



## **AGENDA ITEM: 11**

**CABINET: 15<sup>th</sup> November 2011**

**EXECUTIVE OVERVIEW AND  
SCRUTINY: 1<sup>st</sup> December 2011**

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**Report of: Borough Treasurer**

**Relevant Managing Director: Managing Director (People and Places)**

**Relevant Portfolio Holders: Councillors D Westley and A Owens**

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### **SUBJECT: REVENUE BUDGET MID YEAR REVIEW**

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Wards affected: Borough Wide

#### **1.0 PURPOSE OF THE REPORT**

1.1 To provide a projection of 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 the report is being submitted to the next meeting of the Executive Overview and Scrutiny Committee on 1<sup>st</sup> December 2011.

#### **3.0 RECOMMENDATION TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE**

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

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#### **4.0 BACKGROUND**

4.1 In February 2011 the Council approved budgets for the Housing and General Revenue Accounts for the 2011-2012 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 2011.

## **5.0 GENERAL REVENUE ACCOUNT**

- 5.1 The Council has set a revenue budget of £14.277m for the financial year. In total current projections forecast that net expenditure will be around £320,000 below this target, which represents a small variance of around 2.2%.
- 5.2 The projections have been calculated on a prudent basis, and experience from past years suggests that the overall position may 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 Council's Business Plan sets out a four-year process to save money and protect frontline services within a very challenging financial environment. As part of this process, the Budget that was agreed for this year included a target to save £350,000 through the different work streams set out in the Business Plan. Key elements of these work streams included the Major Service Review process and the setting up of a shared services arrangement for the delivery of Revenues, Benefits and IT Services with the County Council and One Connect Ltd. Good progress has been made in delivering these initiatives and as a consequence the budget target for the year will be exceeded, as savings have been made faster and earlier than originally expected.
- 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 £280,000, and the active management of staffing levels will mean that this target will be exceeded, which is another key element in the overall favourable variance. This factor will also offset additional costs that have been incurred as a result of successful staff appeals against job evaluation scores.
- 5.5 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 at risk at the moment given the state of the economy. However at the current time income levels, while under pressure, are performing close to budget in most areas.
- 5.6 There are a number of services where income is currently performing slightly below the budget target including Planning, Local Searches and Car Parks. However these variances are relatively minor in the context of the Council's overall financial position, and consequently external income levels are currently satisfactory.
- 5.7 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. However this position has stabilised this year and so is not expected to cause any significant additional spending pressures.

- 5.8 The Appendix to this report provides further details on the performance of individual service areas. Where financial issues have been identified through the mid-year review process and are expected to persist they will be given further consideration through the budget setting process for 2012-13.

## **6.0 HOUSING REVENUE ACCOUNT**

- 6.1 The Council set a gross budget for the Housing Revenue Account (HRA) of £22.273m. While there are a number of spending pressures on the HRA budget, current projections indicate that the budget target will be achieved at the year end with a small surplus being delivered.

- 6.2 The main HRA income source is rental income. Council house Right to buy sales have continued to remain low and this has helped to stabilise rental income. A change in accounting practice agreed with our External Auditors will also result in increased income for the year.

- 6.3 Additionally, the Council has been successful in achieving a HRA subsidy rebate of £288,000. It is intended that the majority of this funding will be put into capital schemes, and details on this are contained within the mid year capital review report. It is also intended that £97,000 of this funding will be used to create an Estate Remodelling Reserve for the former New Town at Skelmersdale, and this item will be included in the Reserves Policy to be considered by Council at its meeting in February 2012.

## **7.0 RESERVES AND BALANCES**

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

- 7.2 When the HRA budget was approved it was agreed that £132,000 would be taken from reserves and balances to support it. The overall level of reserves remains adequate though even after this contribution has been taken into account. Given that a small surplus is now projected on the HRA, the actual amount of funding that will need to be taken from reserves will need to be reviewed as part of the process for closing down the year end accounts.

## **8.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY**

- 8.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

## **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 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.
- 10.2 Where 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 2012-13.

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### **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**

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

### **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 %
Community Services	4,707	-150	-3.2%
Corporate Services			
- Borough Solicitor	1,348	-10	-0.7%
- Borough Treasurer	1,395	-25	-1.8%
- Transformation Manager	1,854	-40	-2.2%
Housing and Regeneration	463	-95	See note
Planning Services	1,936	-15	-0.8%
Street Scene	5,778	-100	-1.7%
Service Total	17,481	-435	-2.5%
Central Budget Items	-1,050	115	See note
Non Service Items	-2,154	0	0.0%
<b>TOTAL BUDGET REQUIREMENT</b>	<b>14,277</b>	<b>-320</b>	<b>-2.2%</b>

Table Notes

The budget figures for each Service have been updated to include capital accounting adjustments and the allocation of central budget items to services. These are technical accounting adjustments that do not affect the bottom line budget requirement, which has remained unchanged during the year at £14.277m.

