



AGENDA ITEM: 14

CABINET: 18th November 2008

**EXECUTIVE OVERVIEW AND
SCRUTINY:
4th December 2008**

Report of: Council Secretary and Solicitor

Relevant Portfolio Holder: Councillor D. Westley

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SUBJECT: REVENUE BUDGET MID YEAR REVIEW

District wide interest

1.0 PURPOSE OF THE REPORT

1.1 This report provides a projection on the financial position on the General and Housing Revenue Accounts to the end of the financial year.

2.0 RECOMMENDATIONS TO CABINET

2.1 That the financial position of the Revenue Accounts together with the levels of working balances be considered and noted.

2.2 That call in is not appropriate for this item as it is to be submitted to the next meeting of the Executive Overview and Scrutiny Committee.

3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE

3.1 That the financial position of the Revenue Accounts be noted.

4.0 BACKGROUND

4.1 In February 2008 the Council approved budgets for the Housing and General Revenue Accounts for the 2008-2009 financial year. It is good practice that monitoring reports are produced on a regular basis to ensure that Members are

kept informed of the financial position of these accounts. This is the second monitoring report for the year and is based on information available in October 2008.

5.0 GENERAL REVENUE ACCOUNT

- 5.1 The Council has set a revenue budget of £16.258m for the financial year. In total current projections forecast that net expenditure will be around £30,000 above this target, which represents a small variance of around 0.2%.
- 5.2 The projections have been calculated on a prudent basis, and experience from past years suggests that the overall position is likely to improve over the remainder of the year. Consequently it can be confidently expected that the Council will achieve a surplus by the year end. This will continue our strong track record of managing our financial performance to ensure that the outturn position is in line with the budget.
- 5.3 The budget contains a corporate target for staff efficiency savings of £251,000. The active management of staffing levels by divisional managers combined with the interim management arrangements, and the impact of the strike action earlier this year, mean that this target will be significantly exceeded.
- 5.4 The national pay award for the year has still not been finalised and will be subject to binding arbitration through ACAS in the near future. The projections assume that the pay award will be determined in accordance with the Employers final offer of 2.45% plus additional increases for the lowest paid staff.
- 5.5 In 2007-08 there was a strong performance in generating external income across a range of areas including planning applications, treasury management, commercial assets, and housing benefit overpayment recovery. In all of these areas budget targets were significantly exceeded. To a large extent this performance reflected market conditions, and the downturn in the economy that has subsequently taken place means that overall income levels in the current year will be significantly lower.
- 5.6 In particular the slow down in the housing market and the credit crunch have reduced income levels for Planning Application and Building Regulation Fees, together with Local Searches. These factors are not within the direct control of the Council. Treasury Management income for the first 6 months of the year though has exceeded budget targets, but future performance will depend on whether any further interest rate cuts take place.
- 5.7 The re-tendering of the insurance contract has produced a significant cost saving this year. Effective procurement practices have also helped to minimise the cost increases for new gas and electric contracts, in the face of steep rises in world energy prices.
- 5.8 The projected variances reflect current estimates of the likely difference between spending / income and budget for the full financial year. These estimates are based on current data and are subject to change during the remainder of the

year as new information becomes available. In particular external income levels are at risk from any further down turn in the economy.

- 6.9 The Appendix to this report provides further details on the performance of individual divisions.

6.0 HOUSING REVENUE ACCOUNT

- 6.1 The council set a budget for the Housing Revenue Account based on generating income of £20.040m.

- 6.2 Due to a collapse in Council House Right to Buy sales, management action to control void levels, and changes in levels of service charges it is likely that this will generate a positive budget variance for the HRA. The continued active management of staffing levels and vacancies are also likely to generate a favourable variance for the HRA.

