

**REVENUE MONITORING  
2005/06 OUTTURN AND 2006/07 BUDGET**

(Report by the Head of Financial Services)

## 1 INTRODUCTION

- 1.1 The 2005/06 accounts have now been approved by the Corporate Governance Panel so that they can be audited. This report compares the outturn with the original budget and the forecast outturn reported to Cabinet in April and explains the savings that have been made.
- 1.2 It then considers the implications of the outturn, together with any other variations that have been identified, for the current year.
- 1.3 The final section informs Cabinet of the action being taken to increase the robustness of budget monitoring.

## 2 GENERAL FUND OUTTURN 2005/06

- 2.1 The original budget was based on a deficit of £2.2m (i.e. the sum that would need to be taken from revenue reserves to balance the budget). The forecast anticipated the deficit would fall to £1.6m but the outturn resulted in a further reduction of £1.4m to just £0.2m.
- 2.2 This improvement resulted from additional income of £1.1m (7%), reduced expenditure of £46k (0.1%) and increased recharges to capital of £0.5m. Adjustments required because of the net increase in R&R Funds and extra grant relating to adjustments from previous years totalled £0.3m. (See table below)

	Original Budget	Forecast Outturn	Actual	
			£000	Var'n from Original £000
	£000	£000	£000	£000
Income*	-15,314	-14,891	-16,380	-1,066
Expenditure*	33,341	32,357	33,295	-46
Recharge to Capital	-654	-742	-1,160	-506
<b>Total Net Expenditure</b>	<b>17,373</b>	<b>16,724</b>	<b>15,755</b>	<b>-1,618</b>
Adjustment due to net increase in R&R Funds	0	0	-251	-251
<b>Total to be Funded</b>	<b>17,373</b>	<b>16,724</b>	<b>15,504</b>	<b>-1,869</b>
<b>Funding</b>				
Council Tax	-5,656	-5,656	-5,656	0
Share of Collection Fund deficit	+4	+4	+4	0
Government Support	-9,508	-9,508	-9,625	-117
<b>Deficit to be funded from Council Reserves</b>	<b>-2,213</b>	<b>-1,564</b>	<b>-227</b>	<b>+1,986</b>
Total Funding	17,373	16,724	15,504	-1,869

\* Net of reimbursed items e.g. Housing and CT benefits

### **2.3** The main reasons for these variations were:

- £0.7m lower net expenditure on the accounts that capture most of the staff and management costs together with other overheads such as the cost of offices before they are all apportioned to services as Central Charges.
- £0.5m of this lower amount being charged to capital and, finally,
- £1.1m of lower spending on service budgets of which £0.5m relates to additional interest on investments.
- £0.3m net adjustments to be set off against the lower spending due to contingencies, and adjustments relating to capital charges and R&R Funds.

**2.4** The lower net expenditure on Management Units and Holding Accounts was primarily due to items brought forward from 2004/05, the identification of savings through the budget review exercise (contingency for total sum in the services budget), lower pay costs for a variety of reasons but specifically savings from turnover which are required to meet the turnover contingency in the services budget, additional recruitment costs for two Directors (contingency to cover normal recruitment levels in services budget), lower capital charges due to deferral of capital schemes, income from S106 schemes (transferred to a holding account and so do not impact on the final budget position) and additional income. The most significant items in relation to the current year are that recruitment costs are unlikely to be so high again thus making it more likely that the contingency for turnover (net of recruitment costs will be met) while an analysis of the income shows that virtually all the items were one-off. (Further detail is shown in Stage 1 Annex A).

**2.5** A higher proportion of these costs being charged to Capital results in a corresponding reduction charged to services. Significant charges to capital related to the schemes for Pathfinder House replacement (£131k) and Customer First (£627k) because of the very significant involvement required from many managers throughout the Council. Often the priority of these projects will mean that other tasks must be deferred. Whilst this may continue to some extent during the currency of these schemes it will eventually cease. Part of the variation may be due to extra staff taken on specifically to support capital projects and this would in turn imply a larger saving on other salaries in relation to revenue work. This aspect will be investigated to identify any potential impacts in the current year. (See Stage 2 in Annex A)

**2.6** Lower spending on Service Budgets includes extra investment interest (£482k), extra benefits admin subsidy (£186k), extra grants (£298k), lower transport costs (£165k), lower spending on professional services (£305K). There was also lower spending on Planning Services but much of this work was actually reflected in extra central charges, which means that the “true” saving on the salaries in Management Units may have been higher. There were also a number of increased costs but some of these were linked to extra grant income. (More details in Stage 3 of Annex A).

