

# Scrutiny Report

Report of Head of Finance

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To: Scrutiny

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## Financial outturn 2013/14

### Recommendations

- (a) Note the overall outturn position of the council as well as the outturn of individual service areas.
- (b) Take into account the impact of the outturn position in the integrated service and financial planning process when setting the 2015/16 original budget.
- (c) Note the slippage in the capital programme to 2014/15.

Note: If committee members wish to raise specific questions please send these in advance if possible to either the committee clerk or the accountancy manager. Please be aware that if questions are not submitted in advance, it may not be possible to answer these in detail at the meeting.

### Purpose of Report

1. To report the final year end position for revenue and capital expenditure against budget for the financial year 2013/14.

### Strategic Objectives

2. The council has a strategic objective of effective management of resources. Monitoring actual performance against budget ensures that expenditure continues to be in accordance with the delegated powers within the constitution, and that changes in circumstances which have affected spending requirements are recognised and can be considered in the preparation of future years' budgets.

## Background

3. The attached papers contain summarised schedules of revenue and capital expenditure for 2013/14; they also present an explanation of the significant variances against budget. This is presented by service, and follows the format of the budget monitoring reports presented to cabinet briefings and published during the year in In Focus.
4. A detailed report was presented to Cabinet briefing on Friday 5 September and provided the opportunity for cabinet to discuss the outturn with senior management, and also for individual portfolio holders to further discuss with their heads of service.

## Revenue outturn 2013/14

5. The council's budget requirement for 2013/14 was £12.525 million. Net expenditure for services at year end was £10.155 million – this equates to net variation of £2.370 million, which has been transferred to the council's reserves. This will therefore improve the council's financial position going into what is likely to be yet another very challenging budget setting period when the budgets are set for 2015/16.
6. The council has continued to deliver on its various savings initiatives started in previous years to further reduce the council's expenditure in support of central government's austerity programme of public sector funding cuts.
7. Table 1 below summarises the outturn position by service. More detail of variances is shown at Appendix 1.

**Table 1: summary of revenue budgets and variance**

<b>Summary of revenue budgets and variances</b>	<b>Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>	<b>Notes</b>
Corporate management team	599	149	(450)	
Corporate strategy	4,783	4,286	(497)	
Economy leisure and property	413	125	(288)	
Finance	2,049	2,056	7	a
Housing and health	1,344	683	(661)	
HR, IT and customer services	1,740	1,704	(36)	
Legal and democratic services	932	726	(206)	
Planning	783	426	(357)	
Contingency	(118)	0	118	
<b>Net cost of services</b>	<b>12,525</b>	<b>10,155</b>	<b>(2,370)</b>	
Investment income *	(355)	(492)	(137)	b
<b>Outturn report in Appendix 1</b>	<b>12,170</b>	<b>9,663</b>	<b>(2,507)</b>	

**Notes:**

- a. Finance line contains housing benefits and rent allowance funded by government grant as shown in table 2 below.

**Table 2: housing benefits and rent allowances**

	<b>Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
Rent allowance payments	28,000	28,372	372
Government grants benefits	(37)	(81)	(44)
Government grants income	(27,138)	(27,398)	(260)
Rent allowance overpayments recovered	(1,000)	(1,014)	(14)
<b>Net position</b>	<b>(175)</b>	<b>(121)</b>	<b>54</b>

- b. The council's treasury management outturn report will detail the performance on investment income. This will be considered by Audit and Governance Committee on Wednesday 24 September before being presented to cabinet and council. Investment income is shown within finance line in Appendix 1.

## **Capital**

8. The original capital budget for 2013/14 including growth was agreed in February 2013 at £5,631,000 with expected receipts from grants and contributions of £1,228,000.
9. At the end of the 2012/13 financial year unspent capital budgets of £955,000 were slipped into the 2013/14 programme with £178,000 of this being funded from grants and contributions. During the year £44,000 of budget was added to the 2013/14 programme, all of which was on externally funded schemes. As a result of estimates received in quarterly budget monitoring, budgets totalling £3,133,000 were reprofiled to 2014/15, £593,000 of which was funded from grants and contributions.
10. Outturn expenditure against the revised working budget of £3,497,000 was £2,700,800. Detail of the variance of spend against budget is shown in appendix 2 of this report.

