

Scrutiny Committee	Agenda Item: 4
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Meeting Date	29 July 2010
Report Title	Financial Management Report April – May 2010
Portfolio Holder	Executive Member for Finance and Budget Management Duncan Dewar-Whalley
SMT Lead	Interim Head of Finance
Head of Service	Interim Head of Finance
Lead Officer	John Backhouse

Recommendations	
	1. To note that the April to May monitoring is predicting an overspend of £612,000 and that the Strategic Management Team will be taking remedial action to address this.
	2. To note the anticipated withdrawal of Housing and Planning Delivery grant will impact as it will remove the financing of an estimated £290,000 committed salary costs (and is included in the projected overspend above).
	3. To note that there are no capital issues at this stage.

1. Purpose of Report and Executive Summary

1.1 This is the first of the regular budget monitoring reports to be prepared in the new financial year 2010/11 and covers the two months April to May 2010.

1.2 Even at this early stage in the year it is important to focus upon the budget pressures including:

- vacancy allowance / agency staff,
- car park rent payments,
- planning appeal costs,
- income from car park fees,
- external funding,
- other income sources,
- and the delivery by Heads of Service of the previously approved budget savings.

- 1.3 The Executive has reaffirmed that it is one of the top priorities to avoid an over spend in 2010/11 given the financial climate we are facing this year and in future years.
- 1.4 A more detailed report will be submitted for the period to the end of June 2010 which will cover the first quarter of the financial year.

2. Background

- 2.1 As part of the new monthly Financial Reporting arrangements, established in 2009/10, summarised reports by Heads of Service have been produced to help focus accountability and reporting at the overall level. The monitoring timetable for 2010/11 is shown below:

<i>Spend to end</i>	<i>Report ready by close of play</i>	<i>Possible consideration by</i>	
		<i>Scrutiny Committee</i>	<i>Executive</i>
May	23 June 2010	29 July 2010	
June	28 July 2010		25 Aug 2010
July	25 Aug 2010	1 Sept 2010	
August	29 Sept 2010		
September	27 Oct 2010	10 Nov 2010	17 Nov 2010
October	24 Nov 2010		
November	29 Dec 2010	27 Jan 2011	
December	26 Jan 2011		9 Feb 2011
January	23 Feb 2011	1 Mar 2011	
February	23 Mar 2011		
March	31 May 2011		

3. Revenue Spend

- 3.1 For this budget monitoring cycle the four key questions are:
- What are the budget pressures identified to date indicating the amount involved?
 - What are Heads of Service doing to address these pressures?
 - What is the projected outturn for 2010/11?
 - What, if any, changes, do Heads of Service require in the cost centre coding structure to improve understandability following re-structuring?

3.2 Based on the responses by the Heads of Service, a budget over spend of £612,000 is forecast. The over spend represents +2.06% of the overall revenue budget of £29.63m (target of -1.5%).

3.3 A summary of the key variations are shown in Table 1 below.

Table 1	Over spend / under recovery of income	Under spend / over recovery of income	Net
	£000	£000	£000
<u>Staff, Agency and Professional Services</u>			
Under / (-) over achievement of the vacancy allowance	15	-9	6
Staff Sub Total	15	-9	6
<u>Increase in premises, supplies and other costs</u>			
Rent review - Forum Car Park	27		27
Democratic Services – external investigations	20		20
Other variations	32		32
Other Costs Sub Total	79		79
<u>Income</u>			
Car Parks -fees and charges	100		100
Market income	34		34
Local Land Charge receipts		-59	-59
Income Sub Total	134	-59	75
Estimated cost of lost planning appeals	127		127
Loss of Housing & Planning Delivery Grant	325		325
TOTAL POTENTIAL OVER SPEND	680	-68	612

NB:- this assumes the full £1.6m budget savings are fully implemented

3.4 A summary of the responses by Heads of Service covering the key questions as appropriate which are referred to in paragraph 3.1 are detailed below:

(i) Staff, Agency and Professional Services

A number of previously reported pressures in respect of Finance Department including interim management costs covering substantive posts at senior management level (up to £80,000) due to delays in the implementation of the new Finance structure. These are planned to be covered from the Value Added Tax rebate rolled forward from 2009/10.

Staff vacancy provision – a vacancy provision has been required across all Departments and overall cash limits have been reduced on this basis whether or not vacancies have occurred. This equates to a budget saving required of £332,000; the current projection based on submissions by Heads of Service shows a net over spend of £6,000 but will require continued tight control of approved budgets.

The Strategic Management Team has agreed to a tighter establishment control effective from 2010/11 signed off by the Heads of Organisational Development and Finance once this has been reviewed by the responsible Director.

(ii) Increase in premises, supplies and other costs

A new pressure has arisen in respect of a rent review in respect of the Forum Car Park and the anticipated additional annual cost is £27,000. It would be problematic to identify offsetting savings as the maintenance budget for car parks was the subject of reductions as part of the savings identified in 2010/11.

