

## **CABINET**

**1 NOVEMBER 2011**

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

Portfolio Holder: Councillor Alan Jarrett, Finance

Report from: Mick Hayward, Chief Finance Officer

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#### **Summary**

This report details the revenue budget forecasts as at the end of Quarter 2 (July – September 2011).

This report also 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 second 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 second 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 £5.1 million overspend.

**Table 1: Directorate Summary**

Directorate	Budget 2011/2012 £000s	Qtr 2 Forecast Variance £000s	Qtr 1 Forecast Variance £000s	Qtr1 to Qtr2 Movement £000s
Children and Adult Services:				
- DSG funded services	197,789	0	0	0
- General fund services	124,813	2,966	2,176	790
Regeneration, Community and Culture	50,102	1,810	1,358	452
Business Support	16,781	62	221	(159)
Public Health	227	0	(3)	0
Interest & Financing	15,293	250	250	0
Levies	974	0	0	0
Dedicated Schools Grant	(197,789)	0	0	0
Tax Freeze Grant	(2,463)	0	0	0
Specific Grants	(19,335)	0	0	0
Planned Use of General Reserves	(587)	0	0	0
New Homes Bonus	(1,188)	0	0	0
<b>Budget Requirement</b>	<b>184,619</b>	<b>5,088</b>	<b>4,002</b>	<b>1,086</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 £3.0 million overspend, attributable to:
- £1.0 million overspend on Adult Social Care principally the result of delays in taking forward the review of in-house services;
  - £1.1 million pressure in Children's Care, driven by an increase in the number of looked after children, who are having to be placed through expensive independent fostering agencies, as in-house capacity has been reached. This however represents a reduction since quarter 1;
  - Continuation of the £1.2 million pressure on SEN transport identified in the previous quarter

## **5. Regeneration, Community and Culture**

5.1 The previous report, in respect of quarter 1, forecast an overspend for the directorate of £1.358m after management action. The returns from budget managers for quarter 2 indicate a potential overspend of £1.810m. The major factors within this are:

- Waste Services £868,000: including continued use of clear sacks £246,000, associated loss of income from recycling £225,000, additional recycling tonnages £208,000, maintenance and cleansing of public conveniences £117,000.
- Car Parking £371,000: cost pressures of £250,000, under-achievement against the income target £121,000;
- Development Management £84,000: income forecast at £1.094m, a shortfall of £127,000 against budget.
- Leisure & Sport £217,000: including additional NNDR liability £169,000
- Theatres, Arts & Events £80,000: miscellaneous pressures including Brook Theatre £23,000, Corn Exchange £30,000 and Arts Development £16,000.

5.2 The main reasons for the deterioration since the previous quarter monitoring are:

- Management action in respect of car parking is not forecast to be fully realised (£165,000)
- Previously reported savings in Traffic Management will not occur due to additional costs in respect of the UTMC system and consultants costs covering vacancies (net effect £88,000).
- A shortfall in Development Management income is anticipated (£84,000).
- The emergence of pressures in Theatres, Arts & Events as noted above (£80,000).

5.3 Many of the significant financial risks, previously reported to members, are now confirmed and included in the forecasts. The exception is the potential impact of prolonged severe winter weather.

## **6. Business Support**

6.1 The division is forecasting an overspend of £62,000 compared to the £221,000 reported to Cabinet for quarter 1:

- Housing & Corporate Services: Qtr 2 forecast overspend £235,000 including £230,000 pressure arising from the Carbon Reduction Commitment which relates to all Council property except schools.
- Finance forecast underspend £415,000: principally vacancy savings £299,000 and additional court fee income £142,000.
- Democracy & Customer First forecast underspend £87,000: cost pressures in Customer First £116,000 offset by savings including contributions from the Interpreting Service (£93,000) and Bereavement Services (£47,000).
- Communications, Performance & Partnership forecast overspend £69,000: The need for locums and an additional IRO have contributed to a forecast pressure of £125,000 for Children Review Services. Vacancy savings elsewhere within the division have mitigated this pressure.

- Organisation Services forecast overspend £259,000: Reduced activity within the temporary staff agency is forecast to create a shortfall of £210,000 against the budgeted surplus of £477,000

6.2 The major improvement since quarter 1 has been within Housing and Community Services with reduced forecasts for Housing Solutions £176,000, Building & Design Services £118,000 and Asset and Property Management £195,000.

## 7. Public Health

7.1. Forecasting breakeven.

## 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 is 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. Members will be aware that the DSG is impacted by schools converting to academies and have requested that future monitoring reports include an update on academy transfers:

Schools Converting to Academies	Conversion Date	DSG Deduction
Strood Academy	September 2009	£21,099
Bishop of Rochester Academy	September 2010	£20,499
Brompton Academy	September 2010	£17,276
Fort Pitt Grammar	November 2010	£11,280
Rochester Grammar School	November 2010	£15,553
Rainham School for Girls	February 2011	£24,641
Chatham Grammar for Boys	April 2011	£11,130
SJW Mathematical School	April 2011	£16,171
Rainham Mark Grammar	July 2011	£12,522
Cliffe Woods Primary	July 2011	£4,525
Thomas Aveling School	September 2011	£10,001
Hundred of Hoo Comprehensive	September 2011	£14,450
Chatham Grammar for Girls	September 2011	£6,722
Walderslade Girls School	November 2011 (planned)	£6,301

The DSG deductions shown above relate to the impact on retained budgets in 2011/12. Schools also take their delegated budget shares with them when they convert to an academy so the actual deduction from the DSG is a much higher figure but this element has no impact on the Council's budget. In some cases there is a saving to the Council in the year of conversion, which relates to the difference in the way business rates apply to academies and local authority schools.