## **Analysis of the underspend**

11. The variations between budgeted and actual income and expenditure can be summarised in table 3 below.

**Table 3: summary of major variances against budget**

	Total variance	Income variance		Expenditure variance				Under-spends c/fwd to 2014/15
		Grants and contributions	Other income	Employee costs	Supplies and services	Third party payments	Other gross expenditure	
	£000	£000	£000	£000	£000	£000	£000	£000
Corporate management team	(450)	(253)	0	3	(183)	(22)	5	145
Corporate strategy	(497)	(15)	(160)	1	(34)	(263)	(26)	
Economy leisure and property	(288)	(68)	(130)	(20)	49	38	(157)	69
Finance	7	(328)	(48)	(22)	(167)	230	342	34
Housing and health	(661)	(500)	(214)	(20)	95	0	(22)	
HR, IT and customer services	(36)	3	0	49	(73)	(8)	(7)	20
Legal and democratic services	(206)	2	(214)	(43)	54	(2)	(3)	13
Planning	(357)	(38)	(986)	425	208	49	(15)	
Contingency	118						118	
<b>Net cost of services</b>	<b>(2,370)</b>	<b>(1,197)</b>	<b>(1,752)</b>	<b>373</b>	<b>(51)</b>	<b>22</b>	<b>235</b>	<b>281</b>

12. We have analysed the outturn position to identify cross-council explanations for the significant variation from budget, excluding a number of budgets that have a net zero impact on the council's bottom line. The following key reasons for variances have been identified.

#### **Over achievement of income budgets**

13. The government awarded us a number of grants during the year which we had no knowledge of when setting the budget in January 2013. These include £500,000 being Vale's share of the capacity funding grant in health and housing to accelerate housing growth across the Science Vale area of South and Vale, and £250,000 being Vale's share of the transformation grant in corporate management team for the office move.
14. Other significant income variances are as follows:
- An increase in brown bin customers and recycling income has resulted in an increase in income of £160,000, and is included within corporate strategy.
  - Housing and health includes temporary accommodation income which was £175,000 better than budget due to increases in homelessness occupancy rates. As a result of this increase nightly accommodation expenditure increased by £60,000. This expenditure is included within supplies and services.
  - Legal and democratic includes land charges income, which was £117,000 above budget due to receiving a greater number of land searches than anticipated.
  - Planning fee income is £959,000 over achieved due to some major applications being received. Additional costs were incurred as a result of this which is mentioned in paragraph 15 and 18.

### **Overspend against employee budgets**

15. Employee costs within planning are over budget due to the increase in workloads; this is offset by the additional income as referred to in paragraph 14.

### **Underspends in supplies and services budgets**

16. Corporate management team were £183,000 under spent mainly on costs relating to the office accommodation move. Of this, £145,000 has been carried forward into the next financial year.
17. The bad debt provision for housing benefit overpayments was £78,000 under spent due to tighter controls in the benefit payments and a write back of previous year's provisions. This is included with finance.
18. Expenditure on consultants within planning was over spent by £208,000, due to the increase in planning applications as per paragraph 14.

### **Overspend in third party payments**

19. The payments to our waste and street cleansing contractor, Biffa, was £263,000 less than budget due to contract costs and inflation being lower than budget.
20. There was an overspend of £192,000 on payments to the financial services contractor, Capita. This is shown within finance and reflects increased payments to Capita as a result of improved performance a part of which relates to the improved debt collection performance that has allowed us to reduce our bad debt provisions (see paragraph 17).

### **Measures to control future variances**

21. As members will recall, the financial outturn report for 2012/13 also reflected a significant underspend against budget. As with last year, much of the variance reflected unbudgeted, additional grant income which was unknown at the start of the year.
22. However, following 2012/13 outturn, a number of measures were adopted to help control the level of underspend and variances. As scrutiny committee was advised at the time, these measures were introduced for 2014/15 budget setting and therefore the full impact of these measures will not be evident until the financial outturn for 2014/15 is reported next year. The following paragraphs show the measures that were adopted.

### **Employee costs**

23. For the 2014/15 budget setting process, management team retained a two per cent managed vacancy factor (net across the council). This level reflected the level of underspend against employee costs experienced at that time and will be reviewed annually.

### **Challenge process during budget setting**

24. Budget holders were asked to thoroughly review their base budgets for possible budget savings. Historically, budget holders have tended to be reluctant to do this in case savings exercises are required at a later date in the budget setting process.

However, managers were reassured that any savings offered up would count in any future savings review. In addition, for the first time SMB conducted “Star Chambers” with heads of service to critically review their base budgets and seek to identify further savings. As a result of this, £2.052 million of base budget reductions were identified and made in 2014/15.

### **Use of contingency**

25. A review of service budgets identified that, in addition to the central contingency budget, there were also budgets within services that could also be considered contingency budgets. These budgets have now been centralised. The level of the corporate contingency has been assessed based on the likelihood of the individual component budgets being required. The make-up of the corporate contingency budget will be reviewed annually.

### **Financial, legal and any other implications**

26. The financial implications are as set out in the body of the report. There are no other implications of this report.

### **Conclusion**

27. The council has underspent on both revenue and capital for 2013/14, following the trends of recent years. As reported above, the council has taken steps to mitigate against future significant variances and as a consequence reduced its 2014/15 base budget by £2 million.

### **Appendices:**

1. Revenue outturn 2013/14 and commentary on major variances
2. Capital outturn 2013/14 – summary and commentary

### **Background Papers**

- Annual Statement of Accounts 2013/14 (currently being audited)
- Annual Budget papers for 2013/14