

CABINET
13th December 2011

***PART 1 – PUBLIC DOCUMENT**

AGENDA ITEM No.

SECOND QUARTER REVENUE MONITORING 2011/12

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE
PORTFOLIO HOLDER: COUNCILLOR T.W. HONE

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform Cabinet of the summary position on income and expenditure for the period July to September 2011 for the General Fund and the Council's trading account, Careline.
- 1.2 This report will highlight significant variances (+/- £25K or +/- 25%) on the working budget with explanations and impact upon next year's base budget and the position of the Careline trading account.
- 1.3 The report also highlights, with the use of a traffic light system, the position with regard to the carry forward balances and efficiencies approved for the year.
- 1.4 Key items that greatly influence the 'financial health' of the Council are monitored and reported here as key Corporate Health indicators.

2. FORWARD PLAN

- 2.1 This Report does contain a recommendation on a key decision that was first included in the Forward Plan on 1 September 2011.

3. BACKGROUND

- 3.1 Members approved the General Fund 2011/12 estimates in February 2011 and approved General Fund net expenditure of £15.872million. In addition to the 2011/12 original budget, Members approved carry forward budgets of £290k (15 February 2011 £288k, 14 June 2011 £2k), a contribution to a strategic priorities fund of £100k and a net increase to the base budget of £65k. The total working budget for 2011/12, was therefore, £16.327million.
- 3.2 The 2011/12 General Fund estimates included expenditure reduction and income generation proposals of £1.9million, agreed as part of the Corporate Business Planning process, and an allowance of £0.848million for known financial risks in reserves following an assessment of the risk register.
- 3.3 At 1st Qtr the projected expenditure on the General Fund was estimated to be

£16.469million, this was an increase on the working budget of £0.142million. A total of £72k of this overspend was able to be covered from the general fund reserve balance since a number of identified financial risks had been realised. Also reported at 1st quarter was an increase to the base budget for 2012/13 of £35k.

4. ISSUES

Executive Summary

Issue & Relevant Table	Comment
Net general fund expenditure for 2011/12 (Table 1)	Forecast net expenditure in 2011/12 is £16.618million. This is £149k (0.90%) higher than the working budget. The increase in expenditure has largely been funded by a realisation of financial risks.
Budgets Carried Forward from 2010/11 (Table 2)	Of the £290k of carry forward budgets into 2011/12 £71k (24%) has been spent by the end of the second quarter. It is forecast all the £290k will be spent by the end of the year.
Achievement of Savings (Table 3 and 4)	Of the £1.913million of expenditure reduction and income generation proposals agreed in the 2011/12 original budget £1.748million (91%) is expected to be achieved in 2011/12. The full amount will be achieved from 2012/13 onwards
Key Financial Indicators (Table 5)	Three of the five indicators are at amber status.
General Fund Reserve Balance (Table 6)	The general fund reserve is now forecast to have a balance of £1.459million at 31 March 2012. This is £107k lower than the forecast of £1.566million reported to Members in the 1 st Qtr report.
Allowance for financial risks (Table 7)	The budgeted minimum general fund balance at first quarter of £1.566million included an allowance of £0.776million for known financial risks. As at the end of the second quarter £107k of these risks had been realised leaving a remaining balance of £0.669million.
Earmarked Reserves (Table 8)	As at April 2011 there was a balance of £3.023million in other useable earmarked reserves. The balance is forecast to be £2.440million at 31 March 2012. This includes a balance of £0.896million in the special reserve.

General Fund – Income and Expenditure

- 4.1 The projected expenditure on the General Fund is now estimated to be £16.618million. This is a net increase of £149k (0.90%) on the working budget of £16.469million. The significant changes (+/- £25K or +/- 25% of the working budget) to the General Fund expenditure are detailed in table 1. Some of the increases in spend were identified in the general fund reserve balance for 2011/12 as a financial risk and as such £107k of the overspends included in the net overspend of £148k is covered from this balance. Effects on the 2012/13 budget total an increase of £60k.

