



AGENDA ITEM:11

CABINET: 17 November 2009

**EXECUTIVE OVERVIEW AND
SCRUTINY COMMITTEE:
3 December 2009**

Report of: Council Secretary and Solicitor

Relevant Portfolio Holder: Councillor D. Westley

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SUBJECT: REVENUE BUDGET MID YEAR REVIEW

Borough 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 be noted including the approved uses of reserves and balances.

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 RECOMMENDATION 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 2009 the Council approved budgets for the Housing and General Revenue Accounts for the 2009-2010 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 2009.

5.0 GENERAL REVENUE ACCOUNT

- 5.1 The Council has set a revenue budget of £16.322m for the financial year. In total current projections forecast that net expenditure will be around £215,000 below this target, which represents a small variance of around 1.3%.
- 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 Employee costs form a significant proportion of the Council's total budget and consequently are very important from a budget management perspective. The difference between the actual and budgeted pay awards for 2008-09 and 2009-10 was 1.25%. This reduction in the cost of the pay award will produce a saving in the order of £200,000 for the year, and this is the main reason for the overall favourable variance on the GRA.
- 5.4 The budget contains a corporate target for staff efficiency savings of £251,000. The active management of staffing levels by divisional managers combined with savings on senior management restructuring agreed in July will mean that this target will be significantly exceeded.
- 5.5 The budget also contained a part year employee savings target for OD of £200,000. The actual savings that will be made this year will be dependent on the implementation date of individual budget items but the initial progress that has been made will ensure that this target is exceeded by the year end.
- 5.6 This year's budget included an increase of £207,000 to meet anticipated additional costs arising from the Job Evaluation (JE) process. At its meeting in September, Council agreed to implement new harmonised employee terms and conditions with effect from 1st August. The implementation process for these new arrangements is now underway but the financial impact is not yet clear. In addition there is also the potential for staff to submit equal pay claims once JE has been completed, and consequently this area will need to be kept under close scrutiny.
- 5.7 The external income that the Council generates can be one of the most volatile areas of the budget, with income going up and down due to factors outside our direct control. This area is particularly volatile at the moment given the state of the economy and the credit crunch. However at the current time income levels, while under pressure, are currently performing close to budget in most areas.
- 5.8 The main exception to this position is in relation to planning application income which is significantly below budget up to the end of September. This position could improve if any large scale applications come through but at the current time there are none in the pipeline. Income in relation to Building Regulation income is however performing just ahead of its budget target.

- 5.9 Projected income levels on the Community Related Assets (CRA) portfolio are also below budget as a result of the recession. Occupancy levels have reduced and despite every effort being made it has proved difficult to attract new tenants. The CRA reserve can however be used to manage the outturn position for this service area.
- 5.10 During the course of the year there has been a significant increase in the cost of printer consumables as a result of changing market conditions and consequently there is likely to be an adverse variance on this budget heading. A number of measures have been put in place to address this situation including stocking up before anticipated price increases, using more cost effective printers and printing methods, and encouraging a culture where documents are only printed where essential.
- 5.11 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 gross expenditure budget for the Housing Revenue Account (HRA) of £21.093m.
- 6.2 Members will be aware that following the agreement of the Budget the Government introduced a scheme to reduce the average rent increase from 6.2% to 3.1% in return for a compensating reduction in our HRA subsidy contribution. Following assurances from the Government that there would be no cost impact to the HRA, the rents were reduced retrospectively on 5th October, and the benefit of this reduction has been passed on to our tenants.
- 6.3 An actuarial review of the contributions needed to be made by the HRA to the Council's Insurance Fund has now been completed and has established that a significant reduction in costs can be achieved. In addition there will also be favourable variances as a result of the stagnation in Council House Right to Buy Sales, management action to control void levels, a reduced pay award settlement and continued active management of staffing levels and vacancies.
- 6.4 There are however a number of spending challenges within the HRA. In particular, essential health and safety issues continue to place pressure on the Repairs and Programme Maintenance Budgets. No more so than within Central Heating Maintenance and Servicing where it has been found necessary to install flame out devices and replace heating elements in our properties at a significant cost.
- 6.5 Budgets have been realigned to meet the issues set out above following discussions with the Housing Portfolio Holder. Taking into account the net effect of all of these factors it is expected that the HRA will generate a small surplus at the end of the financial year.