**2.7** The overall position is also summarised at the end of Annex A and by Services in Annex B and results in Revenue Reserves being £2m higher than assumed in the original budget, standing at £18.2m at 31 March 2006.

- 2.8** All variations will be discussed by Director's with their Heads of Service in order to further clarify the impact in the current year.

### **3. REVENUE MONITORING 2006/07**

- 3.1** It should be noted that the requirement to bring forward the date for completing final accounts to the end of June has, of necessity, been the key task for the Accountants in May and June. This first budget monitoring report for 2006/07 is, therefore, less detailed than future reports and the identified improvements referred to in section 4 below have not yet had a chance to feed through into the process. Some of the variations identified in 2005/06 may include opportunities for ongoing savings in the current and future years. The outturn results will be reviewed by Directors as part of the savings process so that opportunities can be maximised.

- 3.2** Some specific items that will result in extra costs have been identified which amount to £412k. These include delayed rent due to delays in completion of the Oak Tree Centre, reduced land charges income, increased fuel costs and additional NNDR on the Council's own properties.

- 3.3** A combination of temporary and permanent savings amounting to £1,136k have been identified:

- £452k (included in the budget)
- £322k resulting from capital deferrals and adjustments
- £187k other interest adjustments
- £75k (minimum) on PCSOs
- £100k potential for savings on staff turnover.

- 3.4** Whilst this exceeds the target of £1,026k a further £302k of savings are still required to meet the approved budget due to the additional costs referred to in para. 3.2 above. It should be possible to find these extra savings from the review process that is underway and progress on this will be reported to Cabinet in September.

- 3.5** Revenue expenditure of £138k relating to various projects has been carried forward from last year under the provisions of the Code of Financial Management (details at the end of Annex A). These are a first call on the extra reserves of £1,986k resulting from last year's outturn. The balance of £1,848k is more than adequate to cover any part of the remaining £302k of savings that it might not be possible to achieve.

- 3.6** Annex C provides the monitoring statement.

### **4. MONITORING**

- 4.1** The April Report to the Cabinet, which did not identify £1.3m of the eventual variation, was clearly not sufficiently accurate. Considerable thought has been given to the reasons for this and the main ones are:

- A reluctance by service managers to predict that under or over spending is likely.

- Certain processes not being sufficiently robust within the accountancy section.
- 4.2 The actions shown in Annex D will therefore be taken to increase the robustness of financial monitoring.

## **5. CONCLUSION**

- 5.1 The Council has a history of underspending but Cabinet are only now being made aware of the scale this year due to the April report significantly underestimating the figure.
- 5.2 It is natural for managers to seek to protect their budgets but the combination of the scale of the variance and the savings that the Council needs to identify mean that action must be taken immediately to make the process more accurate. This report identifies the action being taken.
- 5.3 The underspending last year will mean that revenue balances are £1,848k higher than expected (after allowing for items brought forward) providing added flexibility over the coming years but there is only a permanent impact if the underspending itself is permanent. Where this turns out to be the case budgets will be reduced thus minimising the need for service reductions. However professional judgements will need to be made to ensure that there remains adequate budget to allow officers to carry out their jobs effectively.
- 5.4 A preliminary view on the 2006/07 budget shows that some additional costs amounting to £412k have emerged. Thus although a mixture of temporary and permanent savings of £1,136k have been identified, which exceed the target of £1,026k, further savings of £302k are still required to meet the approved budget.
- 5.5 It should be possible to find these extra savings from the review process that is underway and progress on this will be reported to Cabinet in September. The additional reserves resulting from last year's outturn are obviously more than sufficient to cover any element of the remaining savings that it does not prove possible to achieve.

## **5. RECOMMENDATION**

- 5.1 The Cabinet is requested to:
- note the variations summarised in this report relating to 2005/06
  - note the preliminary view of additional savings required in 2006/07
  - note the action that will be taken to enhance the budget monitoring process.

## **BACKGROUND INFORMATION**

- 1 2005/06 Budget File  
2 2005/06 Closedown Files

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## SUMMARY OF VARIATIONS

Budget reports have in the past been simplified but, hand in hand with the need to be more robust, is the need to clarify certain elements of the process. Local Government Accounting rules require all overheads to be recharged to services and so most of the Council's staff are first budgeted for in Management Units (e.g. Accountancy or Printing). There are holding accounts which budget for certain corporate costs like Pathfinder House. Each of these accounts has a budget and a service manager responsible for it.

During the year these "Central Charges" are regularly made to Services (e.g. Leisure Centres) based on the time people have spent supporting that service or some other appropriate basis. They are also charged to outside organisations for work carried out and, more significantly, to Capital Schemes where our staff are designing, implementing or project managing them. Thus it is generally impossible to say which service a saving on one of these budgets will impact on.

