

HUNTINGDONSHIRE DISTRICT COUNCIL

<b>Title:</b>	<b>Budget Monitoring 2014/15 (Revenue &amp; Capital) &amp; an Update on Zero Based Budgeting</b>
<b>Meeting/Date:</b>	Cabinet 23 <sup>rd</sup> October 2014
<b>Executive Portfolio:</b>	Resources: Councillor J A Gray
<b>Report by:</b>	Head of Resources
<b>Ward(s) affected:</b>	All Wards

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**Executive Summary:**

**1. Budget Monitoring 2014/15**

• **Revenue**

The net revenue budget approved in February 2014 was £20.870m. The variations forecast so far this year total a saving of £0.171m. The significant movements include £0.396m of staff related savings, £0.132m of transport related savings and reduced expenditure to date of £0.554m in supplies and services offset by a shortfall in interest receipts of £0.523m and income from fees and charges of £0.333m

	£m
Approved Budget	20.870
Forecast Variation	(0.171)
Forecast	20.699

A full exercise to monitor progress against the savings identified within the Facing the Future programme has been undertaken. Of the target savings of £1.571m some £1.453m are on course to be delivered (92%) and detailed explanations of the shortfall have been received.

In addition there are additional savings of some £1.335m with some £1.317m planned to be delivered over the course of the Medium Term Financial Strategy.

• **Capital**

The net capital budget approved in February 2014 was £4.623m in addition to which slippage added a further £1.945m giving a total updated budget of £6.568m. Currently the forecast out turn for this financial year is estimated to be £5.879m a difference of £0.689m made up of £53,000 cost variations and (£0.742m) timing changes.

At this stage in the year variations have been reported for under/overspends totalling a net underspend of (£0.216m), including savings on bin purchases of £0.233m, increased expenditure on the multi-storey car park of £50,000 and savings of £21,000 on green bin charging software.

Also slippage to future years of £0.293m for the CCTV Wireless scheme, and

slippage from future years of £0.180m for the sale of the Greenhouse in St Neots.

	£ m	£ m
Approved Budget		4.623
Slippage from 2013/14		1.945
Forecast Variations:		
Cost	0.053	
Timing changes	(0.269)	
Slippage to future years	(0.293)	
Slippage from future years	(0.180)	(0.689)
<b>Forecast</b>		<b>5.879</b>

- **New Homes Bonus**

The New Homes Bonus calculation is based on data collected over the twelve months between October and September each year. The target housing growth in the eleven months to the end of August 2014 was set at 482. Currently the position shows 619, an increase of 137 properties resulting in an estimated increase in New Homes Bonus of £0.164m.

## **2. Zero Based Budgeting**

As a consequence of the governments continued austerity measures and the Council's past trend of underachieving its budget, as has been widely advertised over the past few months, the Council is embarking on a complete overhaul of its base budget by undertaking a Zero Based Budgeting (ZBB) exercise.

The process started in earnest in September 2014 with the appointment of an external project lead and strategic finance specialist. Together, a programme is being developed that will undertake a 3 phased approach:

- Review current outturn and budgets to establish those items of expenditure and income that can be easily isolated and ringfenced.
- Undertake five "ZBB Heavy" reviews and a programme of "ZBB Light" reviews for other Council services.
- Consolidation of savings and Peer Review.

The primary aim of the ZBB process is to align resources with corporate priorities in preparation for setting the 2015/16 budget and the forward years projections for the Medium Term Financial Strategy in February 2015.

### **Recommendation(s):**

The Cabinet is requested to note the:

- The Forecast Revenue Budget of £20.699m
- The Forecast Capital Budget of £5.879m
- The proposals for undertaking the Zero Based Budget exercise in preparation for the forward budget.

## 1. PURPOSE

- 1.1 To update members, in line with best practice and agreed budget monitoring reporting cycles, on the forecast outturn for 2014/15 for both capital and revenue budgets and to give an update on the progress so far in respect of Zero Based Budgeting.

