

Committee: Finance and Administration
Date: 20th September 2007
Title: General Fund Budgetary Control 2007/08
Author: Philip O'Dell, Director of Resources
01799 510670

Agenda Item

9

Item for decision

Summary

1. This report presents:
 - a re-stated 2007/08 General Fund budget, based on specified changes required to the original budget agreed in February 2007.
 - a detailed budgetary control report based on actual spending to 31st August 2007 and projected outturn figures for the whole year.
 - an action plan to deal with the resulting budget shortfall

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. It is intended that other committees will receive budgetary control reports at their next meetings.

This report looks at the financial implications of the need to re-state budgets. A report explaining how the original figures were compiled and the lessons to be learnt will be considered by the Performance Select Committee on 27th September 2007.

Recommendations

2. That the action plan contained in paragraph 13 of this report be noted and that this Committee receive an update on progress made at the meeting on 15th November 2007.

Background Papers Background Papers

3. 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 General Fund Budget
Human Rights	There are no specific human rights implications contained in this report

Finance and Administration

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

4. This report reflects the fact that several changes and updates have occurred since the General Fund Budget was agreed by the Full Council in February this year:
 - The shortfall in the Local Authority Business Rate Incentive Scheme Grant, reported to Full Council in April 2007 and the supplementary savings exercise undertaken at that time to deal with it. This also reflects a further award of £19,434 in the current year recently notified by the government, which is less than the £90,000 supplementary payment originally expected following the legal defeat of the government by two councils who challenged the proposed abolition of the scaling factor in the scheme
 - The cost of the management re-structure has now become clearer, pending completion of the next stages of that process
 - The Organisational Re-engineering Programme has progressed and the financial targets involved can be refined
 - The error in the accounting for Planning Delivery Grant in both the 2006/07 (revised) and 2007/08 budget and in particular its affect on the Council's reserves position is now clear
 - Other known adjustments that need making have been clarified
 - The experience of the first 5 months of the financial year has been gained regarding actual spending and income
5. Any ongoing effects beyond 2007/08 which require adjustments have been included in the report elsewhere on this agenda dealing with the Medium Term Financial Strategy.
6. The report to this Committee in June this year indicated that a deficit of approximately £106,000 was expected based on the limited updated information known at that time in relation to budgetary control. The structural problems in the original budget were not known at that time and only became apparent after the final accounts process was suspended on 26th June 2007.

Finance and Administration

7. The overall position has now been updated and is now included as Appendix 1 to this report, with Appendix 2 containing details of re-stated budgets for each of the Council's committees.
8. The budgetary control element of the appendices contains:
 - Actual spend 2006/07 (subject to Audit)
 - Original Budget 2007/08
 - Re-Stated Budget 2007/08
 - Budget to 31st August ('expected' spending or income)
 - Actual expenditure or Income to 31st August 2007
 - Over/underspend to 31st August 2007
 - Projected outturn 2007/08 (a judgement as to what the year end position will be)
 - Projected Variation compared to Re-stated budget
 - Notes to explain key figures and issues
9. All projections are based on best estimates put forward by budget managers and other information known or estimated within Financial Services. Projected staffing costs assume revised levels of savings via staff turnover following dialogue with managers and experience from the first 5 months of the financial year. There remains no guarantee that the turnover savings for the remainder of the year will be achieved. The national pay award for staff due from 1st April 2007 has still not been settled following the rejection of an offer of 2.5%, which is the provision made in the Council's budget. An extra 0.5% above the budgeted sum would cost approximately £50,000 on the General Fund.
10. As a preliminary step to dealing with the budget deficit it is proposed to reduce the planned contribution to certain specific reserves as shown in Appendix 1 for 2007/08 only. The District Character Reserve has sufficient funds to deal with anticipated costs this year and will be replenished by the annual contribution of £50,000 included in the 2008/09 base budget.

Review of overall position

11. The figures in Appendix 1 indicate that the Council is heading for an overspend on its General Fund Budget of £1,099,661.

This can be summarised as follows, with a merger of the budget re-statement and budgetary control position to aid clarity:

