

Scrutiny Report



Report of Head of Finance

Author: Bob Watson; accountancy manager (technical)

Telephone: 01235 540426

Textphone:

E-mail: bob.watson@southandvale.gov.uk

Wards affected: All

Cabinet member responsible: Matthew Barber

Tel: 01235 540391

E-mail: matthew.barber@whitehorsedc.gov.uk

To: Scrutiny

DATE: 22 August 2013

Financial Outturn 2012/13

Recommendation(s)

- (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 2014/15 original budget.*
- (c) *Note the slippage in the capital programme to 2013/14.*

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 2012/13.

Strategic Objectives

2. The Council has a strategic objective to manage the business effectively, provide value for money services that meet the needs of our residents and service users and communicate the Council's activities and achievements. This report seeks to inform councillors, the community and officers of the Council's expenditure and income in

2012/13; where there were budget pressures, savings, underspends and variations in income, along with the reasons for these.

Background

3. Appendix 1 and 2 contain summarised detail revenue and capital expenditure for 2012/13; they also present an explanation, as provided by each head of service, of the significant variances against budget. This is presented by service, and follows the format of the budget monitoring reports presented to cabinet briefings throughout the year.
4. A detailed report was presented to Cabinet briefing on 12 July 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 2012/13

5. The council's budget requirement for 2012/13 was £12.377 million. Net expenditure for services at year end was £10.226 million – this equates to net variation of £2.151 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 2014/15.
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. The table below summarises the outturn position by service. More detail of variances is shown at Appendix 1.

Summary of revenue budgets and variances	Budget £000	Actual £000	Variance £000
Corporate management team	560	504	(56)
Corporate strategy	4,638	4,187	(451)
Economy leisure and property	235	14	(221)
Finance	2,115	1,882	(233)
Housing and health	1,251	982	(269)
HR, IT and customer services	1,784	1,640	(144)
Legal and democratic services	914	776	(138)
Planning	837	241	(596)
Contingency	43	0	(43)
Net cost of services	12,377	10,226	(2,151)

8. Not shown in the net cost of services, the council over-achieved its investment budget of £418,000 by £135,000. Details of the treasury outturn are contained in a separate report to Audit and Governance committee in September.
9. Detailed explanations from the relevant head of service for all variances over £50,000 are shown at appendix 1.

Capital

10. The original capital budget for 2012/13 was agreed in February 2012 at £3,743,440 with expected receipts from grants and contributions of £840,000
11. In October 2012, the outturn report for 2011/12 was presented to the Cabinet; in this report, budget slippage from the 2011/12 programme to 2012/13 programme amounting to £1,100,650 was agreed; £170,100 of this was funded from grants and contributions. During the year £482,610 of budget was added to the 2012/13 programme, with £380,000 of this funded from insurance contributions relating to the rebuild of Dean Court Social Club. In addition, budgets totalling £35,370 in respect of completed schemes were removed from the programme and adjustments were made in light of budget monitoring estimates received from services to reprofile £2,743,550 of budget into 2013/14.
12. When setting the capital budget for 2013/14, the February budget-setting report showed expected capital expenditure in 2012/13 of £2,547,780. Subsequently, the 2012/13 working budget was revised upwards to £2,562,780, reflecting revised profiling of spend on the Tilsley Park artificial football pitches. £902,720 of the budgeted expenditure for 2012/13 was funded from grants and contributions and the balance from the council's capital reserves. The detail of the capital outturn for the year is shown in appendix 2.
13. Outturn expenditure against the revised working budget of £2,562,780 was **£1,316,765**.

Analysis of the underspend

14. The variations between budgeted and actual income and expenditure can be summarised as follows:

Summary of major variances against budget

	Variance	Income variance		Expenditure variance				Notes	Under-spends c/fwd to 2013/14
		Grants and contributions	Fees and Charges	Employee costs	Supplies and services	Third party payments	Other gross expenditure		
	£000	£000	£000	£000	£000	£000	£000	£000	
Corporate management team	(56)	13	(8)	(18)	(2)	(40)	0	a	34
Corporate strategy	(451)	(12)	(94)	(13)	(135)	(178)	(19)		7
Economy leisure and property	(221)	(74)	(291)	(37)	116	1	64		156
Finance	(233)	(1,052)	(19)	(22)	(349)	161	1,048	b	45
Housing and health	(269)	(69)	(110)	(40)	(108)		58		6
HR, IT and customer services	(144)	(11)	11	(92)	(44)	(1)	(7)		20
Legal and democratic services	(138)	37	(113)	(59)	1	6	(10)		8
Planning	(596)	(13)	(477)	68	(80)		(94)		117
Contingency	(43)								
Net cost of services		(1,181)	(1,101)	(213)	(601)	(51)	1,040		392
Investment income	(135)								0

Notes:

- a. Carry forward in corporate management area is the balance of fit for the future funding.
- b. Finance line contains housing benefits and rent allowance funded by government grants as follows:

Rent allowances payments	1,383
Council Tax Benefits	(131)
Government Grants Benefits	(19)
Government grants income	(1,003)
Rent allowance overpayments	(179)
<hr/> Net Rent and HB variance	<hr/> 51

15. This analysis reveals that the majority of the variations fall in one of three categories. Income receipts were £1.1 million above that budgeted for, supplies and services expenditure was £600,000 below the cumulative budget and employee costs came in £213,000 under budget. The grants and contributions budgets effectively balances out due to increases in benefit payments made matched by benefits subsidy received.