## 2. BACKGROUND

### Budget Monitoring

- 2.1 Since December 2013, all members have been receiving on a monthly basis the Financial Performance Monitoring Suite (FPMS), which incorporates the Financial Dashboard. This report formalises the reporting arrangements of the current forecast outturn for 2014/15 in respect of revenue and capital; this includes a forecast outturn for the General Fund.

### Zero Based Budgeting

- 2.2 For many years the Council has followed an “incremental” budget setting process; whereby last year’s budget was adjusted for inflation, previous year’s outturn and known budget changes (better known as growth and savings). However, the fundamental problem with an incremental budgeting model is that it rests on the premise that “current” service standards are acceptable; consequently, all resources are duly allocated based on historic trends and practices.
- 2.3 However, as a consequence of the Council under achieving the budget, the external auditors recommending a Zero Based Budgeting review and various members questioning the base budget, in June 2014 Cabinet gave approval for a ZBB review to be undertaken of its services.

## 3. FORECAST REVENUE ACTIVITY

### Use of General Fund Balances

- 3.1 Members will be aware that the Medium Term Financial Strategy (MTFS) (formerly known as the Medium Term Plan) currently provides for a phased reduction in the general fund balance to £6.1m by 2018/19; the general fund balance as at the end of 2013/14 was £8.7m with a further £12.2m in Earmarked Reserves.
- 3.2 All Heads of Service have reviewed their forecasts and the “Forecast Performance” *tabulation (Appendix 1a)* shows that the forecast net spend for 2014/15 is expected to be £20.699m; this means that the forecast use of reserves for the year is £0.834m some £0.414m less than originally planned (this is net of carry-forwards to 2015/16).
- 3.4 This has a consequential impact on the expected use of general fund reserves by:
- reducing the amount needed to balance the 2014/15 budget.
  - providing flexibility to spread the level of future savings over a longer period.
- 3.3 The Original Budget has been adjusted to take into account of:

- approved budget carry-forwards from last year, which are funded from an earmarked reserve, and
- additional capitalised expenditure.

This results in an updated budget of £21.113m and when this is compared to the 2014/15 Forecast, this shows that the forecast is £0.414m less than the updated budget.

### Variations in Revenue Spend

- 3.5 As noted above, Heads of Service have provided an extensive commentary on the reasons for variations in their forecast outturn to the updated budget; this is in the “2014/15 Head of Service Corporate Budget Monitoring” *analysis* (**Appendix 1b**). Those services where the variation is greater than +/- £75,000 are summarised below:

Variation in Forecast to Updated Budget 2013/14			
	£000	Service	Commentary
1	215	Leisure Health	& <b>Leisure, recreation &amp; sport</b> Income at St Ives is recovering more slowly than anticipated
2	80	Leisure Health	& <b>Economic Development estates</b> Slippage of the Highlode scheme together with vacant properties and unrealised service savings make up most of this overspend
3	(259)	Development	<b>Development management unit</b> Savings as a result of staff vacancies
4	(86)	Community	<b>Projects management unit</b> Savings as a result of staff vacancies and staff travel
5	(66)	Community	<b>Lifestyles management unit</b> Savings as a result of staffing changes
6	104	Resources	<b>Investment interest</b> Lower than anticipated interest rates resulting in a shortfall in income
7	(143)	Corporate Team	<b>Corporate management</b> Senior management team reorganisation has resulted in this underspending
<b>Key:</b> (xx) = saving			

- 3.6 The current fiscal tightening within the Council is ensuring that Managers are being more robust in the control of their budgets.

### Achievement of Revenue Savings

- 3.7 During the production of the 2014/15 budget, members approved a savings programme as part of Facing the Future and other individual initiatives in

excess of £2.9m; this is shown in the “Achievement of 2014/15 MTFS Savings” *analysis (Appendix 1c)*. Although some services have met or even exceeded their savings targets, the forecast savings that will be achieved to the end of August 2014 shows that 95% (£2.77m) of savings have been achieved or are on target to be delivered. A summary of those savings not achieved that exceed a variance of £20,000 are shown below.

