

Committee: Full Council
Date: 11 December 2007
Title: General Fund & HRA Budget Update
2007/08
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Agenda Item

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Item for information

Summary

1. This report presents a revised 2007/08 General Fund and a brief update on the challenges for the Housing Revenue Account (HRA) budget. Attached as Appendix One is a detailed breakdown of the current position for the General Fund. The format of the information is as presented to Finance and Administration Committee on 20 September 2007.
2. The 'restated' figures are those presented by the Director of Resources at 20 September Finance and Administration Committee which resulted in the projected shortfall of £1.13 million.
3. The information in this report has been brought direct to this Committee rather than first going to policy committees so that the maximum time could be spent on pulling together the overall position on the General Fund and HRA. It is intended that other committees will receive budget reports at their next meeting.
4. Since the identification of the scale of the challenge facing the council Heads of Division and their staff have been working to identify budget saving exercises. These exercises have led to General Fund savings in excess of £550,000 being identified for the remainder of the 2007/08 financial year. In excess of £200,000 are on-going savings for 2008/09 and beyond.
5. However, a number of new challenges for the General Fund not previously identified have now been uncovered, these include;
 - a. budget shortfall on the pension deficit payments of £117,750
 - b. budget shortfall on pension contributions for added years and pension strain of £44,860
 - c. projected shortfall on budgeted investment income of £101,600
 - d. estimated additional cost above the District Character Reserve £81,000
 - e. budget shortfall for utility provision, primarily gas of £35,000
6. The HRA budget position will be reported to the Community Committee as part of the January 2008 cycle. However there have been additional challenges identified in this area as well. These include:
 - a. Newport Depot should at worse breakeven each financial year. This year there is a projected shortfall of £110,000
 - b. budget shortfall on the pension contributions for added years and pension strain of £19,500.

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7. The final effect of adding the cost of all of the new challenges onto the £1.13m and then reducing it by the savings achieved to date means that the projected General Fund deficit now stands at £938,466
8. Work on the budget is on-going and whilst unlikely, further shortfalls similar to those mentioned in points 5 and 6 above cannot be ruled out.

Recommendations

9. That Members note the current projected General Fund deficit and the level of available Balances and Reserves.

Background Papers Background Papers

20 September 2007 Finance & Administration report, 2007/08 budget working papers, Budget Book, and budgetary control reports.

Impact

| | |
|----------------------------|--|
| Communication/Consultation | Appropriate communication with the public and other stakeholders will take place regarding the Council's budget position |
| Community Safety | There are no specific community safety implications contained in this report |
| Equalities | There are no specific equalities implications contained in this report |
| Finance | This report deals with the whole of the General Fund and the HRA Budgets |
| Human Rights | There are no specific human rights implications contained in this report |
| Legal implications | Legal implications of any of the actions proposed in this report will be considered |
| Ward-specific impacts | There are no specific ward implications contained in this report |
| Workforce/Workplace | All staff are being kept informed about the Council's budget position. The union has been consulted. |

Situation

10. Since the potential shortfall of £1.13m was first reported to Finance and Administration Committee on 20 September 2007 an incredible amount of work has been undertaken to check, challenge, substantiate and where necessary change budget figures. A major challenge faced has been in many cases the lack of supporting documentation or working papers for the original budget figures.

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11. The work has also been further affected by the lack of permanent resources available within the Accountancy team. Whilst this is being addressed with new accountants starting in early January the current team are operating at severely reduced numbers.
12. Head of Divisions have been kept fully apprised of the situation and they too, and their staff, have worked hard to identify potential areas for savings and to that end a recent exercise identified over £550,000 of savings on the General Fund for the period 1 November 2007 – 31 March 2008.
13. Unfortunately a number of other challenges on the General Fund have emerged as this process has progressed. To date the following have been identified:

- a. Pension deficit shortfall

In 2004 the Actuary for the pension fund produced figures for contribution for each council to make in the years 2005/06, 2006/07 and 2007/08. The figures for Uttlesford were up to around the £420,000 figure (slight increases each year). However for reasons unknown the budgets were never revised from the 2006/07 figure and for the current year the budget was £305,000 leaving a shortfall of £117,750

