

# Item 7

## REPORT TO CABINET

15th SEPTEMBER 2005

## REPORT OF DIRECTOR OF RESOURCES

**Portfolio: RESOURCE MANAGEMENT**

### **REVENUE BUDGETARY CONTROL REPORT – POSITION AT 31<sup>st</sup> JULY 2005**

#### **1. SUMMARY**

This report summarises individual spending forecasts for the nine portfolios for 2005/2006, which shows that:

- The General Fund is expected to use balances of around £587,000 compared to a budgeted use of £800,000.
- The Housing Revenue Account is currently predicting an overspend of £183,000 before the refund of LSVT expenses from Sunderland Housing Group.
- The Training and Employment Service is anticipated to make an operating loss in the region of £95,000, in line with the initial budget forecast.

Details in respect of significant items previously only reported within the Annual Statement of Accounts are also included in order to provide a wider perspective on the Council's financial standing.

#### **2. RECOMMENDATIONS**

- That the financial position for 2005/2006 be noted.
- That a further report be submitted to Cabinet, detailing the position as at the 30<sup>th</sup> September 2005, 31<sup>st</sup> December and final outturn as at 31<sup>st</sup> March in line with the budgetary Control Monitoring Arrangements 2005/06 reported to Management Team on 22<sup>nd</sup> August 2005.
- Detailed reports be submitted to future Strategic Working Groups in order to monitor progress throughout the year.

#### **3. DETAILED FINANCIAL POSITION AT 31<sup>st</sup> JULY 2005**

##### ***3.1 Monitoring Arrangements for 2005-2006***

The budgetary control monitoring arrangements for 2005-2006 have been enhanced by ensuring that the Councils four Strategic Working Groups receive regular reports in respect of those areas of responsibility, but at a more detailed level than is presented to Cabinet for consideration.

The expectation is that issues arising from any significant variances from approved budgets will be considered by the Groups who will instigate corrective action where necessary and ensure that their deliberations are reported back to Cabinet at the next budgetary review opportunity.

Several of the Councils budgets are susceptible to market forces and as such if not closely monitored could lead to budget problems [E.g. Leisure Centre income, Planning & Building Regulation fees etc.]. Research is currently being undertaken as to how best to monitor these budgets and report on them. It is anticipated that once the framework has been agreed with the Director of Resources and relevant Heads of Service it will lead to monthly reporting to Management Team on the selected items. The results of the exercise will then influence future budgetary control reports commencing with the six-month position to Cabinet due in November 2005.

### 3.2 General Fund

The following table covers the first four months of 2005/2006 (April – July) and shows: -

- The approved budget for each of the main portfolios.
- The profiled budget for the first four months of 2005/2006.
- The actual income and expenditure as recorded in the Council's Financial Management System.
- Projected Probable Outturn for 2005/2006 based on spend to date and known commitments.
- Variance between the annual budget and the projected probable outturn.

The original approved budgets have been revised to take account of a full re-apportionment of asset charges across all Portfolios.

The Budgets also take account of the release of the funds in respect of Community Safety and Street Cleansing that were frozen pending the receipt of the proceeds of the land sale at Newton Aycliffe. As a consequence of the delay in the receipt of the funds the full resources allocated have been reduced to reflect the late implementation of the proposals for service growth resulting in £104,650 being transferred to the Contingency Sum to help balance the loss of investment income.

The overall financial position for the General Fund is therefore as follows: -

	<b>Budget 2005/06 £'000</b>	<b>Budget To Date £'000</b>	<b>Spend To Date £'000</b>	<b>Probable Outturn £'000</b>	<b>Variance £'000</b>
<i>Resource Management*</i>	687	(112)	250	745	58
<i>Culture and Recreation</i>	3,857	1,217	1,286	3,904	47
<i>Environment</i>	4,423	1,518	1,396	4,469	46
<i>Housing</i>	624	235	255	575	(49)
<i>Regeneration</i>	1,591	502	437	1,504	(87)
<i>Community Safety</i>	659	333	301	670	11
<i>Supporting People</i>	1,023	6023	5,917	784	(239)
<i>Contingency#</i>	346	-	-	496	-)
	13,210	9,716	9,842	13,147	(63)
<i>Use of Balances</i>	(800)			(587)	213
<i>Unanticipated Income</i>	-		(150)	(150)	(150)
<b>Budget Requirement</b>	<b>12,410</b>	<b>-</b>	<b>-</b>	<b>12,410</b>	<b>-</b>

\*Includes performance Management & Welfare & Communications Portfolios

#After accounting for anticipated salary savings amounting to £220,000.