- 6.3 Members will be aware that the Organisational Reengineering of Property Services is nearing completion. In addition to which the approval to invest in Repairs diagnostic software that integrates with the Council's Customer Relationship Management System is likely to provide further savings. However, health and safety issues continue to place pressure on the Housing Repairs and Programme Maintenance Budgets.

- 6.4 The budget included a provision for the termination of leases for boilers serving our Residents Heating Service. Due to critical failures of the heating boilers it has been necessary to utilise this investment to replace failed heating units.

- 6.5 At this point in time there is every expectation that the HRA will generate a small positive variance against budget

7.0 BALANCES

- 7.1 The Council's GRA balances at the start of the year consisted of core balances of £900,000 and usable balances of £887,000. The budget did not contain any planned use of balances during the year but the final position will only be known at the year-end. However given the current projection on the GRA it is expected that we will maintain our healthy overall financial position.

- 7.2 HRA Working Balances at the start of the year were £917,000. In its budget the Council approved the use of £235,600 from balances to support the HRA's financial position, on the basis that this will still leave the balances above the minimum requirement for prudent financial management. The positive projection on HRA finances for the current year means that this position should be achieved.

- 7.3 The opening balance on the Unspecified Contingency Fund at the start of the year was £77,000. Cabinet have agreed a number of uses for this Fund including the new Place Survey and Leisure development through the Trust arrangement. This, together with a number of other uses, is likely to mean that the Fund will be fully committed at the year end.

8.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY

8.1 There are no direct sustainability implications arising from this report.

9.0 RISK ASSESSMENT

9.1 The formal reporting of performance on the General and Housing Revenue Accounts is part of the overall budgetary management and control framework that is designed to minimise the financial risks facing the Council.

10.0 CONCLUSIONS

10.1 Both the GRA and the HRA are on course to achieve their budget targets. The level of balances also continues to be satisfactory and above the minimum levels required for prudent financial management. This continues the trend of strong financial performance achieved by the Council over many years.

10.2 The downturn in the economy that has recently taken place together with the credit crunch has reduced external income levels. However the Council is well placed to deal with these challenges.

10.3 Where the financial issues that have been identified in this mid year review are expected to persist into the future they will be taken into account in the budget setting process for 2009-10.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

There is no evidence from an initial assessment of an adverse impact on equality in relation to the equality target groups.

Appendices

Appendix 1 – General Revenue Account Projected Outturn Position

GENERAL REVENUE ACCOUNT PROJECTED OUTTURN POSITION

Budget area	Net Budget £000	Variance from Budget £000	Variance %
Assistant Chief Executive	204	-30	-14.7%
Community Services	5,090	-65	-1.3%
Financial Services	4,259	-25	-0.6%
Housing and Property Maintenance	856	-25	-2.9%
Human Resources	6	0	0%
Legal & Member Services	1,297	55	4.2%
Planning & Development Services	1,828	75	4.1%
Regeneration and Estates	-232	-40	-17.2%
Street Scene	5,850	-55	-0.9%
Divisional Subtotal	19,158	-110	-0.6%
Central Budget Items	-2,900	140	4.8%
TOTAL BUDGET REQUIREMENT	16,258	30	0.2%

Table Notes

The budget figures for each Division have been updated to include capital accounting adjustments and the allocation of central budget items to divisions. These are technical accounting adjustments that do not affect the bottom line budget requirement, which has remained unchanged during the year at £16.258m.

The Assistant Chief Executive and Human Resources divisions have relatively small net budget requirements because they contain support services and consequently recharge most of their costs to other service areas. The Regeneration and Estates division has a negative budget as it contains the Community Related Assets portfolio, which makes a substantial contribution to the overall running costs of the authority.

General

It should be recognised that some areas of the budget are within the Council's control, for example the filling of vacant posts to achieve salary savings. However other areas such as external income can be volatile where we are exposed to market forces. In addition some service areas are demand led where it can be difficult to directly control expenditure.

