

Item 5

REPORT TO CABINET

14th SEPTEMBER 2006

REPORT OF HEAD OF FINANCIAL SERVICES

Portfolio: **STRATEGIC LEADERSHIP**

REVENUE BUDGETARY CONTROL REPORT – POSITION AT 31st JULY 2006

1. SUMMARY

This report summarises individual spending forecasts for the nine portfolios for 2006/2007, which shows that:

- The General Fund is expected to use balances of around £602,000 compared to a budgeted use of £500,000.
- The Housing Revenue Account is currently predicting a break-even position before the use of £100,000 use of balances to fund the first year costs of the HRA service improvement plan.
- The Training and Employment Service is anticipated to make an operating loss in the region of £125,000, a small reduction on the initial budget forecast.

Details in respect of significant Balance Sheet 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 2006/2007 be noted.
- That a further report be submitted to Cabinet, detailing the position as at the 30th September 2006, 31st December 2006 and final outturn as at 31st March 2007 in line with the budgetary Control Monitoring Arrangements 2006/07 reported to Management Team on 10th July 2006.
- Detailed reports be submitted to future Strategic Working Groups in order to monitor progress throughout the year.

3. DETAILED FINANCIAL POSITION AT 31st JULY 2006

3.1 Monitoring Arrangements for 2006-2007

The budgetary control monitoring arrangements for 2006-2007 have been enhanced by ensuring that the Councils five 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 2006. The first element of this monitoring process has been developed covering expenditure on salaries, wages and other employment expenses, the results of which have been built into the individual Strategic Working Group reports which are the foundations for this report.

3.2 General Fund

The following table covers the first four months of 2006/2007(April – July) and shows: -

- The approved budget for each of the main portfolios.
- The profiled budget for the first four months of 2006/2007.
- The actual income and expenditure as recorded in the Council's Financial Management System.
- Projected Probable Outturn for 2006/2007 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 in line with the new SORP arrangements that eliminate any charges for notional interest.

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

	Budget 2006/07 £'000	Budget To Date £'000	Spend To Date £'000	Probable Outturn £'000	Variance £'000
Strategic Leadership Healthy Borough	1,754.55	1,105.72	1,095.18	1,685.75	(68.80)
- Community Health	144.45	74.15	70.73	140.59	(3.86)
- Leisure & Culture	3,610.68	1,163.16	1,095.65	3721.01	110.34
Strong Communities					
- Housing	554.41	232.65	225.92	578.55	24.14
- Safer Communities	797.00	368.89	363.51	841.85	44.85
Prosperous Borough					
- Learning & Employment	232.21	(45.32)	(53.11)	168.87	(63.34)
- Social Regeneration & Partnership	1,953.75	343.57	343.82	1,942.20	(11.55)
Attractive Borough					
- Environment	5,205.64	1,768.92	1,668.47	5,235.52	29.88
- Planning & Development	467.75	154.13	25.12	385.28	(82.47)
Contingency & Salary Savings	(174.96)	-	(52.30)	(52.30)	122.66
	14,545.48			14647.32	101.84
Use of Balances	(500.00)			(601.84)	(101.84)
Budget Requirement	14,045.48			14045.48	-

Revenue Budgetary Control Report – Position at 31st July 2006

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

Salaries and Wages costs amount to approximately 30% of the gross spend on the Council's General Fund services, and as a consequence the relevant budgets are monitored very closely on a monthly basis. The full impact of any changes to the approved establishment structures, regradings as a consequence of exam success / skills matrix progression and staff turnover are factored into a financial model and the probable outturn for each individual Portfolio has been adjusted accordingly. The Council set a savings target of £260,000 equivalent to a turnover rate of 2.5% that on current projections will be achievable by the 31st March 2007.

The following sections therefore concentrate on factors other than staffing which are having an impact on budgets.

3.2.1. Strategic Leadership

The projected spend to the 31st March 2007 is £1,685,750 compared to an initial budget of £1,754,550; an estimated underspend of £68,800

The main factor that contributes to this underspend relates to the Capital Financing Charges & Asset Management Account Charges which is showing an additional charge to the Council. This is partly due to lower than anticipated investment income on surplus monies invested, in addition the Housing Revenue Accounts share of any investment interest received has increased as a consequence of higher levels of HRA reserves.