7.0 RESERVES AND BALANCES

- 7.1 The Council is facing a very challenging medium term financial position as are most other local authorities. The GRA budget for the year was set including a package of measures that will provide the necessary savings to achieve a balanced budget over the medium term through a measured and managed process that will minimise the impact on services. There was however a need to use reserves in the short term to support the budget. The District Auditor was consulted on this financial strategy and endorsed it before it was agreed.
- 7.2 The Council started this year with a very healthy financial position with reserves and balances of £12.266m for the GRA and £2.617m for the HRA. However a significant proportion of these reserves are either committed or earmarked for specific purposes and so are not available for general use. For example these reserves include the £3.350m that is held in the Insurance Fund to cover potential insurance liabilities.
- 7.3 The Council's budget approved the use of £1.218m from reserves to support the GRA's financial position. The main elements of this funding were £0.680m from the Budget and Efficiency Savings reserve (this is a one off measure as it was recognised that OD would take some time to implement) and £0.347m from the Local Authority Business Growth Incentive reserve (which provides funding for the GRA over a medium term time scale).
- 7.4 The OD initiative agreed by Council in July recognised that there would be potential exit costs of £1.477m arising from staff redundancies, and provided funding for this from the Restructuring Reserve. The latest estimate for OD exit costs is broadly in line with this figure. This approach represents good value for money as the total level of OD savings will mean that the payback period for the exit costs will be less than one year.
- 7.5 Taking these 2 factors together there will be around £2.7m taken from GRA reserves this year. The overall level of reserves however remains healthy and above the level required for prudent financial management.
- 7.6 Over 12 months ago the Council lodged claims with Revenues and Customs in relation to the VAT charged on certain income in the early 1990s. Recent case law (the Fleming case) had established that the Council could have retained this income rather than accounting for it as VAT. After pursuing this case vigorously a settlement has now been reached with Revenues and Customs for £0.885m including interest and net of fees. As this is a windfall amount it has not been included in the projected outturn. It is intended that part of this funding will be used to develop new capital schemes and this is covered in the Revised Capital Programme report elsewhere on this agenda. It is also intended that £4,000 will be used to fund the cost of cleaning up Dyers Brook. The use of the balance of this funding will be determined when the Council sets the budget in February.

7.7 When the HRA budget was approved it was agreed that £0.601m would be taken from reserves and balances to support it. The Housing and Finance Portfolio Holders have also approved the transfer of £60,000 from working balances to meet the demands placed on the Central Heating Maintenance and Service Budget.

7.8 However the overall level of reserves however remains healthy and above the level required for prudent financial management. In addition the projected favourable variance on the HRA could also be added back into working balances 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.

9.2 The projected variances contained in this report 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.

10.0 CONCLUSIONS

10.1 Both the GRA and the HRA are on course to achieve their budget targets. The level of reserves and 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 and the credit crunch has reduced external income levels but the Council is well placed to deal with these challenges. 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 2010-11.

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

**APPENDIX 1
GENERAL REVENUE ACCOUNT PROJECTED OUTFURN POSITION**

Budget area	Net Budget £000	Variance from Budget £000	Variance %
Assistant Chief Executive	2,908	-90	-3.1%
Community Services	5,031	-100	-2.0%
Housing and Property Maintenance	864	-25	-2.9%
Human Resources	-3	-15	See note
Legal Democracy & Financial Management	2,898	-70	-2.4%
Planning, Regeneration & Estates	1,584	0	0.0%
Street Scene	5,943	-50	-0.8%
Divisional Subtotal	19,225	-350	-1.8%
Central Budget Items	-2,903	135	4.7%
TOTAL BUDGET REQUIREMENT	16,322	-215	-1.3%

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 £16.322m.