## **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 increasing the charge for 2011/12. Government has recently announced a similar scheme for 2012/12 but these sums remain one-off revenue streams that will create a budget pressure when the grant ceases.

## **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 £1.018m, a surplus of £171,600 against its budgeted surplus of £846,900. The main reason behind this surplus is a reduction of £144,000 in the cost of internal service level agreements.

## **16. Conclusions**

- 16.1 The quarter two returns from budget managers forecast a potential overspend of £5.1 million for non-DSG services and it is clear that the position has the potential to seriously undermine the financial stability of the Council. It is essential that directorate management teams focus attention on identifying management action to contain expenditure within the agreed budgets.

## **17. Financial, legal and risk implications**

- 17.1. These 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. Cabinet notes the mid year revenue monitoring position for 2011/2012 and instructs Directors to come forward with further proposals for management action to reduce the potential deficit.
- 18.2. To help prevent the position deteriorating further Cabinet instructs officers to impose a moratorium such that **any expenditure** that is not **absolutely essential** for the continued delivery of services to our customers must be stopped.

## **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.

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### **Background Papers:**

Revenue budget approved by Council 24 February 2011  
Revenue budget monitoring report to Cabinet 25 July 2011  
Monthly monitoring returns submitted by budget managers

## GENERAL FUND REVENUE MONITORING - Quarter 2 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
<b>Children and Adult Services</b>									
Adult Social Care	92,173	37,797	93,089	916	(17,594)	(4,268)	(17,522)	72	988
Children's Care	27,164	11,657	29,417	2,253	(328)	(792)	(1,452)	(1,124)	1,129
Commissioning	7,978	4,727	9,045	1,066	(2,337)	(2,594)	(3,397)	(1,060)	6
Inclusion	44,374	20,511	45,251	877	(5,908)	(489)	(5,760)	148	1,025
Schools Retained Funding and Grants	4,879	1,462	5,916	1,037	(12,323)	(7,591)	(14,016)	(1,693)	(656)
Schools Delegated Funding	184,543	62,682	184,904	361	0	(361)	(361)	(361)	0
Transfer to DSG Reserve	0	0	474	474	0	0	0	0	474
	<b>361,111</b>	<b>138,836</b>	<b>368,096</b>	<b>6,984</b>	<b>(38,490)</b>	<b>(16,095)</b>	<b>(42,508)</b>	<b>(4,018)</b>	<b>2,966</b>
<b>Regeneration, Community and Culture</b>									
Front Line Services	39,360	21,146	40,757	1,397	(11,347)	(4,068)	(11,382)	(35)	1,362
Development and Transport	14,638	5,081	16,209	1,571	(3,772)	(1,526)	(5,256)	(1,484)	87
Medway Renaissance	0	118	166	166	0	0	(166)	(166)	0
Leisure and Culture	18,013	9,472	18,188	175	(7,737)	(3,260)	(7,593)	144	319
Directors Office	975	302	1,043	68	(29)	(43)	(55)	(26)	42
	<b>72,986</b>	<b>36,119</b>	<b>76,363</b>	<b>3,377</b>	<b>(22,885)</b>	<b>(8,897)</b>	<b>(24,452)</b>	<b>(1,567)</b>	<b>1,810</b>
<b>Business Support Department</b>									
Financial Services	125,916	46,703	131,365	5,449	(117,322)	(52,718)	(123,186)	(5,864)	(415)
Housing and Corporate Services	12,310	6,061	12,554	244	(10,786)	(5,016)	(10,795)	(9)	235
Democracy and Customer First	12,186	6,590	12,627	441	(5,777)	(4,335)	(6,305)	(528)	(87)
Communications, Performance and Partnerships	3,698	2,182	4,871	1,173	(2,777)	(2,073)	(3,881)	(1,104)	69
Organisational Services	12,549	6,828	12,707	158	(13,214)	(8,007)	(13,112)	102	260
	<b>166,659</b>	<b>68,364</b>	<b>174,124</b>	<b>7,465</b>	<b>(149,876)</b>	<b>(72,149)</b>	<b>(157,279)</b>	<b>(7,403)</b>	<b>62</b>
<b>Director of Public Health</b>	<b>1,011</b>	<b>258</b>	<b>2,293</b>	<b>1,282</b>	<b>(783)</b>	<b>(2,076)</b>	<b>(2,065)</b>	<b>(1,282)</b>	<b>0</b>
<b>Directorate Total</b>	<b>601,767</b>	<b>243,577</b>	<b>620,876</b>	<b>19,108</b>	<b>(212,034)</b>	<b>(99,217)</b>	<b>(226,304)</b>	<b>(14,270)</b>	<b>4,838</b>