

**Corporate Governance Report to Executive
2006/07 Quarter 3 - to the end of December 2006
Financial Commentary**

The following comments are provided to explain the attached high level budget monitoring figures.

SUMMARY

This quarter we have introduced a new report to improve the effectiveness of our budget monitoring. The attached report (in landscape format) headed 'NEW' provides predicted outturn variances for each service area. In addition, unique to the third quarter report only, the 'latest budgets' are adjusted to reflect any service and budget change forms (SBCFs) which have been submitted as part of the 2007 budget-setting process.

The previous style of report (in portrait format), also attached, headed 'OLD' is provided for continuity and to enable comparison. The attached 'OLD' Corporate Governance report for the third quarter indicates an unadjusted overspend of £1.56m (19%), which reflects expenditure and income transactions to the end of December as recorded on the financial management system ('fms'). The overspend is primarily due to an apparent £2.56m variance on benefit payments.

Several adjustments have been made to omit the 'spurious variances' caused by timing differences of significant transactions, in order to provide a more accurate reflection of the budgetary position. This includes the removal of £1.85m benefit payments which were printed and processed on the fms ahead of the due date to allow the benefits computer system to be turned off when the new system was introduced. The timing adjustments reduce the real variance to a £635k (7.9%) underspend on the 'OLD' report. This is the extent of the budget analysis on the 'OLD' report.

The 'NEW' report uses the same data as the old report and incorporates the above analysis. However, it goes on to reflect current SBCFs and predicted outturns in order to provide a more accurate view on the Council's performance against budget. The £0.6m (7.9%) underspend variance has been adjusted for any SBCFs submitted as part of the February 2007 budget-setting process. These adjustments have reduced the variance to a £181k (2.2%) underspend. Finally, budget holders have predicted their year-end outturns, which have been compared to the SBCF-adjusted budgets, resulting in a £13k overspend (0.1%).

The 'NEW' report represents a significant improvement in the Council's budget monitoring arrangements. It depends on the accuracy of officers' predictions, which will improve with practice over time. Whilst this quarter's impressively low predicted variance is welcome, it has a significant margin for error. We will repeat the process on a monthly basis and compare the predictions with the actual outturn after the accounts are closed down, to identify any process weaknesses that require correcting.

Explanations of the main items are provided below. Detailed explanations should be discussed in the monthly performance management meetings held by Portfolio Holders and Deputy/Assistant Directors. Any significant variances which will impact the year-end position should continue to be reported by the appropriate Portfolio Holder to the Executive meeting.

EXPLANATIONS

The largest area of variance, spanning both expenditure and income is **Benefits**. However, the net effect of the adjusted variances for benefit payments and benefit subsidy produces a £199k (1%) overspend. On an annual budget of almost £18m this is considered reasonable.

The £225k (4%) underspend on **Salaries** has been corrected by SBCFs submitted during the February 2007 budget-setting process (not shown in the 'OLD' report).

The £106k (27%) underspend on **Repairs and Maintenance** is mostly due to the timing of expenditure against an inaccurate budget profile. As indicated on the 'NEW' report, the Estates service area (which is the corporate custodian of most of the maintenance budgets) is likely to outturn close to adjusted budget.

The £91k (20%) underspend on **Grants** is due to the delay between the Council approving/committing grants and the recipient organisations claiming them.

The cumulative net underspend on **Other Expenditure** has been reduced by several adjustments to recognise late payments of Assisted Travel, waste contract and pension backfunding. The new free bus pass scheme introduced in April has been more successful than expected, resulting in much higher numbers of journeys than originally estimated. As the Council reimburses the bus companies for free journeys the cost of the scheme is higher than budgeted. The predicted outturn overspend of £466k (91%) has been addressed in the February 2007 budget-setting process.

The over-achievement of the **temporary accommodation** income budget is matched by an overspend in its expenditure budget. The over-achievement of both the **Planning** and **Building Control** income budgets has been addressed in the February 2007 budget-setting process.

The £287k underspend variance on **Internal Recharges** represents unbudgeted income received by the DSO since it took on the cleaning of public conveniences, as well as other recharges by one Council department to another. This is offset by an equivalent overspend within 'Other Expenditure'.