

Meeting:	Cabinet
Date:	10 November 2005
Subject:	Revenue and Capital Budget Monitoring to 30 September 2005
Responsible Officer:	Director of Financial & Business Strategy
Contact Officer:	Myfanwy Barrett
Portfolio Holder:	Cllr Sanjay Dighe , Business Connections and Performance
Key Decision:	No
Status:	Part 1

Section 1: Summary

Decision Required

1. To note the current revenue and capital budget position.
2. To approve a virement within the capital programme to increase the provision for leisure centre toilet refurbishment

Reason for report

2. To effectively monitor the Council's revenue and capital budgets.

Benefits

3. The budget represents the financial resources approved to implement the Council's corporate priorities.

Cost of Proposals

4. Additional financial information is attached in the appendices to the report.

Risks

5. None associated with the decision.

Implications if recommendations rejected

6. If the budget monitoring is not approved the budget process will be less transparent and less robust.

Section 2: Report

Brief History

7. This is the second quarterly budget monitoring report for 2005-2006.

8. The report is structured as follows:

- Appendix 1 – Revenue Budget
- Appendix 2 - Balances
- Appendix 3 - Capital programme

Options considered

9. Not applicable.

Consultation

10. Not applicable.

Financial Implications

11. Financial information is set out in detail in the appendices.

Legal Implications

12. Case law dictates that Members of a local authority retain responsibility for the proper administration of the finances of the authority (Lloyd & Ors v McMahon (1987)). Failures by Local Authority Councillors to fulfil their general fiduciary responsibilities have previously resulted in findings of wilful misconduct in Court. There are specific statutory rules governing the use and control of Housing Revenue Account. Additional practical guidance in the form of a Housing Revenue Account Manual has been produced by the Office of the Deputy Prime Minister and should be referred to.

Equalities Impact

13. Budget monitoring reviews the resources across the whole Council and these resources contribute to the delivery of the corporate equalities plan, achievement of level 3 of the equalities standard, and implementation of the race equality scheme.

Section 3: Supporting Information / Background Documents

Other background papers available on request:

- Report to February 2005 Council: Approval to 2005-2006 revenue budget
- Report to June 2005 Cabinet: 2004-2005 Outturn
- Report to July 2005 Cabinet: Budget Monitoring Quarter One 2005-2006

Any person wishing to inspect the background papers should telephone 020 8420 9269

**Revenue Budget Monitoring 2005-2006
Commentary**

Revenue Summary

1. The Council has a gross revenue budget of £480m. Managing a budget this size is complex and there are inevitably under and overspends which arise during the year. It is important to take management action when variances are identified.
2. The Chief Executive and Executive Directors have identified budget risks to the value of £4.1m (0.8% of the gross budget) and are working to manage the situation. These risks can be partially offset by applying the remainder of the NNDR rebate that has been added to general fund balances, leaving a net overspend of £2.9m.
3. A more detailed analysis of these issues is being undertaken, particularly where there are areas of discretion, or policy decisions, that could alter the outcome.
4. The forecast is analysed and explained below:

	£m
Corporate	1.7
Business Development	0.2
Chief Exec. Office.	0.3
People First	1.4
Urban Living / Housing Revenue Account	0.0
Sub Total	3.6
Capital Financing	0.0
Interest on balances	0.5
Sub Total	4.1
Application of NNDR refund	(1.2)
Net position	2.9

Corporate

Procurement savings, balance to find of £1.5m

5. The total procurement target at the start of the year was £6.7m. The sum achieved to date is analysed below:

Procurement Savings	£000
Restricted provision for inflation	700
Purchase card target	400
Corporate contract savings	1,000
Business Development	200
People First	300
Urban Living	1,600
Total	4,200

6. Corporate contract savings are being achieved in relation to temporary staff, mobile phones, stationery, printing, and recruitment advertising. The savings are on target.
7. The sums allocated to Directorates to date are also being achieved.
8. This leaves a balance to be identified of £2.5m. A range of management action is being taken or is planned:
- The purchase card will be re-launched to increase take up and spend
 - Key suppliers will be targeted for procurement cards
 - Further West London and Pan-London projects will be undertaken
 - Detailed work with the People First contracts team is in progress to identify scope for further savings
9. At this stage a shortfall at year end of £1.5m is forecast.
10. So far this year the procurement team have delivered savings to schools and services funded by the PCT or grants to a value of £300k and a further £40k against capital projects. (These savings do not count towards the budget target.)