Table 1: Significant changes to the General Fund

Expenditure/ Income	Working Budget £'000	Revised Estimate £'000	Increase / Decrease(-) £'000	Comment	Effect on 2012/13 Budget £'000
Housing and Council Tax Benefits <ul style="list-style-type: none"> • Overpayments Bad Debt Provision +73 • Overpayments Income -445 • HB & CTB Payments +43,244 • HB & CTB Subsidy -42,939 		+100 -563 +43,390 <u>-43,036</u> -109	+27 -118 +146 <u>-97</u> -42	Housing and Council tax payments and corresponding subsidy have been revised to reflect the increasing case load. However this is offset by an increase in overpayments income. This projection is based on the latest information received from Northgate. Further revisions may be required during the year to reflect further changes to case load and identification of overpayments.	+27 -181 +1541 <u>-1429</u> -42
Parking Services <ul style="list-style-type: none"> • Direct Employee Costs +369 • Penalty Charge Notice Income (net of Bad Debt Provision) -272 		+347 -183	-22 +89	Net Savings from Parking restructure implemented in 2011/12 Penalty Charge notices are now being recognised as they are raised and a provision for bad debts is made, previously the income was only recognised on payment. The number of PCNs issued has reduced in the first two quarters.	+89
Planning Control <ul style="list-style-type: none"> • Printing, stationery & advertising +50 		+36	-14	The lower number of applications requiring statutory publicity in local newspapers has resulted in lower advertising costs but also an under-collection of income. The £74k under-collection includes the anticipated £25k from the delayed localisation of planning fees.	
Fees and Charges	-562	-488	+74	The overall number of applications has increased compared to last year but those attracting a higher planning fee have significantly decreased. This was identified as a financial risk.	

Expenditure/ Income	Working Budget £'000	Revised Estimate £'000	Increase / Decrease(-) £'000	Comment	Effect on 2012/13 Budget £'000
Legal Services • Consultants	+32	+57	+25	This variance is due to the anticipated expenditure which will result from necessary specialist employment law advice.	
Document Centre • Printing and Stationery • Document Centre Income	+34 <u>-689</u>	+23 <u>-645</u> -622	-11 <u>+44</u> +33	Income has reduced due to a combination of reduced internal demand and greater use of MFD's (which has resulted in less demand for copying and digital printing). Looking to redress by increasing external revenue and possible shared services.	
Contaminated Land • Consultants	+25	0	-25	A Defra grant has been awarded for a capital contaminated land project at Lumen Road, Royston. There are no planned revenue projects for this financial year. There are plans for projects in 12/13 at Walsworth Common.	
Careline • Careline Balance	+119	+98	-21	Savings on maintenance and computer leasing contracts now the equipment is owned outright. Income has also improved during the quarter but a Housing Association has given notice of termination of a contract which will lead to a reduction in income in 2012/13.	+17
Burial Grounds • Fees and Charges	-276	-255	+21	Burial numbers have been lower during the first half of the year than in previous years. The Service Manager has consulted other Local Authorities, and the same trend has been experienced by others in the region.	

Expenditure/ Income	Working Budget £'000	Revised Estimate £'000	Increase / Decrease(-) £'000	Comment	Effect on 2012/13 Budget £'000
MSU • Document Imaging Contract	+59	+78	+19	Overall contract costs for the Document Imaging service are higher than originally expected due to the Council requiring additional services than originally specified in the contract. The outsource project is still anticipated to generate savings of £28k in 11/12 and £64k in 12/13.	+19
Other minor variances			+12		-23
Total increase in General Fund expenditure			+149		+60

Trading Accounts-Income and Expenditure

- 4.2 The 2011/12 budgeted net deficit for Careline at second quarter is now £98k. This is £21k lower than the deficit reported at the 1st quarter of £119k. This is due to a combination of savings on computer leasing fees, as the equipment is now bought outright, a saving on Cirrus maintenance contract as most authorities have now stopped maintenance contracts on their dispersed alarms and an improvement in income. A Housing Association has, however, not renewed their contract so this will have a £17k detrimental impact on the 2012/13 deficit position.