On the basis that the whole of the contingency sum is fully utilised in 2005/2006 there will be an anticipated use balances of £587,000 against a budgeted use of balances of £800,000.

In preparing the probable outturn position, no account has yet been taken of the possible impact of the Job Evaluation exercise, which will be concluded in Autumn 2005. It is difficult to forecast what impact this may have on service costs but it is assumed that the contingency sum will be sufficient to meet any likely costs of the scheme.

The main features that contribute to the overall underspend include: -

### **3.2.1. Resource Management**

The projected spend to the 31<sup>st</sup> March 2006 is £745,000 compared to an initial budget of £687,000; an estimated overspend of £58,000.

The main factors that contribute to this overspend are as follows: -

- Delays in filling staff posts and staff turnover have resulted in savings of £46,000 within the Chief Executives Department and £168,000 within the Resources Department .
- The cost of the Long Service Award scheme for employees with 15 and 25 years of services is anticipated to cost £28,000 in the introductory year.
- Costs associated with the implementation and evaluation stages of Job evaluation are expected cost in the region of £43,000.
- As a consequence in the delays in receiving the significant capital receipt from the sale of land at Cobblers Hall, together with a downturn in investment rates being received mean that the level of investment income has fallen by £214,000.

### **3.2.2. Culture and Recreation**

The projected spend to 31<sup>st</sup> March 2006 is £3,904,000 compared to the initial budget approval of £3,857,000, a net overspend of £47,000.

The main factors contributing to the current overspend projection are as follows:-

- Early indications suggest that the income target for Spennymoor Leisure Centre is not going to be achieved as a consequence of the capital works being carried around the extension to the centre for the Gymnasium. [£10,000]
- Income targets set for the Bars are not going to be achieved mainly as a result of introducing the no smoking policy in the councils leisure centres [£16,000]
- Locomotion has now been open for nearly a year and a better understanding of the operating cost is emerging. Projections indicate that there will be additional costs in the region of £58,000, 50% of which will be met by the NRM.
- With effect from the 1<sup>st</sup> August 2005 the Council has discontinued using the Sildon pool, responsibility has now been passed back to Durham County Council saving £11,000.
- The Director of Leisure Services is looking carefully at his current spending commitments and expects to make significant inroads into the current overspend position by the 31<sup>st</sup> March 2006.

### **3.2.3. Environment**

Projected net expenditure to 31<sup>st</sup> March 2006 is £4,469,000 compared to the original budget approved of £4,423,000 - an overspend of £46,000 (or 1.1%).

The main issues that are having an impact on the anticipated final position are:-

- Delays in filling staff posts within the Environmental Services Section of the Neighbourhood Services team have resulted in savings of £30,000.
- Changes in the way the Council has to dispose of refuse following the closure of the Todhills tip now requires the refuse to be transferred to Thornley. This together with increased demand for the Special collection service have increased costs by approximately £40,000. The Head of Environmental Services is examining all costs associated with the service change in order to achieve savings, any additional costs may be met from the Contingency sum once the impact of Job evaluation has been assessed. In addition the target set for Trade Waste income is unlikely to be achieved resulting in a shortfall of income of £10,000.
- During the time when the Council had a substantial window replacement programme, an internal skip service was established, which helped generate additional income for the Refuse Collection Service. Although it has been reducing over the last couple of years, the pace of the reduction in the skip service has increased in the current year and the outturn forecast reflects a further potential loss of income of £20,000. The leasing agreement on the Skip vehicles is due for renewal later this year and it is likely that the service will be discontinued as a result.
- The current costs of the Street Cleansing service includes the costs of the single status agreement that was approved last February in the sum of £72,000. A transfer from the Contingency sum has met this and the final costs are still subject to the completion of job evaluation.
- The Director of Neighbourhood Service is looking carefully at his current spending commitments and expects to make significant inroads into the current overspend position by the 31<sup>st</sup> March 2006.

#### **3.2.4. Housing General Fund**

Projected spend to the 31<sup>st</sup> March 2006 is £575,000 compared to a revised budget approval of £624,000; an estimated underspend of £49,000 (or 8%), which is mainly as a result of :-

- Delays in filling staff posts within the Neighbourhood Services Department.
- Additional costs in bringing more Homeless units into service
- Loss of ERDF grant in respect of the Aycliffe Neighbourhood Management service.

