

## Report of the Executive Manager – Finance and Corporate Services

### Cabinet Portfolio Holder for Finance Councillor G S Moore

#### 1. Summary

- 1.1. This report presents the budget position for revenue and capital as at 30 September 2017 the details of which were considered by the Corporate Governance Group (CGG) on 5 December 2017. Given the current financial climate it is imperative that the Council maintains due diligence with regards to its finances and ensures necessary action is taken to maintain a robust financial position.
- 1.2. The report also highlights the purchase of the new investment property Bardon and the benefits and risks associated with this, which was also considered by CGG on 5 December 2017.

#### 2. Recommendation

It is RECOMMENDED that Cabinet:

- a) note the projected revenue and capital budget positions for the year of £193,000 revenue efficiencies and £7,439,000 from capital scheme re-phasing and potential savings; and
- b) approve the removal of £5.75m from the 2017/18 Capital Programme as provisions for the original schemes at Land North of Bingham and RAF Newton are no longer required in 2017/18 as detailed in paragraph 4.6 and the explanation in **Appendix C**.

#### 3. Reasons for Recommendation

- 3.1. To demonstrate good governance in terms of scrutinising the Council's on-going financial position and compliance with Council Financial Regulations.

#### 4. Supporting Evidence

##### *Revenue Monitoring*

- 4.1 The revenue monitoring statement by service area is attached at **Appendix A** with detailed variance analysis as at 30 September 2017 attached at **Appendix B**. This shows projected efficiency savings for the year of £153,000 and additional funding of £40,000. This could improve throughout the remainder of the year as managers continue to drive cost savings, and raise income, against existing budgets.

- 4.2 **Appendix A** includes a Minimum Revenue Provision (MRP) of £1 million. This is a provision that the Council is required to make each year to cover the internal borrowing costs for the Arena which will be funded by New Homes Bonus.
- 4.3 As documented at **Appendix B** the financial position to date reflects a number of positive variances including employee cost savings, savings from contracts, additional green waste income and a reduction in both Housing and Council Tax Benefit payments. £50k is anticipated from the new property acquisition Bardon (see Appendix D, which gives further information on the acquisition). There are several negative variances, including an increase in the cost of insurance, variations in the cost of contracts, agency costs for waste collection and recycling and an increase in the cost of NNDR (Business Rates) at East Leake Leisure Centre and the Arena.
- 4.4 At October Cabinet the use of a maximum of £20k of the revenue efficiencies towards a business case feasibility assessment concerning Bingham Leisure Centre was approved. This will reduce the projected revenue efficiencies for the year to £173,000.

#### *Capital Monitoring*

- 4.5 The updated Capital Programme monitoring statement as at 30 September 2017 is attached at **Appendix C** which provides further details and the progress of the schemes and both re-phasing and potential savings of £7,439,000. A summary of the projected outturn and funding position is shown in the table below:-

<b>CAPITAL PROGRAMME MONITORING - SEPTEMBER 2017</b>			
<b>EXPENDITURE SUMMARY</b>	<b>Current Budget £000</b>	<b>Projected Actual £000</b>	<b>Projected Variance £000</b>
Transformation	15,110	9,310	(5,800)
Neighbourhoods	2,188	1,052	(1,136)
Communities	399	374	(25)
Finance & Corporate Services	10,298	9,820	(478)
Contingency	290	290	-
	<b>28,285</b>	<b>20,846</b>	<b>(7,439)</b>
<b>FINANCING ANALYSIS</b>			
Capital Receipts	(15,277)	(14,207)	1,070
Government Grants	(5,167)	(1,917)	3,250
Other Grants/Contributions	(1,969)	(1,500)	469
Use of Reserves	(3,189)	(664)	2,525
Internal Borrowing	(2,683)	(2,558)	125
	<b>(28,285)</b>	<b>(20,846)</b>	<b>7,439</b>
<b>NET EXPENDITURE</b>	<b>-</b>	<b>-</b>	<b>-</b>

- 4.6 The original Capital Programme of £15.1 million has been supplemented by a net brought forward and in-year adjustments of £13.2 million giving a revised total of £28.3 million. This is an ambitious capital programme which will see

completion of two major redevelopment schemes: Cotgrave Multi-service Centre and Cotgrave Employment Land. The variance of £7.4 million is largely down to four schemes:

- £5m in relation to development of Land North of Bingham which is no longer going ahead and can be removed from the 2017/18 programme with a view to reallocating the LEP element (£2.5 million) of the provision in the 2018/19 programme.
- £750,000 in relation to RAF Newton site which is no longer going ahead and can be removed from the 2017/18 programme. It is intended to reallocate this provision and include in the 2018/19 programme.
- £909,000 slippage on Support for Registered Housing Providers as no schemes have been identified yet.
- £478,000 slippage on the release of the loan to Nottinghamshire County Cricket Club.

