

# Item 4

## REPORT TO CABINET

20<sup>th</sup> NOVEMBER 2008

## REPORT OF DIRECTOR OF RESOURCES

**Portfolio: STRATEGIC LEADERSHIP**

### **REVENUE BUDGETARY CONTROL REPORT – POSITION AT 30<sup>th</sup> SEPTEMBER 2008 AND PROBABLE OUTTURN 2008/09**

#### **1. SUMMARY**

This report summarises the projected outturn position on the Council's revenue activities that shows:

- The General Fund is expected to use balances of around £1.146m compared to a budgeted use of £0.790m – an additional use of £0.356m.
- Both the Housing Revenue Account and Training and Employment Service are undergoing a process of transferring service provision to external organisations and a financial position statement will be prepared in due course in order to fully incorporate the implications of the transfer.

Details in respect of significant Balance Sheet items are also included in Paragraph 9 in order to provide a wider perspective on the Council's financial standing.

#### **2. RECOMMENDATIONS**

It is recommended that: -

- Cabinet notes the position as at 30<sup>th</sup> September 2008 and the projections for the financial year
- That a further report be submitted detailing the position as at the 31<sup>st</sup> December 2008.

#### **3. DETAILED FINANCIAL POSITION**

##### ***3.1 Probable Outturn for 2008/09***

The overall forecasted outturn position for the General Fund shows an overspend of £356,000. This is solely attributable to the current economic climate with the Council, in common with other organisations, experiencing severe pressure in energy and fuel bills, a downturn in income and reduced investment returns following a downturn in housing land sales. In fact the collective impact of these 3 areas alone far outweigh the net overspend as the Council is achieving higher than forecasted savings in employees budgets but is also managing other budgets very closely to aid the consolidated position.

It is expected that the forecast presented in this paper represents a pessimistic picture and Directors are in the process of implementing other actions/initiatives that will minimise and reduce expenditure in the latter part of the financial year.

Members will continue to receive quarterly reports but budgets are being reviewed monthly with a close watch being given to the volatile areas as shown in paragraph 3.4.

### 3.2 Monitoring Arrangements for 2008-2009

As part of the Council's budgetary control monitoring arrangements for 2008-2009 regular reports will be presented to Cabinet detailing the Council's financial position throughout the year. In addition more detailed reports will be considered by the various Strategic Working Groups on a similar reporting cycle.

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.

### 3.3 General Fund

The following table covers the financial year 2008-09 and shows: -

- The approved budget for each of the main portfolios.
- The actual income and expenditure as recorded in the Council's financial management system as at 30<sup>th</sup> September 2008
- Forecasted outturn for 2008-2009 based on spend to date and known commitments as at 30<sup>th</sup> September 2008
- The variance between the annual budget and the projected outturn.

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

	<b>Budget 2008/09 £'000</b>	<b>Spend to Date £'000</b>	<b>Probable Outturn £'000</b>	<b>Variance £'000</b>
<b>Strategic Leadership</b>	1,479	551	1,591	112
<b>Healthy Borough</b>				
- Community Health	162	85	154	(8)
- Leisure & Culture	3,987	1,827	4,120	133
<b>Strong Communities</b>				
- Housing	740	321	895	155
- Safer Communities	1,175	643	1,175	-

<b>Prosperous Borough</b>				
- Learning & Employment	251	5	194	(57)
- Social Regeneration & Partnership	1,869	4,824	1,813	(56)
<b>Attractive Borough</b>				
- Environment	5,716	2,719	5,723	7
- Planning & Development	496	267	486	(10)
<b>Other Efficiency Savings</b>	(80)	-	-	80
	15,795	11,242	16,151	356
<b>Use of Balances</b>	790	-	1,146	(356)
<b>Budget Requirement</b>	15,005	-	15,005	-

**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 Council set a savings target of £480,000 equivalent to a turnover rate of 5%, [that has now been redistributed across all of the Portfolios]. It is anticipated that the performance target set will be achieved by the 31<sup>st</sup> March 2009. In addition, it is estimated that an additional £300,000 will be saved over and above this target due to a higher level of staff turnover in the run up to local government reorganisation.

Depending upon where staffing vacancies fall there may be a need to seek the appointment of agency staff where it is found difficult to recruit a replacement to ensure continuity of service delivery in key service areas.