The Human Resources division has a relatively small net budget requirement because it is a support service and consequently recharges most of its costs to other service areas.

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 – Favourable variance £90,000

The main variance for the division relates to savings on staffing costs from the lower than expected pay award and the active management of staff vacancies. There is also expected to be a further full year's savings effect from the closure of the cash offices. However it is expected that there will be an adverse variance in IT as a result of a number of factors including increased costs for software licences, printer consumables and internet costs, although in the latter case this reflects the increased usage of the internet which is a very cost effective access channel.

Since the economic downturn started during the course of last year there has been a considerable increase in benefits expenditure, and payments are continuing to rise at the current time. Over £30m in Benefits will be paid out this year, and this is a demand led service that is not within the direct control of the Council. While the majority of this expenditure is funded by government grant a small element of these payments must be picked up by the Council and consequently this budget heading is likely to be over spent at the year end.

The Council participates in the Lancashire wide travel concession scheme for the elderly and disabled. A new set of County wide reimbursement rates were introduced this year to pay bus operators for the cost of concessionary journeys. However these rates have been legally challenged by the bus operators and it is consequently not possible to forecast with certainty the outcome in this area.

Community Services – Favourable variance £100,000

There is projected to be a significant favourable variance for the division, and the largest single contributory factor to this position is managed savings on staffing and savings on the pay award.

The budget for off street car park income was raised this year and while actual income levels have increased they are currently not fully achieving the target level. Income levels for parking charge notices are also below target. However a saving is now being made following the transfer of responsibility for on street car parking back to the County Council.

There are a number of projected variances in other service areas but these will not have a significant net effect on the bottom line for the division.

Housing and Property Maintenance – Favourable variance £25,000

The active management of staffing levels and vacancies has generated a significant favourable budget variance within the division.

However there is an adverse variance on repairs and maintenance costs for some of the Council's buildings that reflect their poor condition and ongoing maintenance issues. Water rates costs have also increased as a result of a change in billing practices by the water company although these bills are now being checked to ensure that they have been calculated correctly.

Human Resources – Favourable variance £15,000

The HR team has a number of critical work issues to contend with this year including JE and OD, and a plan on training and other issues will need to be formulated in the latter part of the year. However financial performance is being managed stringently and a small favourable overall variance is anticipated.

Legal Democracy and Financial Management – Favourable variance £70,000

The division has achieved an overall favourable variance through making savings on employee costs through senior management restructuring and the active management of staff vacancies. Various other minor net savings are anticipated based on current levels of expenditure

Income from Local Searches, which had been reducing in previous years, has now stabilised and is on course to achieve its budget target for the year.

Planning, Regeneration and Estates – Net nil variance

The targets for both Planning Application income and Community Related Asset rents are under severe pressure. Officers are working hard to mitigate this position and are looking to contain the financial situation within the overall divisional budget. Most notably the adverse variances on income have been offset by savings on staff costs due to the late or non-filling of vacant posts and due to the lower than expected pay award.

Street Scene – Favourable variance £50,000

The division is performing within its budget targets and going forward it is anticipated that the overall financial performance will be favourable. Recycling income budgets are under pressure as a result of market conditions but the position on the fuel budget is broadly in line with the target for the year. Some grounds maintenance income valuations tend to be finalised towards the back end of the financial year and this area will be kept under review.

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.

Interest rates have fallen significantly over the last 12 months and there has been an unprecedented level of uncertainty in the financial markets. However treasury management performance continues to be strong and the target interest rate of 3 month LIBID has been exceeded. At around this time last year the Council was able to lock into a number of relatively long term investments that paid high interest rates. However these investments will mature over the next few months and there is little likelihood that the base rate will increase from its current very low level of 0.5%. Consequently income levels in future months are likely to be less buoyant.