

## **BUSINESS SUPPORT OVERVIEW AND SCRUTINY COMMITTEE**

**4 AUGUST 2011**

### **REVENUE BUDGET MONITORING 2011/2012**

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#### **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 This committee is asked to accept this report as urgent to enable consideration of the first quarter budget monitoring information at the earliest opportunity.

#### **2. Background**

- 2.1. Cabinet Members, in considering this report on 2 August, will be requested to note the forecast position from the first round of revenue monitoring for 2011/2012 and any proposed management action to achieve the target savings.
- 2.2. 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.
- 2.3. 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.

2.4. 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)                     |
| <b>Directorate sub – total (Appendix 1)</b>                            | <b>389,714</b>         | <b>393,466</b>         | <b>3,752</b>            |
| 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                       |
| <b>Budget Requirement</b>  | <b>184,619</b>         | <b>188,621</b>         | <b>4,002</b>            |
| 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 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. Recommendations**

- 18.1. Members are invited to comment on the forecast outturn position for 2010/2011 and any proposed management action to reduce the potential deficit.

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### **Background papers**

Revenue budget approved by Council 24 February 2011  
Monthly monitoring returns submitted by budget managers  
Revenue Budget Monitoring 2011/2012 report to Cabinet 2 August 2011



## GENERAL FUND REVENUE MONITORING - Quarter 1 2011/12

| Assistant Director                           | Expenditure                   |                          |                                 |                                | Income                        |                          |                                 |                                | Net                            |
|--|-------------------------------|--------------------------|---------------------------------|--------------------------------|-------------------------------|--------------------------|---------------------------------|--------------------------------|--------------------------------|
|  | 2011/2012<br>Budget<br>£000's | Actual to date<br>£000's | 2010/2012<br>Forecast<br>£000's | Forecast<br>Variance<br>£000's | 2011/2012<br>Budget<br>£000's | Actual to date<br>£000's | 2011/2012<br>Forecast<br>£000's | Forecast<br>Variance<br>£000's | Forecast<br>Variance<br>£000's |
| <b>Children and Adult Services</b>           |                               |                          |                                 |                                |                               |                          |                                 |                                |                                |
| 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                              |
|  | <b>378,733</b>                | <b>43,388</b>            | <b>383,376</b>                  | <b>4,644</b>                   | <b>(56,048)</b>               | <b>(6,373)</b>           | <b>(58,515)</b>                 | <b>(2,468)</b>                 | <b>2,176</b>                   |
| <b>Regeneration, Community and Culture</b>   |                               |                          |                                 |                                |                               |                          |                                 |                                |                                |
| 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)                            |
|  | <b>72,762</b>                 | <b>19,364</b>            | <b>75,804</b>                   | <b>3,042</b>                   | <b>(22,652)</b>               | <b>(2,917)</b>           | <b>(24,258)</b>                 | <b>(1,685)</b>                 | <b>1,358</b>                   |
| <b>Business Support Department</b>           |                               |                          |                                 |                                |                               |                          |                                 |                                |                                |
| 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                            |
|  | <b>166,549</b>                | <b>33,000</b>            | <b>172,937</b>                  | <b>6,388</b>                   | <b>(149,857)</b>              | <b>(35,520)</b>          | <b>(156,024)</b>                | <b>(6,167)</b>                 | <b>221</b>                     |
| <b>Director of Public Health</b>             | <b>1,011</b>                  | <b>189</b>               | <b>1,690</b>                    | <b>678</b>                     | <b>(782)</b>                  | <b>(1,138)</b>           | <b>(1,463)</b>                  | <b>(681)</b>                   | <b>(3)</b>                     |
| <b>Directorate Total</b>                     | <b>619,055</b>                | <b>95,941</b>            | <b>633,807</b>                  | <b>14,752</b>                  | <b>(229,339)</b>              | <b>(45,948)</b>          | <b>(240,261)</b>                | <b>(11,001)</b>                | <b>3,752</b>                   |