

<b>Subject:</b>	<b>Revenue Budget Monitoring Report</b>
<b>Head of Service:</b>	Head of Finance
<b>Decision Issues:</b>	These matters are within the authority of the Executive
<b>Decision type:</b>	Non-key.
<b>Classification:</b>	This report is open to the public.
<b>CCC Ward(s):</b>	<b>All</b>
<b>Summary:</b>	<i>This report advises Members of the projected outturn against the General Fund Revenue Budget based upon the income and expenditure position for six months ending 30 September 2011. It advises upon specific issues which have been identified and options available to ensure departmental cash limited budgets are not exceeded.</i>
<b>To Recommend/ Resolve/Consider:</b>	<p><b>a) that the approach adopted by Management Team be endorsed</b></p> <p><b>b) that where major budget variations have been identified, Directors action the necessary virements within existing cash limits.</b></p> <p><b>c) that Directors continue to seek to identify further savings where this does not compromise essential service delivery.</b></p>

**Next stage in process**

## **SUPPORTING INFORMATION**

### **1. Introduction**

This is the second revenue budget monitoring report for the current financial year, and this now identifies a potential under-spend of £316k for the year.

The first quarter's report projected an under-spend of £560k, and noted this was the result of some major 'corporate' savings, whilst some significant service income shortfalls were covered via other service expenditure savings. With six months evidence to hand, it is clear that there has been a further deterioration of some major income sources that are not offset by corresponding expenditure savings, so the projected under-spend has diminished by £244k.

Whilst reporting a projected under-spend is always good news, it is unquestionably disappointing that three major income streams (Commercial Rents, Development Control and Building Control) are showing a combined deficit against budget of £601k, and is turning what would otherwise be a very good position, into one that is just good.

The Council has set a realistic budget for the current financial year, and therefore starts from a sound position. The budget strategy included growth to cover additional

burdens, and the budgets for some major income streams were reduced to reflect market trends. Additionally, the arrangements put in place last year to maximise savings wherever possible produced a very good result, and thereby increased the General Fund balance by £1 million, to a figure that is deemed to be at the top end of the approved range for this authority.

However, looking beyond 2011/12, the Council cannot afford to be complacent. Despite the very pleasing budget results for the past two years, the effect of reduced central government funding continues to bite deeply into the council's overall finances, which is why further savings were sought from all Heads of Service to deal with the potential budget gap from 2012/13 onwards.

Management Team have concluded that every effort should be made again this year to at least contain the budget within the overall total for General Fund, but simultaneously look to generate savings now where that is possible without affecting service delivery. This action will assist with the budget setting problems the council will face over the next few years. The Finance Sub Group of the Executive has been consulted on this approach and has given its endorsement. The general fund revenue budget report to Executive on 17 November 2011 showed that around £1,360,000 of the general fund balance is being used to assist the revenue budget over the next four years.

At the time the Executive considered the 2010/11 Final Revenue Accounts report, some additional expenditure items for the current year were identified. The Executive subsequently approved the use of £80K from last year's under-spend to cover these particular items. It may well be that this additional funding can ultimately be met from elsewhere in the current year. However, the spend needs to be covered now, and making the additional finance available is the proper course of action.

There is a tendency for the position to improve as the year progresses, but the evidence to hand suggests the national economic position is affecting certain income generating services, and the scope to make large expenditure savings is far more limited than was the case last year.

All staff responsible for budget monitoring have received reports giving details of budgets available and income and expenditure for the quarter ended 30 September 2011. The projected figures quoted in this report reflect the view of those staff. Comments made in this report represent the best estimate of the likely position.

The council's financial management arrangements provide for regular reports to be provided to Members. The purpose of such reports is not to examine the detail of service budgets, that is an issue for Heads of Service, but to advise Members of the overall position and identify any significant issues which Directors need to manage. Additionally any departure from the Budget and Policy Framework requires approval by Full Council.

### **Budget Position**

Based upon discussions with Heads of Service and other evidence to hand, a projected under-spend of £316k is the current estimate position.

