assumptions in this regard.

12. In addition to the above analysis of year end underspends, another opportunity has arisen from recent changes in accounting regulations which have increased Councils' flexibility in how we report on our spending. As a result, to improve accountability and transparency and to assist officers and members to monitor all budgets in future, all corporate and Miscellaneous budgets were reviewed earlier this year and more than £3.3m of budgets transferred to appropriate mainstream departments. This is good practice and is already giving directors the opportunity to monitor these budgets more closely, with a number of budget reductions now having been identified for 2018/19 from these areas.

Further Action Proposed – 2018/19 & Future Budgets

13. In June 2017 a detailed review of the 2016/17 final underspend position was undertaken and a report submitted to the Budget Strategy Group advising of the scope to reduce budgets for 2018/19 and thus ease the financial pressures for that year. Not all of the underspend is available for such budget reductions as some elements related to one-off circumstances in 2016/17 while other parts of the surplus had already been anticipated and given up as savings in the 2017/18 budget exercise as previously mentioned.

14. Where scope for 2018/19 savings has been identified, this has been factored into departmental budget proposals for 2018-2021.

15. Notable net budget reduction proposals now take account of recent trends in Education wraparound income, Environment Waste Collection costs and demand for Council Tax Reduction support.

16. The Devolved Schools Management scheme is being reviewed to explore the option of permitting an element of year end carry forward so that headteachers can use their resources more effectively in planning for the longer term budget challenges. This review should help Headteachers to operate within the expected reduction in budgets.

17. Council Tax income levels have again been reviewed with a less prudent approach being adopted. A further £0.75m increase to the collection assumptions is proposed for 2018/19. The level of housebuilding will continue to be monitored and any further anticipated increases factored into budget calculations.

18. Contingency provisions have also been reassessed with reductions of £1m proposed against the budgets relating to the following areas:-

- Redundancy/redeployment costs of staff affected by restructuring
- Pension Fund recharges for staff released on early retirement due to restructuring
- Costs of supporting residents affected by welfare reforms

19. It is recognised that contingency provision is an area which can be difficult to predict and consideration will therefore be given to minimising such budgets in future and instead making provision for a planned draw on reserves should this be required during the year.

20. With regard to financing costs, Accountancy staff have carried out a detailed remodelling of the financing requirement for future years and will further refine this as the Council's capital plans for 2018/19 and beyond are confirmed. At present, a saving of £900k has been applied to the 2018/19 budget plans in this respect.

CONCLUSIONS

21. The Best Value Assurance Report comments are welcomed, with the issue of historic underspends having already been identified as requiring action and a number of measures having been put in place since June 2016 as described above.

22. It is recognised that the Council's extremely prudent historic approach to budget setting is no longer appropriate in view of the current financial outlook, and that a slightly less risk averse approach must now be adopted.

RECOMMENDATION

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Further information is available from:

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KEY WORDS

Best Value Assurance Report, budgets, realistic, underspend

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