

CABINET

2 AUGUST 2011

REVENUE BUDGET MONITORING 2011/2012

Portfolio Holder: Councillor Alan Jarrett, Finance
Report from: Mick Hayward, Chief Finance Officer
Author: Kevin Woolmer, Finance Manager BSD / RCC
Phil Watts, Finance Manager C&A

Summary

This report details the revenue budget forecasts as at the end of Quarter 1 (April – June 2011) and highlights the major financial risks remaining in respect of the 2011/2012 General Fund revenue budget.

1. Budget and Policy Framework

- 1.1. It is the responsibility of Cabinet to ensure that income and expenditure remains within the budget approved by Council.
- 1.2. The Cabinet is asked to accept this report as urgent to enable Cabinet to receive and consider the first quarter budget monitoring information at the earliest opportunity.

2. Background

- 2.1. At its meeting on 24 February 2011, the Council set a General Fund net budget requirement of £184.959 million for 2011/2012 (Medway Council £184.619 million, Parish Councils £0.341 million). Council tax was frozen at 2010/11 levels.
- 2.2. This is the first quarterly report, summarising reports that have previously been submitted to directorate management teams, based on returns from individual budget managers. In preparing their returns budget managers have been asked to take account of last years outturn, actual income and expenditure for the year to date and, most importantly, their knowledge of commitments and income trends anticipated for the remainder of the financial year.
- 2.3. Table 1 below contains the summary data with additional detail shown at Appendix 1.

3. Summary Revenue Budget Position 2010/2011

- 3.1 It can be seen from Table 1 that, after management action, the outturn forecast for 2011/2012 currently stands at a £4.0 million overspend.

Table 1: Directorate Summary

Directorate	Budget 2011/2012 £000s	Forecast Outturn £000s	Forecast variance £000s
Children and Adult Services:			
- DSG funded services	197,790	197,790	0
- General fund services	124,896	127,072	2,176
Regeneration, Community and Culture	50,110	51,468	1,358
Business Support	16,691	16,912	221
Public Health	227	224	(3)
Directorate sub – total (Appendix 1)	389,714	393,466	3,752
Interest & Financing	15,293	15,543	250
Levies	974	974	0
Dedicated Schools Grant	(197,789)	(197,789)	0
Tax Freeze Grant	(2,463)	(2,463)	0
Specific Grants	(19,335)	(19,335)	0
Planned Use of General Reserves	(587)	(587)	0
New Homes Bonus	(1,188)	(1,188)	0
Budget Requirement	184,619	188,621	4,002
Council Tax	(98,523)		
Formula Grant (Revenue Support Grant & share of Non-Domestic Rate Pool	(86,096)		

4. Children and Adult Services

- 4.1 The directorate is forecasting a £2.2 million overspend, the principal reasons for which are:
- £1.4 million pressure in Children's Care, driven by an increase in the number of looked after children, who are having to be placed in through expensive independent fostering agencies, as in-house capacity has been reached. Overall LAC numbers have increased from 349 in March 2010 to 441 as at June 2011;
 - £1.1 million pressure on SEN Transport, which is a reflection of the outturn position for last year. The escalating cost of transport during 2010/2011 was never reflected in the monitoring and only came to light when the outturn was finalised and as a consequence the budget build process for 2011/2012 did not recognise the inherent pressure. Improved procedures involving closer working between the inclusion division and the transport procurement unit have been implemented this year, in order to reach an agreed understanding of the position.

5. Regeneration, Community and Culture

- 5.1 The directorate is forecasting an overspend of £1.4m, the principle reasons being:
- Underprovision for contractual inflation on waste services £625,000, with the budget including 2% whereas RPI, upon which the uplift is driven was 5%;
 - Car Parking, cost pressures of £156,000, plus under achievement against the income target £50,000;
 - Increased NNDR liability (Medway Park) £139,000;
 - Public Convenience, pressure in respect of cleaning and maintenance £122,000;
 - Waste, continued issue of clear sacks to July 2011 £96,000;
- 5.2 A stringent review of all pressures will be undertaken during quarter 2 along with the identification of further mitigating savings where possible.
- 5.3 Many of the significant financial risks, previously noted as existing in the agreed budget, are now confirmed and included in the forecasts. The exceptions are the potential impact of prolonged severe winter weather and the cost implications of the continued issue of clear sacks (as part of the waste service). The latter has a potential impact of £500,000 in addition to the current forecast overspend.

6. Business Support

- 6.1 The division is currently forecasting an overspend of £221,000, contained in which are the following major variations:
- Asset & Property Management forecast overspend £358,000 driven mainly by unbudgeted Carbon Reduction Commitment costs of £230,000 and slippage in achievement of budget saving re. depot rationalisation of £150,000);
 - Housing Solutions £167,000 pressure, principally arising from loss of rental income stream for Trafalgar House and increased provision for bad debts;
 - Building and Design £132,000, shortfall against income target;
 - H&CS overhead budgets, forecast saving £117,000
 - Finance Services, combined underspend of £321,000 mainly as a result of staff vacancies;
 - Human Resources forecast overspend £152,000 (includes reduced net income from the temp agency £82,000 and lower than budgeted income from schools 'buy back' £60,000.

7. Public Health

- 7.1. Forecasting a £3,000 underspend.

8. Interest & Financing

- 8.1 Interest rates continue to be at an all-time low and despite some optimism that rates would begin to rise this year, the current forecast are that this will not occur before June 2012. This results in a likely pressure for this budget of £250,000.

9. Levies

9.1 These levies are not directly 'controllable' by the Council, the amounts notified for 2011/12 which are in accord with the budget are:

- Coroners Service (via KCC) £500,000
- Kent & East Fisheries £38,000
- Environment Agency £55,000
- Flood & Coast Protection £381,000

10. Dedicated Schools Grant

10.1 This grant is ring fenced to school services and any increase/decrease is matched by a compensating change in schools budgets/contingencies.

