



AGENDA ITEM: 10

CABINET: 16th November 2010

**EXECUTIVE OVERVIEW AND
SCRUTINY: 2nd December 2010**

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 position on 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 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 2010 the Council approved budgets for the Housing and General Revenue Accounts for the 2010-2011 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 2010.

5.0 GENERAL REVENUE ACCOUNT

- 5.1 The Council has set a revenue budget of £16.420m for the financial year. In total current projections forecast that net expenditure will be around £275,000 below this target, which represents a small variance of around 1.7%.
- 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 While there have been a number of Government spending reductions announced in recent months these will not have a direct impact on the Council this year, as our prudent approach to financial management means that income is not recognised until it is certain that we will receive it. However the Council faces significant reductions in its funding next year and this will be addressed through the budget setting process for 2011-12.
- 5.4 Employee costs form a significant proportion of the Council's total budget and consequently are very important from a budget management perspective. The budget contains a corporate target for staff efficiency savings of £251,000. However the active management of staffing levels combined with savings from deleting the posts of the Deputy Chief Executive and his Assistant will mean that this target will be significantly exceeded, and this is the main reason for the overall favourable variance.
- 5.5 The Council budgeted for a 0.5% pay increase this year but national pay negotiations are still ongoing between the employers and the unions. Consequently developments in this area could have an effect on the final outturn position, but this is not clear at this point in time.
- 5.6 A process is currently underway to assess staff appeals against job evaluation scores. The outcome of this process is not yet known but there will be additional costs incurred as a result of successful appeals. In the current year these costs will be met from funding set aside specifically in reserves to meet potential job evaluation costs. However these additional costs will form a spending pressure that will need to be taken into account when setting the budgets for next year.
- 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 depressed at the moment given the state of the economy and the recession. However at the current time income levels, while under pressure, are performing close to budget in most areas.
- 5.8 The main exception to this position is in relation to planning application income which is below budget up to the end of September. This position could however improve if any large scale applications come through. Treasury Management income is also below budget target and this reflects the fact that interest rates have remained at historically low levels for a considerable period of time.

- 5.9 The Council participates in the Lancashire wide travel concession scheme for the elderly and disabled. A new set of County wide reimbursement rates for bus operators have recently been introduced and this, combined with additional grant funding from the government, will enable a significant saving to be made this year. The responsibility for travel concessions will transfer to the County Council from April 2011 and this will be a key issue to be considered in next year's budget setting process.
- 5.10 There was a significant overspend on benefits payments last year. Since the economic downturn started there has been a considerable increase in benefits expenditure, which is a demand led service that is not within the direct control of the Council.
- 5.11 While the majority of this expenditure is funded by government grant through a complex subsidy system, a small element of these payments must be picked up by the Council, and so the higher level of payments means higher costs for the Council. More significantly though, there is an increasing problem in relation to higher benefits payments in a specific category - exempt accommodation - which attract a very low rate of subsidy. These factors are expected to persist into the current year and will cause ongoing spending pressures.
- 5.12 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 budget for the Housing Revenue Account (HRA) of £21.078m, and current projections indicate that this budget target will be achieved at the year end.
- 6.2 The main HRA income source is rental income and this is on course to achieve its budget target, and reflects the fact that Council House Right To Buy sales continue to remain low.
- 6.3 However, there have been a number of spending challenges experienced within the HRA. In particular, essential health and safety issues continue to place pressure on both Revenue and Capital budgets. No more so than in having to undertake essential work to Whitburn High Level Roofs and Cladding, upgrading fire detection equipment in communal areas to flats, meeting the increased demand for priority 1 disabled adaptations, additional costs of electrical rewiring and to meet newly identified essential structural repairs.
- 6.4 To accommodate the above capital works, funding has been sourced in the main from the utilisation of the under spend on replacement Kitchens and Bathrooms, the HRA Reserve for TV Aerials, and delaying the HRA Prior to Paint Programme for 2010/11. Further details on these changes are provided in the capital programme report elsewhere on this agenda.

7.0 RESERVES AND BALANCES

7.1 The Council is facing a very difficult medium term financial position as are all other local authorities. However the GRA has a healthy level of reserves which will enable it to deal with these challenges effectively, and the District Auditor has recently concluded that there are adequate reserves for prudent financial management.