#### **3.2.5. Regeneration**

The projected spend to the 31<sup>st</sup> March 2006 is £1,504,000 compared to an original budget approval of £1,591,000; an estimated underspend of £87,000.

The main reasons for the underspend are :-

- Salary savings resulting from the delay or non-filling of vacant posts within the Neighbourhood Services Department
- Additional income being generated from increases in Planning Fee income.
- Lower than anticipated occupancy rates on the Industrial Units, linked with rent - Revenue Budgetary Control Report - Position at 31<sup>st</sup> July 2005 free periods and other incentives are likely to result in a shortfall of rental income of £52,000.

#### **3.2.6. Community Safety**

The projected spend to the 31<sup>st</sup> March 2006 is £670,000 compared to a revised budget approval of £659,000 - an overspend of £11,000 (or 1.7%).

- At the time the budget was prepared provision for the appointment of 5 additional Neighbourhood Wardens was delayed because of the uncertainty of resources pending the receipt of the proceeds from significant land sales. In August 2005 Council gave permission for the release of the relevant resources and the process of recruiting the additional posts is now underway.
- The main reason for the projected overspend relates to increased leasing costs associated with the recent replacement of Neighbourhood Wardens vehicles including an excess mileage charge in respect of the replaced vehicles.

### **3.2.7. Supporting People**

The projected spend to the 31<sup>st</sup> March 2006 is £784,000, compared to an original budget approval of £1,023,000, an estimated underspend of £239,000 (or 23.4%).

The main factors which contribute to the underspend are all related to Housing benefits. During 2004-2005 the Government fundamentally changed the way Housing and Council Tax Benefit was funded. For example, Rent Rebates, which was previously accounted for in the HRA, were transferred into the General Fund. This created some uncertainty and transitional arrangements were put in place to protect the General Fund. The full implications of these changes only became apparent when the final subsidy claim for 2004-2005 was completed. The impact of the changes on 2005-2006 has now been fully re-assessed, resulting in an additional subsidy entitlement of £230,000

### **3.3 Housing Revenue Account (HRA)**

The projected position to the 31<sup>st</sup> March 2006 is an estimated contribution to HRA balances of £557,000 compared to a breakeven position when the budgets were originally prepared.

The main factors that have contributed to the underspend are:-

- An increase in net rental income after accounting for losses in respect of empty houses and a reduced bad debts provision. This is as a result of the downturn of Right to Buy Sales experienced in the first four months of the year.
- The budgetary position at the end of July 2005 indicates that the Housing Maintenance Budget will be overspent by around £225,000. These increased costs are partly as a result of works associated with the storm damage in the early part of the year. The Director of Housing is carefully examining the current spending profile in order to see what action can be taken to mitigate the overspend position.
- At this stage of the financial year it is assumed that the Contingency sum will be fully utilised during 2005-2006 partly to meet the costs of job evaluation.

It is anticipated that following the unsuccessful LSVT Sunderland Housing Group will be reimbursing the Council £740,000 in respect of pre-ballot costs.

### **3.4 Training and Employment Services**

The initial budget prepared for 2005/2006 predicted that the trading account would make an operating loss of about £95,000 [excluding asset charges] by the 31<sup>st</sup> March 2006. Current projections indicate that after the four-month stage this forecast remains unchanged. However Job Centre Plus has recently announced that the Adult Learning contract worth £400,000 to the Council is being substantially reduced with effect from 1<sup>st</sup> October 2005, this will have a significant impact on the

service. The full impact is currently being assessed and a report will be prepared for Cabinet's consideration at the earliest opportunity.

#### **4. Further revenue developments during 2005-2006**

Since the budgets were approved in February there have been a number of developments that have provided the Council with additional resources which could be made available to provide enhanced service delivery.

