

Committee: Full Council
Date: 17th April 2007
Title: General Fund Budget 2006/07 – Projected
 Outturn
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 01799-510670

Agenda Item**10**

Item for decision

Summary

1. This report provides a projection of the 2006/07 General Fund budget outturn and in particular examines the challenge posed by the receipt of a smaller grant under the Local Authority Business Growth Incentive Scheme (LABGI) than budgeted for. The Operations Committee meeting on 22nd March recommended that a report was brought to Full Council containing an action plan to address the implications of the likely shortfall on the revised 2006/07 budget.

Recommendations

2. That the Council:-

Notes the projected General Fund budget outturn and the proposed action to deal with the likely overspend on the revised 2006/07 budget.

Approves the use of reserves to deal with the projected 2006/07 overspend as detailed in paragraph 11.

Notes the action proposed to deal with the potential budget shortfall for 2007/08

Background Papers

Budgetary Control working papers. Contact Philip O’Dell 01799-510670

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Finance	The report is about the Council’s General Fund budget position for 2006/07 and 2007/08
Human Rights	None
Legal implications	None
Ward-specific impacts	None
Workforce/Workplace	None

Situation

3. The Council's financial year ended on 31st March 2007, although there will now be a three month period where the very complex year end procedures relating to local authorities' accounts are undertaken. Even as this work commences, it is good practice to look at the potential budget outturn and the effect of any variation from the budgeted position on the Council's reserves. This is even more important following the significant overspend on the original budget reported as part of the budget process. On 22nd March the Operations Committee received a report looking at the projected year end outturn. Paragraphs 4 to 10 of this report are a repeat of the information provided to the Operations Committee, but the report then lays out an action plan to deal with the likely shortfall on the 2006/07 revised budget.
4. Based on latest information and analysis, the following are the significant variations expected in the budget outturn compared to the revised budget:

Local Authority Business Growth Incentive Scheme (LABGI)

5. This government scheme rewards councils for encouraging economic growth through planning policies which eventually increase rateable values. The Council received £260,730 at the end of the 2005/06 financial year as the first of three planned annual payments, based on a complex set of formula. During autumn 2006 the government indicated that three times as much money would be allocated to the national scheme for the year two payment. They also indicated that the scaling factor, which limited increases for individual councils that would otherwise have gained 'excessively', would be abolished. At one stage, the County Council, which examines the scheme closely regarding the 67% that they receive of the cash sum covered by the Uttlesford area, issued a prediction that the district council would receive over £1m as a year two payment, although this prediction was later withdrawn as more information was received about empty and new properties within Uttlesford and the government's formula.
6. The 2006/07 revised budget for LABGI grant was set by the Director of Resources at £600,000. This figure is 2.3 times the first payment received, so was more prudent than an assumption of the three times extra funding working through directly to benefit the Council, which would have amounted to £782,190. The government made it clear that they would not announce individual allocations until the end of February. On 27th February, after the Council's budget was set, we were informed that the actual payment for year two will be £217,370. The sum to be received represents a shortfall of £382,630 on the revised budget. Of this variance £91,868 is due to the government not implementing its pledge to eliminate the 70% scaling factor in awarding grant. This is due to current Judicial Reviews brought by Corby and Slough authorities, although the government remains committed to abolishing the scaling factor and is indicating that a supplementary payment may well be received during 2007/08. If this is the case the shortfall on the 2006/07 sum will reduce to £290,762.
7. The underlying reason for the shortfall, other than the scaling factor, is that the government has used the second year funding available to reward those councils who the previous year were limited in LABGI funding by a ceiling. This

has had the effect of drawing money away from councils who have not had such large growth but would still have had a significant reward.

8. For the 2007/08 budget, a further £600,000 was assumed as a year three payment. There is no firm reason to believe that a sum of this order will not be received, as the government seems committed to putting more money into the scheme. However, following the year two disappointment it would be prudent to reduce down the assumed grant to around £350,000. This will add a new pressure of £250,000 to the 2007/08 budget

Other Budgets

9. The following has come out of an exercise looking at other General Fund budgets:

Salaries

An examination of latest spending on salaries, temporary staff and agency staff costs indicates that, overall, the outturn will be close to the revised budget.