Housing and Regeneration has a relatively small net budget requirement because it contains Property Services which is a support service that recharges most of its costs to other services, and also the Community Related Assets portfolio, which generates a significant amount of external income.

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.

Community Services – Favourable variance £150,000

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

Licensing income is currently in excess of the budget and a favourable variance is anticipated at the year end.

Car park income is currently below target with an anticipated adverse variance by the year end. This follows a similar pattern to previous years whereby an increase in the level of charges results in some initial resistance. As the year progresses this resistance tends to reduce. The number of Bank Holidays early in the year has also had

an adverse effect. Income from fines is anticipated to be in excess of budget and should compensate for the shortfall in income from car park charges. The additional income from fines reflects the increased level of enforcement now in operation.

Income from both regular and casual stallholders on the Ormskirk Market is currently in line with the budget. However, as in previous years, the possibility of inclement weather during the winter months may well adversely affect future income levels.

Within Private Sector Housing an overall balanced budget position should be achieved after allowing for additional expenditure on the Home Loans scheme, which is an issue that has been previously reported to Members. Income performance on the Lifeline Scheme is significantly in excess of the budget target and reflects a recent expansion of activity. This financial position will be considered in more detail as part of the process of drawing up a business plan for this service area.

#### Borough Solicitor – Favourable variance £10,000

Income from Local Searches is currently performing slightly below the budget target as a result of a combination of market factors and a Government decision to revoke the fee for personal searches of the Local Land Charges Register. This factor will need to be given further consideration through the budget process. However there are a number of minor savings that are being made on other budget headings which should ensure that the service has an overall favourable variance.

#### Borough Treasurer – Favourable variance £25,000

Staffing and other budgets are being effectively controlled which should result in a small favourable variance being delivered over the course of the year. This includes savings through reduced external audit fees and lower pension costs.

#### Transformation Manager – Favourable variance £40,000

There are a number of issues giving rise to the overall favourable position. The largest variance relates to savings on salary costs resulting from the active management of staffing levels. There are also a range of minor savings on other budget headings that have contributed to this positive financial performance.

#### Housing and Regeneration – Favourable variance £95,000

The active management of staffing levels and non staffing budgets has generated a significant favourable variance within the Service.

Within Property Services, repairs and maintenance costs are being effectively controlled. However there are a number of adverse variances on utility costs, particularly in relation to water bills.

The economic climate is particularly challenging from an income generation point of view but the Community Related Assets portfolio is proving resilient and should achieve its budget targets. However as previously reported, the ring fenced Investment Centre account is facing a very challenging time and is forecast to make a sizeable loss this financial year. Changes in the rules on empty business rates liability are also having a detrimental impact.

When all of these factors are put together the overall position is that a small favourable variance should be achieved by the financial year end.

### Planning Services – Favourable variance £15,000

There is currently a projected adverse variance on development control income as a result of the state of the economy and due to factors that are outside the Council's control. However this position could improve if any large scale applications come through in the second half of the year. Income on building control is currently running below budget and is also predicting an adverse variance. The new charges for pre-application fees are however running above the budget target. In overall terms though, income is performing better than at the same point last year.

The projected adverse variance on income is being more than offset by managed savings on staffing that should enable the Service to achieve an overall favourable variance.

### Street Scene – Favourable variance £100,000

New Working arrangements continue to be introduced across all service areas and are contributing to an improved position, which has assisted in a reduction in fuel usage by around 8%. However fuel prices have increased in particular diesel which has increased by over 10% on last year's average and will therefore create an adverse variance.

Payroll costs have continued to reduce as a result of efficiencies from the waste transfer facility and the zoned working arrangements. Additional vehicle hire costs have been incurred as a result of the transport tender evaluation procedure, but this is a temporary consequence. Looking ahead the winter months may prove problematic from a service delivery perspective but overall the service should outturn with a favourable variance of around £100,000.

### Central Budget and Non Service Items

This heading covers a range of corporate budgets including savings targets, treasury management, and capital charges. Central savings targets for staff and other efficiency improvements are all held in this area. The actual savings that are made in relation to these items are contained within Services. Consequently savings made elsewhere will help to offset the adverse variances on these budget items.