



AGENDA ITEM: 9

CABINET: 13 November 2012

**EXECUTIVE OVERVIEW AND
SCRUTINY COMMITTEE: 29
November 2012**

Report of: Borough Treasurer

Relevant Managing Director: Managing Director (People and Places)

Relevant Portfolio Holders: Councillors D Westley and A Owens

**Contact for further information: Mr M Taylor (Extn. 5092)
(E-mail: marc.taylor@westlancs.gov.uk)**

SUBJECT: REVENUE BUDGET MID YEAR REVIEW

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 29th November 2012.

3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW & SCRUTINY COMMITTEE

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

4.0 BACKGROUND

- 4.1 In February 2012 the Council approved budgets for the Housing and General Revenue Accounts for the 2012-2013 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 2012.

5.0 GENERAL REVENUE ACCOUNT

- 5.1 The Council has set a revenue budget of £13.588m for the financial year. In total, current projections forecast that net expenditure will be around £540,000 below this target, which represents a favourable variance of 4.0% against budget. The Appendix to this report provides further details on the performance of individual service areas.
- 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 £1.9m through Major Service Reviews and Shared Service Initiatives. Good progress has been made in delivering these schemes and as a consequence this budget target will be achieved. This includes achieving a £500,000 saving on Revenues, Benefits and IT Services through a shared service arrangement with Lancashire County Council and One Connect Ltd.
- 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 should be achieved by the year end.
- 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 below the budget target including Building Control, Car Parks, and Treasury Management. However these variances are not significant in the context of the Council's

overall financial position, and consequently external income levels are currently satisfactory.

- 5.7 The Major Service Review report agreed by Council in October 2012 contained just under £300,000 of budget streamlining or tightening savings that will be incorporated into the budget for 2013-14. These proposals are based on budgets that will under spend in the current year and can be removed next year with minimal service implications. Consequently the majority of the current year's favourable budget variance has already been taken into account in setting next year's budget. Where other 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 2013-14.

6.0 HOUSING REVENUE ACCOUNT (HRA)

- 6.1 The introduction of the new HRA self financing system this year has led to a significant increase in activity and a restructuring of budgets, including the delivery of a capital programme that is almost double its previous size. As a consequence there is scope for greater variation from budget and the financial position is being closely monitored to control this situation. Given these challenges, the mid year review is positive as it identifies that the overall budget target should be achieved. Within this overall position there are a number of spending pressures, however these are being offset by savings in other areas.
- 6.2 There will be an overspend on interest costs this year as a result of interest rates rising between when the draft budgets were drawn up (in November/December of last year) and when the borrowing for self financing took place at the end of March. This increase will need to be included in the budgets for 2013-14, however it should be remembered that taking out long term borrowing at a fixed average interest rate of 3.47% still represents a very good deal for the Council.
- 6.3 It is anticipated that there will be an overspend on response repairs and void repairs, which are areas that were overspent last year as well. Spending in these areas can be demand led which can make it difficult to control expenditure. Spending on disabled adaptations, which is also demand led, is though expected to be significantly below budget. The high level of spending on void repairs has led to reductions in the length of time that properties have remained empty, and this improvement in re-let times has had a positive impact on rental income.
- 6.4 The HRA budget sets a target to generate £23.932m of income from rents, fees and charges. Income performance in the year to date has been positive and it is expected that this target will be exceeded at the year end.
- 6.5 The active management of staffing levels should ensure that there is a significant favourable budget variance on employee costs this year. Similarly the management of supplies and services and premises costs should also deliver a considerable saving against budget.

- 6.6 When all of these factors are put together, current projections show that the HRA should achieve its bottom line budget target. This position will continue to be closely monitored over the remainder of the year.

7.0 RESERVES AND BALANCES

- 7.1 The Council is facing a difficult 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 Further consideration will be given to this area as part of the process for drawing up the reserves policy, which will be included in the Budget report to Council next February.

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.

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

**APPENDIX 1
GENERAL REVENUE ACCOUNT PROJECTED OUTTURN POSITION**

Budget area	Net Budget £000	Variance from Budget £000	Variance %
Community Services	4,691	-140	-3.0%
Corporate Services			
- Borough Solicitor	1,255	-45	-3.6%
- Borough Treasurer	1,210	-90	-7.4%
- Transformation Manager	1,535	-60	-3.9%
Housing and Regeneration	346	-105	See note
Planning Services	1,677	-115	-6.9%
Street Scene	5,145	-140	-2.7%
Service Total	15,859	-695	-4.4%
Central Budget Items	-960	125	See note
Non Service Items	-1,311	30	2.3%
TOTAL BUDGET REQUIREMENT	13,588	-540	-4.0%

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 £13.588m.