Interest on Balances

No variation is expected, although there is a dispute about how much interest we need to add to the Stansted s106 balance of £2.2m, which had previously been interpreted to be due at the level of the Retail Price Index. This may cost us £53,000 out of the revised budget of £653,000. This issue is currently being checked via the legal agreement relating to the S106 monies, on which there is some ambiguity.

Planning Fees

These look as though they may be down a further £50,000 compared to the revised budget of £501,000.

Waste Recycling Credits

The revised budget for income on this may be understated based on latest figures, giving a possible increased income of £50,000 on the revised budget of £486,000.

Vehicle Leasing

The budget for leasing vehicles looks likely to be approximately £100,000 underspent based on a revised drawdown on the leases. It has been established that the Council's initial funding of the capital sum involved in acquiring the vehicles, prior to entering into a leasing arrangement, cost a sum in lost in interest on balances that can legitimately be offset when deciding to apportion the first year's leasing charge (billed in December 2006) between the revenue budgets for 2006/07 and 2007/08.

Concessionary Fares

The expenditure on this is finalised for the year and will be £35,000 less than the £257,000 in the budget.

Licensing Fee income

This looks likely to be £15,000 more than the revised budget.

Corporate Furniture Budget

This £15,000 budget has not been spent.

Organisational Re-Engineering (OR)

Approximately £100,000 of the annual savings target of £250,000 will not be achieved due to delays in the programme. The major factor is the delayed implementation of the Revenues and Benefits changes following the restructuring at Director level and the need to appoint a Head of Division to implement the required changes

Information Communication Technology

The revenue budgets for new system implementations and support are predicted to realise a 2006/07 year-end saving of approximately £100,000, due mainly to the reduced reliance upon external consultancy support and the increased training of internal ICT staff. This saving has become apparent since the report taken to the Operations Committee. Although one-off, it will reduce the overall projected year end overspend and therefore reduce the amount of reserves which need replenishment as part of the new savings targets to be set.

Summary Position

10. Based on the assumptions contained above, and assuming no other significant variations are found during the close of accounts process, the following is the projected effect compared to the revised budget.

	Assuming LABGI Scaling Payment Not Received £000	Assuming LABGI Scaling Payment Received £000
Budget Shortfalls		
Shortfall on LABGI	383	291
Interest on Balances fall	53	53
Planning Fees	50	50
OR	<u>100</u>	<u>100</u>
Total	<u>586</u>	<u>494</u>
Budget Surpluses		
Waste Recycling Credits	50	50
Vehicle Leasing	100	100
Concessionary Fares	35	35
Licensing Income	15	15
Furniture	15	15
Information Technology	<u>100</u>	<u>100</u>
Total	<u>215</u>	<u>215</u>
Net Budget Shortfall	<u>271</u>	<u>179</u>
% of net revised budget	Page 4 3.4%	2.2%

Consequences of the Potential Overspend

11. Any overspend at year end will need to be charged to specific reserves and the Financial Management Reserve. It is proposed that, following close examination of the council's earmarked reserves, specific reserves be re-allocated to support whatever the Financial Management Reserve (balance at 31/3/07 projected to be £198k) cannot finance. A summary of the proposed approach, using the more pessimistic assumption of £271,000 as a target, is as follows:

Name of Reserve	Projected Balance at 31/3/07 £000	Proposed Usage £000	Notes
Financial Management Reserve	198	98	1
Regional Planning Guide 14 Consultation	20	20	2
External Legal Fees	60	60	3
District Plan Enquiry and Legal Fees	243	93	4
Total		<u>271</u>	

Notes

1. Proposed action during 2007/08 will replace this sum.
 2. Reserve no longer needed.
 3. Reserve not used since 2001/02. The Assistant Chief Executive has determined that this reserve is no longer required for its original purpose.
 4. The Director of Development has indicated that the balance on the District Plan Enquiry and Legal Fees reserve is higher than will be needed in 2008 and 2009. It is proposed that the balance of £150,000, remaining after the usage shown above, is divided between the Financial Management Reserve (£50,000) and the District Character Reserve (£100,000). It is also proposed that the £13,000 p.a. added to the District Plan Enquiry and Legal Fees Reserve is taken out of the base budget with effect from 2007/08. The outcome will be a projected balance on the Financial Management Reserve of £83,000 as at 31st March 2008, assuming the budget shortfall for 2007/08 is dealt with and that the reduced estimate for LABGI income (as well as all other budget assumptions) prove correct.
12. The proposed use of specific reserves will protect the integrity of the Council's General Fund Balance of £1.2m when the final accounts for 2006/07 are prepared.
13. The next action required is to replenish the Council's Financial Management Reserve to allow it to finance the commitments already agreed for it to meet. This effectively requires replacement of the £98,000 which is proposed to deal with the projected overspend on the 2006/07 budget. In addition, it is