Forecast Value of Non-Achievement of Savings 2014/15			
	Target £000	Achieved £000	Commentary on Underachievement of Savings
1	(88)	(47)	<b>Community: Wireless CCTV</b> Wireless CCTV project deferred while further feasibility and options review undertaken. Partially offset by reduced transmission costs.
2	(43)	0	<b>Development: Highlode</b> Highlode slippage due to protracted negotiations, awaiting a forecast to demonstrate whether remaining savings are being achieved
3	(101)	(70)	Saving delayed awaiting CRM implementation and review of management structure mitigated by some transport savings

#### 4. FORECAST CAPITAL ACTIVITY

4.1 The table below shows the forecast variations to the approved capital programme, based on the evidence of expenditure to the end of August. The variations include slippage to and from future years and variations to the cost of schemes.

CAPITAL BUDGETARY CONTROL 2014/15	Original Budget £000	Forecast outturn £000	Variation £000
Approved budget	4,623	4,623	0
Delayed spending from previous year	0	1,945	1,945
<b>Cost Variations;</b>			
<b>Multi-Storey Car Park</b> Changes to specification to increase the usability of the car park including installing LED lighting.		50	50
<b>CCTV Camera Replacements</b> Amended monitor specification.		3	3
<b>Geographical Information System</b> Slippage no longer required.		(7)	(7)
<b>Wheeled Bins</b> Increased developer contributions and savings from reusing issued bins.		(233)	(233)
<b>Green Bin Charging System Software</b> The software needed to charge for wheeled bins has been introduced at a cost lower than estimated.		(21)	(21)
<b>Alconbury Enterprise Zone</b>		0	0

<b>CAPITAL BUDGETARY CONTROL 2014/15</b>	<b>Original Budget</b>	<b>Forecast outturn</b>	<b>Variation</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
This scheme, to support capital investment in the Alconbury Enterprise Zone totals £5m. The scheme is being fully funded by grant from central government and so is net nil to the council.			
Other Savings Printing and document centre equipment, and pool vehicles.		(8)	(8)
<b>Total Cost Variations</b>		(216)	(216)
<b>Slippage to Future Years;</b>			
<b>CCTV Wireless</b> The conversion of CCTV to wireless operation, is now subject to further review before the project commences.		(293)	(293)
<b>Total Slippage to Future Years</b>		(293)	(293)
<b>Slippage From Future Years</b>			
Green-House The tenancy at the Green-House in St Neots will end in September, as a result the sale of the property has been brought forward from 2015/16.		(180)	(180)
<b>Total Slippage From Future Years</b>		(180)	(180)
<b>Forecast net spending</b>	<b>4,623</b>	<b>5,879</b>	<b>1,256</b>

## 5. ZERO BASED BUDGETING

### ZBB Supporting the Corporate Plan

5.1 Zero Based Budgeting is a practical method of reviewing service provision and identifying necessary shifts in resource allocations. The main thrust of the process is to continually refocus funding on the key business objectives and to terminate or scale back any activities that no longer relate to those aims. A concise definition of ZBB would be:

“a method of budgeting in which all expenses must be justified for each new period.”

5.2 The Corporate Plan 2014-16 identifies four strategic themes for the authority; namely:

- A strong local economy.
- Enabling sustainable growth.
- Working with our communities.

- Ensuring we are a customer focused and service led council.

5.3 These are our business objectives and the services we provide contribute to the achievement of those objectives to a greater or lesser extent. The service performance levels set out the results of employing differing levels of resource across these disparate services

### **ZBB and how it will work at HDC - strategic**

5.4 The paper to Cabinet by the Managing Director in September 2013 explored the various options for service delivery across all the council services. The detailed work that is now required is to identify the impact of changes in individual service delivery models on the budget for 2015/16.

5.5 The outcome from this process will be only as good as the managers commitment to it and members appetite for changes to “the way we do things”.

5.6 Importantly the ZBB process is not the exclusive responsibility of the finance team. It is a vehicle whereby managers can become more familiar with the consequences of their decisions and it is vital that all decision makers are involved, understand the process and are committed to the overall objective of the process, as well as their part in it, by providing data and arguments concerning “their” services.