3.2.2. Healthy Borough

The projected spend to 31st March 2007 is £3,861,600 compared to the initial budget approval of £3,755,130, a net overspend of £106,470

There are a number of reasons for the projected overspend which are detailed below:-

- As a result of the recent large price increases in gas and electricity, costs for the four leisure centres have increased significantly. It is anticipated that by the 31st March 2007 costs will exceed budgetary provision by about £43,000.
- The current projected overspend on the Locomotion budget of £39,000 reflects increases in electricity prices and employee costs. The Museum Manager is currently reviewing the operations at Locomotion in order that the budget can be brought back within target by the 31st March 2007
- The income target for the Council's bar & catering operations within the four leisure centres are unlikely to be achieved resulting in a potential reduction in the trading profits amounting to £23,600. A review is being undertaken to resolve some of the issues affecting this service

3.2.3. Strong Communities

Projected net expenditure to 31st March 2007 is £1,420,400 compared to the original budget approved of £1,351,410 - an overspend of £68,990 (or 5.1%).

The main issue that are having an impact on the anticipated final position is a projected overspend on homeless accommodation costs

3.2.4. Prosperous Borough

Projected spend to the 31st March 2007 is £2,111,070 compared to a revised budget approval of £2,186,960; an estimated underspend of £74,890, which is mainly as a result of :-

- The income target for rental income in respect of the Shildon Business Centre are expected to be exceeded as a consequence of higher occupancy levels of the offices and industrial units.
- The income targets set for Industrial Estates will not be achieved even though occupancy levels are in excess of 90%. This is a result of rental incentives that have been offered to attract tenants; however as these incentives expire the rental stream should increase.

3.2.5. Attractive Borough

The projected spend to the 31st March 2007 is £5,620,800 compared to an original budget approval of £5,673,390; an estimated underspend of £52,590.

The main reason for the underspend shown above are detailed below:-

- Staffing costs and increased transport costs in respect of the Refuse Collection Service amount to an additional £41,800. The Environmental Services Manager is currently examining the reasons for the potential overspend with the aim of achieving a balanced budget by the 31st March 2007. Progress on achieving this target will be highlighted in the next report to this Group based on the position as at 30th September 2006.
- Additional income over and above that normally expected has been received from both Planning and Building Regulation fees amounting to £96,000.

3.2.6. Contingency Sum & Virement

In determining the Budget Framework for 2006-2007 the Council allocated the sum of £504,480 to meet the impact of Job Evaluation [£350,000] with the remainder set-aside to meet any unforeseen cost demands throughout the year [£154,480].

The contingency sum that was set-aside for Job Evaluation has been fully reallocated to the services that were affected by the review.

The Council has already received several requests for use of the general contingency sum and Cabinet has now approved supplementary budgets as detailed below

- Concessionary Travel Scheme - £72,000 [Cabinet - 15th June 2006]
- Communications Officer – 5,800 [Cabinet - 29th June]
- Audit Committee - Special Responsibility Allowances – £6,160 [Council 28th July 2006]
- External Consultation Strategy - £20,000 Cabinet 11th November 2004
- **The balance remaining unallocated amounts to £50,520**

There have been no requests received to date to Vire budgets between Portfolios or Service budgets within Portfolios.

3.3 Housing Revenue Account (HRA)

The projected position to the 31st March 2007 is broadly in line with the original budget forecasts approved in February 2006 that projected a breakeven position. The budget also assumed a use of HRA balances towards the first year costs of the HRA Service Improvement Plan amounting to £100,000.

The main factors that have been taken into account in preparing this financial position 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 in the downturn of Right to Buy Sales experienced in the first four months in the year.
- The budgetary position at the end of July 2006 indicates that the Housing Maintenance Budget will be overspent by around £100,000. However 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 has been assumed that the balance on the Contingency sum after accounting for the costs of the job evaluation exercise will be fully utilised during 2006-2007.
- It has been assumed that the full amount of the revenue contribution will be required to support the HRA capital programme

3.4 Training and Employment Services

The initial budget prepared for 2006/2007 predicted that the trading account would make an operating loss of about £138,000 [excluding asset charges] during the year. Current projections indicate that this forecast now amounts to £125,000.

4. Further revenue developments during 2006-2007

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

Planning Development Grant [PDG]

- The Council has been notified that it will receive £288,073 in 2006-2007, which is broadly in line with the Budget Framework expectations. The rules governing the use of the PDG mean that 25% of the award has to be used for capital purposes.
- As at the 1st April 2006 the Council still had £233,000 of PDG unused from prior years, this together with the current year allocation means that the Council has approximately £449,000 available to support Planning Initiatives. It is anticipated that £260,000 will be used in 2006-2007 as detailed in the 2006-2007 Budget Framework leaving £144,500 to support revenue initiatives in 2007-2008 and beyond. £44,545 of the funds held at the 1st April 2006 has been transferred into Capital Reserves in accordance with the Grant conditions outlined above.