considered prudent to revise down the estimated sum to be received from LABGI in 2007/08 to £350,000, as outlined in paragraph 8, creating a savings need of £250,000. This creates a total savings requirement of £348,000 to ensure the budget balances and that the Financial Management Reserve is restored to its previous level. Of this sum, £13,000 can be achieved from the ending of the annual contribution to the District Plan Enquiry and Legal Fees Reserve, making the overall target for re-budgeting purposes £335,000. This figure assumes no net on-going adverse effect on the 2007/08 budget of the variations outlined in paragraph 9, which overall seems the case, and which will be subject to ongoing monitoring.

Proposed Action

- 14 The Strategic Management Board have met and devised the following strategy to address the budget shortfall of £335,000 in 2007/08:
- The targeted savings on the management restructure (£130,000) will be re-examined to see whether more can be achieved. The new Heads of Division will be working with Directors to see how much this can yield. The Council will be informed of the way that the restructuring savings have been achieved at the July Council meeting when the revised structure has been completed. At the moment no additional saving from this source is assumed.
 - At the time of writing this report there were four specific opportunities relating to joint working with other councils, with each involving the possibility of early financial savings. Details cannot be given publicly on some of these opportunities at this stage as the other councils involved need to go through their appropriate managerial channels, although one that is obvious is the failure to appoint a Head of Human Resources at Uttlesford. Each of the opportunities that have arisen appear to present no threat to this Council's existing staff, but arise instead from vacant posts in one or other of the councils having the current dialogue, including Uttlesford. An initial estimate is that savings of up to £100,000 per annum could be available. It would not be prudent to assume that most of this would be achieved during 2007/08, but a half year saving on even two of the more likely possibilities could save the Council £30,000- £50,000, with £35,000 as a realistic target.
 - The remaining savings required of £300,000 have been allocated between Heads of Division as set out in Appendix 1. There will be freedom in how to achieve the targets set within and across Heads of Service responsibilities. The overall savings target will be very challenging for the Heads of Division, supported by Directors, to achieve. As a reminder and context, the budget for 2007/08 already assumes savings of 5% as a staff vacancy/turnover factor, aimed at yielding savings of £472,000, and an overall improvement in procurement within the Council amounting to £72,000. In practice, staff turnover cannot solve the entire additional target problem, so other methods will need to be examined. These may involve reviewing fees and charges, still greater efforts at improved procurement and taking real action on partnership working, completed as quickly as possible.
 - The aim is for Heads of Division, to both take early action to save if opportunities present themselves and to provide the Strategic Management

Board with options on how to save the sums involved. Heads of Division would in any case be preparing service plans and staffing structures at this time of year. Feedback from Heads of Divisions is expected by the end of April. More details will be provided at the Council meeting in May when the Corporate Plan and Best Value Performance Plans are due to be considered. Members will be notified of any significant service implications before that formal updating.

An overall summary of the sum required under the budget exercise is as follows:

	£000
Replenishment of Financial Management Reserve	98
Reduced estimate of LABGI income 2007/08	<u>250</u>
	348
Less:	
Deletion of 2007/08 contribution to District Plan Reserve	(13)
Potential savings from 2007/08 partnership opportunities	<u>(35)</u>
Net targeted savings for dividing amongst Heads of Division	<u>300</u>

Effect on Medium Term Financial Strategy

- Assuming that sustainable savings are identified as outlined in paragraph 14, there will be no effect on the savings targets set for 2008/09 and beyond in the Medium Term Financial Strategy agreed by the Council in February 2007.

Risk Analysis

The following have been assessed as the potential risks associated with this issue.

Risk	Likelihood	Impact	Mitigating actions
Failure to highlight all significant budget variances	Low	Medium	Year end procedures will determine actual spending