Democratic Services have identified a potential pressure in respect of the requirement to appoint external investigators as part of remit of the Standards Committee. This potential over spend is estimated as £20,000. No offsetting savings have been identified at this stage.

Legal Services have identified a number of pressures:

- increased demand for legal support – including governance / corporate, planning, contracts and procurement advice. Some external legal fees may be incurred for complex employment matters and in planning inquiries where internal expertise is not available. The costs involved cannot be estimated at this stage;
- reduction in income from section 106 agreements and land transactions, due to the downturn in the economy; the effect cannot be estimated at this early stage;
- with the implementation of Mid Kent Legal Services partnership arrangements some of the staffing and related costs borne by the Council will be shared with Swale's partners, this saving to be quantified in due course;
- and training is urgently needed to address capacity gaps in employment, complex land transactions, planning (policy and inquiries), and corporate advice.

Other Finance Department pressures (outside the control of Finance Department) include work required on the competitive tendering of the bank contract, lower interest on cash balances income, increased interest charges on higher than anticipated short term borrowing and District Audit Fees.

These potential variations are not fully evaluated at this stage but are provisionally estimated to be in the order of £30,000. Consideration is being given to other savings options. There are other minor (non Finance) variances of £2,000.

There are a number of recent planning appeal costs awarded against the Council. The sums are estimated to total £127,000. The Council is considering challenging these costs, but these have been included in the above table.

(iii) Income

Car Park Income - the under recovery of car park income is projected as £100,000 (£150,000 in 2009/10). It is early in the year to predict a shortfall of income but income is lower for the first two months of the year compared with the equivalent period in 2009/10. Reduced income is also projected for car park season tickets. This shortfall is assessed as being largely a consequence of the continuing difficult economic conditions, resulting in reduced usage.

Market income – this reduced income is an ongoing pressure £34,000. The markets are subject of a tendering process which should be finalised later this year, and this could result in a part year effect of higher levels of income going forward.

Local Land charge income – income for the first two months of the year is higher than projections and could result in over achievement of income at the year end £59,000; it is possible that seasonal variations mean that this higher level of income may tail off over the next few months, especially with the cancellation of Housing Information Packs.

There is a pending legal challenge from personal search companies who claim that local land charge information should be provided free of charge. If the challenge is successful, the companies will have to be reimbursed, and could lead to significant losses of income. It is not possible at this stage to assess the value of this potential loss of income.

4. 2010/11 Budget savings

- 4.1 The attached Appendix I shows a breakdown of savings totalling £350,400 which, potentially are not deliverable in 2010/11. This under achievement is mainly due to external factors as detailed in the Appendix.
- 4.2 The Senior Management Team is working to ensure that Heads of Service critically examine these variations, revise the figures downwards as far as possible with the aim of bringing this shortfall down to £250,000, and to identify other offsetting savings to be achieved instead in 2010/11.

4.3 Some work has already been done to identify offsetting savings including in Legal Services, and it will be necessary to post budget virements subject to the requirements of Heads of Service once these new savings are confirmed.

5. External Funding

5.1 The Government announced a number of funding reductions in early June and these are anticipated to adversely affect the Council in 2010/11 and future years.

5.2 Main areas of concern currently are:

- the proposed replacement of the Housing and Planning Delivery grant – the 2010/11 budget includes £325,000. This income budget is offset by salary costs of £290,000 with the balance being incurred in respect of supplies including IT maintenance contracts;
- the cessation of the one off Anti Social Behaviour Improvement Fund £20,000
- a £30,000 reduction in Cohesion Funding in 2010/11, which will affect the Community Safety Unit;
- cessation of the Local Authority Business Growth Incentive Scheme, not included in the 2010/11 budget but provisionally anticipated income of £64,000 in 2010/11;
- and reduced funding to Thames Gateway which impact on the Rushenden Retrofit bid.

5.3 Further work is required in assessing the impact on the 2010/11 budget and therefore these reductions in income are not reflected in the variation table above.

6. Capital

6.1 Following approval of rollovers at Executive on 9 June 2010, the capital programme for 2010/11 is being reworked and presented to Executive as part of the MTFS refresh. This was reported to Executive on 1 July 2010. There are no capital issues at this stage.

7. Payment of Creditors

7.1 The latest monitoring position is shown in Table 2 below:

Table 2	Target 2010/11 %	May 2010 %	April 2010 %
Invoices paid in 10 days	55.0	52.11	59.72
Invoices paid in 20 days	85.0	92.96	90.19
Invoices paid in 30 days	97.25	97.71	97.55

7.2 The tougher performance indicator targets for 2010/11 are shown in the Table above. The data for May 2010 for payment within 30 days is an encouraging 97.71% against the 97.25% target but the 10 day performance slipped. Heads of Services have been reminded of the importance to ensure they have systems in place to pass invoices quickly and make arrangements during absences to maintain this.

