



AGENDA ITEM: 11

CABINET: 19th March 2013

**EXECUTIVE OVERVIEW AND
SCRUTINY: 4th April 2013**

Report of: Borough Treasurer

Relevant Managing Director: Managing Director (People and Places)

Relevant Portfolio Holders: Councillors D Westley & A Owens

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SUBJECT: REVENUE BUDGET MONITORING

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 4th April 2013.

3.0 RECOMMENDATION 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 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 third monitoring report for the year and is based on information available in January 2013.

5.0 GENERAL REVENUE ACCOUNT

- 5.1 The Council has set a revenue budget of £13.588m for the financial year. The mid-year monitoring report projected an overall favourable variance of £540,000 or 4.0% on the budget. At its meeting in December, Council then agreed to use £328,000 of this favourable variance to fund capital schemes for Sandy Lane in Skelmersdale and Moor Street in Ormskirk. Consequently the balance of the projected variance remaining was then £212,000.
- 5.2 The latest third quarter monitoring figures show an improvement of £108,000 on this position, and forecast an updated favourable variance of £320,000 or 2.4% of the budget. The Appendix to this report provides further details on the performance of individual service areas.
- 5.3 The projections have been calculated on a prudent basis, and 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.
- 5.4 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. Excellent 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.
- 5.5 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.
- 5.6 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.

- 5.7 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. There are also a number of areas where income is performing well above the budget target including the Commercial Property Portfolio and Planning application fees. Consequently in overall terms external income levels are currently satisfactory.
- 5.8 The Major Service Review report agreed by Council in October 2012 contained just under £300,000 of budget streamlining or tightening savings that have been 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 a significant element of the current year's favourable budget variance has already been taken into account in setting next year's budget.
- 5.9 A number of spending and income pressures have been identified in the current year, which are expected to persist into the next financial year. These areas have been reviewed during the budget process for 2013-14, and budget targets adjusted to reflect anticipated future cost and income levels.

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 latest financial position is positive as it identifies that the overall budget target will 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 2011) and when the borrowing for self financing took place at the end of March 2012. The Council was still however able to borrow at very favourable rates, and took out a package of loans at a fixed average interest rate of 3.47% with a duration of between 15 and 50 years.
- 6.3 There will be an adverse variance on response repairs and void repairs this year, which repeats the previous year's pattern. Spending in these areas is largely demand led which can make it difficult to control expenditure and budgets for 2013/14 have been adjusted accordingly. However spending on disabled adaptations, which is also demand led, will be significantly below budget in the current year.
- 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 this target will be exceeded at the year end.

6.5 The active management of staffing levels will ensure that there is a significant favourable budget variance on employee costs this year. Similarly the management of supplies and services and premises costs will 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.

7.0 RESERVES AND BALANCES

7.1 The Council is facing a difficult medium term financial position as are all other local authorities. This area has recently been reviewed when the Council agreed its reserves policy as part of the Budget Setting report for 2013/14. Consequently the GRA continues to have an adequate level of reserves in place which should enable it to deal with its financial challenges effectively.

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.

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	4,712	-125	-2.7%
Corporate Services			
- Borough Solicitor	1,255	-80	-6.4%
- Borough Treasurer	1,210	-110	-9.1%
- Transformation Manager	1,566	-105	-6.7%
Housing and Regeneration	358	-225	See note
Planning Services	1,709	-150	-8.8%
Street Scene	5,039	-195	-3.9%
Central Budget Items	-1,057	284	See note
Non Service Items	-1,204	58	4.8%
Contributions to capital agreed in mid year review		328	Para 5.1
TOTAL BUDGET REQUIREMENT	13,588	-320	-2.4%

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 £125,000

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

Car park income is 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 this will offset some of the shortfall from car park charges. Income from

regular stallholders on Ormskirk Market has also been below the budget target. However there are a range of savings on supplies and services expenditure, which is within the direct control of the Council, that help to make up the overall favourable budget position.

Borough Solicitor – Favourable variance £80,000

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 minor savings being made on a range of budget headings, which when combined will ensure that the service has an overall favourable variance.

Borough Treasurer – Favourable variance £110,000

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. Both of these factors have been reflected in next year's budgets. 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 £105,000

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 will also deliver additional savings 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.

Housing and Regeneration – Favourable variance £225,000

Income levels for the Commercial Assets Portfolio are holding up well despite the poor economic climate and will outturn above budgetary targets. Empty rates liability is also being managed in line with target expenditure budgets.

Within the Investment centre ring fenced account, a range of initiatives have been implemented to address the financial deficit. Financial performance has improved in the second half of the year with an increase in conference bookings. This will result in an improved outturn position and builds on the cost control measures that have already been introduced.

Property costs have been closely monitored in conjunction with service managers to ensure their effective management. Overall Property Services is expected to deliver a favourable budget variance as a result of a combination of factors including repairs and maintenance and utility savings.

When all of these factors are put together and combined with a number of staff savings, the overall position is that a favourable variance will be achieved.

Planning Services – Favourable variance £150,000

There is a significant 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. Although this position is mitigated by survey works carried out for a Housing contract, this will be less than anticipated in the current year as some of the works will now take place after April. Pre-application income, however, is running well above its budget target as is Development Control income. Taken together it is expected that there will be an overall small favourable variance on income.

There are also managed savings on staffing and supplies and services, and this means that the Service will achieve an overall favourable variance.

Street Scene – Favourable variance £195,000

The service has been closely monitoring the large scale MSR savings of around £800,000 that have been implemented this year, and whilst this has been a large task, it has been achieved successfully.

Due to the delayed implementation of the transport contract, new vehicles have not been introduced as quickly as planned. This has meant that some operational changes have not been implemented, resulting in an increase in agency and overtime costs, but funding for these items was agreed by Council in July 2012. Trade refuse waste disposal costs have increased and this will produce an adverse variance this year. However this issue will be addressed through the pricing structure that will be implemented next year.

Overall it is estimated that the service will under spend in the region of £195,000. The largest single reason for the favourable variance is budget streamlining savings that have already been 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.