



AGENDA ITEM: 11

CABINET: 16 March 2010

**EXECUTIVE OVERVIEW AND
SCRUTINY: 31 March 2010**

Report of: Council Secretary and Solicitor

Relevant Portfolio Holder: Councillor D. Westley

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SUBJECT: REVENUE BUDGET MONITORING

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 considered and noted.

2.2 That call in is not appropriate for this item as the report 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 third monitoring report for the year and is based on information available in February 2010.

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 £225,000 below this target, which represents a small variance of around 1.4%.
- 5.2 The projections have been calculated on a prudent basis based on information available at the current time, and experience from past years suggests that the overall position may improve further. 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. This managed under spend has been taken into account in setting next year's Budget and will help to fund a number of anticipated income reductions and spending pressures.
- 5.3 Employee costs are a significant element of the total budget and so can have a major impact on the final outturn position. 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. Steady progress has also been made in implementing the OD initiative over the course of the year and as a consequence the part year savings target of £0.2m will be exceeded, and the Council is on course to achieve its full year savings target of £1.25m in 2010-11.
- 5.5 There remains an element of uncertainty over the potential cost of any equal pay claims that are submitted by staff, and consequently this area will be kept under close scrutiny.
- 5.6 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. However at the current time income levels, while under pressure, are currently performing close to budget in most areas.
- 5.7 The main exception to this position is in relation to planning application income which is significantly below budget. 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.
- 5.8 There is a considerable amount of uncertainty at the current time over the legal framework for charging for land searches. This issue affects all local authorities and will continue to be monitored as new information becomes available.

- 5.9 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 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, a reduced pay award settlement and continued active management of staffing levels and vacancies.
- 6.4 Due to the severe weather experienced over the last couple of months the call on the day-to day response repairs budget has been high. In addition the need to carry out essential health and safety work in respect of our heating equipment means that these budget heads will exceed the original estimated budget provision. Savings identified elsewhere in the HRA will mitigate the impact of these unforeseen circumstances and allow us to the deliver the overall HRA budget on target.

7.0 RESERVES AND BALANCES

- 7.1 The Council is facing a very challenging medium term financial position as are most other local authorities. Consequently there is a pressing need to manage reserves to enable this financial situation to be dealt with effectively.
- 7.2 While the Council had £22.6m in reserves at the start of 2009/10, only £8.2m of this was available to support the General Revenue Account budget. Other reserves related to capital spending, the Housing Revenue Account and other specialist types of funding. This money cannot be used for general services, or to help keep the Council Tax down.
- 7.3 As a result of Council decisions, £2.8m of these reserves will be used in 2009/10, leaving around £5.4m in GRA reserves at the current time. It should be noted though that a significant proportion of these reserves are either committed or earmarked for specific purposes and so are not available for general use. The level of reserves remains healthy, and at an adequate level for prudent financial management.

- 7.4 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 been reached with Revenues and Customs for £0.885m including interest and net of fees. This funding has now been fully allocated to capital schemes including the purchase of wheelie bins to introduce alternate weekly collection in Skelmersdale and a programme of play area and park improvements.

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.

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 2 – Minute of Cabinet – 16 March 2010 (*Executive Overview & Scrutiny Committee Only*)

GENERAL REVENUE ACCOUNT PROJECTED OUTTURN POSITION

Budget area	Net Budget £000	Variance from Budget £000	Variance %
Assistant Chief Executive	2,908	-150	-5.2%
Community Services	5,031	-80	-1.6%
Housing and Property Maintenance	864	-25	-2.9%
Human Resources	-3	-10	See note
Legal Democracy & Financial Management	2,898	-70	-2.4%
Planning, Regeneration & Estates	1,584	0	0.0%
Street Scene	5,943	-60	-1.0%
Divisional Subtotal	19,225	-395	-2.1%
Central Budget Items	-2,903	170	5.9%
TOTAL BUDGET REQUIREMENT	16,322	-225	-1.4%

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 £150,000

The main variance for the division relates to savings on salary 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. It is anticipated 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, however it is likely that this will be partially offset by reduced telephone costs.

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 £80,000

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. The recent adverse weather conditions have exacerbated this position. 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 parking back to the County Council.

Income from regular stallholders on Ormskirk Market is less than anticipated. The shortfall is due to the level of holidays, sickness and closures due to inclement weather. The reduction is partially offset by additional income from casual traders.

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 £10,000

The HR team has a number of critical work issues to contend with this year including JE and OD. 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

Commercial rent income has shown some improvement since the mid year projections but the climate for planning income remains challenging. Officers continue to work hard to mitigate the position and are looking to manage the situation within the overall budget resources. Savings are being generated most notably on the staffing side from the non filling of posts, external funding of posts and lower than budgeted pay award.

Street Scene – Favourable variance £60,000

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. The divisional financial performance has improved since the mid year position. A number of grounds maintenance valuations tend to be completed towards the back end of the financial year which may improve the situation further.

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 which has had an adverse impact on treasury management income. However treasury management performance continues to be strong given the market conditions and the target interest rate of 3 month LIBID has been exceeded.