In October, £1.9 million of the Asset Investment Strategy provision was committed to purchase a unit in Coalville, Leicestershire which should generate rental income of up to £120,000 per annum. Further information is provided in Appendices D and E.

#### 4.7 **Summary**

The report projects overall efficiency savings for both revenue and capital (along with budget re-phasing). It should be noted opportunities and challenges can arise during the year which may impact on the projected year-end position. There remain external financial pressures from developing issues such as the impact of the localisation of business rates, welfare reform, and continued financial pressures on individuals, businesses and partners; with heightened risks as a result of BREXIT. Against such a background it is imperative that the Council continues to keep a tight control over its expenditure, identifies any impact from income streams and maintains progress against its Transformation Strategy.

### 5 **Risk and Uncertainties**

- 5.1 Failure to comply with Financial Regulations in terms of reporting on both revenue and capital budgets could result in criticism from stakeholders, including both members and the Council's external auditors.
- 5.2 Areas such as income can be volatile according to external pressures such as the general economic climate. For example, Planning income is variable according to the number and size of planning applications received and property assets are subject to risks such as void periods and property valuation volatility.

### 6 **Implications**

#### 6.1 **Finance**

Financial implications are covered in the body of the report.

## 6.2 Legal

None.

## 6.3 Corporate Priorities

Changes to the budget enable the Council to achieve its corporate priorities.

## 6.4 Other Implications

None.

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<b>Background papers Available for Inspection:</b>	Council 2 March 2017 – 2017-18 Budget and Financial Strategy Cabinet 13 September 2017 – Revenue and Capital Budget Monitoring Update, Quarter 1 2017-18
<b>List of appendices (if any):</b>	<b>Appendix A</b> – Revenue Outturn Position 2017/18 – Quarter2 <b>Appendix B</b> – Revenue Variance Explanations <b>Appendix C</b> – Capital Programme 2017/18 – Quarter 2 Position <b>Appendix D</b> – Property Acquisition Report 2017 – Bardon <b>Appendix E</b> – Sensitivity Analysis

## Revenue Outturn Position 2017/18 – Quarter 2

	Quarter 2			
	Original Budget £'000	Revised Budget £'000	Projected Outturn £'000	Variance £'000
	Excluding recharges			
Communities	1,220	1,215	1,216	1
Finance & Corporate Services	3,403	3,351	3,256	(95)
Neighbourhoods	3,971	4,055	4,034	(21)
Transformation	2,849	2,929	2,891	(38)
<b>Sub Total</b>	<b>11,443</b>	<b>11,550</b>	<b>11,397</b>	<b>(153)</b>
Capital Accounting Reversals	(1,587)	(1,587)	(1,587)	0
Minimum Revenue Provision	1,000	1,000	1,000	0
<b>Net Service Expenditure</b>	<b>10,856</b>	<b>10,963</b>	<b>10,810</b>	<b>(153)</b>
Revenue Contribution To Capital	158	158	158	0
Transfer to/(from) Reserves	(27)	(134)	(134)	0
<b>Total Net Service Expenditure</b>	<b>10,987</b>	<b>10,987</b>	<b>10,834</b>	<b>(153)</b>
Grant Income (including New Homes Bonus)	(2,334)	(2,334)	(2,444)	(110)
Business Rates (including SBRR)	(2,561)	(2,561)	(2,491)	70
Council Tax	(6,074)	(6,074)	(6,074)	0
Collection Fund Surplus	(18)	(18)	(18)	0
<b>Total Funding</b>	<b>10,987</b>	<b>10,987</b>	<b>11,027</b>	<b>(40)</b>
<b>Total Variance (to Reserves at year end)</b>	<b>0</b>	<b>0</b>	<b>(193)</b>	<b>(193)</b>

**Revenue Variance Explanations (over £15k)**

<b>ADVERSE VARIANCES in excess of £15,000</b>	<b>Projected Outturn Variance £'000</b>
<b>Finance &amp; Corporate Services</b>	
Insurances - Increases in the Motor Insurance premium and Insurance Premium Tax	24
<b>Transformation</b>	
Economic Development - rental income Cotgrave	20
Office Accommodation – Actual valuation of the Arena NNDR (Business Rates) by Valuation Office	70
<b>Neighbourhoods</b>	
Leisure Centres - East Leake NNDR (Business Rates) revaluation and increase in contract price	55
Waste Collection and Recycling - Agency costs to cover sickness and vacancies	61
<b>Total Adverse Variances</b>	<b>230</b>

