



AGENDA ITEM: 10

CABINET: 11 September 2012

**EXECUTIVE OVERVIEW AND
SCRUTINY COMMITTEE:
27 SEPTEMBER 2012**

Report of: Borough Treasurer

Relevant Managing Director: Managing Director (People and Places)

Relevant Portfolio Holder: Councillors D. Westley and A. Owens

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SUBJECT: REVENUE BUDGET POSITION

Borough wide interest

1.0 PURPOSE OF THE REPORT

1.1 To set out key features on revenue budget performance for both the General Revenue Account (GRA) and Housing Revenue Account (HRA).

2.0 RECOMMENDATIONS TO CABINET

2.1 That the outturn position for the last financial year be noted and endorsed.

2.2 That the financial performance in the current year to date be considered and noted.

2.3 That £25,000 for the marketing of Delf House, agreed by Council on 18th July, now be allocated to employ consultants who are to negotiate the lease extension on this commercial asset.

2.4 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.

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 Monitoring reports on the budget position are produced on a regular basis to ensure that Members are aware of the financial performance of the Council, and so that appropriate action can be agreed to deal with any issues.
- 4.2 This report provides details on the financial performance of the GRA and the HRA in the 2011-12 financial year, as well as providing an initial analysis of issues in the current financial year.

5.0 GRA OUTTURN POSITION

- 5.1 The final outturn position shows an overall favourable variance of £520,000, which is equivalent to 3.6% of the total budget. This continues the track record of delivering outturn performance in line with the budget that has consistently been achieved by the Council in recent years. It also means that another year's successful performance has been achieved, which is a credit to the Council, given the very difficult financial climate that it is operating in. The outturn position for individual services is shown in Appendix 1.
- 5.2 The outturn position shows an improvement of £60,000 compared to the previous projected outturn position of £460,000 reported at the third quarter stage of the year. This projected outturn position was calculated on a prudent basis and consequently the improvement at the year-end was not unexpected, and follows the pattern of previous years.
- 5.3 Some of the key features of the outturn position include:
- The active management of staffing levels has meant that the corporate savings target of £250,000 for staff efficiencies was achieved
 - The corporate savings target of £350,000 from business plan initiatives was also achieved. This included a six month saving of £250,000 from the operation of the new shared service arrangement with Lancashire County Council (LCC) and One Connect Limited (OCL)
 - Income performance has generally been good with most services achieving their budget targets. The CRA portfolio and the Industrial Portfolio both achieved favourable budget variances, however the Investment Centre ran at a significant deficit. In previous years surpluses have been generated by the Investment Centre and accounted for within a reserve, in compliance with the grant funding conditions. As this is a ring fenced account the losses can be off-set against the reserve up to the point of full utilisation. Hence, last financial year it did not have a direct impact on the GRA bottom line.
- 5.4 The outturn position set out above does not include the value of prepayments agreed through negotiation that have been repaid by Lancashire County Council / One Connect Limited on the start-up of the new shared service arrangement. The largest item here is annual software licences which were paid before the contract start date but from which OCL will receive some benefit. This item is not included in the surplus of £520,000 above as it is treated as a technical one off adjustment.

5.5 The Council determined how these favourable budget variances should be used when it agreed the Major Service Review report at its meeting in July, including allocating a budget of £25,000 for the marketing of Delf House. Subsequent to this approval the current occupants of Delf House, the Co-op, have indicated they wish to remain tenants for a further 5 years. Consequently it is proposed that this budget is now used to employ consultants to undertake negotiations on this extension.

6.0 HRA OUTTURN

6.1 The HRA has achieved a small favourable variance of £25,000 for the year, which is equivalent to around 0.1% of the gross budget of £22.273m. This surplus has been added to HRA working balances, which stood at £656,000 at the year end.

6.2 A significant change took place during the year with the implementation of the Government's new HRA Self-Financing system. Under this new system the Council had to make a one off payment of £88.212m to the Government but will now no longer have to make annual subsidy payments (which were running at over £6m per year). The one off payment was funded by taking out loans from the Public Works Loan Board. The length of these loans runs from 15 to 50 years, at a fixed average interest rate of 3.47%, with annual interest payments of around £3m. Consequently this new system will deliver a significant financial benefit to the HRA.

6.3 Another major focus within the HRA for 2011-12 has been to deliver the service improvements required by the Tenants Services Authority (TSA), and additional resources were allocated for this purpose. As the work to deliver these improvements cut across all HRA service areas there have been variances against individual budget headings particularly in respect of employee and repair costs. The void and day to day response repairs budgets for instance came under particular pressure where improvements were made to re-let times for voids, and to meet the demand led response repairs required by our tenants. However, by the end of 2011-12 financial year the Council was compliant with the requirements of the TSA.

6.4 On the financially positive side, low Right to Buy Levels of Council House Sales, and a change in the accounting treatment of income agreed with the external Auditors, has meant that HRA income was higher than originally estimated. Additionally, the HRA has benefitted from refunds arising from a review of utility charges from a former energy supplier.

7.0 CURRENT YEAR BUDGET ISSUES

7.1 The GRA and the HRA have both met their budget targets for 2011-12 and this continues the trend of delivering favourable budget variances in recent years. Consequently it can reasonably be expected that this strong financial performance will be carried forward, in many cases, into the new year. However the difficult economic climate will undoubtedly cause pressures, and in particular may make income targets more difficult to achieve.

