

**REVIEW OF COUNCIL BUDGET & EXPENDITURE
(Report by the Working Group appointed by the Panel)**

1. PURPOSE

To consider the outcome of the review into the Council's budget & expenditure.

2. INTRODUCTION

2.1 Members will recall that at their meeting held on the 9th November 2004, they appointed Councillors D B Dew, P J Downes, J A Gray, P G Mitchell and I R Muir to a working group for the purpose of undertaking a review of the Council's Budget & expenditure and to bring forward recommendations and proposals for consideration by the Panel. Councillor S J Vanbergen was appointed to join the group in January 2005.

2.2 Panel Members are reminded that the Working Group was established following the Panel's consideration of the outcomes achieved from the Council's Base Budget review in 2004 and their disappointment that there did not appear to have been any explicit Member involvement in the process.

2.3 The working group has met on 9 occasions to date and has focused their review on trends in Council expenditure.

3. METHODOLOGY

3.1 To enable the Group to obtain a better understanding of expenditure on Council services, the working group, with the assistance of the Head of Financial Services, developed a spreadsheet which demonstrated past, current and future net expenditure by service area, together with the percentage changes in expenditure over time. A copy is attached for Member's attention at Annex A. The Group hope that this will prove of use to Members in considering future expenditure trends.

3.2 The purpose of the exercise was to identify those services which incurred high volumes of expenditure and / or had incurred significant changes in spending in recent years and so were worthy of further investigation. Arising from that exercise, the Group agreed to focus their investigations on the following :-

Service / Department	Head of Service	Executive Councillor
Corporate Management	S Couper	T V Rogers

Customer First	C Hall	L M Simpson
Leisure Centres	P Jones	J Chandler
Housing Services	S Plant	D C Reynolds
Housing & Council Tax	J Barber	T V Rogers
Benefits		

which between them constitute 43% of actual spend before contingencies, investment income & other items are taken into account.

4. OVERALL EXPENDITURE

4.1 As part of the review, the level of the Council's overall expenditure has been discussed with Mr S Couper, Head of Financial Services, Ms S Martin, Principal Accountant & Councillor T V Rogers Executive Councillor for Finance.

4.2 The specific details are contained in Annex A. Members should be aware that the total expenditure by service area is detailed in pages 1 and 2, whilst the yellow columns demonstrate the percentage changes in expenditure over the years. Members should also be aware that for the years 2007/08 to 2009/10, the sum of £5,200K is shown as unallocated expenditure and these items are listed in page 3 of the annex.

4.3 A summary of the Council's overall spend is set out in tabular form below:-

	2001/02 £000	% Change	2005/06 £000	% Change	2009/10 £000
Gross Expenditure			55,681		
Net Expenditure	9,754	78%	17,373	31%	22,774

(Table 1, Total Spend)