**The following section therefore concentrates on factors other than staffing that are having an impact on individual Portfolio budgets.**

**3.3.1. General Fund**

Portfolio	Area of Spend	Comment
<b>Strategic Leadership</b>		<p>The main features that contribute to the overall change in the Portfolio's expected net spend [excluding the impact of salary savings] include: -</p> <p>A net increase in the <b>capital financing charges</b> budget of £106,000 due to reduced investment income arising from a delay in a capital receipt from the sale of surplus land and lower investment rates.</p> <p>Energy costs in the <b>civic buildings</b> budget are £34,000 above budget due to unexpected increases in the price of electricity and gas.</p>

<b>Healthy Borough</b>	<b>Community Health</b>	There are no areas that are currently causing budget concerns, a small underspend of £8,000 is anticipated.
	<b>Leisure &amp; Culture</b>	<p>The overall position for this Portfolio is a projected overspend of £133,000.</p> <p>An increase in <b>energy prices</b> by over 40% has led to an overspend of £158,900 in the energy budget at the four leisure centres and largely accounts for the overall overspend of this report.</p> <p>There are several areas of the budget that are being monitored closely as they are considered to be volatile and subject to external user pressure, namely the use of the leisure centre facilities and bar /catering income.</p> <p>There are a number of other areas that are generating savings, such as reduced salaries costs and this has enabled the overspend to be reduced to £133,000.</p>
<b>Strong Communities</b>	<b>Housing General Fund</b>	<p>The overall position for this portfolio is a projected overspend of £155,000.</p> <p><b>Selective Licensing</b> income for Private Sector Landlords is estimated to be around £7,000 against a budget of £66,000 – a shortfall of £59,000.</p> <p>There is a reduction in fee income in respect of <b>home improvement agency</b> grant administration of £51,000. The budget anticipated a capital programme of around £1.4m, however the actual programme was set at £1m and the reduced level of activity means that less income will be generated.</p> <p>The salary savings target of £28,000 for this portfolio is not being achieved.</p>
	<b>Safer Communities</b>	There are no areas that are currently causing budget concerns, and the outturn is estimated to be in line with the budget.
<b>Prosperous Borough</b>	<b>Learning and Employment</b>	<p>The overall position for this portfolio is a projected underspend of £57,000.</p> <p>There are a number of vacancies within the Economic Development Section which have resulted from staff turnover, these are being monitored closely and the impact of any savings will be included in future reports. Also there has been a slight increase in the amount of LEGI grant received to cover administration costs.</p>
	<b>Social Regeneration and Partnership</b>	In overall terms the outturn position is expected to be in line with the planned budget.

<b>Attractive Borough</b>	<b>Environment</b>	There are currently no major issues of concern and the expected position is a small overspend of £7,000.
	<b>Planning and Development</b>	There are no major issues in this portfolio and it is anticipated that there will be small underspend of £10,000.

### 3.4 Volatile Budgets – Position at 30<sup>th</sup> SEPTEMBER 2008

An earlier report to this Cabinet introduced the concept of Volatile budget reporting and outlined the actions being taken to monitor those specific budgets that were considered to be 'volatile' in nature. The following table shows the anticipated outturn position on these 'uncertain' areas of the budget:

<b>Budget Head</b>	<b>Budget 2008-2009 £</b>	<b>Anticipated Outturn £</b>	<b>Variance £</b>	<b>Volatility Status</b>
Land Charges	232,000	192,000	40,000	Amber
Investment Interest	1,330,000	1,245,000	85,000	Amber
Building Control Fees	175,000	175,000	-	Green
Planning Fees	460,000	460,000	-	Green
Trade Waste Income	230,660	225,000	5,660	Amber
Fixed Penalty Notices	10,000	2,000	8,000	Red
Energy Costs (1)	856,840	1,124,350	267,510	Red
<b>Leisure Centres</b>				
- Catering (2)	142,500	98,500	44,000	Amber
- Bars (2)	210,000	179,600	30,400	Amber
- Use of Facilities	1,339,000	1,269,000	70,000	Red

(1) The additional costs of £267,510 are allocated to the revenue accounts as follows - £183,550 to the general fund, £74,860 to the HRA and £9,100 to Chilton Depot.

(2) Although bars and catering are collectively showing a shortfall in income of around £74,000, operating costs of these functions have reduced by the same amount which means that the budget is cost neutral.