DEFRA Performance Standards Grant

- The Council has again been awarded a DEFRA Performance Standards Grant for Recycling and Composting amounting to £71,951 which has to be spent 50% on revenue and 50% on capital, this is in addition to the 2005-2006 award of £27,267 which was unspent last year and which is now being used to fund the current green waste scheme in Newton Aycliffe. Notification has already been received that an additional £75,363 will be made available in 2007-2008. A full report on how the resources will be spent is currently being prepared by the Head of Environmental Services

Local Public Service Agreement

- 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]. This grant has not been factored into the budget plans as these payments are one off and will be used for specific performance improvement initiatives.
- In addition the Council is to receive at least £47,000 on the same basis as the cost efficiency award in respect of Waste Recycling.
- A report outlining how these resources will be used will be prepared for Cabinet's consideration in due course.

Local Authority Business Growth Initiative

- The Council has recently been notified that a further £45,141 has been allocated to Sedgfield Borough under the above initiative. The Council has not yet formulated its plans in respect of these funds and in the meantime they will be added directly to the Budget Support Fund.

5. Annual Efficiency Savings

The Council in line with Government targets will be pursuing opportunities to ensure that efficiency savings are achieved in the region of £400,000 per annum over the three-year period 2005-2006 to 2007-2008. The target saving for the current financial year is £406,000. The aim is to secure savings to reinvest and direct resources towards achievement of both corporate and service specific objectives.

Efficiency will be improved by examining methods of raising productivity and enhancing value for money, following best practice guidance. An update on progress in achieving the target will be included in the next report.

6. 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 balance on the collection fund as at 31st March 2006 was £758,000, £855,600 was used by Sedgefield Borough and the other Principal Precepting authorities to support council tax levels during 2006-2007. The projected surplus as at the 31st March 2007 is currently estimated to be in the region of £630,000 of which £145,000 represents this Council's share [compared with £200,000 for 2005-2006]. This estimated surplus is subject to fluctuation depending upon collection rates and levels of debt written off.

7. Revenue Reserves 2006-2007

The Council held reserves totalling £11.828m at the 1st April 2006 [excluding the Collection Fund] with the budget framework report in respect of 2006-2007 assuming that £0.50m would be utilised in this financial year.

Following the update of the Council's Medium Term Financial Plan 2006-2009 Cabinet approved a use of the Asset Management Fund to support the capital programme amounting to £100,000.

Attached at appendix 1 is a schedule detailing all of the Council's revenue reserves, which reflects the latest budget spending projection, outlined above. It is anticipated that reserves totalling £10.44m will be available to the Council at 31st March 2007.

However the Council still has to deal with the issue of Equal Pay. The report on Job Evaluation considered by Cabinet on 2nd March 2006 made it clear that whilst Job Evaluation had been introduced Equal Pay was still outstanding. Discussions with the Unions and ACAS are ongoing and it is too early at this stage to indicate the likely cost of any claims to be met. Any claims that are finally agreed will need to be met directly from either the General Fund or Housing Revenue Account reserves.

8. Revenue Provisions 2006-2007

In approving the Annual Statement of Accounts by the Council for 2005-2006 in June 2006 the Director of Resources was given authority to create revenue provisions in the sum of £349,500 that would be utilised to meet specifically identified commitments in 2006-2007 for which no budgetary provision had initially been made.

In addition the Council has other revenue provisions amounting to £733,200 that relate to Revenue Grants which were unused at the 31st March 2006, most of these grants will be utilised during 2006-2007 to support the activities for which the grant was awarded, though in the case of the Planning Delivery Grant it is likely that the grant will not be fully utilised until at least 2008-2009.

The remaining provisions relate to premiums and discounts that have been incurred on debt rescheduling, they 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.

9. Balance Sheet Management

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.

CIPFA is intending to issue some official guidance on Balance Sheet Management later this year. This will be reviewed and if there are any areas that are not currently included within our reporting arrangements they will be incorporated at the earliest opportunity.

In the absence of any official guidance it is considered prudent to consider the following items until the CIPFA guidance becomes available.[Publication date 28th September 2006]

- **External Loan Debt** – monies borrowed by the Council.
- **Short Term Investments** – surplus cash invested by the Council.
- **Current 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 31st July 2006 was £18.662m, down from £18.679 at the 31st March 2006
 - The current strategy does not anticipate any new borrowing in the current financial year and consequently external loan debt at 31st March 2007 is expected to have reduced to £18.641m, an overall reduction in the year of £38,000.
 - Debt restructuring opportunities that arise throughout the year will continue to be examined to reduce the Councils long term financing costs
- **Short Term Investments**
 - As at the 31st July 2006 the Council had £27.00m on short-term deposit with Financial Institutions. The original budget forecast of investment income was £1.310m, the current year-end projections indicate a shortfall on the initial budget in the region of £1.291m which has been taken into account in the forecast for Strategic leadership Portfolio shown above.
 - The Council will however actively pursue investment opportunities throughout the year in order to maximise investment returns taking into account the Treasury Management Strategy approved by Council in February 2006.