Carry Forward Budgets

- 4.3 There is a total of £290,000 of budgets carried forward from 2010/11 into 2011/12. As at the end of the second quarter £71,000 of these budgets had been spent.
- 4.4 A condition of carry forwards is that there is a clear plan for spending the budget. The carry forward budgets are given a traffic light code to signify whether there is a problem with spending or completing the project. There are no carry forwards at red status and six carry forwards at amber at the end of September 2011. This indicates there are six carry forward budgets that are still anticipated will be spent but there is a risk this may not be achieved in the normal timeframe.

Table 2 - Progress of carry forward budgets

Carry Forward	Amber/ Red	Budget £'000	Projected Variance £'000	Explanation
Parking – maintenance of lines and signs	A	+9	0	Work has slipped and will not be spent within the first six months of the year, however, the carryforward will be completely spent by the end of the year.
Area Committee	A	+65	0	As reported at 1st Quarter, all monies allocated to be spent by March 2012
Highways Repairs and Maintenance	A	+53	0	As reported at 1 st Quarter, TRO'S will be published by December 2011 and Herts Highways will be employed to do consultancy work. All works to be complete by March 2012

Carry Forward	Amber/ Red	Budget £'000	Projected Variance £'000	Explanation
Highways – parking town-wide reviews	A	+71	0	As reported at 1 st Quarter. All TRO's for Baldock, Knebworth and Hitchin will be published for consultation by March 2012.
Building Control – software to enable electronic applications	A	+15	0	As reported at 1 st Quarter . Demonstrations of Idox and possible in-house solution have been completed. A business case is now being developed to enable the best solution to be selected.
Town Centre Repairs and Maintenance	A	+46	0	As reported at 1 st Quarter. Funds will be spent on maintenance at Church Lane, Royston, Baldock Town Centre grassed areas, street cleansing and a contribution to Herts Highways for remedial works. All due to be completed March 2012.

Expenditure Reduction and Income Generation Proposals

- 4.5 A total of £1.913million of proposals were approved within the 2011/12 budget. At the end of the second quarter it is anticipated that £1.748million (91%) will be achieved. This has improved from the estimate reported at Qtr1, which was £1.736million. The position is summarised in table 3 and further detail is provided in table 4. Any variance reported here has also been incorporated in the revised general fund estimated spend.

Table 3: Summary of all 2011/12 efficiency proposals as at the end of the 2nd qtr

	Budgeted Efficiency £'000	Revised Estimate £'000	Variance £'000	Comment
Budget Scrutiny efficiencies	-123	-123	0	
Expenditure Reduction efficiencies	-432	-403	+29	Individual comments in table 4.
Income Increases	-325	-340	-15	Individual comments in table 4.
Capital funding of IT capital projects	-210	-210	0	
Staff Restructure	-563	-511	+52	The majority of the restructure has been implemented as per the estimates in the original budget. Of the variance in 2011/12, £26k relates to a reschedule of final end dates for two officers, £19k relates to the Document Imaging contract (as reported in table 1) and there is a further minor variance of £8k on the original estimated saving.
Senior Mgmt Restructure & Terms & Conditions	-260	-161	+99	The full saving has now been achieved going forward. Since the restructure was not approved by full Council until the 7 th April and the required consultation period with staff had to follow, the full year saving will not be achieved in this financial year.
Total efficiency	-1,913	-1,748	+165	

Table 4- Efficiency Budgets at Amber or Red Status or Overachievement of Efficiency

Efficiency Option	Amber/ Red	Budgeted Saving £'000	Projected Variance £'000	Explanation
Total of Qtr1 efficiencies at red	R	-220	+45	Total reported at Qtr1
Reduction in the total cost of running Royston Market	G	-15	-5	Overachievement of efficiency proposal. The markets contracts have been successfully extended for two years, and the total saving for the financial year will be £20k
Review of the total cost of running Hitchin Market with a view to withdraw the complete subsidy.	G	0	-11	Overachievement of efficiency proposal. The markets contracts have been successfully extended for two years and the subsidy withdrawn in broad terms. A saving of £11k will be achieved in 2011/12.
Introduce bring banks for textiles via the consortium, and stop all charity banks on council land.	G	-20	-32	Overachievement of efficiency proposal. The new textile consortium agreement has been implemented, the textile recycling rates for the second quarter of 2011/12, indicate that the target is likely to be exceeded
Review of Blackberry and mobile usage to audit requirements and usage	R	-5	+5	The proposal assumed a net reduction of 10 units in Blackberry usage. Work is continuing to review usage and reduce the net costs of Blackberry and mobiles in future years.
Income as a result of joint working on NNDR administration	R	-10	+10	Shared Services work with Dacorum has not materialised due to a change in management at Dacorum and a change in their priorities.
Introduction of Commuter Permits for parking	R	-2	+2	Consultation is currently underway, but the permits are unlikely to be in place during this financial year.
Total			+14	