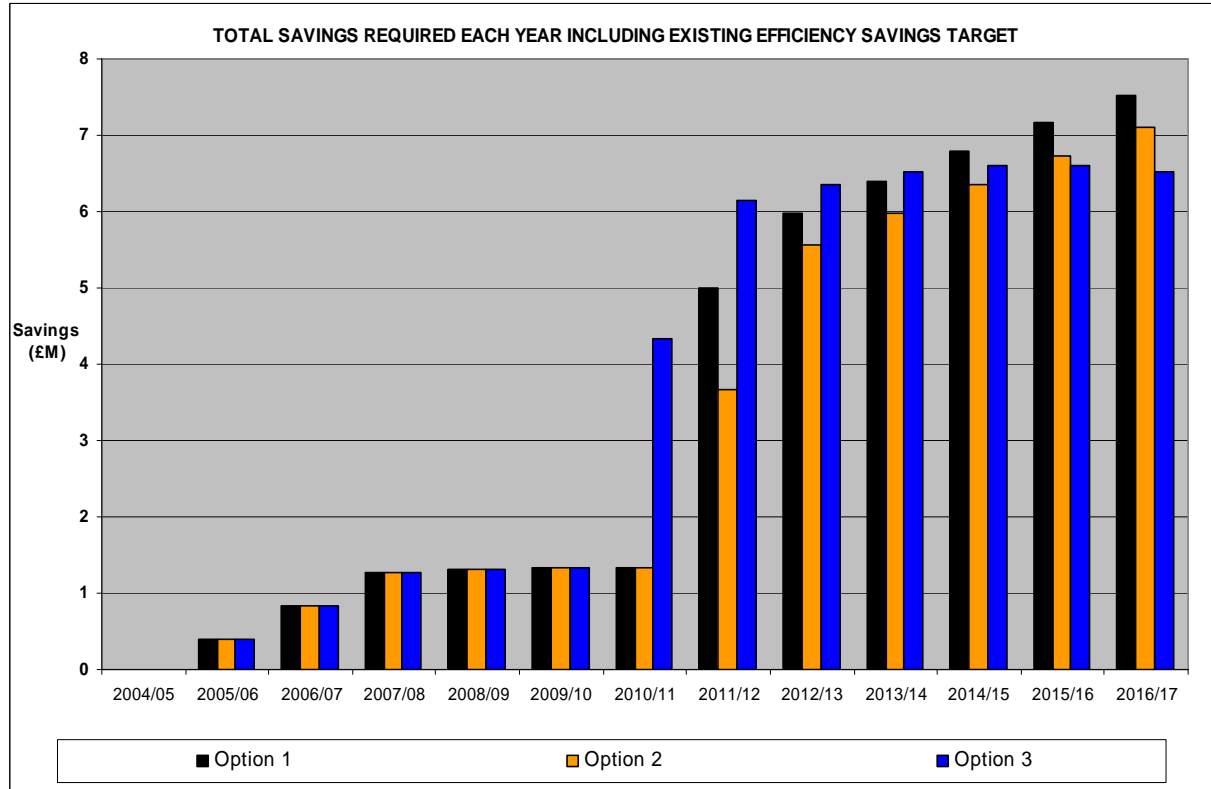
4.3 In relation to overall levels of expenditure, the working group have made the following observations:-

- The Financial Strategy, to cope with Capping and running out of reserves is well set out in the Agenda and Reports to the Council in September (Appendix B). The Working Group prefer Option 3, which reduces the Budget Increase to 6% and the risk of further capping but requires larger increases in Council Tax in later years.

Option 3 requires least service reductions (£5.2M), is least prone to capping and would be recognised as attempting to

follow the Government's approach. It does however result in smaller tax increases now but larger ones in due course.

The graph below shows the total savings required each year including the efficiency target already included in the MTP.



- The Working Group recognise that whichever option is chosen in the financial strategy presented for this year, major efficiencies / spending cuts will be required in service developments already included in the MTP and / or in existing services. Each option presented within the proposed financial strategy requires eventual reductions in service spending of over £5.2M per year with effect from 2011/12. Clearly the current Medium Term Plan cannot be sustained.
- The Council have increased overall levels of net expenditure by £7,619K (78%) between Year 01/02 and Yr 05/06; this rate of growth can not be sustained and must be addressed.
- Expenditure in the Directorates is driven by the Medium Term Plan. Given that it is ultimately Members who are responsible for approving the MTP, it is imperative that Members understand the implications of approving MTP bids.
- The increases forecast for the years 2005/06 to 2009/10 are significantly less than in the past but, it is our opinion that, if we are to avoid heavy spending cuts in the future we need to be

looking at a reduction in spend. The overall increase including the unallocated items amounts to 31% over 4 years. Inflation at our normal levels would be about 17% over this period.

- Unallocated items account for an increase of £5,197K in the years 2005/06 to 2009/10. The details are given in Annex A page 3 and include revenue inflation of £3,495K and pensions increases of £1,160K. However pensions is an area over which the Council has no control.