Single Status, underspend of £200k

11. There is a forecast underspend of £200k against the provision for single status.

Support Service Charges, savings shortfall of £200k

12. The budget assumes a saving to the general fund of £340k. A detailed review of all support service charges is underway, and it is important to simplify the system as part of the implementation of ERP. We cannot amend

charges to schools for 2005/06, but can adjust charges to pension fund, HRA and capital. The review will be complete by end of January at which point the financial implications for the general fund will be clearer. However, there is a risk that the full saving will not be delivered this year.

Local Authority Business Growth Incentive (LABGI), income shortfall of £200k

13. LABGI is structured such that if the rateable value of businesses in the borough increases the Council retains part of the additional business rates. The scheme has a floor and ceiling and authorities are banded according to current rates of growth. Because Harrow is currently in the lowest band (with historic growth of 0.7%), the application of the floor means it will have additional income of £238k even if there is no increase in the rateable value. Growth at the historic level of 0.7% would generate an additional £476k. The budget for 2005/06 is based on the assumption that growth will be 1.4% and generate £714k. Therefore there is a risk that not all of the additional income will be achieved. We are awaiting the final guidance on how the calculation of rateable value will be done. The actual figure will not be confirmed until February next year.

Business Development

Inspections, saving of £50k

14. Due to a reduction in the volume of inspection work there is a forecast saving.

Print Room, savings shortfall of £250k

15. A review of the print room is underway. However, the full saving is unlikely to be delivered this year.

Chief Executive's Office

Land Charges, income shortfall of £300k [as previously reported]

16. The budget for land charges is approximately £1m a year. Recovery of land charges is subject to trends in the housing market and therefore outside the control of the Council. Income is under recovered and it is anticipated that this trend will continue throughout the financial year. Uncertainty in the housing market and the impact of ever-increasing numbers of personal searches has contributed to the decline in income. Consequently, a significant under recovery (£300k) is expected at year-end.

17. The problem may increase next year due to a recent ruling on LA charges for this service.

People First

Children's Services, overspend of £1m [as previously reported]

18. There are considerable risks around Children's services due to SEN transport, placement costs and agency staff. Steps have been taken to contain transport costs, for instance by transferring some pupils from taxis to coaches, however further action is subject to policy decisions. Demand for placements reflects need and is outside our control. However, the type of support provided is within our control. New arrangements are in place to agree new placements and each existing placement is being reviewed. A strategy is being developed to bring agency staff across onto permanent contracts with the Council.

Asylum Seekers, overspend of £0.4m

19. A detailed review of the expenditure and grant funding in relation to asylum seekers has recently been completed. The majority of this overspend relates to the funding of asylum seeking children over 18 with both positive [grant funding is received on caseloads over 44 per borough, and in Harrow there are only 18 in this category] and negative decisions [where no grant funding is received]. The Home Office have now confirmed that the Indefinite Leave to Remain claim will be paid to the Council which will reduce the costs slightly. Overall there is a projected overspend of £0.4m across all client groups and costs of the asylum team. There is potential for a further reduction in respect of an additional ILR claim.

Urban Living

20. A detailed review of UL budgets has been undertaken and the structure has now been finalised. Specific underspends and areas that will generate additional income (such as parking) are being identified to offset pressures. There is also detailed work underway to deliver the procurement savings allocated to the Directorate.

21. Some of the key issues are summarised out below:

- Significant decrease in void costs (£150k) on temporary accommodation, which has been achieved by negotiation with the RSL's and closely monitoring and managing the procurement of new properties.
- Additional Highways Licences income (£20k), underspend on Trading Standards precept (£40k), salary underspend projected (£76k) and additional Fees & charges income (£40k).
- Re-phasing of Planned Highways expenditure, taking into account expected slippage (£700k)

- Parking enforcement projections ahead of budget (-£265k), underspend on salaries on Schools crossing patrols £25k.
- £200k Asset Management savings unlikely to be achieved.

Housing Revenue Account

22. The Housing Revenue Account forecast is within budget.

Interest on Balances

23. The budget assumes investment income from cash balances of £4m. The interest rate reduction occurred earlier than anticipated. In addition our net cash flow has reduced – this is subject to a detailed review. For the time being a risk of £500k has been identified.