<b>FAVOURABLE VARIANCES in excess of £15,000</b>	<b>Projected Outturn Variance £'000</b>
<b>Communities</b>	
Community Parks & Open Spaces - Renegotiated catering contracts at Rushcliffe Country Park	(15)
<b>Finance &amp; Corporate Services</b>	
Council Tax - Staff vacancies	(16)
Housing Benefit - overpayments recovered	(50)
Council Tax Benefit - Staff vacancies	(21)
Housing Benefit Admin - staff vacancies	(18)
<b>Transformation</b>	
IT rechargeables - savings from contracts and duplicated accruals	(50)
Customer Services - Staff vacancies	(15)
Investment Properites	(50)
<b>Neighbourhoods</b>	
Waste Collection and Recycling - staff vacancies (£17k) and Green Waste income above target (£88k)	(105)
<b>Total Favourable Variances</b>	<b>(340)</b>
<b>Sum of Minor Variances</b>	<b>(43)</b>
<b>TOTAL VARIANCE</b>	<b>(153)</b>

<b>FUNDING VARIANCES</b>	<b>Projected Outturn Variance £'000</b>
<b>Original Funding:</b>	
Business Rates - this is the difference between the budgeted income and NNDR1	70
Grant Income (including New Homes Bonus)	(8)
<b>Additional S31 Grants:</b>	
Flexible Homelessness Support Grant	(55)
New Burdens - DHP Administration Grant	(11)
New burdens funding	(12)
IER funding	(19)
New Burdens - Benefit Cap	(5)
<b>TOTAL VARIANCE</b>	<b>(40)</b>

## Capital Programme 2017/18 – Quarter 2 Position

CAPITAL PROGRAMME MONITORING - SEPTEMBER 2017						Explanation
	Original Budget	Current Budget	Actual YTD	Projected Actual	Variance	
		£000	£000	£000	£'000	
<b>TRANSFORMATION</b>						
Cotgrave Regeneration & MSC	2,920	4,616	148	4,616	0	Contracts awaiting finalisation. Works not yet commenced but budgets will need reprofiling in Qtr 3 to reflect slippage
Cotgrave Employment Land	0	1,477	1,254	1,477	0	Units complete and nearly wholly let.
Land North of Bingham	2,800	5,387	0	387	(5,000)	Leisure and Wellbeing land acquired and due for disposal. The £2.5m LEP funding allocated to the Land North of Bingham (match funded with £2.5m New Homes Bonus) can be removed from the 2017/18 programme as it is no longer required for the original scheme. Provisional reallocation of the LEP element of the provision in the 2018/19 programme.
Bingham Land off Chapel Lane	0	1,800	1,581	1,800	0	Land acquisition complete. Remediation costs to be incurred.
Highways England Footbridge A46	1,700	0	0	0	0	Cabinet approved slippage 10.10.17
Bridgford Hall	0	205	107	205	0	Final contract costs and retention to be processed
RAF Newton	750	750	0	0	(750)	This LEP funding can be removed as it is no longer required for the original scheme. Sum to be provisionally reallocated in the 2018/19 programme.
The Point	25	25	0	25	0	Works scheduled for the end of the year
Arena Car Park Enhancements	500	500	0	500	0	Works are currently being scoped and scheme to be agreed
Colliers Way Industrial Units	0	20	0	20	0	Interdependent with Barratt's housing development
Information Systems Strategy	165	330	66	280	(50)	
	<b>8,860</b>	<b>15,110</b>	<b>3,156</b>	<b>9,310</b>	<b>(5,800)</b>	
<b>NEIGHBOURHOODS</b>						
Wheeled Bins	70	70	51	70	0	
Vehicle Replacement	20	240	187	188	(52)	Planned replacements complete in July, balance available
Support for Registered Housing Providers	250	909	6	0	(909)	No schemes identified yet, projected actual will be amended when grants committed. Actual is staff time which will be written off to revenue if no grants processed.
Hound Lodge - Heating	40	0	0	0	0	Cabinet approved slippage 10.10.17
Assistive Technology	0	12	10	12	0	
Discretionary Top Ups	0	106	24	106	0	
Disabled Facilities Grants	375	412	225	412	0	
Arena Redevelopment	500	183	0	58	(125)	Final costs to be processed - 1% overall saving projected
Car Park Machines	0	50	27	50	0	Machines installed, functionality issues to be resolved
Car Park Improvements - Lighting	50	50	0	0	(50)	Works deferred to 2018/19.
BLC Artificial Turf Pitch		10	0	10	0	Works complete and in defects period