- b. Pension contributions for people who have left on early retirement

Due to the challenges of the budget situation a decision was taken to pay these contributions on a monthly basis. Again this decision was not reflected in the budget for 2007/08 leaving a shortfall of £44,860

- c. Shortfall on budgeted investment income

The council invests money with financial institutions on a daily basis to achieve income at the best interest rates. The budgeted figure for expected income was £686,000 it is likely that only £584,400 will be achieved leaving a shortfall of £101,600

- d. Increase in utility budgets

There has been the need to increase the utility budgets, primarily gas, by 20% which has a cost of £35,000

- e. Additional cost above the District Character Reserve £81,000

The Stansted Airport enquiry (G1) has cost the council £392,000 so far in 2007/08. The District Character Reserve had available funds of £311,000 leaving an £81,000 shortfall.

14. In the same way as additional challenges have been identified on the General Fund there have also been some on the Housing Revenue Account (HRA)

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a. Projected shortfall at Newport Depot

The depot is budgeted to, at worse, breakeven however due to a number of issues which will be discussed at the next Community Committee, it is likely that the depot will incur a shortfall of actual income against budget of around £110,000.

b. Pension contributions for people who have left on early retirement

Due to the challenges of the budget situation a decision was taken to pay these contributions on a monthly basis. Again this decision was not reflected in the budget for 2007/08 leaving a shortfall of £19,500.

15. Given the current financial position no additions to reserves have been planned in 2007/08. This will help to reduce the projected year end shortfall.

16. Full Council on 9 October authorised Senior Management Board (SMB) to instigate a round of voluntary redundancies and early retirements and to use up to £300,000 of available Balances to facilitate the process. Ten people were accepted under this offer and the cost to the General Fund Balance of the exercise was £91,500

17. Attached as Appendix One is a summary of the current General Fund deficit presented in the same format as that submitted to Finance and Administration Committee on 20 September 2007. Due to recharging of central services not yet being complete the committee costs show only direct expenditure and direct income, therefore they cannot be directly compared to the committee costs in the 20 September report. Once all known challenges and savings are identified the current projected General Fund deficit is £938,305

18. Reserves and Balances have been used during the current financial year. A summary of the current position is shown below:

| | Position as at 1/4/07 | Used in 2007/08 | Projected balance as at 31/3/08 |
|------------------------------|-----------------------|-----------------|---------------------------------|
| District Character Reserve | £311,000 | £311,000 | £0 |
| Financial Management Reserve | £24,000 | £24,000 | £0 |
| PFI Reserve | £1,102,000 | £0 | £1,102,000 |
| Balances | £1,000,000 | £91,500 | £908,500 |

19. As can be seen the council does not, at present, have sufficient Balances (£908,500) to cover the projected deficit (£938,466).

20. The Council cannot allow itself a position where there are negative or overdrawn Reserves and Balances at the end of the financial year. Such a position would prompt intervention by the Audit Commission and perhaps the government. Any additional deficit will have to be met from the PFI Reserve. This course of action should be avoided, if at all possible.

21. In order to improve the current position a number of steps are now being taken to:

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- a. further reduce the likely 2007/08 overspend and hence protect Reserves and Balances. This will be done by amongst others:
 - i. freezing external job advertising
 - ii. tightening further the scrutiny of all spend
- b. reduce the cost base with full year effects occurring in 2008/09, even if this involves using any available balances in a prudent fashion
- c. set a realistic balanced 2008/09 budget

Whilst undertaking the above it is important to remember the need to ensure the council minimises the impact of any change on front line services whilst still meeting the Council's corporate objectives.

Risk Analysis

| Risk | Likelihood | Impact | Mitigating Actions |
|--|---|--|--------------------|
| That action taken is insufficient to reduce the projected budget deficit | Medium despite the Council and SMB taking strong action | High as reserves and balances would be cut significantly | |