**Budget  
overspend (+)  
Budget  
underspend (-)**

	<b>£'000</b>
<b>Service budgets</b>	
Overspend/under recovery of income	+868
Under spend/over recovery of income	-719
<b>Corporate Issues</b>	
Superannuation claw-back from services	-340
New Homes Bonus	-40
Second Homes Discount	-19
Provision for NDR on Council properties	-60
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	-310
Less - Shortfall in Non General Fund recoveries	100
Less - Customer Focus Review Consultants	56
Plus - Corporate contingency for KCC grant reduction	-122
Plus – Other corporate contingencies not utilised	-40
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<b>Projected position for 2011/12 financial year</b>	<b>-316</b>

After six months operational activity there should be sufficient evidence available to identify income and expenditure trends. The detailed work undertaken to date has pinpointed the areas where budget variances are known, and these are projected to the year end.

The position identified in this report is only acceptable, providing:

- a) No further major overspends or income shortfalls are identified, beyond that those mentioned in the report
- b) Directors take all reasonable steps to keep within departmental cash limits.
- c) That Housing Benefits performance is better than budget in terms of recoveries and subsidy received.
- d) Restrictions on spend are applied by the Head of Service where this has no significant negative impact on service delivery.

The trend of last year suggests some grouped budgets will probably repeat an overall saving within the respective departments. There were however, significant savings (about £240k) last year within services that have now transferred to East Kent Services, and these will not be replicated in the current year. It should be noted though that a £156k saving has been built into the budget this year for the first tranche of shared services.

Given the overall cuts in Government funding, Management Team, supported by the Finance Sub Group members are of the view that every effort should be made to contain the budget, but aim for additional savings (especially efficiency savings) this year so that the General Fund balance is maintained, and provision for initial service investment resulting from service reviews, is available to deal with pressures to be faced in 2012/13 onwards. Clearly, balancing the budget and making savings, becomes more difficult each year in the current and predicted financial climate.

### **Management Team Proposals**

The General Fund balance has some scope to deal with an overspend position and still maintain a balance within the approved parameters, but Management Team and Finance Sub Group members are of the view that the General Fund balance should not be drawn upon, other than to deal with unforeseen or new items.

Management Team have considered the position in the light of the current financial climate and the economic conditions which are outside the council's control, and have therefore put the following arrangements in place with a view to achieving at least a balanced budget.

- 1) Savings are applied to cover overspending services rather than utilised for additional desirable expenditure.
- 2) Additional work continues over the next few months so that the assessment of the trends in income and expenditure can be confirmed.
- 3) There will be a presumption against filling vacancies unless Management Team considers the post is essential for the efficient operation of the service.
- 4) Any pay award can be funded from the overall budget on an ongoing basis. This is subject to consideration as part of the budget strategy to be considered later in the year.
- 5) The reduction in recharges to non General Fund activity is not in excess of the £100k shortfall identified to date.

Additionally, Management Team will receive further updates against the General Fund Revenue Budget to monitor the position and agree further specific action if deemed appropriate during the next three months.

The Finance Sub Group of the Executive have endorsed this proposal approach.

### Summary of major changes between first & second quarter monitoring

	First quarter monitoring Overspend (+) Underspend (-)	Change	Second quarter monitoring Overspend (+) Underspend (-)
	£'000	£'000	£'000
Commercial Rents	+51	+137	+188
Building Control Income	+128	+55	+183
Development Control income	+135	+95	+230
Non General Fund recoveries	+100	0	+100
Commercial Health –staffing	+71	-13	+58
Corporate Contingencies	-140	0	-140
KCC grant redn. contingency	-129	+7	-122
Superannuation claw back	-340	0	-340
Finance Division savings	-100	+2	-98
Minimum Revenue Provision	-119	0	-119
Car Parking Income	0	-95	-95
Benefits Subsidy excess	-100	0	-100
Property & Engineering etc -staffing savings	-62	+30	-32

Other items (net)	-55	+26	-29
	<u>-560</u>	<u>+244</u>	<u>-316</u>

### Details of major variances

The major variances on service budgets are listed in the table below followed by a commentary in respect of some of the major issues.

