

REPORT OF THE STRATEGIC DIRECTOR (CHIEF FINANCE OFFICER)
TO THE EXECUTIVE
13 JULY 2007

2006/07 Annual Outturn Monitoring

1.0 Introduction and Report Summary

- 1.1 The report details, in accordance with the corporate planning framework the outturn position for 2006/07, subject to audit.
- 1.2 The Contact Officer for this report is Steve Bishop, Strategic Director (& Chief Finance Officer), (01235 540332).

2.0 Recommendations

Members are requested to:

- (a) *Note the overall outturn position of the Council as well as the outturn of individual service areas and cost centres; and,*
- (b) *Take into account the impact of the outturn position in the Integrated Service and Financial Planning process when setting the 2007/08 Revised Budget and 2008/09 Original Budget.*

3.0 Relationship with the Council's Vision, Strategies and Policies

- (a) This report summarises the financial consequences of the Council's entire activities, which support the Council's Vision.
- (b) The report does not conflict with any Council Strategies.
- (c) The report complies with existing policies on financial management.

4.0 Financial Monitoring

- 4.1 The overall Council outturn position is summarised in section 5 below.
- 4.2 Appendix A sets out the revenue outturn position for service areas and their component cost centres across the normal subjective headings.
- 4.3 Major variances over £10,000 are explained in Appendix B (to follow).
- 4.4 Appendix C shows the capital programme outturn and major variances are explained.

5 Overall Council Outturn Position

- 5.1 The appendices cover the 'normal' service area cost centres that comprise the Council's Revenue Account. As such they do not include corporate revenue items such as property

income, investment income and Contingency. As a result the appendices do not reflect the true 'bottom line' revenue outturn position. The following table provides the overall projected outturn, which is a net under-spend of £765k (6.8% of Revised Budget Requirement), or if LABGI is excluded (see 6.2 below) is a net over-spend of £23k, or 0.2% of Revised Budget Requirement:

	Outturn £'000	Variance from Revised Budget ¹ £'000
Service areas outturn (as appendices)	14,111	(91)
Local Authority Business Growth Incentive	(788)	(788)
Contingency	624	(225)
Property Income	(1,853)	8
Investment Income	(1,229)	65
Reduced net use of Earmarked Funds	(755)	192
Other (Govt grants, prior year adj, debt prov'n)	(6,596)	74
To be met from Council Tax	<u>(4,634)</u>	<u>-</u>
Council Outturn (increase in balances)	<u>(1,120)</u>	<u>(765)</u> ²

Notes

- ¹ Underspends and overachieved income are negative; overspends and underachieved income are positive
- ² The outturn is finalised, subject to external audit

5.2 Appendix C shows the capital programme for 2006/07 and the out-turn for the year (subject to audit). Capital expenditure is funded by specific grants and contributions with the balance from the Council's Capital Receipts reserve. Many projects are complex and extend over more than one year. Any over or under spend in one year is often just a matter of timing. The provisional out-turn was considered by the Executive on 1 June when they agreed capital budget that could be carried forward i.e. under spend in 2006/07 that will be spent in 2007/08. Explanations are given for major variances.

6 Explanation of the Revenue Outturn

6.1 Service Area variances

Some cost centres ended the year over-spent, whilst others under-spent. The total of all the cost centre variances is a net £316k under-spend (Appendix A). The larger variances, each individually over £10k in value are explained in Appendix B).

The four main reasons for the larger under-spend variances, as listed in Appendix B can be summarised as being:

- Underspend of £293k on Housing Benefit payments
- Underspend of £250k on Housing Provision due to the capitalisation of social housing support. The Revised Revenue Budget included £250k provision for these activities, which would be funded from developers' contributions. However, it is more appropriate to capitalise the works, making the revenue budget superfluous.

- Over-achievement of income of £75k on Development Control. This was due to an unexpectedly large number of major applications being received in March, after the revised budget had been agreed.
- Underspend of £64k on ICT due to lower actual salaries.

6.2 Local Authority Business Growth Incentive

In March 2007 the Council was notified that it had been awarded £788k in Local Authority Business Growth Incentive (LABGI) by Central Government (with a further £338k held back pending court cases regarding the LABGI award criteria). The LABGI scheme recognises any substantial increases in a local authority's business rates tax base, by the return to the local authority of a proportion of the additional business rates thereby generated.

Although the Council has positively and successfully promoted sustainable economic development across the district for many years, the Council has not undertaken any specific economic development initiatives targeted at attracting businesses into the area, nor initiatives designed to bring derelict business properties back into use. The Council had therefore not predicted any sizable increase in the local tax base.

Furthermore, when the Council contacted Central Government in February 2007 as part of the budget-setting process to enquire about a possible LABGI award, we were advised not to forecast any predicted LABGI grant.

For these reasons, no budgetary provision was made for the LABGI award, which therefore caused a substantial under-spend against Revised Budget at outturn. This money has been credited to general fund balances.

6.3 Contingency

The £225k outturn underspend variance on Contingency has two causes. Firstly, the £100k un-earmarked provision for unexpected costs was mostly unspent. Secondly, the Executive approved £149k of revenue budget carry forwards which were not known at revised budget setting time. These are specific project-related budgets which were unspent in 2006/07 and carried forward into 2007/08 via Contingency.

6.4 Property Income

The under-achievement of the corporate property income budget was £8k, or 0.4% down on the revised budget. This is within acceptable tolerances.

6.5 Investment Income

The under-achievement of the corporate investment income budget was £65k, or 4.9% down on the revised budget. The treasury fund managers had a disappointing year, especially the final quarter. All fund managers suffered due to interest rate and bond yield uncertainty. It should be remembered that the fund manager's brief is to maximise returns over three years and he is confident about an upswing in performance in the year ahead. The in-house team also fell short, largely due to over-optimistic forecasting.

6.6 Earmarked Funds and Reserves

The Council has a number of earmarked funds and reserves, each designated for a particular purpose. Each year we plan how much money needs to be returned to certain funds in order to build them up for their intended use, whilst others are used in the year according to their specific purpose. For 2006/07 we planned that the net usage of such funds would significantly exceed the contributions into the funds.

At the year-end review of earmarked funds it became apparent that the Contingency Fund needed to be replenished in order to meet the cost of projects carried forward for completion in 2007/08 as well as building an adequate reserve to meet as yet unforeseen costs. The balance on the Superannuation Fund has also been maintained in order to offset the impact of the next triennial actuarial review. As planned, a number of obsolete reserves have been closed down and the money returned to general fund balances.

6.7 Overall Outturn and Use of Balances

This has been a good year for the Council's finances. The unexpected receipt of LABGI grant has provided a welcome boost to general fund balances which provides some much-needed 'headroom' to face the financial pressures which will emerge in the 2008 budget-setting process.

Disregarding LABGI, the Council over-spent by £23k, which is only 0.2% variance - a remarkably close outturn. However, this masks a number of significant variances which are a concern. Budget holders need to work more closely with their accountants to ensure budget monitoring is much more effective in 2007/08.

STEVE BISHOP
STRATEGIC DIRECTOR (& CHIEF FINANCE OFFICER)

Background Papers: Agresso download; Budget Holder variance explanations