The volatility status indicates the final outturn on the specific budget head, with **red** indicating that the target was not achieved, **amber** indicating that the target was not achieved but the overall variance is within acceptable tolerances and **green** indicating that the income target was achieved or exceeded.

All of the above budget heads have been incorporated within the control figures for the relevant Portfolios and commentary has been included where appropriate within the relevant sections of this report, especially where Budget holders have taken account of falling income streams and reduced operating expenses accordingly, this particularly applies to the bar & catering activities within the Leisure Centres.

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

In July 2008 tenants were formally balloted as to whether they supported the Council's proposal to transfer the stock and associated assets to Sedgefield Borough Homes. They voted in favour of the proposal and the Council is therefore proceeding with the stock transfer, subject to final approval of the valuation, the terms of the transfer contract and obtaining all necessary statutory consents

Council considered a detailed report on the 6<sup>th</sup> August 2008 providing financial implications of pursuing the stock transfer. Project teams have been created, which are working detailed project plans, to ensure that LSVT is delivered by the end of March 2009.

In light of the above, the financial position of the HRA is currently being reviewed to incorporate the implications of the costs and issues arising from the LSVT process. A further report will therefore be prepared showing the expected overall financial position of the HRA for 2008/09. In the meantime, detailed budgetary control monitoring arrangements continue to be exercised for individual budget heads within the HRA.

### **3.6 Training and Employment Services**

The initial budget prepared for 2008/09 predicted that the trading account would require the use of £14,690 in balances and was prepared on the basis of a full year of operation.

A key priority project in the Council's Transition Plan 2008-09 was the merger of the Council's Training and Employment Service with Bishop Auckland College. The training function was successfully transferred at the beginning of November 2008. A statement on the financial position will be prepared in due course once the trading position has been finalised.

## **4. Further revenue developments during 2008-2009**

- There have been no further awards of additional funds since the last report was prepared.

## **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.

As at the 31<sup>st</sup> March 2008 there was an accumulated surplus on the Fund of **£404,000**, the Borough's share being **£91,250**. Whilst a higher level of funds is being distributed than is currently being held [**£694,900**] the shortfall will be collected during this year.

## 6. Revenue Reserves 2008-2009

The Council held reserves totalling **£7.646m** at the 1<sup>st</sup> April 2008 [excluding the Collection Fund] with the budget framework report in respect of 2008-2009 assuming that **£1.985m** would be utilised in this financial year. The current projection is a use of reserves amounting to **£2.363m** as indicated below: -

	<b>Planned</b>	<b>Revised</b>
<b>FUND</b>	<b>£'000</b>	<b>£'000</b>
<b>Balances at 1<sup>st</sup> April 2008</b>	<b>7,646</b>	<b>7,646</b>
Revenue Purposes		
- Budget Support Fund	790	1,146
- Debt Management Fund	106	106
- Economic Development Fund	90	77
- LABGI Economic Growth Funds	554	554
- Other Funds	75	75
- Housing Revenue Account	70	-
Capital Purposes		
- Asset Management Fund	200	302
- Private Sector Housing Fund	100	103
<b>Anticipated Balance at 31<sup>st</sup> March 2009</b>	<b>5,661</b>	<b>5,283</b>

The split of revenue reserves as at 31<sup>st</sup> March 2009 would be as follows: -

	<b>GENERAL FUND</b>	<b>HRA</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balances at 1<sup>st</sup> April 2008</b>	<b>6,213</b>	<b>1,433</b>
<b>Anticipated Use in 2008/09</b>	<b>2,363</b>	<b>-</b>
<b>Anticipated Balance at 31<sup>st</sup> March 2009</b>	<b>3,850</b>	<b>1,433</b>

## 7. Revenue Provisions 2008-2009

In view of the Council's favourable outturn position in 2007/08 provision was made to carry forward unused resources amounting to **£751,300** into the current year to meet specific needs identified within the Budget and Policy Framework, this was in line with the Financial Regulations.

In addition the Council has received grant funding in respect of specific initiatives that was unspent at the 31<sup>st</sup> March 2008 amounting to **£641,900**. The budget framework already assumes that most of this grant funding will be utilised in 2008/09. The use of the provisions is being monitored as part of these budgetary control arrangements.

## 8. Balance Sheet Management

Best practice recommends that Council's should report 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.