#### Overspend/Under Recovery of Income £'000

Shared HR Service	20
Registration of Electors	7
	<u>27</u>

Tower House – running costs	16
Bandstand (ex VIC) rental income not achievable	18
Museum of Canterbury – Income shortfall	30
Environment & Street Scene – salaries overspend	58
Other net overspends	0
	<u>122</u>

General photocopiers – paper costs	27
Commercial rents – income shortfall	188
Policy & Improvement-Staff overspend & income shortfall	10
Building Control – shortfall in income	183
Land Charges – shortfall in income	14
Development Control – shortfall in income	230
Commercial Property legal costs	40
Other net overspends	27
	<u>719</u>

#### Total overspend/under recovery of income 868

Finance Division staffing savings	98
Director of Finance – vacancy savings	18
IT Acquisition provision	20
Audit Division – staffing savings	23
Audit Fees saving	15
Minimum Revenue Provision	119
Reduced Interest Payable	29
Interest Receipts	74
Other net savings	32
	<u>428</u>

Museums – other net expenditure savings	30
	<u>30</u>

Benefits Subsidy – anticipated excess	100
Car Park and Coach Park income surplus	35
Off Street Parking income surplus	60
New Burdens Grant – Land Charges	34
Other net savings	32
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	261
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<b>Total under spend/over recovery of income</b>	<b>719</b>
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### **Shared HR**

The first half year recharge figures have just been received and are in line with the budget for the year. However, as part of the recharge is based upon staff numbers, the second half year costs will almost certainly increase when the Marlowe Theatre staffing comes into the overall equation. An assumption is made that a relatively small overspend will be the likely year end position.

### **Marlowe Theatre**

The Theatre is working to a business plan, and the Theatre Director has recently appointed a Finance Manager who has now reconfigured budgets and put in place key monitoring arrangements.

The Theatre has been fully operational since October and the majority of the current budgets are linked to this timescale. It is therefore difficult to make any clear judgement about predicted outturn until much later in the year. However, it is reassuring to note the Theatre Director is of the view that advance sales are currently very promising.

The pension costs problem from last year has now been eliminated as a result of early settlement in 2010/11 of the major liabilities.

### **Active Life**

The grant due under the terms of the agreement is about £18k more than the sum provided in the budget. Additionally there are some valid claims payable due to the operational changes at some of the sports centres that total about £20k.

It is however possible to cover this from a reserve that was set up last year for potential increased costs against this service, so there is no net impact on the General Fund this year.

### **Museums**

The income target for the Museum of Canterbury will not be achieved by about £30k, and Herne Bay Museum income is likely to be about £7k under budget. However, this is offset by estimated excess income of £10k for the Roman Museum, plus net expenditure savings against all Museums that taken all together show a neutral effect.

### **Public Safety Unit**

The grant from KCC has been reduced by £78k and therefore represents an overspend. However, a contingency was included in the current year budget for potential grant cuts via KCC, and as it stands at the moment the contingency can cover this particular issue and so it is not included in the table of income shortfalls. (See paragraph later in report)

## **Environment and Street Scene**

Departmental salaries overspend occurring as a result of the delay in restructuring the service.

## **Document Imaging/General Photocopiers**

There is an ongoing issue with the cost of running the corporate printers, which is directly linked to the number of prints, and the evidence appears to be that departments are printing more. Arrangements have been put in place this year to limit total print costs for each section within the council. Once the individual budget has been utilised, sections will have to find additional funds from within their area to contribute to the additional cost borne by DIS. This should reduce the potential overspend on rental click charge costs.

## **Commercial Rents**

The under recovery of income reflects the current market for commercial properties. In addition to some properties being vacant, some units have been let with a rent-free period, and the gross rental share figure has also reduced.

## **Building Control**

Adverse conditions in the construction industry have meant that there is likely to be a significant shortfall in the income received from fees of £183k. Receipts to date are below expectations, with no immediate sign of an improvement.

## **Development Control**

Adverse conditions in the general housing market have meant that there will be a significant shortfall in the income received from fees. The projected position has worsened since the first quarter, and there appears very little prospect of a sudden reversal of the current market trend. The income shortfall against budget is now estimated at £230k.

## **Land Charges**

The income target was reduced substantially this year, and the projection is now a modest £14k shortfall. Offsetting this is a New Burdens grant received of £34k.

## **Underspend/over recovery of income**

### **Finance Division**

Savings have accrued as a result of reduced hours and a previous restructure. Two posts were held vacant given the implications of future tranches of the shared services agenda. A further two staff have now transferred to other posts (EKSS and Marlowe Theatre). Pending appointment to one post and the outcome of the imminent restructure, it is prudent to cover the existing workload using existing staff and limited overtime as appropriate.