7.2 When the HRA budget was approved it was agreed that £0.289m would be taken from reserves and balances to support it. In addition further funding will now be taken from the TV aerial reserve to support the capital works detailed in paragraph 6.2 above. However the overall level of reserves remains healthy and above the minimum required level.

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 adequate for prudent financial management. This continues the trend of strong financial performance achieved by the Council over many years. 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 2011-12.

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 OUTTURN POSITION**

Budget area	Net Budget £000	Variance from Budget £000	Variance %
Assistant Chief Executive	2,972	-215	-7.2%
Community Services	4,599	-110	-2.4%
Housing and Property Maintenance	817	-35	-4.3%
Legal Democracy & Financial Management	2,776	-60	-2.2%
Planning	1,943	-90	-4.6%
Regeneration & Estates	-189	-15	-7.9%
Street Scene	5,776	-175	-3.0%
Divisional Subtotal	18,694	-700	-3.7%
Central Budget Items	-609	345	See note
Non Service Items	-1,665	80	4.8%
TOTAL BUDGET REQUIREMENT	16,420	-275	-1.7%

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 £16.420m.

Central Budget Items cover a range of corporate budgets including targets for staff and other efficiency savings. 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 this budget heading.

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 £215,000

There are a number of issues giving rise to the overall favourable position. One of the major variances for the division relates to savings on salary costs resulting from the active management of staff vacancies. The other key saving that will be made is in relation to Concessionary Travel, through lower reimbursement rates being paid to bus operators and additional grant funding.

However Benefits expenditure is anticipated to be higher than budget following the same pattern as last year. This is a demand led service and whilst the overall budget was increased in 2010/11 it is still anticipated that an over spend will occur.

Community Services – Favourable variance £110,000

There is projected to be a significant favourable variance for the division with the largest single contributory factor being managed savings on staffing.

Car park income is currently on target with an anticipated favourable variance by the year end. Income from fines is anticipated to be in excess of budget and reflects the increased level of enforcement now in operation.

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 £35,000

The active management of staffing levels and vacancies has generated a significant favourable budget variance within the division, and repairs and maintenance costs are also being controlled. However there are a number of adverse variances on utility costs, particularly in relation to water and electricity bills.

Legal Democracy and Financial Management – Favourable variance £60,000

The division has achieved an overall favourable variance through a number of different means including savings on extending our insurance contracts, reduced audit fees, lower pension costs, and managed staff savings.

Income from Local Searches, which had been under pressure in previous years, has now stabilised and is on course to achieve its budget target for the year. However the Government has implemented a statutory instrument to revoke the fee for personal searches of the Local Land Charges Register. While the full effect of this development cannot yet be accurately identified it may potentially have an adverse impact, and consequently this area will be continue to be monitored closely.

Planning – Favourable variance £90,000

There is currently a projected adverse variance on development control income as a result of the recession and due to factors that are outside the Council's control, although this position could improve if any large scale applications come through in the second half of the year. Income on building control is however performing better and is broadly in line with the budget target.

This adverse variance on income is however being more than offset by managed savings on staffing that should enable the division to achieve an overall favourable variance.

Regeneration and Estates – Favourable variance £15,000

The economic climate remains difficult, however income levels on the Commercial Assets portfolio are broadly in line with budget targets. The Investment Centre income levels have diminished over recent years meaning that trading conditions are proving challenging. Staffing costs though are being carefully scrutinised and managed. Overall, as all expenditure and income is being closely controlled it is anticipated that the division will under spend by some £15,000.

Street Scene – Favourable variance £175,000

The division is performing within its budget targets and going forward it is anticipated that the overall financial performance will be favourable. The commissioning of the waste transfer station is progressing well and operational arrangements are being tailored accordingly. The budget position is being tightly monitored as the financial implications of the new facility are being fully evaluated. As such, an under spend is expected for the year and there will be developments in the second half of the year as the site becomes fully up to speed.

Non Service Items

This heading covers a range of corporate budgets including treasury management and capital charges. Interest rates continue to remain at historically low levels and this has had an adverse impact on treasury management income. There have also been additional capital charges incurred in excess of the budget provision.