4.5 As a result the Working Group wish to make the following **RECOMMENDATIONS** for consideration by the Panel:-

- **That a total spend analysis, similar to that in Annex A be made available to all Members and for it to include the distribution of ALL which is currently shown as “Unallocated Items”**
- **Although the Working Group recognised that Information Technology (IT) is currently recharged to different areas of the Council’s budget, the Group consider that given the degree of expenditure on IT this should be clearly identified as a recognised sector of spend and the information made available to Members.**
- **That the Cabinet be recommended to review those projects in the Medium Term Plan which have not yet commenced and to consider the potential for the removal of any items from the programme.**
- **When considering new initiatives (MTP Bids) the Cabinet be recommended to encourage Heads of Service to accommodate these from their existing budgets, if necessary by adjusting time scales.**
- **That the Cabinet be requested to undertake a full review of the revenue inflation for the years 2005/06 to 2009/10.**

That in considering the financial strategy, the Cabinet be invited to recommend Option 3 to Council. The Working Group further recommend that the action required to make the necessary savings is started NOW, with a linear increase in savings to reach a sustainable position by 2011/12.

5. CORPORATE MANAGEMENT

5.1 Councillor P J Downes undertook to explore the Corporate Management budget on behalf of the Group. The budget had seen an

increase from £1,377K in 2001/02 to £2,302K in the current year and comprised the following sub headings, in addition to a large percentage of the Customer First Programme:-

- **Bank Charges**
- **Best Value**
- **Information & Promotion**
- **External Audit**
- **Local Council Support**
- **Pensions**
- **Policy & Strategy**
- **Public Accountability**
- **Unutilised Depot Space**

5.2 The tabular summary below sets out the increase and forecast increase in expenditure in this area from 2001/02. The figures for 09/10 are in today's money and do not include inflation.

	2001/02 £000	% Change	2005/06 £000	% Change	2009/10 £000
Net Expenditure	1,377	67%	2,302	0%	2,302

(Table 2: Corporate Management)

5.3 Expenditure has been scrutinised under two headings:-

- a. Corporate Management**
- b. Customer First**

5.4 The outcome of Councillor Downes enquiries with relevant officers in respect of these budget areas is summarised in Annex B to the report

5.5 In relation to the Corporate Management budget, the Working Group have made the following observations:-

- Some of the trends are difficult to follow in fine detail because of changes in the way staffing costs are assigned. This is because the Chartered Institute of Public Finance Accountancy require certain headings to be used and their methodology has been refined over recent years.
- It is clear that we have had a considerable growth in service activity over the last three years with consequential growth in corporate services costs. We can't increase what we do without employing more people to do it.
- The staffing structure is broadly historical i.e. it tends to roll forward, with occasional extra (temporary) posts being created.
- The last two reviews by officers have deleted £870K from the Council's budget. If so, it is difficult to see how much

more can be identified unless there is a rigorous appraisal of work reduction, some of it arising from the Call Centre.

- There has been staff growth in the area of IT. IT is supposed to make everything more efficient but it does not always save money (e.g., software, hardware up-grades and maintenance).
- There has been a considerable expansion of our profile with information and promotion (publications, videos etc) and a substantial increase in the budget allocated to that heading.

5.6 The working group would like to present the following **RECOMMENDATIONS** for consideration by the Panel:-

- **That the Cabinet be recommended to scale back the information and promotion budget by £150K and accept the inevitable reduction in these activities.**

6. CUSTOMER FIRST

6.1 Councillor P J Downes worked with the Head of Customer First and one of the Principal Accountants to explore the heading 'Customer First' which has a revenue budget of £644K in 2005/06 and which settles at £688K from 2006/07. This is an obvious area of growth as it had a budget of only £7K in 2001/02.

6.2 Customer First includes the Call Centre, the Customer Service Centre and the web-site, together with the cost of the Customer Relationship Management package and the Geographical Information System.

6.3 The people & facilities element of the budget accounts for £478K. There are 4 senior staff (2 managers and 2 team leaders) at the Call Centre and 12 full time equivalent agents providing a coverage which is greater than traditional office opening hours. Some posts have been transferred from Pathfinder House and the net extra staffing cost is shown on the budget as £238K. The savings that can be made are being logged.