CAPITAL PROGRAMME MONITORING - SEPTEMBER 2017						
	Original Budget	Current Budget	Actual YTD	Projected Actual	Variance	Explanation
		£000	£000	£000	£'000	
BLC Improvements	130	130	2	130	0	The schedule of works is being drawn up Improvements largely complete, electrics work still to do
EGC Upgrade Facilities	0	16	0	16	0	
	<b>1,435</b>	<b>2,188</b>	<b>532</b>	<b>1,052</b>	<b>(1,136)</b>	
<b>COMMUNITIES</b>						
Capital Grant Funding	48	100	34	100	0	£46,000 still available for allocation, 3 applications pending.
Play Areas - Special Expense	50	100	0	100	0	Revised plans to replace the skate-park at the Hook
West Park Fencing and Drainage	0	34	21	34	0	Fencing element complete, drainage work to be commissioned
West Park Lighting	25	25	0	0	(25)	Works deferred to 2018/19.
RCP - Car Park	90	90	0	90	0	Planned for Oct/Nov after school holidays
Gamston Community Centre - Heating	30	0	0	0	0	Cabinet approved slippage 10.10.17
Warm Homes on Prescription	0	50	0	50	0	Better Care Funding secured
	<b>243</b>	<b>399</b>	<b>55</b>	<b>374</b>	<b>(25)</b>	
<b>FINANCE &amp; CORPORATE SERVICES</b>						
NCCC Loan	1,400	1,798	542	1,320	(478)	The loan is being released in tranches Individual schemes dealt with via investment appraisal
Asset Investment Strategy	3,000	8,500	0	8,500		
	<b>4,400</b>	<b>10,298</b>	<b>542</b>	<b>9,820</b>	<b>(478)</b>	
<b>CONTINGENCY</b>						
Contingency	190	290	0	290	0	
	<b>190</b>	<b>290</b>	<b>0</b>	<b>290</b>	<b>0</b>	
<b>TOTAL</b>	<b>15,128</b>	<b>28,285</b>	<b>4,285</b>	<b>20,846</b>	<b>(7,439)</b>	

**Property Acquisition Report 2017 – Bardon**

1. Background

- 1.1 On 2<sup>nd</sup> October the Council completed the acquisition of Bardon with an anticipated cost of £1.917m (including stamp duty, professional fees etc). In undertaking the purchase advice was sought from the Council's agent (Savills) in relation to this property. This included a visit to the property by both Savills and the Council's Service Manager for Transformation (lead specialist for Property Services, RICS qualified).
- 1.2 The property itself is in a well-established distribution/warehouse location, close links to j22 M1 (2.5 miles) and 6.5 miles to A42 and 12.5 miles to M42. Located in what is known as the 'Golden Triangle'.
- 1.3 Key points from the assessment are as follows:
  - Strong tenant covenant (3A1);
  - 9.5 year lease remaining;
  - Good location;
  - Well established distribution/business park;
  - Strong demand, short supply – asset value would only be marginally lower with no tenant;
  - Assessment of the lease shows no real concerns for the Landlord. Internal repairs rest with the tenant; and
  - Risks – single occupier, break at year 5, older property (although portal frame and the inspection showed no signs of particular concern).
- 1.4 The £1.8m investment gives an estimated 5.57% return on investment and a yield of 6.25%.
- 1.5 Sensitivity analysis at Appendix E shows the impact of surrounding assumptions on inflation and rental increases. The rate of return using 100% capital receipts identifies after 40 years a positive net present value (for the central case) of around £1.28m and an internal rate of return after financing costs of 5.94% (typically Government Green Book projects aim for 3.5% IRR).

### Sensitivity Analysis

1. The following assumptions have been made ranging from worst, central to best case scenarios (being as realistic as possible):

Sensitivity	Best (pa)	Central (pa)	Worst (pa)	Rationale
Inflation for management costs and repairs	1.7%	2.0%	2.3%	Central case being Government inflation target
Inflation on rent and asset value; rent review 5 yearly	2.5%	2.0%	1.5%	Linked to inflation targets and more variable
Variable borrowing rates. Borrowing assumed over 40 years for 50% of financing	Current rate	+0.30%	+0.60%	Assume interest rate rises
Vacancy factor	Assume 18 months vacancy at year 11, 21 etc			

2. Using the above assumptions and assuming disposal in Year 40 gives a positive Net Present Value ranging from £0.9m to £1.7m and an internal rate of return ranging from 6.48% to 5.39%.