11. Council Tax Freeze Grant

11.1 The Government funded the equivalent of a 2.5% increase in council tax as a result of the Council not increase the charge for 2011/12. However, this is a one-off revenue stream that will create a budget pressure for 2012/13 unless Government announces further grant which the Spending Review 2010 suggested would be the case.

12. Specific Grants

12.1 These are the Early Intervention Grant (£10.236m) and the Learning Disability & Health Reform Grant (£9.098m).

13. Planned Use of Reserves

13.1 Council agreed to use £587,000 from the General Reserve to fund one-off initiatives as:

- £37,000 (royal wedding parties / Armed Forces Day); and recurring items
- Free swimming £200,000;
- Freedom Pass £250,000; and
- Apprenticeship schemes £100,000).

Members should note that the recurring items will become a budget pressure from 2012/13.

14. New Homes Bonus

14.1 This comes from the Government being match funding of the additional Council Tax derived from new properties and properties bought back into use. Increased bonus accrues from the delivery of affordable homes.

15. Housing Revenue Account

15.1. The Housing Revenue Account is forecasting a surplus of £894,800, an increased surplus of £47,900 against its budgeted surplus of £846,900.

16. Conclusions

16.1 The first quarter returns from budget managers forecast a potential overspend of £4 million for non-DSG services. This is historically the most pessimistic forecast of the year with managers being optimistic about spending fully

against most budgets and a not uncommon view that risks will materialise. At this point last year the forecast was for an overspend of £1.6 million that became an underspending of £3.6 million. However it is clear that the position has a serious potential for undermining the financial stability of the Council and this needs to be rectified, especially when set against the difficult financial environment for all Local Authorities.

17. Financial, legal and risk management implications

- 17.1. The financial and legal implications are set out in the body of the report.
- 17.2. The more significant risks facing the Council are summarised in the body of the report. Directorate management teams continually review revenue expenditure and take corrective action where appropriate.

18. Recommendation

- 18.1. Cabinet notes the result of the first round of revenue monitoring for 2011/2012 and instructs Directors to come forward with further proposals for management action to reduce the potential deficit.

19. Suggested Reason for Decision

- 19.1 Cabinet has the responsibility to ensure effective budgetary control to contain expenditure within the approved limits set by Council. Where a budget overspend is forecast, Cabinet supported by the corporate management team must identify measures to remove any excess expenditure.

Lead officer contacts

Kevin Woolmer, Finance Manager, Gun Wharf, Tel (01634) 332151,
e-mail kevin.woolmer@medway.gov.uk

Phil Watts, Finance Manager, Gun Wharf, Tel (01634) 331196
e-mail phil.watts@medway.gov.uk

Background papers

Revenue budget approved by Council 24 February 2011

Monthly monitoring returns submitted by budget managers

GENERAL FUND REVENUE MONITORING - Quarter 1 2011/12

Assistant Director	Expenditure				Income				Net
	2011/2012 Budget £000's	Actual to date £000's	2010/2012 Forecast £000's	Forecast Variance £000's	2011/2012 Budget £000's	Actual to date £000's	2011/2012 Forecast £000's	Forecast Variance £000's	Forecast Variance £000's
Children and Adult Services									
Adult Social Care	92,306	15,305	91,662	(644)	(17,659)	(1,727)	(17,038)	622	(22)
Children's Care	27,166	3,520	29,405	2,239	(314)	(285)	(1,076)	(762)	1,478
Commissioning	8,019	1,857	8,445	426	(2,365)	(1,123)	(2,780)	(415)	12
Inclusion	44,231	8,607	44,725	494	(5,661)	902	(5,638)	24	518
Schools Retained Funding and Grants	2,667	569	4,433	1,766	(30,047)	(3,779)	(31,623)	(1,576)	191
Schools Delegated Funding	204,345	13,529	204,706	361	0	(361)	(361)	(361)	0
	378,733	43,388	383,376	4,644	(56,048)	(6,373)	(58,515)	(2,468)	2,176
Regeneration, Community and Culture									
Front Line Services	39,332	12,403	40,679	1,347	(11,320)	(1,329)	(11,608)	(288)	1,059
Development and Transport	14,432	2,555	15,787	1,355	(3,566)	(367)	(4,779)	(1,292)	63
Medway Renaissance	0	82	170	170	0	0	(170)	(170)	0
Leisure and Culture	18,023	4,225	18,168	145	(7,737)	(1,183)	(7,646)	91	236
Directors Office	975	99	1,000	25	(29)	(38)	(55)	(26)	(1)
	72,762	19,364	75,804	3,042	(22,652)	(2,917)	(24,258)	(1,685)	1,358
Business Support Department									
Financial Services	126,035	20,135	131,420	5,385	(117,349)	(22,922)	(123,055)	(5,706)	(321)
Housing and Corporate Services	12,268	3,687	12,573	305	(10,740)	(3,575)	(10,563)	177	482
Democracy and Customer First	12,293	3,975	12,561	268	(5,777)	(3,028)	(6,104)	(327)	(59)
Communications, Performance and Partnerships	3,549	1,051	3,715	166	(2,777)	(1,383)	(2,945)	(168)	(2)
Organisational Services	12,404	4,152	12,668	264	(13,214)	(4,612)	(13,357)	(143)	121
	166,549	33,000	172,937	6,388	(149,857)	(35,520)	(156,024)	(6,167)	221
Director of Public Health	1,011	189	1,690	678	(782)	(1,138)	(1,463)	(681)	(3)
Directorate Total	619,055	95,941	633,807	14,752	(229,339)	(45,948)	(240,261)	(11,001)	3,752