- **Current 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 31st March 2006 the Council recorded in its Annual Statement of Accounts that the amounts due from debtors amounted to £9.899m. [£10,225 for 2004-2005]. A 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 30th June the following analysis is available [Appendix 3 attached provides a more detailed breakdown].

Type of Debt	Total Arrears	Current Arrears	Aged Arrears
	£	£	£
Current Housing Rents	641,477	322,327	319,150
Former Tenants Housing Rents	854,943	-	854,943
Council Tax – Current year	2,504,669	1,911,159	593,510
Council Tax – Prior Years	2,682,958	166,675	2,516,283
Accounts Receivable	753,339	623,882	129,457
Housing Benefit Overpayments	354,214	134,020	220,194
Mortgages	644	644	-
Total Outstanding debt	7,792,244	3,158,707	4,633,537

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 Housing Management teams manage current arrears with former tenants being managed by a centralised debt recovery team. All 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 Certificated 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 Certificated Bailiff and committal proceedings. Whilst the level of arrears looks high it must be taken in the context of the overall total debit raised since the introduction of Council Tax now exceeds £283 million, and as appendix 3 illustrates that the Councils collection rate is in excess of 99% of amounts due.
- 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 Certificated 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 £8.70 per week. Where the claimant is no longer in receipt of benefit or has vacated the property an accounts receivable invoice is sent to the person if a forwarding address is known. 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 arrears [i.e. less than 60 days old] and arrangements are in hand to recover the debt outstanding from the one debtor in arrears.

10. Training Issues

It is accepted by Accountancy Section that financial training needs to be developed in respect of two specific areas:-

- *Users of the Agresso Financial Management System*
- *Budget Holders / Heads of Service*

The Council's financial management system (Agresso) is a complex piece of software and continues to be developed and upgraded. It is also very flexible in terms of its reporting capabilities and the management information available.

It is acknowledged that training for all accounts payable and accounts receivable users and authorisers of expenditure needs to be developed, as well as training for budget holders to enable them to make most efficient use of the reporting facilities available.

This will be particularly important as the 'Invoice Manager' module continues to be rolled out to all departments during the year. This will improve the Council's knowledge about procurement activities that are undertaken and allow more effective purchasing decisions to be made.

Arrangements need to be put in place with the Council's ICT Trainer for her to be trained in order to provide the requisite training required on an ongoing basis, which should resolve most of the problems currently being encountered. When this has been achieved, a series of training updates could then be established as part of the Council's annual training programme.

Accountancy Services delivered financial training for all Heads of Service and budget holders during 2005/06, with emphasis on budgetary control responsibilities. This training package will continue to be developed and will be delivered during 2006/07 as required.

During 2004 the Council used the services of IPF Ltd. to deliver a course on Integrating Financial Planning And Three-Year Budget Forecasts. With the Government having now introduced three-year grant settlements, it is now considered appropriate to run this course again.

11. LINKS TO CORPORATE OBJECTIVES & VALUES

The details contained in the report support the Council's corporate value of being responsible with and accountable for public finances.

12. RESOURCE IMPLICATIONS

There are no further resource implications arising from this report.

13. CONSULTATIONS

Comprehensive consultation has previously been held during the construction of the 2006/2007 Budget Framework. This report does not contain any proposals or recommendations requiring further consultation.

14. OTHER MATERIAL CONSIDERATIONS

14.1 *Links to Corporate Objectives/Values*

The Council's Corporate Objectives and Values have guided the preparation of the 2006/07 Budget Framework throughout. Resource availability has been fully re-assessed and directed to assist in achieving the Council's key priorities as set out in the Corporate Plan. Particular emphasis has been placed on the following Corporate Values:-

- *Be responsible with and accountable for public finances.*
- *Consult with service users, customers and partners.*

14.2 *Risk Management*

There has been no further risks identified other than those highlighted in the report to Council on the 24th February 2006.

14.3 *Health and Safety*

No additional implications have been identified.

14.4 *Equality and Diversity*

No material considerations have been identified.

14.5 *Legal and Constitutional*

The Budget Framework has been prepared in accordance with the Council's Constitution and full account has been taken of new statutory requirements, e.g. the new statutory minimum concessionary fares scheme. No other legal or constitutional implications have been identified.

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

15. OVERVIEW AND SCRUTINY IMPLICATIONS

Consultation and engagement with Overview and Scrutiny Committees has previously been held in development and review of the 2006/2007 Budget Framework.

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Ward(s): Not Ward Specific

Background Papers: ~ Report to Council 24th February 2006 – Budget Framework 2006/2007.
~ Report to Council 24th February 2006 – Treasury Management Strategy 2006 -2007.
~ Report to Council 30th June 2006 -- Statement of Accounts 2005-2006

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"/>