## **Interest payments and receipts and Minimum Revenue Provision**

The base rate has been at a record low of 0.5% for some time now and this impacts significantly on the interest that can be earned from the approved range of institutions and types of investment. Despite this we have been able to take advantage of some

higher than average interest arrangements and some higher balances. My prediction at present is that investment interest receipts will exceed budget by about £74k.

In addition there are savings of about £29k on Interest Payable and £119k on Minimum Revenue Provision (MRP)(akin to 'principal repayments'). This is due to three factors:

- i) borrowing less than estimated for the 2010/11 capital programme
- ii) borrowing less than estimated for the 2011/12 capital programme (by planning to use internal borrowing in 2011/12) until additional capital receipts are received in 2012/13.
- iii) utilising the MRP regulations which allow repayments to be spread over the life of the asset once it is operational – thus more of the actual 2010/11 capital financing using borrowing was attributed to major projects.

### **Car Parks.**

Overall there is a surplus against budget. On-Street receipts are projected to be about £60k in excess of budget, as a result of the full year of income from the coastal machines, and additional on street permits having been issued.

Off-Street income is holding up well, with the Coach Park generating a good level of receipts.

### **Corporate Issues**

#### **New Homes Bonus**

The budget provision is £400k. The actual sum received this year is £440k and is based upon an actual unit formula.

#### **Superannuation**

At the time the budget was set the Director of Finance had not concluded revised arrangements with KCC for contributions to the pension scheme. The final terms that have now been put in place are a reduced rate charged to services and a fixed sum for back-funding (which includes a share from the HRA). The net effect of this is a £340k saving to the General Fund.

#### **KCC Grants Contingency**

The budget includes a contingency for potential cuts to grants received from/via KCC of £200,000. The only known offset to date is the £78k reduction for the Public Safety Unit, and this has been applied to the service. The residual balance of £122k is now identified as a potential saving against the General Fund budget.

#### **Other Contingencies**

The arrangement with most of the contingencies is that if they are not needed for any particular issue during the year, then the budget will be transferred to a reserve at year-end. This is a prudent measure and will build up suitable balances to secure funding for potential liabilities in future years.

However, the Head of Finance has reviewed the actual provisions set aside, and at this stage of the financial year considers that £40k will not be required to meet potential liabilities, and can therefore be brought into the General Fund.

#### **Housing Benefits**

In pure cash terms Housing Benefits is by far the largest service operated by the council with spending in excess of £48 million, with an expectation of subsidy £296,000 above this figure. The very nature of the service means that overpayments do occur as a result of fraud, local authority error and claimant error, and the level and recovery of these overpayments can affect subsidy by hundreds of thousands of pounds.

The budget for 2011/12 assumes the highest level of subsidy from local authority error levels. Further work needs to be undertaken to assess the trend of total benefits paid and recovery levels, but at the present time, it appears reasonable to assume a figure of £100k subsidy in excess of budget. This takes account of the possibility of further reductions to the supporting people grant.

### **Customer Focus Reviews**

The initial funding for this consultancy work was due to come from three sources. One of those sources was the Environmental division, but this area is reporting an overspend against budgets, so will not have the capacity to contribute as it stands, unless budget savings are identified later in the year. Additionally, the consultants have been commissioned to do additional preliminary work on further CFR's for all other divisions at an estimated cost of £36k. There is no specific budget available for this work.

### **Commercial Properties**

The council holds the freehold interest in a particular commercial property, but there are several other parties that have some form of investment interest in the property. There is protracted ongoing action regarding the liabilities, which is subject to some extremely complex issues. To protect the council's interest, expert advice has been sought, and the sum of £17k has been spent in previous years. In the current year £40k has been incurred on legal advice for which no budget exists.

### **Non General Fund recoveries.**

The final outturn for 2010/11 revealed less time was charged to non General Fund activities (capital, HRA, rechargeable jobs etc). A review of the current year suggests that less time will be capable of being properly charged to this heading and a figure of £100k is reflected as an extra cost to be borne by the General Fund.

### **Other issues (not included in overall position table)**

#### **Pay Award**

The local branch of Unison have put forward a request for the Council to consider giving a pay award this year. The response to date is that given the financial constraints that prevail at present, the matter needs to be considered as part of the overall budget strategy.

This report does not take account of any potential extra costs associated with any level of pay award across the whole authority. Staffing budgets do not include a provision for a pay award this year.