6.4 Other costs of the Call Centre can be summarised as follows:-

- ICT systems - £113k per year.
- Technical infrastructure (including GIS and the Local Land and Property Gazetteer) - £195k per year.

The capital costs of £940K in 2004/05 and £1,088K in 2005/06 are high because they include permanent and temporary staff contracted to set up the system. The logic of entering salary costs under capital has been questioned.

- 6.7 The items shown on the MTP are only the **extra** staff and costs required by this programme. Some existing staff are within the base budget.
- 6.8 The Council has signed an agreement for 8 years for the infrastructure and lease part of Speke House, St Ives from the County Council for the Call Centre with a break clause at 3 years.
- 6.9 Discussions were held at length in respect to the extent to which opening the Call Centre saves time and therefore people in the back office. The difficulty in identifying savings is that a lot of officers are 'losing' a fraction of their job, or part of their work is being done by the Call Centre, thus providing them with more time to undertake their normal duties.
- 6.9 The Working Group has made the following observations in respect of Customer First:-
- Customer First has been an expensive development but it has modernised services. The option chosen for the Call Centre at the time was not the cheapest. An alternative option, involving integration with the County Council (based on initial cost estimates) would have cost £200K less in capital and £100k less per year in revenue costs. The capital has now been invested.
 - The option of saving money by abandoning Customer First does not seem realistic. The waste of capital investment would be indefensible. However, Heads of Service should identify savings i.e. staffing reductions, from within their teams.
 - The gain to the customer through a more comprehensive and faster telephone response service and through access to the web-site cannot be quantified in financial terms.
 - The overall aim of the Business Process Improvement (BPI) project is to streamline processes so that we are as efficient and effective as possible. The expectation is that the efficiencies which result from the project will be at least equivalent to the savings assumed in the MTP bid. However, the extent to which it is possible to turn these efficiencies into real cash savings is likely to depend on how much we change the structure.
- 6.10 The working group would like to present the following **RECOMMENDATIONS** for consideration by the Panel:-
- **That the Cabinet be requested to identify efficiency savings arising from the implementation of the Customer First programme at the earliest opportunity.**

- **That the Cabinet be requested to consider the reversion to an alternative option for the operation of the Contact Centre, possibly by way of integration with the County Council which could potentially save £100K per year in running costs (based on initial cost estimates)**

7. LEISURE CENTRES

7.1 As part of their review into the Leisure Centre's budgets, the working group have met with the Head of Community Services, the Executive Councillor and representatives from the Financial Services Division to discuss expenditure at the leisure centres. Having regard to the overspend by some of the centres and the responsibilities of the Management Committees for their budgets, it was agreed that this should be considered as part of the review. Given Councillor D B Dew's familiarity with the St Ivo Centre, it was decided that the investigations should be focused in this area.

7.2 The leisure centres budget has increased from £2,024K in 2001/02 to £2,843K in 2005/06 and is forecast to increase by a further 18% by 2010. As part of the review, information was obtained from another of the Council's Principal Accountant to discuss the detail of the budgets.

7.3 The tabular summary below sets out the increase and forecast increase in expenditure in this area from 2001/02, which are in today's money and do not include inflation. Annex C shows the details of expenditure of the various centres.

	2001/02 £000	% Change	2005/06 £000	% Change	2009/10 £000
Net Expenditure	2,024k	40.5%	2,843	1.6%	2,889

(Table 3a Leisure)

	Huntingdon £000	Ramsey £000	Sawtry £000	St Ivo £000	St Neots £000	ALL £000
Total Income	908	481	238	1,588	931	4,148
Total Expenditure	1,508	927	722	2,639	1,653	7,450
Total Net Expenditure	599	445	483	1,051	721	3,302
Less County & Schools Contribution	81	47	73	196	84	483
Funded by HDC	518	398	410	854	637	2,819

(Table 3b Leisure Centres Relative Spending 2005/06)

7.4 Arising from the review, the Working Group have made the following observations:-

- The leisure centres remain the Council's largest non-statutory cost and in the current financial climate, efforts to evaluate the implications of alternative funding strategies should be considered.