- 7.2 Employee costs form a significant proportion of the Council's total budget and consequently are very important from a budget management perspective. In recent years the level of the pay award has been the subject of lengthy national negotiations between the local government employers' organisation and unions, and consequently has been an area of uncertainty for budget monitoring. However this year the local government employers have already confirmed a pay freeze for all Council workers, which is in line with the budget estimates.
- 7.3 In October 2011 the Council agreed a package of Major Service Review (MSR) proposals to deliver the necessary savings to balance the budget, and these savings items have then been built into the budget for 2012-13. The budget monitoring that has taken place to date has identified that these savings have been successfully implemented and are currently being delivered. Similarly budget monitoring has also identified that the £500,000 budgeted savings from the County Council / One Connect Limited shared service arrangement are also being achieved.
- 7.4 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 a particular concern at the moment given the state of the economy. However at the current time income levels are generally performing close to budget in most areas.
- 7.5 The main exception to this position is in relation to the Investment Centre's income which has been performing significantly below budget for some time. This area has recently been reviewed by DTZ Consulting and action is now being taken to address this position.
- 7.6 There are a number of risk areas where there is the potential for a significant variance from budget. These include the Home Care Lifeline Service and the Beacon Golf Course, both of which have been the subject of previous reports to Cabinet. There could also be spending pressures on fuel and energy costs depending on price movements in these areas. The trade waste disposal costs are currently under review as they are showing an adverse variance.
- 7.7 However putting all of these factors together, at the current time it is expected that the bottom line position for the GRA will be within its overall budget target, although with some favourable and some adverse variances.
- 7.8 With reference to the HRA, voids have come under severe pressure due to a combination of complying with the voids standard, changes in building regulations and an increase in void levels, which is currently under review. Day to day repairs is subject to a claim from an outgoing contractor which is being contested.

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.
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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 – GRA Outturn Position

APPENDIX 1 GRA OUTTURN POSITION

Budget area	Net Budget £000	Variance from Budget £000	Variance %
Community Services	5,258	-300	-5.7%
Corporate – Borough Solicitor	1,667	-125	-7.5%
Corporate – Financial Management	1,846	-50	-2.7%
Corporate - Transformation	1,893	-50	-2.6%
Housing and Regeneration	2,364	-245	-10.4%
Planning Services	2,074	-210	-10.1%
Street Scene	5,822	-330	-5.7%
Employee Savings target	-250	250	See note
Business Plan Savings target	-350	350	See note
Central Budget Items	-6,047	190	3.1%
TOTAL BUDGET REQUIREMENT	14,277	-520	-3.6%

NOTES

The budget figures for each Service have been updated to include year-end 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.

The employee savings and business plan savings targets are corporate budget headings that are held centrally. The actual savings that are made in relation to these items are contained within services. Consequently savings made elsewhere will offset the apparent variances on these budget items.

Community Services – Favourable variance £300,000

There has been a significant favourable variance for the Service with the largest single contributory factor being managed savings on staffing.

Income performance has also generally been positive, with a number of areas including Licensing income that exceeded their budget targets.

Pay and display car park income was below target. The increase in the level of pay and display charges resulted in some initial customer resistance, although as the year progressed this became less of a factor. The number of Bank Holidays early in the year also had an adverse effect. However income from fines exceeded the budget and more than compensated for the shortfall in income from car park charges. The additional income from fines reflects the increased level of enforcement now in operation.

The decision by DCT Leisure Ltd to terminate their agreement at the Golf Centre, with effect from 31/12/11, has resulted in both a loss of income and the incurring of additional costs during the last 3 months of the financial year.

Within Private Sector Housing a favourable variance has been 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 was significantly in excess of the budget target and reflects a recent expansion of activity. Better than expected income performance on Lifelines was the largest single factor for the increase in the Service's overall favourable variance at the year end.

Borough Solicitor – Favourable variance £125,000

Income from Local Searches was slightly below the budget target at the year end 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. However there are a number of savings that were made on other budget headings including employee costs and supplies and services. There was also a significant saving made on Election costs due to the running of the Borough Elections along side other elections that meant some costs could be shared.

Borough Treasurer – Favourable variance £50,000

Staffing and other budgets were effectively controlled which resulted in a 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 £50,000

A number of issues have given rise to the overall favourable variance. One of the main areas related to savings on staffing costs resulting from the active management of staffing levels. There has also been a range of savings on other budgets, including a higher than anticipated recovery of legal costs.

Housing and Regeneration – Favourable variance £245,000

The active management of staffing levels and non staffing budgets has generated a significant favourable variance within the Service, and income targets have also generally been exceeded.

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

The difficult economic climate has been challenging, however the Commercial Assets portfolio is proving resilient with income levels exceeding budget targets. There are though a number of empty units and as a result the empty business rates liability is above budget levels.

The Investment Centre account operated at a significant loss over the course of the year. However action is now being taken to address this situation following the review of this area by DTZ Consulting.

Planning Services – Favourable variance £210,000

Although the Building Control income generated was significantly less than budget, Planning and Pre-Application income was significantly above budget meaning an overall favourable income variance was achieved.

Staff savings were also better than anticipated as were savings on supplies and services, enabling the Service to achieve an improved favourable variance compared to

the quarter 3 figures. The Local Plan budget also achieved a saving due to works being carried forward into the new financial year.

Street Scene – Favourable variance £330,000

New working practices introduced over the last year have resulted in operational efficiencies and as such employee overtime and agency costs have much reduced. There are still cost pressures that remain in some areas, namely fuel, which has previously been reported, and some additional hire costs associated with the transport vehicle hire with maintenance tender exercise currently being concluded.

Action has been formulated in implementing the significant Major Service Review savings the Service identified for this and the next financial year, and good progress is being made.

Central Savings and Budget 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.