In order to monitor and report our spending there are therefore three stages:

1. Identify any variations in the net spending on the Management Units and Holding Accounts
2. Identify whether the amount to be charged to the Council's revenue account has changed
3. Identify variations in spending that do not relate to Central Charges

Stage 1: Variations in spending on Management Units and Holding Accounts			
	ACTUAL £000	BUDGET £000	VARIATION £000
Management Units and Holding Accounts (Net Spending)	17,228	17,930	-702
Items brought forward from 2004/05			112
Base Review Savings identified			-268
Pay, NI, Pensions			-237
Recruitment costs (including Directors)			162
Training			-50
Employees and Personal Indemnity Insurance			64
Office maintenance and running costs			-39
Vehicle Insurance			-74
Printing and Postage			74
Capital Charges			-138
S106 Contributions			-140
Other Income			-130
Other items			-38
			-702

Stage 2: Proportion of Central Charges recharged to Revenue			
	ACTUAL £000	BUDGET £000	VARIATION £000
Revenue Services			
- as overheads	15,094	16,264	-1,170
- included as direct expenditure (e.g. printing)	984	936	48
- balance not recharged	10	-1	11
Capital	1,160	654	506
Other accounts and bodies	-20	77	-97
Total Central Charges	17,228	17,930	-702

Stage 3: Variations in spending that do not relate to Central Charges.		VARIATION £000
Employees	Pay, NI, Pensions (Direct Service Staff)	222
	Other	57
Buildings	Building works and maintenance	233
	Fuel, rates and water	107
	Rent and Service Charges	66
	Other	38
Transport		-165
Supplies and Services	Printing and Stationery	230
	Equipment and materials	-37
	Waste and Recycling services	-61
	Planning services	-199
	Other Professional Services	-305
	Other	-14
Benefits and Transfers	Benefits (net)	188
	VAT on Partial Exemption	-94
	Other	-46
R&R	Contributions to R&R Funds	-36
Income	Rents	-131
	Recycling/Refuse	-107
	Land Charges	178
	County Elections	-98
	Other	-164
	Interest	Net of brokers fees
Grants	Extra Benefits Admin subsidy	-186
	Other Grants including recycling performance grant (51)	-298
Other Items	Base Budget Savings achieved	-81
	Items Brought Forward from 2004/05	161
	Rounding	-28
		<b>-1,052</b>

OVERALL POSITION			
	ACTUAL £000	BUDGET £000	VARIATION £000
Central Charges (From Stage 2)	15,104	16,263	-1,159
as overheads	15,094	16,264	-1,170
balance not recharged	10	-1	11
Net Service Spending (Variations in Stage 3)	1,752	2,804	-1,052
Contingencies and Technical Items.	-1,352	-1,694	342
Base Budget Savings Target		-402	402
General Contingency not used		132	-132
Turnover and recruitment contingencies (net)		-187	187
Reversal of capital charges relating to central charges	-777	-915	138
Commutation adjustment	-323	-323	0
R&R Funding Adjustment	-251	0	-251
Rounding	-1	1	-2
<b>TOTAL SPENDING</b>	<b>15,504</b>	<b>17,373</b>	<b>-1,869</b>
<b>FUNDED FROM</b>			
Council Tax	-5,656	-5,656	0
Collection Fund Adjustment	4	4	0
Government Support	-9,625	-9,508	-117
<b>DEFICIT - Funded from Reserves</b>	<b>-227</b>	<b>-2,213</b>	<b>1,986</b>

In line with the requirements of the Code of Financial Management £138k of revenue expenditure has been approved for carry forward to 2006/07. This relates to situations where money had been earmarked by a service manager for a specific purpose which could have been achieved during 2005/06 but subsequently, circumstances beyond their control prevented it happening. The table below lists these items.

Items Carried Forward to 2006/07		£000
F M S	Training	1.0
Equality	Training	2.6
Hinchingbrooke Park	Siteworks	2.7
I T Network	Training	2.7
Performance Management	Software	6.0
Transportation Developments	Consultants	6.3
Environmental Management	Printing	13.0
Elections - Periodic Review	Consultants	15.1
Mobile Home Park Remediation	Consultants	17.8
Huntingdon Bus Station	Consultation And Surveys	26.0
Benefits	Hired Staff	45.0
		<b>138.2</b>