- The initial budget for Planning Delivery Grant assumed that the Council would receive a similar award to that received in 2004-2005. The Council has been notified that it will receive £270,950 in 2005-2006 an increase of £ 156,950. The rules governing the use of the PDG have changed since last year and 25% of the award has to be used for capital purposes. The Director of Neighbourhood Services is currently preparing a report for Cabinet's consideration on how the PDG could be utilised
- The Council has again been awarded a DEFRA Performance Standards Grant for Recycling and Composting amounting to £27,267. This is to be used by the Head of Environmental Services to help the Council achieve its 18% recycling target. Some of the funding will be spent on providing new and replacement kerb-it boxes.
- Members will be aware that the Director of Resources had engaged a Consultant to appeal against Rating Assessments levied on a number of the Council's properties in connection with all the Valuation lists issued since 1990. The Council benefited significantly from this approach in 2003-2004 with refunds totalling £894,000. The last few appeals in respect of two of the Leisure Centre have recently been determined resulting in a further refund of £165,000 [after Agents commissions] As the refunds related to earlier financial years there is no impact on the current budget for the Centres concerned and it is recommended that the sum be added into the Contingency sum.
- Over the last few years the Council has been participating in a county-wide Local Public Service Agreement and in particular the element relating to cost efficiency indicators. The Council has achieved its stretch performance target to which it signed up to which should release a performance reward grant in the region of £268,000 over the next two years.[ 50% of the grant has to be used for capital purposes ]. A report outlining how these resources will be used will be prepared for Cabinet's consideration in due course.

#### **5. Collection Fund Surplus**

The Council as billing authority for council tax and non domestic rates purposes maintains on behalf of the authorities which precept on the Council a separate set of accounts known as the Collection Fund. Whilst these accounts are not part of our normal budgetary control reporting arrangements any surplus or deficit on the fund has a direct impact on future council tax levels in the Borough. The projected surplus as at the 31<sup>st</sup> March 2006 is currently in the region of £730,000 of which £171,000 represents the Councils share,[compared with £250,000 for 2005-2006]. This estimated surplus is subject to fluctuation depending upon collection rates and levels of debt written off.

#### **6. Revenue Reserves 2005-2006**

Attached at appendix 1 is a schedule detailing all of the Council's revenue reserves, which reflects the latest budget spending projections, outlined above. It is anticipated that reserves totalling £10,085,100 will be available to the Council as at 31<sup>st</sup> March 2006. Details of how the Council will use these will be included in the

review of the Medium Term Financial Plan which will be considered by Cabinet later this year.

## 7. Revenue Provisions 2005-2006

In approving the Annual Statement of Accounts for 2005-2006 to Council in June 2005 the Director of Resources was given authority to create revenue provisions in the sum of £197,000 that would be utilised to meet specific additional commitments in 2005-2006 for which no budgetary provision had been made. In addition the Council has other revenue provisions amounting to £1,274,000 that relate in the main to premiums and discounts on debt rescheduling that will be charged to revenue accounts over a number of years in accordance with approved accounting practices. A full schedule of all the Provisions held is attached at appendix 2.

## 8. Balance Sheet Management

Previously Cabinet has only received updates during the year on the progress on revenue and capital projects.

Current best practice recommends that Council's should consider reporting significant items from the "balance sheet", and in particular those items that may have a material impact on the Council if not reviewed on a regular basis.

Whilst there is no guidance on what to include in the review it is considered prudent to consider the following items until guidance becomes available:-

- **External Loan Debt** – monies borrowed by the Council.
- **Short Term Investments** – surplus cash invested by the Council.
- **Sundry Debtors** – sums owed to the Council in respect of Rents, Council Tax, overpaid Housing Benefits, Mortgages and Accounts Receivable.

Performance Management arrangements closely monitor the above areas on at least a monthly basis to ensure that the Councils Treasury Management strategy is being adhered to in respect of the first two items and in respect of the last item debt recovery action is instigated where debts are not settled within expected time scales.

- **External loan debt**
  - The value of loans outstanding at the 31<sup>st</sup> July 2005 was £18.837m, down from £18.987m at the 31<sup>st</sup> March 2005.
  - The current strategy does not anticipate any new borrowing in the current financial year and consequently external loan debt at 31<sup>st</sup> March 2006 is expected to have reduced to £18.678m, an overall reduction in the year of £309,000.
  - Current interest rates are such that any debt rescheduling opportunities are unlikely in the foreseeable future.
- **Short Term Investments**
  - As at the 31<sup>st</sup> July 2005 the Council had £27.925m on short-term deposit with Financial Institutions. The original budget forecast of investment income was £1.4m, delays in the receipt of the land sale proceeds and the recent reductions in Bank Base rate will see investment income fall to approximately £1.186m. The Council will however actively pursue investment opportunities throughout the year in order to maximise investment returns. The reduction in investment income has been fully accounted for in the budgetary control statement.
- **Sundry Debtors**
  - Recovery of all sums due to the Council promptly can have a significant material impact on the cash-flow of the Council and lead onto higher than expected investment returns as indicated above if it is actively managed.