8. Debtors

8.1 Internal Audit is due to commence a review of the Debtors system at the end of June to be reported to Audit Committee on 29 September to enable focus to be made on priority actions following intensive scrutiny by Scrutiny and Audit Committee. There will be a report to Scrutiny on 1 September on progress.

8.2 It should be noted that the overall debt outstanding has increased from around £1m to £2m following the take on of rent deposit debts from an outside agency and that these will be kept separately.

8.3 Other Kent councils have been contacted for copies of their annual reports to enable an assessment to be made of other practice and begin to address Member concerns.

9. Collection Fund

9.1 A quarterly review is being considered in conjunction with Kent County Council recognising the advantage to both Councils from action to verify single person discounts and predict possible outturn positions at an earlier stage.

10. Appendices

10.1 The following document is published with this report and forms part of the report

- Appendix I: 2010/11 Budget Savings Approved But Not Deliverable

11. Background Papers

11.1 The background papers are Agresso (financial system) reports, the responses by Heads of Service identifying under / over spends and previous reports.

2010/11 BUDGET SAVINGS APPROVED BUT NOT DELIVERABLE (due to external factors already flagged)							
No	Details of Saving	HoS	PH	Approved	Projected		Reasons for non-deliverability in 2010/11
				10/11 £'000	10/11 £'000	11/12 £'000	
10	Other MKIP projected savings (part year)	BPlan	MC/DS	50.0	0.0	50.0	It was assumed that these savings would come from a shared IT platform but this is yet to be finalised.
91	Human Resources - MKIP Partnership-Human Resources apportionment	DS	MC	69.8	0.0	0.0	There has been no agreement for a Shared Service across the 4 MKIP partners. If an alternative business case is proposed figures savings will need to be calculated. The HR team is currently on line with best practice for cost efficiency and there is little scope to reduce the costs without the shared service opportunity
67	Increased take up of brown bin scheme (Invest to Save)	DT	CD	66.0	tba	66.0	Will be partly achieved, lower than anticipated take-up of the brown bin scheme
26	Harbour	DT	GL	25.0	0.0	0.0	This was agreed for 2011/12 not 2010/11. The full saving will not be achieved in 2011/12 anyway due to the length and complexity of the asset transfer process
13	Web site planning lists	JF	GL	22.0	0.0	0.0	The Government withdrew their intention to remove the need to advertise planning applications in local newspapers and rely on web based planning lists.

2010/11 BUDGET SAVINGS APPROVED BUT NOT DELIVERABLE (due to external factors already flagged)							
No	Details of Saving	HoS	PH	Approved	Projected		Reasons for non-deliverability in 2010/11
				10/11 £'000	10/11 £'000	11/12 £'000	
87	Various Corporate Legal Costs (MKIP)	MBC	MC	50.0	tba	tba	As departments hold their own budgets for external legal advice, savings will appear in other departments' budgets. This is because the savings are largely based on a reduction in the use of external legal advisers. To achieve savings at this level requires implementation of the MKLS structure and investment (e.g. electronic case management; training; shared posts). Lack of dedicated resources and unsuccessful attempts to recruit have led to a delay in implementing the arrangement

2010/11 BUDGET SAVINGS APPROVED BUT NOT DELIVERABLE (due to external factors already flagged)							
No	Details of Saving	HoS	PH	Approved	Projected		Reasons for non-deliverability in 2010/11
				10/11 £'000	10/11 £'000	11/12 £'000	
1	MKIP audit partnership savings projections (full year) per latest business case	BPar	MC	67.6	0.0	tba	The amount taken as savings for 2010/11 was in fact the projected savings at full implementation (i.e.) when the partnership was expected to be fully up-and-running and when the efficiencies through improved working practices have been achieved, i.e in year three (2012/13). Lesser, but still very significant, savings were due to occur in years one and two. However, subsequent to the business case being prepared and agreed, a decision was made to fund the Swale redundancy costs from the actual savings that would have been achieved by the partner authorities. This means that 'actual' savings for Swale (and the other three partners) will not be achieved until these 'set-up' costs have been paid for which is likely to be 2012/13. So there are no actual savings for Swale in 2010/11.
GRAND TOTAL				350.4	tba to be advised		

2010/11 BUDGET SAVINGS APPROVED BUT NOT DELIVERABLE (due to external factors already flagged)							
No	Details of Saving	HoS	PH	Approved	Projected		Reasons for non-deliverability in 2010/11
				10/11 £'000	10/11 £'000	11/12 £'000	

Head of Service

AA Anne Adams
AC Amber Christou
AK Abdool Kara
BPla Brian Planner
DS Dena Smart
DT Dave Thomas
EF Eric Fisher
EW Emma Wiggins
JF James Freeman
LM Louise Matthews
MBC Monica Blades-Chase
MR Mark Radford
BPar Brian Parsons

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DS David Simmons
MC Mike Cosgrove
GL Gerry Lewin
CD Cindy Davis
JM John Morris
AB Andrew Bowles
JW John Wright