Key Corporate 'Financial Health' Indicators

- 4.6 There are 5 key corporate 'financial health' indicators identified and listed in table 5 below. These indicators reflect specific aspects of the budget which have a significant impact on the overall Council's net budget and are likely to be influenced by changes in the external environment. From 1 April 2011 activity data of these indicators is maintained on the Council's performance system, Covalent, and the reports for the period July to September 2011 are contained in appendix B.

Table 5 – Key Corporate ‘Health’ Indicators

Indicator	Original Budget £'000	Working Budget £'000	Actual to date £'000	Projected Variance to Original Budget £'000
Building Control Fees	-519	-519	-227	0
Planning Application Fees	-475	-475	-161	+50
Land Charges	-189	-189	-119	0
Car Parking Fees	-2,009	-1,964	-934	+131
Housing and Council Tax Benefit Payments	+41,848	+43,244	+24,598	+1,542

4.7 The reports in appendix B show car parking tickets, planning control applications and building control applications at amber status because activity to the end of September was less than the same period in 2010/11. Much of this downturn has been reflected in the original budget for 2011/12. At Qtr1 car parking income was reduced, and at quarter 2 there is a reported reduction in Planning Income. The number of tickets sold in the Council's car parks has reduced over the last few years and it seems this trend is continuing in 2011/12. Planning has the same number of fee earning applications as last but is seeing a significant reduction in major applications which attract the larger fee.

4.8 Building Control is also seeing a significant reduction in the number of fee earning applications. There is currently £21k in the reserve, however if Income continues to fall there is a chance that Building Control will reach a deficit position at year end that exceeds what is in the reserve and may need to borrow from the general fund. This will be reviewed at Qtr3 and a revised fee exercise will take place to set 2012/13 fees.

General Fund Balances Projected for 2011/12

4.9 The revision to the 2011/12 working budget of General Fund projected net expenditure will result in a decrease of £149k in the year end General Fund balance .

4.10 As a result of these revisions it would be necessary to increase the contribution from the special reserve in order to maintain the minimum General Fund balance. However, the realisation of some of the financial risks identified for 2011/12 reduces the necessary minimum general fund balance from £1.566million, agreed at first quarter monitoring, to £1.459million. Therefore, a contribution of £71k is required from the special reserve. A summary of the transactions to the projected year end general fund balance is shown in table 6 and the movement of the necessary minimum general fund balance is shown in table 7.

Table 6: Projected General Fund Balances as at 31 March 2012

(Key: - = reduction in expenditure, + = increase in expenditure)

Projected General Fund Balances as at 31 March 2012	£'000
Balance Brought Forward (1/4/2011)	1,924cr
Projected Net Spend (including precepts)	17,515dr
Precept Receipts & Government Grants	16,979cr
Contribution from Strategic Reserve	71cr
Balance Carried Forward (31/3/2012)	1,459cr

Table 7: Minimum General Fund Balance

	£'000
1st Qtr Budgeted minimum general fund balance	1,566cr
Known financial risks realised in quarter 2	107dr
Revised minimum general fund balance	1,459cr
The balance consists of two elements:	
Allowance for known financial risks	669cr
Allowance for unknown financial risks	790cr
2nd Qtr Budgeted minimum general fund balance	1,459cr

Earmarked Reserves

- 4.11 The Council has a number of earmarked reserves which can be used to fund revenue expenditure, these are detailed in Table 8.
- 4.12 Following the audit of the 2010/11 Statement of Accounts it has been necessary to create a new earmarked reserve for the revenue element of the Performance Reward Grant that has been received for the North Hertfordshire Partnership. At the 1 April 2011 £187k remained unspent.