Virements

24. There are no revenue virements which require Cabinet approval in this period.

Appendix 2

Budget Monitoring – Balances

1. The projected position at 31 March 2006 is set out below. The forecast balance at 31 March 2006 is currently below the agreed optimum level of £7m but above the agreed minimum level of £4m.

General Fund Reserves

	£m
Opening balance	7.2
NNDR Refunds	3.2
Transfer to Bad Debt Provision	(1.0)
Net balance at 31 March 2005	9.4
Budget variations now reported	(4.1)
Net balance	5.3
Agreed Contribution to BTP	(1.0)
Forecast balance at 31 March 2006	4.3

NNDR Refunds

2. The Council has received NNDR refunds of £3.2m. For accounting purposes these have been added to general fund balances as part of the close down of the 2004/05 accounts.

Bad Debt Provision

3. A full review of debt recovery policy, sums outstanding, write offs required and the adequacy of the provision is underway and this will be reported to cabinet later in the year along with a strategy for managing bad debts in future. As part of the closure of the 2004/05 accounts £1m has been added to the provision.

BTP

4. The contract is structured so that there are capital and revenue streams, guaranteed savings and potential additional savings. In addition to the contract price the Council will incur costs for the accommodation at Aspect Gate and day-to-day running costs. Due to the timing of payments and savings there is a net cost in the earlier years and a net saving in later years. Cabinet agreed at a special

meeting in September to use reserves to cover these costs in the short term. The sums will be repaid to reserves in later years.

CAPITAL PROGRAMME MONITORING AS AT 30 SEPTEMBER 2005

Table a				
Capital Expenditure year to date and commitments				
	Expenditure to 30 Sept 2005	Commitments	Total	Forecast Programme
	£000	£000	£000	£000
Business Development	3,400	623	4,023	21,362
Chief Executive's	225	12	237	1,137
People First	3,299	524	3,823	6,671
Urban Living: non housing	7,295	4,864	12,159	32,158
Urban Living: Housing	2,407	388	2,795	13,624
Programme Overheads	-	-	-	85
Capitalisation	620		620	1,240
Total	17,246	6,411	23,657	76,277

Note: To the end of the second quarter total expenditure (including commitments) is £23.7m. An assumption that there would be slippage of 15% this year was built into the financing calculation, in other words total anticipated spend was £65m. Therefore spend to date represents approximately 37% of the anticipated level for the year.

A very detailed report on the capital programme was considered by Cabinet in October. However some further amendments are set out overleaf.

Table b				
Capital Programme changes				
	July Programme £000	To date £000	Changes This report £000	Forecast Programme £000
Business Development	16,540	+4,472	+350	21,362
Chief Executive's	1,637	-500	-	1,137
People First	9,270	-2,715	+546	7,101
Urban Living: non housing	30,718	+1,141	+299	32,158
Urban Living: Housing	15,837	-2,213	-	13,624
Programme Overheads	700	-415	-200	85
Capitalisation	1,240	-	-	1,240
Total	75,942	-230	+995	76,707

Changes this quarter

Business Development

Improving Electronic Government (IEG) +£150,000

Additional Grant has been received from central government to continue the IEG programme.

Programme Management Office +£200,000

This is the transfer to the Programme Management Office, of the budget set aside in overheads for the management of the capital programme.

People First

Mental Health projects 2005-06 +£115,500

This is an annual programme supported by central government through a supported capital expenditure approval.

Adult and Community Learning +£130,014

Additional grant received from the Learning and Skills Council to fund minor works in connection with the DDA and SEND requirements.

Harrow Skills Centre +£300,000

Further grant funding from the Harrow Skills Council to finance additional works at the skills centre.

Urban Living: non housing

IT Equipment Planning Development Grant +£200,000

Planning Development Capital grant from the ODPM.

This represents 25% of the PDG settlement to be spent on Capital investment in IT. This is combination of work on the Business Portal, First Contact Development and GIS/Web systems.

Waste Performance & Efficiency Grant +£99,000

Grant has been received from DEFRA to support new and more efficient ways to deliver waste reduction and increase recycling and diversion from landfill.

Virement

In accordance with financial regulations the following virement is reported for approval by Cabinet.

Various Leisure Centre works	-£185,000
Leisure Centre refitting of male and female toilets	+£185,000

Vital health and safety works need to be carried out to the Leisure Centre toilets and tenders will expire if work not carried out soon. The funding is to be met from underspends on other small Leisure centre projects.

Urban Living: housing

Nothing to report