16. Increased fees and charges received. Notable areas are in planning fees (£386,000) due to some major applications being received (although some of this is carried forward to next year to fund the work involved in these applications); property rental income has also exceeded budgeted levels by £137,000. There has been an underachievement of income in car park fees which partially offsets the extra income received elsewhere.

17. Supplies and services. The good news here is that, due to more effective debt management by the council and its contractor, the council has been able to reduce its provision for bad debts by some £175,000. The council has also underspent on its 'hired services' budget by £140,000 (consultants etc), although some of the one-off budgets here have been carried forward to 2013/14. Further significant savings have been made in audit fees with the change over of auditors. Finally the council has saved nearly £100,000 on its software costs.

18. Employee costs. The underspend on employee costs accounts for about 10% of the underspend. This reflects the in-year savings delivered by the on-going lean business process re-engineering (bpr) throughout the council and also the natural vacancy factor around the recruitment process (ie: there is a time-lag between staff replacing those who have left due to the recruitment process and the new employee serving out notice at their previous employment).

Measures to control future variances

19. The level of variation was reviewed at cabinet briefing on 12 July 2013; officers were tasked to propose some measures for controlling the level of underspend and variances. Senior management board (SMB) is considering a number of measures

some of which have already been actioned. The paragraphs below list some of these proposed measures.

20. Employee costs. In the 2013/14 budget setting process, management team have imposed a 2% managed vacancy factor (net across the council) taking £156,000 from employee budgets. The level of this will be reviewed for the 2014/15 budget setting parameters in the light of historic staff cost savings.
21. Challenge process during budget setting. The fit for the future reviews of services have resulted in significant reductions in staffing numbers as the employee establishment has been adjusted in accordance with service requirements. This replicates the process of zero based budgeting that builds budgets from scratch based on need. The major contracts of the council are uplifted by contractually set inflation, and therefore fixed. This leaves limited area for challenge; however one such area is around the growth bids (unavoidable and service growth). In future years, growth bids will be reviewed along side any prior year underspend in the bidding service. Challenge should be made by portfolio holders, management team and star chamber.
22. Use of contingency. Previously contingency has been used to meet in-year pressures on specific service budgets, regardless of predicted underspends. It is suggested that services look to contain pressures within their own service budgets (managed to a service bottom line) before calling on the corporate contingency fund.
23. Closer review of quarter 3 outturn forecasts. This was focussed on last year, and the variance between quarter 3 forecasts and actual outturn are shown at appendix 1. This will be focussed on again at quarter 3 this year with high importance being accorded to accurate forecasts to improve the budget monitoring and also to provide some assurance on the level of balances when setting the 2014/15 budgets.
24. Optimistic budget setting. A tendency will exist for HoS and service managers to be optimistic about what could be delivered in year by their teams, and therefore budgets are requested accordingly. This is to be encouraged as it sets stretching objectives, however a worse case scenario should also be considered when setting the spending profile within budget bids.
25. Pessimistic identification of budget pressures. By nature, services will take a pessimistic view of pressures, both when setting budgets and also monitoring them in year. During setting, consideration could be given to best, worst and median case scenarios, with an agreement to fund at either best case (ie: for removal of doubt the best case is the lowest cost pressure) or median case, with acknowledgement that if the worst case did materialise, then contingency could be called upon – this might mean increasing the amount in contingency, but it is better to underspend on use of contingency at year end than in the services due to over cautious budgeting and funding of pressures.

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. Despite the backdrop of the economic downturn and austerity, the Council has contributed £1.2 million to the council's general fund reserves – as opposed to an anticipated contribution to reserves of £0.5 million. This is a significantly better position than budgeted, and means the General Fund of the Council is in a healthier position than previously predicted. There still is, however, significant pressure on the level of all reserves in the council's medium term financial plan over the next five year and beyond.

Appendices:

1. Revenue outturn 2012/13 and commentary on major variances
2. Capital outturn 2012/13 – summary and commentary

Background Papers

- Annual Statement of Accounts 2012/13 (currently being audited)
 - Annual Budget papers for 2012/13
- 

Summary of major variances against budget	Variance	Income variance		Expenditure variance				Notes	Under-spends c/fwd to 2013/14
		Grants and contributions	Fees and Charges	Employee costs	Supplies and services	Third party payments	Other gross expenditure		
		£'000	£'000	£'000	£'000	£'000	£'000		
Corporate management team	(56)			(18)	(4)	5	(16)	a	34
Corporate strategy	(451)	(13)	(28)	(13)	(66)	(56)	227		7
Economy leisure and property	(221)	(159)	(240)	(37)	110	(2)	1		156
Finance	(233)		(1)	(22)	(340)	159	1,316		45
Housing and health	(269)	(69)	(118)	(40)	(65)		(21)		6
HR, IT and customer services	(144)		(1)	(92)	(103)		(34)		20
Legal and democratic services	(138)	38	(53)	(59)	(27)		57		8
Planning	(596)		(516)	68	(75)		(93)		117
Contingency	(43)								
Net cost of services		(203)	(956)	(213)	(572)	(329)	1,437		392
Investment income	(135)								0