Assistant Chief Executive Division – Favourable variance £30,000

The main variance for the division relates to savings on staffing costs. There are a number of other minor favourable variances covering a range of budget headings.

Community Services Division – Favourable variance £65,000

There is a significant favourable variance on the Environmental Health service. The biggest single contributory factor to this position is savings on staffing, while non-staffing costs and income levels are broadly on target.

Leisure and Cultural Services are also on course to achieve a favourable budget variance. This including a saving in relation to the Leisure Trust due to the effect of actual contract inflation being below that previously estimated.

Financial Services Division – Favourable variance £25,000

The Council will pay out around £27m in Council Tax and Housing Benefit this year. However as this is a demand led service it is not within the direct control of the Council and it is difficult to predict the final outturn position. Subsidy is claimed on the payments that are made according to a complex formula, and the way in which the system works means that the Council cannot recover all of its costs. Benefit payments showed a significant adverse variance against budget in 2007-08, and it is expected that this situation will be repeated again in the current year.

Travel concessions are also a demand led service area that is not within the direct control of the Council. A new national free bus pass scheme for the elderly and disabled has been introduced from April 2008, and this area will be kept under close review to identify any financial issues at an early stage.

The division has achieved an overall favourable variance through making savings on employee costs through the interim management arrangements and by the active management of staff vacancies. A significant saving has also been achieved through the re-tendering of the insurance contract.

Housing and Property Maintenance Division – Favourable variance £25,000

The active management of staffing levels and vacancies has generated a favourable variance on Housing Services. There have also been significant savings made on non-staffing expenditure, which could be used towards the costs of a future private sector housing stock survey that is a statutory requirement.

Property Services covers a large part of the Council's utilities budgets, and costs in this area have increased as a result of external market factors. However effective procurement practices have helped to minimise the increases in gas and electric costs that the Council faces.

Human Resources Division – Net nil variance

There is a high level of demand for HR services with work on job evaluation, harmonisation, and other issues. Although this will put the small HR team under considerable strain it is anticipated that service levels will be maintained and key targets met. There are likely to be a number of minor variances within the Division but it is expected that the budget target for the year will be achieved.

Legal and Member Services Division – Adverse variance £55,000

The main area causing this adverse variance is the significant reduction in income from Local Searches, which is not within the direct control of the Council. Salary savings have been achieved to date, mainly through delays in filling vacant posts, and various other minor net savings are anticipated based on current levels of expenditure.

Planning and Development – Adverse variance £75,000

There have been significant savings on staff costs within the division due to the late or non-filling of vacant posts. However, the level of income from both Planning Application and Building Regulation Fees is significantly below budget at this present time. However this deficit could be substantially offset if, as expected, three major developments under active discussion with developers are submitted within the next couple of months.

Regeneration and Estates – Favourable variance £40,000

The active management of staff vacancies will produce a significant favourable variance against the budget for the year. There are also a number of savings against non-staffing costs. External income levels have started to come under pressure from the economic down turn and credit crunch. However it is expected that the income targets for the year will still be achieved but this will need to be monitored closely.

Street Scene – Favourable variance £55,000

Significant savings have been achieved within the Grounds Maintenance Trading Account, in particular employee costs and equipment. Additional income has also been received from the County Council.

However the division has been adversely affected by the world price increase in fuel with diesel costs being significantly above the budget. Recycling rates have improved dramatically in recent times, but this positive performance has then led to an increased demand on resources.

Central budget items

This heading covers a range of corporate budgets including savings targets, treasury management, and capital charges.

Central savings targets for staff efficiency, Gershon efficiency improvements and savings from Organisational Re-engineering are all held in this area. The actual savings that are made in relation to these items are contained within Divisions. Consequently savings made elsewhere will help to offset the adverse variances on these budget items.

There is a significant favourable variance on treasury management, with investment income exceeding the budget target. This continues the trend of strong treasury management performance achieved in recent years, but any further interest rate cuts would have a detrimental effect.