- As at the 31<sup>st</sup> March 2005 the Council recorded in its Annual Accounts that the amounts due from debtors amounted to £9.955m. A significant proportion of this debt related to year-end grant claims which is a normal position, at this time of year and will be certified and paid as an outcome of the external audit process.
- However some of the outstanding debt has to be actively managed to ensure that it is eventually collected and is not written off as a “bad debt”. As at the 31<sup>st</sup> July the following analysis is available [ Appendix 3 attached providing a more detailed breakdown]

Type of Debt	Total Arrears	Current Arrears	Aged Arrears
	£	£	£
Current Housing Rents	611,589	261,283	350,306
Former Tenants Housing Rents	958,050	-	958,050
Council Tax	4,455,259	1,125,339	3,329,920
Accounts Receivable	544,566	462,258	82,308
Housing Benefit Overpayments	341,410	178,720	162,690
Mortgages	600	600	-
<b>Total Outstanding debt</b>	<b>6,911,474</b>	<b>2,028,200</b>	<b>4,883,274</b>

Current arrears is debt less than 60days old & Aged arrears is debt older than 60days

- Housing Rent is a weekly charge on the property. The five area teams manage current arrears with former tenants being managed by a centralised debt recovery team. Both Teams work to an approved policy document which involves a number of stages culminating in seeking repossession where a current tenant fails to make arrangements to pay and referral to a certified bailiff in former tenant arrears cases.
- Council Tax is an annual charge and the arrears above reflect those accounts where no arrangements have been agreed to collect the initial charge by instalments. When accounts fall into arrears Liability Orders are obtained from the Magistrates Court. Where this procedure fails to obtain settlement of the debt a range of other recovery processes are initiated including use of certified bailiffs and committal proceedings. Whilst the level of arrears looks high it must be taken in the context of the overall total debit in excess of £253 million. The Council has a very good collection rate and since Council Tax was introduced it has achieved a collection rate in excess of £99%.
- Accounts Receivable debt can relate to any of the services that the Council provides. Debt recovery action is the responsibility of the department that provides the service and raises the initial invoice. If the department is unable to collect the debt the Director of Resources may refer the debt to a certified Bailiff for further recovery action.
- Housing Benefit overpayments usually arise where a person in receipt of benefit has failed to notify the Council of a change in circumstances that would effect their entitlement. If the claimant is still in receipt of benefit the overpayment is automatically recovered at the rate of £8.55 per week. Where the claimant is no longer in receipt of benefit of has vacated the property an accounts receivable invoice is sent to the person. In instance where a former claimant moves back into the Borough and becomes eligible for benefit the debt is reinstated and recovered from on-going entitlement.
- Mortgages debt is all current [i.e. less than 60 days old] and arrangements are in hand to recover the debt outstanding.

## 9. Training Issues

Effective Budget monitoring is dependant upon Heads of Service and Budget Holders taking ownership of the budgets they manage to ensure services are delivered in accordance with Councils priorities as outlined in the Corporate Plan. In order to ensure that these staff are aware of their responsibilities and have the skill to perform their financial management roles it is intended to engage an external facilitator at an estimated cost of £2,000. In addition the Accountancy Services section in conjunction with the councils ICT Trainer will be developing a training course for Financial Management System users to ensure it is used effectively .

## 10. CORPORATE POLICY IMPLICATIONS

This report does not contain proposals that would require any changes to the Council's agreed policy framework and corporate objectives.

## 11. RESOURCE IMPLICATIONS

There are no further resource implications arising from this report.

## 12. CONSULTATIONS

Comprehensive consultation has previously been held during the construction of the 2005/2006 Budget Framework. This report does not contain any proposals or recommendations requiring further consultation.

## 13. OTHER MATERIAL CONSIDERATIONS

There are no other significant material considerations arising from the recommendations contained in this report.

## 14. OVERVIEW AND SCRUTINY IMPLICATIONS

Consultation and engagement with Overview and Scrutiny Committees has previously been held in development and review of the 2005/2006 Budget Framework.

**Contact Officer:** Brian Allen (Director of Resources)  
**Telephone:** 01388-816166 Ext. 4003  
**E-Mail:** [ballen@sedgefield.gov.uk](mailto:ballen@sedgefield.gov.uk)

**Ward(s):** Not Ward Specific

**Background Papers:** ~ Report to Special Council 25<sup>th</sup> February 2005 – Budget Framework 2005/2006.  
~ Report to Council 29<sup>th</sup> June 2005- Statement of Accounts 2004-2005

### Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. Management Team has approved the report.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