5.7 So what is needed to undertake a comprehensive ZBB operation?

- An up to date corporate plan
- Management commitment to the process
- A structured timetable for each part of the process
- Ambitious targets for resource reallocation
- Identification of robust measures of outcomes for each service
- Service prioritisation
- Common documentation and “scoring” system
- A robust review process
- Star chamber for appeals

### **ZBB and Activity to Date**

5.8 To date, the following activity has been undertaken:

- Appointment of external “on-site” specialist who will lead the ZBB process.

This is an experienced local government finance specialist, a former Chief Executive and Chief Financial Officer who has broad local government experience in both financial and management accounting.

- Appointment of external strategic financial expertise.

The appointment of Pixel Financial Consulting will strengthen this approach they are expert providers of local government funding

forecasting models and have significant financial budgeting expertise. They also work very closely with the Chartered Institute of Public Finance and Accountancy and provide their services to all levels of local government.

➤ Identification of ZBB Services

Reflecting past services issues and constraints, the following services have been selected for ZBB “Heavy”:

- One Leisure
- Car Parks
- Environmental Protection (including Animal Welfare and Pest Control)
- Open Spaces (including Parks)
- Resources

The “ZBB heavy” review will entail forensic review of budgets against Council and Service priorities and Outcome measures. Each service is expected to take around 10-days and each is supported with a dedicated resource from within the Accountancy Team who will act as their “critical friend”.

All other services will receive a “ZBB light” review; this will still be a detailed budget review but will be less in-depth than the “heavy” reviews.

➤ Development of Project Plan

A Gantt Chart is attached at **Appendix 2**, this details the reviews programme.

➤ Review current outturn and budgets to establish those items of expenditure and income that can be easily isolated and ringfenced.

Commenced and the findings to date include:

- Staff briefing for Finance
- Initial meetings with Service Heads in respect of ZBB heavy
- A comprehensive review of staffing costs 2014-15
- Comparison between 2013-14 out turn and the 2014-15 budget

## 6. COMMENTS OF OVERVIEW AND SCRUTINY PANEL

6.1 The Overview and Scrutiny Panel (Economic Well-Being) has reviewed the variations to the approved 2014/15 revenue and capital budgets at their meeting on 9th October 2014. The Head of Resources has been asked to circulate details of the one off cost relating to the settlement of a legal dispute in the land charges service and the saving for Town and Parish Council support, which has been identified within Democratic Services and is yet to be resolved. Having commented upon the estimated increase in New Homes Bonus of £0.164m, Members have also queried what the Council will do with these additional monies.

6.2 The Panel has received an update on the arrangements for the Zero Based Budgeting process and Members have been provided with an opportunity to ask questions on the operation of the process. Members have emphasised that the outcome of the process will only be as good as the managers’ commitment to it and Members’ appetite for changes to the way in which the



Council currently does things. Panel Members will give further consideration in advance of the next meeting as to whether it might be useful for the Panel to review one of the ZBB 'heavy' services in further detail.

- 6.3 In noting that consideration has also been given to those areas within the budget where more immediate benefits could be achieved, a Member has emphasised the need to avoid the temptation simply to avoid filling vacancies within the establishment to meet savings targets

## **7. LEGAL IMPLICATIONS**

- 7.1 No direct, material legal implications arise out of this report.

## **8. RESOURCE IMPLICATIONS**

- 8.1 The resource implications are noted within this report.

### **LIST OF APPENDICES INCLUDED**

Appendix 1 – Financial Performance Monitoring Suite  
Appendix 1a – Forecast Performance  
Appendix 1b – Head of Service Corporate Budget Monitoring  
Appendix 1c – Achievement of Facing the Future and other savings  
Appendix 1d – Financial Dashboard (August 2014)  
Appendix 2 – ZBB Gantt chart

### **BACKGROUND PAPERS**

Working papers in Resources & Accountancy

### **CONTACT OFFICER**

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