Based on CIPFA guidance it is considered prudent to report on at least the following items: -

- **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 30<sup>th</sup> September 2008 was **£18.578m**, down from **£18.600m** at the 1<sup>st</sup> April 2008

#### **Short Term Investments**

- As at the 30<sup>th</sup> September 2008 the Council had **£20.580m** on short-term deposit with Financial Institutions, compared with **£21.770m** at the 31<sup>st</sup> March 2008. The original budget forecast of investment income was **£1.330m** and the current projections as at 30<sup>th</sup> September indicate an outturn of **£1.264m** and this is the figure that has been taken into account in the forecast for Strategic Leadership Portfolio shown above.
- The Council will however continue to actively pursue investment opportunities throughout 2008/09 in order to maximise investment returns taking into account in the Treasury Management Strategy.

#### **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 31<sup>st</sup> March 2008 the Council recorded in its Annual Statement of Accounts that the amounts due from debtors amounted to **£8.758m**. [£9.026m for 2006-07]. A proportion of this debt related to year-end grant claims, which is a normal position at this time of year and these have now been 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 30<sup>th</sup> September 2008 the following analysis is available.

Type of Debt	Position @31/03/2008	Position @ 30 <sup>th</sup> September 2008		
		Total Arrears	Current Arrears	Aged Arrears
	£	£	£	£
Current Housing Rents	430,519	473,447	243,885	229,562
Former Tenants Housing Rents	521,372	492,054	-	492,054
Council Tax – Current year	1,548,570	2,371,221	672,200	1,699,021
Council Tax – Prior Years	1,890,030	2,407,675	43,241	2,364,434
Accounts Receivable	1,117,653	1,618,335	1,442,130	176,205
Housing Benefit Overpayments(1)	555,515	611,338	389,516	221,822
Mortgages	338	281	281	-
<b>Total Outstanding debt</b>	<b>6,063,997</b>	<b>7,974,351</b>	<b>2,791,253</b>	<b>5,183,098</b>
<b>Position 31<sup>st</sup> March 2008</b>		<b>6,063,997</b>	<b>1,563,639</b>	<b>4,500,358</b>

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

(1) Housing benefit overpayments position shown is as at 31/08/08

- 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 debt raised since the introduction of Council Tax now exceeds £350m, the Councils collection rate to-date 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 affect their entitlement. If the claimant is still in receipt of benefit the overpayment can be recovered at the maximum rate of £9.00 per week. [£12.00 in cases of proven fraud]. 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. 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.

## **9. 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.

## **10. RESOURCE IMPLICATIONS**

There are no further resource implications arising from this report.

## **11. CONSULTATIONS**

Comprehensive consultation has previously been held during the construction of the 2008/09 Budget Framework. This report does not contain any proposals or recommendations that require further consultation. The relevant Departments have been consulted in projecting the levels of spending during the current year.

## **12. OTHER MATERIAL CONSIDERATIONS**

### **12.1 *Links to Corporate Objectives/Values***

The Council's Corporate Objectives and Values have guided the preparation of the 2008/09 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.

### **12.2 *Risk Management***

The budget framework report to Council on the 29<sup>th</sup> February 2008 highlighted a number of risk areas that needed to be monitored to ensure the effective delivery of the 2008/09 spending plans.

There have been no further risks identified during the preparation of this report apart from the continued need by the relevant budget holders to monitor the budgets closely during the year to ensure that spending plans are met. Where potential overspends of expenditure or reduced levels of income are forecast early action should be taken to address the problems faced in order to achieve the performance targets set in the budget framework.

### **12.3 *Health and Safety***

No additional implications have been identified.

### **12.4 *Equality and Diversity***

No material considerations have been identified.

### **12.5 *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.

### 13. OVERVIEW AND SCRUTINY IMPLICATIONS

Consultation and engagement with Overview and Scrutiny Committees has previously been held to develop and review the 2007/08 Budget Framework.

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

**Background Papers:**

- ~ Report to Council 29<sup>th</sup> February 2008 – Budget Framework 2008-2009.
- ~ Report to Council 29<sup>th</sup> February 2008 – Treasury Management Strategy 2008-2009.
- ~ Report to Council 29<sup>th</sup> June 2008- Statement of Accounts 2007 – 2008
- ~ Report to Cabinet September 2008-

**Examination by Statutory Officers:**

	<b>Yes</b>	<b>Not Applicable</b>
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"/>

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