#### **Concessionary Fares**

There are outstanding liabilities to be settled, but for monitoring purposes an assumption is made that all costs can be met from the sum held in the specific reserve.

### **Environmental Services Contract**

There is a £42k saving in the annual inflation provision with effect from April 2011 for the ESC contract compared to the budget provision, but this is offset in 2011/12 by additional costs for consultants and legal costs associated with the Recycling tender preparation.

### **Sponsorship**

The division responsible for sponsorship has indicated that the income target will be reached for the current year.

### **Contingent Liabilities**

At the time of writing this report there are no matters to consider under this heading.

### **Staffing**

Historically there are always staff savings, either the result of gaps between staff leaving and new staff being appointed, delays in appointing to new posts or general vacancies. This year may be different because of the reduction in staffing levels, but there is every reason to suspect that some staffing savings will be generated, especially as Management Team are monitoring all vacancies.

### **Overall Position**

Historically there has usually been a potential overspend position reported at the six month stage which has subsequently been pulled back to within the overall target by the year end.

The following table shows the position for the past eight financial years comparing the reported position at the second quarter stage to the actual outturn.

Financial Year	Position after second quarter	Year end position
2003/04	£66,000 overspend	£145,500 underspend
2004/05	£365,000 overspend	£148,000 underspend
2005/06	£378,000 overspend	£322,000 underspend
2006/07	£42,000 overspend	£475,000 underspend
2007/08	£17,000 overspend	£366,000 underspend
2008/09	£711,000 overspend	£522,000 overspend
2009/10	<b>£122,000 underspend</b>	£877,000 underspend
2010/11	<b>£404,000 underspend</b>	£991,000 underspend

Given the current economic position, and the adverse effect this is having on some major income streams, this is a satisfactory position based on second quarter figures. The council holds balances to smooth variations in expenditure and income and Appendix 2 shows the projected General Fund balance as things stand.

Management Team have taken action and intend to monitor the situation as usual. The position will be reported to the Executive at each quarter end.

## **Financial regulations**

Service delivery and associated budget management is the responsibility of Directors, Heads of Service and Managers. Financial regulations stipulate quite clearly that where budgets are showing an overspend position in actual or projected terms, then virements should be effected to regularise the position.

It is not a case of leaving budgets out of alignment on the basis that it will all be sorted out at year-end when hopefully things will balance out. It is an ongoing process and an aid to effective budget management, but obviously involves the concept of materiality.

There are a still a few unknowns at present, but it is hoped that no further issues will arise that cause the position to deteriorate significantly in later months this year. In any event there is scope to accommodate some negative variances and keep within a balanced budget. It is imperative that all staff responsible for budget management give a realistic position on possible savings as well as likely overspends when the figures for the nine month report are compiled.

## **Housing Revenue Account**

The HRA position is shown in Appendix 1.

## **Levels of balances and reserves**

Details in respect of the council's main balances and reserves are identified in Appendix 2.

### **2. Relevant Council Policy**

Corporate Plan – the Corporate Plan will not be adversely affected by the budget variations identified to date. Every effort needs to be made to ensure this continues to be the case, even with possible restrictions against expenditure.

### **3. Consultation**

Heads of Service and Budget Managers have received budget monitoring reports for the half year and their views have been sought on the projected outturn at meetings with financial representatives.

### **4. Options available**

Primarily the details given are for Councillors to endorse that Management Team take the action set out in the report and continue to monitor the situation.

### **6. Implications**

- (a) Financial Implications – these are contained in the body of the report.
- (b) Legal Implications – all expenditure has to be legally permissible.

### **Other implications**

- (c) Staffing/resource – these are contained in the body of the report
- (d) Property Portfolio - none
- (e) Environmental/Sustainability - none
- (f) Planning/Building Regulations - none

- (g) Human Rights issues - none
- (h) Crime and Disorder - none
- (i) Biodiversity - none
- (j) Safeguarding Children - none
- (k) Energy efficiency - none

## **8. Conclusions**

The General Fund Revenue Budget is projected to be £316k under-spent at this stage. It is anticipated that as the year progresses further savings may be identified, but the scope to do this is limited compared to the last financial year.

It will be for Management Team and the Executive to ensure the specific action taken is effective to deal with the issues raised and achieve a balanced budget by the year-end.

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### **List of background papers (excluding published works) for this report:**

Budget Monitoring Reports (IRD/MJ)