Finance and Administration

	Deficit/(Surplus)
	£000
Revised position in relation to reserves (net shortfall)	246
This stems from the errors made during the budget process in relation to accounting for Planning Delivery Grant, net of other factors.	
In detail:	£000
Shortfall on items planned from reserves	212
PDG error in original budget	298
PDG funding now shown in base budget	50
Budgeted addition to reserves affordable	(95)
Balance of PDG to support overall budget	(27)
Character Reserve utilisation re airport etc	(142)
Suspended contribution to Character Reserve	(50)
Net	246
LABGI net shortfall	103
This is the original shortfall (£383k) reported to Full Council in April, less the savings exercise yield that was initiated at that time, plus the additional grant recently notified	
Organisational Re-Engineering and 2011 Programme savings net shortfall. This consists of the original targets less savings already made and a revised programme of quick wins for the remainder of the financial year	208
Restructure cost net shortfall, subject to completion of the exercise, which may have some financial savings towards the end of the financial year and less the HRA effect	190
Staff turnover error	191
This is the consolidation in error during the budget process of the turnover target for the previous financial year. It equates to a true turnover target of 7% rather than the 5% intended.	
Joint working saving not achieved	5
Interest on Balances estimated shortfall	20
Added Year Pension Cost revision	20
Net effect of service budgetary control position before approved use of reserves	117
NET PROJECTED BUDGET SHORTFALL	1,100

The total in this table varies from the figures used to brief managers, staff and some senior Members in the week commencing 10th September as finalised figures have now been arrived at in respect of budgetary control and other issues.

Items requiring further refinement

12. The budgeted income for interest on balances had been reduced by £20,000 as despite a rise in interest rates, actual and projected cash flows have varied and require further analysis. Any revised figure will be presented at the November meeting of this Committee.

Action Plan

13. The very significant projected shortfall has been discussed by the Strategic Management Board and the following action plan has been agreed:

Stage 1

Short Term Avoidance or deletion of controllable spending

This will have already started by the time the Committee meets and involves

- Heads of Division examining their budget sums uncommitted for the remainder of the financial year and presenting a report to the Strategic Management Board (SMB) in early October looking at what can be saved
- All orders for goods and services to go to the SMB at a weekly meeting for them to approve. Arrangements to be made for urgent exceptions but with a need for these to be reported back to the next meeting of the Board
- All vacancies and other potential increased staffing costs (increases in hours, unscheduled overtime etc) to go to SMB for approval
- All agency staff to be released by 21st September unless SMB approves continuation in individual cases at its meeting on 18th September
- The need for temporary contracts to be reviewed at the meeting of SMB on 18th September

The actions above have been discussed with Heads of Division and other officers involved in the various processes. Staff around the Council have also been briefed.

No targets has been set for savings under these headings but regular budgetary control will identify the effects of savings as they work through and a separate record will be kept of what has been identified.

Stage 2

All posts within the Council will be examined regarding their rationale and what they contribute to the Council's priorities. This will identify potential reductions in staffing requirements. Any financial saving which this generates will only have a part-year effect in 2007/08 and there are likely to be one-off costs which will need to come from the Council's General Fund Balances. Such action will however allow completion of the management restructure and will be a significant step in reducing the Council's cost base. Again, no target has been set for this exercise.

Stage 3

This involves acceleration of the identification of potential partnership arrangements with other councils, other suitable public or private sector organisations and third sector partners. It will also feature a review of the Council's fixed costs. This is unlikely to yield any savings during 2007/08 but instead will be a key strategy in reducing the Council's longer term cost base. The longer term financial scenario for the Council is included in a report elsewhere on the agenda for this meeting and is partly informed by figures contained within this report.

Ongoing Effects

- 14. The budget shortfall identified for 2007/08 has ongoing implications into the base budget for 2008/09. These have been incorporated in the review of the Medium Term Financial Strategy report elsewhere on this agenda.

Implications of an overspend on the General Fund Budget at year end

- 15. The Council's draft accounts for 2006/07, which are currently subject to audit, show that the following General Fund revenue reserves and balances were held as at 31st March 2007:

	£000
Financial Management Reserve	24
District Character Reserve	311
General Fund Balances	1,000

- 16. 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. In practice, the Private Finance Initiative (PFI) Reserve, with a balance of £1,102,000 at 31st March 2007 would shield the appearance of this net effect from a technical viewpoint, but the urgent priorities in the coming months must be to:

- Reduce the likely 2007/08 overspend significantly and hence protect reserves and balances
- Take steps to reduce the cost base with full year effects occurring in 2008/09, even if this involves using current reserves in a prudent fashion
- Set a realistic 2008/09 budget
- Protect services to the public and meet the Council's corporate objectives

On-going monitoring of the financial position

- 17. This will consist of:

- Weekly minuted meetings of SMB to record potential spending that had been deleted.
- Monthly meetings of SMB looking at the overall position to date
- Reporting in detail to all committees in the October/November committee cycle with the overall position to Finance and Administration Committee 15th November

Finance and Administration

- The preparation of a complete revised budget for the January 2008 committee cycle
- Summarised information available to all members on a regular basis

Risk Analysis

Risk	Likelihood	Impact	Mitigating Actions
That insufficient action is taken to reduce the projected budget deficit	Low as the Council and SMB are taking strong action	High as reserves and balances would be cut significantly	Action plan contained in this report