- Following discussions with officers and members, it has become apparent that the leisure centre management committees are not clear about the roles which they are expected to perform. The current system often leads to managers making decisions and the management committees ratifying them after the event. If leisure centres are to remain within budget it is important that committees fully understand their role and take greater control of centre expenditure.

- That the leisure centre budgets should encourage the retention of reserves for future projects. It has become clear that on occasions large budget amounts have been moved between centres. This cannot help the centres stay within their budget and in the opinion of the Working Group discourages Centre Managers from accruing reserves to fund larger projects.

7.5 The working group would like to present the following **RECOMMENDATIONS** for consideration by the Panel:-

- **That the Cabinet be recommended to give serious consideration to alternative financial strategies for funding leisure centre provision.**

- **That the Cabinet be recommended to review the role of the leisure centre management committees.**

- **That the budgets for leisure centres be allocated for a particular year and not transferred between the centres during the course of an individual year.**

8. HOUSING

8.1 As part of the review of the Housing Services budget, Councillor P G Mitchell has reviewed expenditure with the Head of Housing, and a Principal Accountant.

8.2 The 2005/06 Housing Budget constitutes 60 % of the Council's gross expenditure and 23% of Net Spend. The tabular summary below sets out the increase and forecast increase in expenditure in this area from 2001/02 which are in today's money. There is very little growth forecast in real terms from 2006/07 to 2009/10.

	2001/02 £000	% Change	2005/06 £000	% Change	2009/10 £000
Gross Expenditure	17471	26%	21930		
Funding	14375	24%	17836		

Net Expenditure	3097	31%	4094	12%	4590
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8.3 The expenditure for housing is given under the following sub headings. All values are given for the years (01/02 // 05/06).

- Housing Services (£441K // £646K)
- Private Housing Support (£794K // £2285K)
- Homelessness (£381K // £577K)
- Housing Benefits (£1481K // £585K)
- Council Tax Benefits (£229K // £45K)

Details of the various items of expenditure are set out in Annex D which also gives the explanations which have been provided to Councillor Mitchell in respect of his enquiries into these budget areas.

8.4 Arising from the review of the Housing budget, the Working Group made the following observations:-

- Private Housing Support will cost £2,285K this year. It will provide nomination rights for 30 new houses but these are not regarded as enough to cope with the level of homelessness in the District.
- Total Housing cost this year is budgeted at £21,930K gross with fees and grants of £17,840K, leaving HDC with a net cost of £4,090K. Staff Numbers in housing (which excludes Housing Benefits) were 28.5 in the year 01/02, rising 32.6 in the Year 05/06.
- Council Tax Benefit Payments. This sector was not reviewed but the gross levels need to be monitored particularly in view of forecast Government changes. Gross spend is budgeted at £4,699K, with grants of £4,654K leaving HDC with a net cost of £45K.

8.5 The working group would like to present the following **RECOMMENDATIONS** for consideration by the Panel:-

- **That the Cabinet be requested to review housing provisions for social and shared cost housing through subsidy and s106 agreements and investigate the possibility of obtaining more nominations for less expenditure.**
- **That officers be requested to monitor the effects of changes in Government Grants on the Council's overall expenditure and report the results to all Members.**

9. CONCLUSION & RECOMMENDATIONS

- 9.1 The general impression is that financial control is good..
- 9.2 The Working Group would like to express their appreciation to the officers and members who have helped them in their investigations and in preparing this report
- 9.3 The Overview & Scrutiny Panel are invited to consider the observations made by the Working Group and the recommendations arising set out in paragraphs 4.5, 5.6, 6.10, 7.5 & 8.5 of the report now submitted. Please note that these only relate to the services under review.

CONTACT MEMBERS: Councillors P G Mitchell, P J Downes & D B Dew

(01480) 388234