<b>Service Spending 2005/06</b>	
	<b>Actual</b>
	<b>£'000</b>
Refuse Collection	3,416
Recycling	798
Street Cleansing & Litter	1,248
Drainage & Sewers	500
Public Conveniences	301
Environmental Health	1,602
<b>Environmental Services</b>	<b>7,864</b>
Development Control	1,122
Building Control	245
Planning Policy & Conservation	1,164
Markets	-24
Economic Development	317
Planning Delivery Grant	-155
<b>Planning</b>	<b>2,669</b>
Corporate Events	131
Countryside	536
Tourism	455
Community Initiatives	695
Parks	1,414
Leisure Policy	370
Leisure Centres	2,955
<b>Community Services</b>	<b>6,556</b>
<b>Community Safety</b>	<b>1,146</b>
Housing Services	638
Private Housing Support	1,913
Homelessness	526
Housing Benefits	622
<b>Housing Services</b>	<b>3,699</b>
Transportation Strategy	357
Public Transport	367
Highways Services	88
Car Parks	-180
Environmental Improvements	522
<b>Highways &amp; Transportation</b>	<b>1,154</b>
Local Taxation & Benefits	933
Corporate Management	2,142
Democratic Representation	1,062
Democratic Services	140
<b>Corporate Services</b>	<b>4,276</b>
Contingency	-11
Financing Adjustments and Other Expenditure	-8,164
Investment Interest	-3,434
<b>Other Expenditure</b>	<b>-11,609</b>
<b>Council Total</b>	<b>15,755</b>



<b>Financial Monitoring 2006/07</b>	
	<b>£000</b>
<b>Approved Budget February 2006 before Savings</b>	<b>19,331</b>
<b>Variations</b>	
<b>One-off</b>	
Sapley Square lost rent due to delayed completion	126
<b>Probably Longer Term</b>	
Reduced Land Charges income	170
Increased fuel costs	70
Increased NNDR costs for HDC properties	46
<b>Savings Identified</b>	
Identified in budget (permanent)	-452
Identified in Capital Monitoring Report (temporary)	
Revenue staff charged to capital	-219
Interest impact of deferred schemes	-103
Other interest adjustments (temporary) - <b>note 2</b>	-187
PCSOs reduced contribution (permanent) - <b>note 3</b>	-75
Potential saving from increased turnover (temporary) – <b>note 4</b>	-100
	18,607
<b>Targeted Savings to meet budget</b>	<b>-302</b>
Approved budget net of savings target	<b>18,305</b>
<b>Plus Revenue items deferred from 2005/06</b>	138
<b>Total to be Funded</b>	<b>18,442</b>
<b>FUNDING</b>	
Government Support	-10,892
Collection Fund Deficit	74
Council Tax	-5,961
<b>DEFICIT – From Reserves</b>	<b>-1,665</b>
<b>Total Funding</b>	<b>18,442</b>

**NOTES**

- 1 The budget target for 2006/07 included in the budget was £1,026,000 of which £452,000 was identified last year and included in the budget. Members are aware of the process underway to identify savings for this and future years. Both permanent and temporary savings are relevant but for those that are temporary it is recognised that they will need to be replaced by a continued succession of temporary savings until permanent savings have been confirmed.
- 2 This saving results from two elements – the fact that revenue reserves at March 2006 were £2M more than expected, due to last years outturn position, and assumptions that the spending on the Operations Centre construction is likely to be in the second half of the year. No change in interest rate has been assumed at this stage.
- 3 This reduction may increase once further discussions with the Police have taken place.

- 4 There is potential for turnover savings (net of recruitment costs) to exceed the contingency provision for this in the current year partly due to the holding of the Head of Community Services post vacant for the time being.
- 5 The budget includes a contingency for unexpected items (£140k). This may not all be required but it is too early in the year to consider reducing it.
- 6 No assessment of any additional recharges of staff time to capital has been made in this report.

## ACTIONS BEING TAKEN TO IMPROVE FINANCIAL MONITORING

- 1 COMT have stressed to Chief Officers and Heads of Service their accountability for financial management as stated in the Code of Financial Management.
- 2 Directors will have regular review meetings with each of their Heads of Service to discuss the potential for under and over spending on both revenue and capital spending. These meetings will be at least quarterly, more frequently for more complex services (e.g. leisure, operations, IMD), and will also be attended by a senior financial manager.
- 3 Accountancy will introduce more robust systems to keep detailed track on:
  - recharges from revenue to capital.
  - forecast interest earnings
  - achievement of turnover assumptions
  - aggregate variations (i.e. items that are not significant on individual budgets that may aggregate to a significant item when considered over the whole Council).
- 4 Accountancy will also introduce the following items already planned as part of the Use of Resources response:
  - A risk assessment to ensure all significant items are adequately covered
  - Bringing forward, later this year, the production of monitoring statements to within ten working days of the end of the month.
  - Introducing new reports for COMT and developing reporting to Cabinet members.