AGENDA ITEM: 10

CABINET: 15 March 2011

EXECUTIVE OVERVIEW AND SCRUTINY: 31 March 2011

Report of: **Director Designate (Council Secretary and Solicitor)**

Relevant Portfolio Holder: **Councillor D. Westley**

Contact: **Marc Taylor (Extn. 5092)**
(E-mail: Marc.Taylor@westlancs.gov.uk)

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 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 third monitoring report for the year and is based on information available in February 2011.

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 £400,000 below this target, which represents a small variance of around 2.4%.

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.

5.3 While there have been a number of Government spending reductions announced in recent months these will not have a significant impact on the Council until next year. The managed under spend for this year has been taken into account in setting next year's Budget and will help to address the challenging medium term financial position facing the Council.

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. However it now appears possible that this provision may not be required, which could produce an additional saving.

5.6 A process has been completed to assess staff appeals against job evaluation scores. As a result of a number of successful appeals there will be additional costs incurred which will be backdated to August 2009 when the new set of harmonised terms and conditions came into effect. In the current year these costs will be met from funding set aside specifically in reserves to meet potential job evaluation costs, while the ongoing effect in future years has been incorporated into the budget that has been set for 2011-12.

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.

5.8 The recession has had a major impact on planning income, and Development Control performance is significantly below budget. Similarly income from the Market is down, and Treasury Management income is also below the budget target, as a result of interest rates remaining at historically low levels for a considerable period of time. However income performance in most other areas is broadly on target, and income levels on the Community Related Assets portfolio will significantly exceed the budget target by the year end.

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 been introduced and this, combined with additional grant funding from the government, will enable a significant saving to be made this year in the order of £200,000. This procurement saving is a major contributing factor to the overall favourable variance that has been achieved on the GRA this year. However the responsibility for travel concessions will transfer to the County Council from April 2011 and consequently this saving will not be repeated next year.

5.10 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. 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.

5.11 These factors caused a significant overspend on benefits payments last year, which is expected to persist in the current year and beyond.

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 expenditure budget for the Housing Revenue Account (HRA) of £21.078m, and is on course to achieve this budget target.

6.2 Rental income has stabilised due to low Right to buy Sales and is broadly on track to be delivered. The level of Right to buy sales has been slightly higher this year, and to date 16 sales have been completed. Whilst the proceeds from these asset sales provide funding for the Capital Programme, these sales also result in reduced levels of income to the HRA.

6.3 During the course of the year we have experienced a number of spending challenges. Severe inclement weather over the last quarter has resulted in a significant number of heating equipment failures and demand for Disabled Adaptations has also been greater than forecast.

6.4 In discussions, tenants have expressed the view that these issues should be key priorities for investment by the Council. To assist in accommodating the above capital works, savings from the Repainting Programme, Repairs Contingency, and other miscellaneous HRA savings will close the funding gap within the Public Sector Capital Programme.

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. The level of reserves and balances has recently been reviewed and approved by Council at its meeting last month. The majority of these reserves are either committed or earmarked for specific purposes and so are not available for general use. The overall level of reserves remains healthy and adequate for prudent financial management.

7.2 The Council approved a contingency of £25,000 to deal with winter weather issues as part of the budget for the current year. To date additional costs of £17,150 have been incurred dealing with severe weather conditions during the winter period.

7.3 When the HRA budget was set it was agreed that £289,000 would be used from Balances and Reserves to support the HRA and its capital programmes, and it is expected that this contribution will still need to be used.

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.

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.

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
An impact assessment has been prepared for this report which does not identify 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	3,089	-340	-11.0%
Community Services	4,618	-120	-2.6%
Housing and Property Maintenance	817	-65	-8.0%
Legal Democracy & Financial Management	2,784	-85	-3.1%
Planning	1,919	-80	-4.2%
Regeneration and Estates	-189	-170	See note
Street Scene	5,797	-235	-4.1%
Central Budget Items	-420	420	See note
Central Savings Items	-1,995	275	13.8%
TOTAL BUDGET REQUIREMENT	**16,420**	**-400**	**-2.4%**

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 £16.420m.

The Regeneration and Estates division has a relatively small net budget requirement because it contains the Community Related Assets portfolio, which generates a significant amount of external income.

Central Savings 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 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 £340,000

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

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. The budget that has been set for 2011/12 takes this factor into account and provides for additional funding in this area.

Community Services – Favourable variance £120,000

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 from pay and display machines is currently on target, but income from fines is anticipated to be in excess of budget and reflects the increased level of enforcement now in operation. 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.

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 £65,000

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. There is also an adverse variance on the Home Loans scheme which is the subject of a separate report elsewhere on the agenda.

Legal Democracy and Financial Management – Favourable variance £85,000

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 due to the recession, has now stabilised and is just below 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 continue to be monitored closely.

Planning – Favourable variance £80,000

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. 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 £170,000

The economic climate remains challenging however the Estates section has been working extremely hard to achieve lettings and as a result income levels on the commercial assets portfolio will exceed the budget targets. Investment Centre income levels though have diminished over recent years meaning that trading conditions are proving challenging.

Staffing costs are being carefully scrutinised and will provide some savings that can be contributed towards the corporate salary savings target. Overall, as all expenditure is being closely scrutinised and income levels are above target it is anticipated that the division will under spend by some £170,000.

Street Scene – Favourable variance £235,000

The commissioning of the waste transfer station has been completed successfully and operational arrangements are being implemented accordingly. The budget position is being tightly monitored as the financial implications of the new facility are being fully evaluated. A significant saving will also be made on the management of staffing costs. As such, an under spend is expected for the year despite some increased cost pressures particularly in relation to fuel.

Central budget and savings 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 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.