Table 8 – Earmarked Reserves 2011/12

	Balance at 1 April 2011	Projected Contributions	Projected Payments to Fund expenditure	Projected Balance at 31 March 2012
	£'000	£'000	£'000	£'000
Special Reserve	967cr	0	71dr	896cr
Housing Planning Delivery Reserve	951cr	0	334dr	617cr
Information Technology Reserve	450cr	0	110dr	340cr
Environmental Warranty Reserve	209cr	0	0	209cr
Performance Reward Grant Reserve	187cr	0	98dr	89cr
Insurance Reserve	83cr	0	0	83cr
Cemetery Mausoleum	81cr	15cr	0	96cr
S106 Monitoring	53cr	25cr	16dr	62cr
Building Control Reserve	21cr	0	21dr	0
Museum Exhibits Reserve	12cr	0	0	12cr
Property Maintenance	7cr	10cr	3dr	14cr
Hitchin Museum Donations	2cr	0	0	2cr
Leisure Management Reserve	0cr	20cr	0	20cr
Total Revenue Reserves	3,023cr	70cr	653dr	2,440cr

- 4.13 A net total of £653k is anticipated to be used from earmarked reserves during 2011/12 leaving a balance at 31 March 2012 of £2.440million. The balance of maintaining appropriate balances in the Council's reserves is addressed in the Corporate Business Planning process.

5. LEGAL IMPLICATIONS

- 5.1 There are no legal implications at this stage although Members are reminded of the duty to set a balanced budget and to maintain a prudent balance.

6. FINANCIAL AND RISK IMPLICATIONS

- 6.1 Members have been advised of any significant variations from the budgets in the body of this report and of any action taken by officers.
- 6.2 The projected general fund balance of £1.459million meets the recommended minimum balance of General Fund reserves agreed when the budget was set, after adjustments for the financial risks which have occurred. The minimum balance for 2011/12 contains a 5% tolerance on net expenditure for unknown risks and an allowance of £669k for identified key financial risks which had a total potential risk value of £3.1million.
- 6.3 The Council is aware there is a potential claim for refund of charges made for property searches under the Local Land Charges Act 1975 and/or the Local Government and Housing Act 1989 from the 14th February 2005 to the present. We do not yet know the value of the claim against this Authority but the total figure being suggested at national level is very large. A provision of £35k has been created to cover future costs. This has been funded from a one off government grant received in 2010/11 for loss of income and any claims arising in 2011/12. Further, an allowance of £28k has been included in the financial risks in the general fund balance. It is not yet clear whether these sums will be sufficient. A significant number of Councils are involved in the action and the Local Government Association (LGA) is co-ordinating a national response which will include legal advice.

7. HUMAN RESOURCE AND EQUALITIES IMPLICATIONS

- 7.1 Although there are no direct human resource implications at this stage, care is taken to ensure that where efficiency proposals or service reviews may effect staff, appropriate communication and consultation is provided in line with HR policy.

8. RECOMMENDATIONS

- 8.1 Cabinet is requested to ask any questions which may arise from the report's contents and note this report.
- 8.2 Cabinet is requested to approve the changes to the 2011/12 General Fund budget identified in paragraph 4.1, table 1, a £149k increase in net expenditure.
- 8.3 Cabinet is asked to approve the changes to the 2012/13 budget detailed in paragraph 4.1, table 1, a £60k increase in net expenditure.
- 8.4 Cabinet is asked to note the position of Treasury Management activity, detailed in appendix C.
- 8.5 Cabinet is asked to note the uncertainty surrounding the legal challenge outlined in paragraph 6.3 above.

9. REASONS FOR RECOMMENDATIONS

- 9.1 Members are able to monitor and request appropriate action of Directorates who do not meet the budget targets set as part of the Corporate Business Planning process.
- 9.2 Changes to the Council's balances are monitored and approved.

10. CONTACT OFFICERS

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11. BACKGROUND PAPERS

11.1 Estimates 2011/12
Statement of Accounts 2010/11

12. APPENDICES

12.1 Appendix A General Fund Summary
12.2 Appendix B Performance Reports on Key Financial Health Indicators
12.3 Appendix C Treasury Management Activity