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 £140,000

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

Whilst licensing income is currently in excess of the budget, no variance is anticipated at this stage as the full year effect of the change to annual taxi licensing is difficult to predict. Car park income is currently below target with an anticipated adverse variance at the year end. The shortfall is mainly as a result of less income being generated at the Derby Street site than was originally anticipated. Income from fines is anticipated to be in excess of budget and should help to compensate for some of the shortfall from car park charges. Income from regular stallholders on Ormskirk Market is currently below budget. The possibility of inclement weather during the winter months could also lead to an increase in this adverse variance.

Skelmersdale Sports Centre closed with effect from 30th September 2012 and it is anticipated that a part year saving will be made as a result of this in the remainder of the year.

There are a number of areas of uncertainty in the projected outturn figures. The new management arrangements for the Beacon Golf Centre are still being negotiated and as such the impact on the outturn is unclear at this stage. The business plan in relation to Home Care Link is also being developed and the financial position has yet to be finalised.

Borough Solicitor – Favourable variance £45,000

Income from Local Searches is currently performing in line with the budget target. There has been a substantial amount of Legal Costs recovered mainly in respect of an ex-gratia payment from the Planning Inspectorate. There are also a number of more minor savings that are being made on other budget headings, which when combined should ensure that the service has an overall favourable variance.

Borough Treasurer – Favourable variance £90,000

A significant saving on external audit fees is anticipated this year as a result of the new contract with Grant Thornton, and there will also be a large saving on historic pension costs. Elsewhere staffing and other budgets are being effectively controlled which should result in an overall favourable variance being delivered over the course of the year.

Transformation Manager – Favourable variance £60,000

The new shared service arrangement with the County Council and One Connect Limited for Revenues, Benefits and IT Services is performing on budget, which means that the anticipated savings of £500,000 per annum are being delivered. The new shared service arrangement with Wigan Council for payroll services is also on course to deliver an additional saving this year.

There is a favourable budget variance on salary costs across the Service resulting from the active management of staffing levels. There are also a range of minor savings on other budget headings that have contributed to the overall positive financial performance.

The level of Benefits payments will be kept under review as this is a demand led area that is not under the direct control of the Council.

Housing and Regeneration – Favourable variance £105,000

The external income being generated on the Commercial Assets Portfolio is still being maintained at budgeted levels, even though the economic environment remains challenging. Empty rates liability charges have increased over recent years however there are plans to demolish some units, and possibly transfer others, which should help mitigate these costs.

Within the Investment centre ring fenced account, a range of initiatives have been implemented to try and address the financial deficit. These have included: a marketing plan, review of operations by external consultants, cost reduction by reviewing contracts such as catering, cleaning etc, and a post has also been held vacant for the first half of the financial year. This combination should ensure an improved outturn financial position, but the Centre is still expected to produce a loss for the year.

Property costs continue to be closely monitored and dialogue is undertaken with service managers to ensure the close management of building service requirements and associated costs. Overall Property Services is projected to deliver a favourable budget variance as a result of a combination of factors including utilities, and repairs and maintenance costs.

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

Planning Services – Favourable variance £115,000

There is currently a significant projected adverse variance on Building 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 is mitigated by survey works carried out for a Housing contract and pre-application income running above the budget target. Development Control income is also currently running ahead of its budget target.

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

Street Scene – Favourable variance £140,000

The Service has been closely monitoring the large scale MSR savings of around £800,000 that have been implemented this year, and this target is being successfully achieved.

Due to the delayed implementation of the transport contract there are some resource pressures on agency and overtime, but funding for these items was agreed by Council in July. The costs of fuel have been increasing and this budget line is being closely monitored. Trade refuse waste disposal costs have risen and tonnages have also increased. This will result in an adverse variance on this account, which will look to be addressed via the pricing structure of this service.

Overall it is prudently anticipated that the service will outturn with an under spend of some £140,000. The largest single reason for this favourable variance is budget streamlining savings that will be incorporated into next year's budget.

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.