Report of	Meeting	Date
Assistant Chief Executive (Business Transformation) (Introduced by the Executive Member for Resources)	Executive Cabinet	12th February 2009

REVENUE BUDGET MONITORING 2008/09
REPORT 3 (END OF DECEMBER 2008)

PURPOSE OF REPORT

1. This paper sets out the current financial position of the Council as compared against the budgets and efficiency savings targets it set itself for 2008/09 for the General Fund.

RECOMMENDATIONS

2. Executive Cabinet are asked to note the contents of the report.

3. That non-committed revenue expenditure budgets are identified and savings taken where possible to reduce the impact of potential overspending in respect of concessionary travel and to bring the budget closer to a balanced position.

EXECUTIVE SUMMARY OF REPORT

4. The Council expected to make overall target savings of £320,000 in 2008/09. I am pleased to report that excellent progress has been made in this area with £304,000 target savings already achieved, with the remainder expected to be delivered in the final quarter.

5. There are a number of areas that will be monitored closely throughout the final quarter, these are:
   - Major income streams, in particular car parking fees, land charges and markets
   - Concessionary travel costs
   - Benefit costs

6. As there is a potential overspend of around £166,000 in respect of concessionary travel costs, £143,000 of which is for the new statutory scheme, there is a need to identify non-committed budgets to ensure savings are taken wherever possible to reduce the impact on general balances.

7. The Council's strategy is to finance concessionary travel overspends from working balances, pending either the transfer of responsibility for the scheme to the County Council or the current grant distribution method is amended. This is likely to happen in 2011.

REASONS FOR RECOMMENDATIONS
(If the recommendations are accepted)

8. To ensure the Council's budgetary targets are achieved.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

9. None.

CORPORATE PRIORITIES

10. This report relates to the following Strategic Objectives:

Put Chorley at the heart of regional economic development in the Central Lancashire sub-region		Develop local solutions to climate change.	
Improving equality of opportunity and life chances		Develop the character and feel of Chorley as a good place to live	
Involving people in their communities		Ensure Chorley Borough Council is a performing organisation	✓

Ensuring cash targets are met maintains the Council's financial standing.

BACKGROUND

11. The Council's budget for 2008/09 included real cash savings targets of £260,000 from the management of the establishment and a further £60,000 of savings to come from efficiency and procurement related activities.

12. The budget also included challenging targets for the Council's main income streams following a full review of fees and charges. The financial risk to the Council was that there could be a level of consumer resistance to the increase in fees.

CURRENT FORECAST POSITION

13. Appendix 1 shows the summary forecast position for the Council based upon actual spending in the first nine months of the financial year, adjusted for future spending based upon assumptions regarding vacancies and service delivery. No individual service directorate figures are attached. These are available for inspection in the Members' Room.

14. In my report to the Executive Cabinet of 13 November 2008, I advised on the projected outturn for 2008/09 which, excluding the potential overspend on concessionary travel, showed a deficit of £111,000. Based on monitoring information as at the end of December, this position has improved with the current projection now showing a deficit of £63,000.

15. Based on initial information received, the potential overspend on concessionary travel was anticipated to be anything up to £250,000 over the Council's budget. The latest forecast based on costs to the end of November suggests a likely overspend of around £166,000 after the effect of the pooling arrangement is put in place. This is discussed in more detail later in the report.

16. The significant movements since my last report are shown in the table below. Further details are contained in the service unit analysis available in the Members' Room:

Table 1 – Significant Variations from the last monitoring report

	£'000
Savings on staff salaries	(157)
Savings on Electricity tariffs	(30)
Reduction in Land Charges income	30
Further reduction in Car Parking Fees	43
Additional Housing & Planning Delivery Grant	(27)
Award of other grants	(60)
Buildings maintenance & refurbishment	31
Benefits payments	50
Net Financing Costs	100
Other minor variances	(28)
Net change since September monitoring	**(48)**
Reduction in Concessionary Travel overspending	(84)
Net change including Concessionary Travel	**(132)**

17. Clearly the most significant change being reported here is the additional savings relating to salaries. These savings are in the main as a result of vacant posts, some of which have been kept vacant pending the outcome of directorate and departmental restructures.

18. The main savings achieved are analysed as £63,000 from the People directorate, £34,000 from Business directorate, £32,000 from Neighbourhoods, £15,000 from Corporate Governance, and £13,000 from other directorates.

19. In the previous monitoring report I outlined a significant overspend on the cost of utilities as a result of the dramatic increase in the charges for gas, electricity and water supplies over the last twelve months. I also highlighted the concern over a lack of accurate billing information, in particular from our electricity supplier Scottish Power. I am pleased to report that after lengthy negotiations with our Procurement section, Scottish Power has agreed to reduce their energy tariffs for the Council's buildings for the current financial year, resulting in savings of around £30,000. In addition, they have agreed to pay a sum of £3,500 in compensation for staff time dealing with this issue.

20. With the economy now recognised as being in recession, the impact is being felt across several areas of the Council's services. One area being significantly affected is the income generated from Land Charge Search fees. I previously reported a forecast shortfall against the budget of around £70,000 based on income received to the end of September. The position has continued to deteriorate across the third quarter resulting in a revised forecast deficit of around £100,000 for the year.

21. Another area almost certainly affected by the current economic climate is the income from car parking fees. Income levels for the third quarter have continued to be below the levels anticipated in the budget and whilst levels increased briefly in the run-up to Christmas it is now forecast that the deficit against the budget will increase by a further £43,000 this year, making the total received in 2008/09 £123,000 less than budgeted.

22. One area where the Council has performed well over the last twelve months is in generating additional income by securing the award of grants. The 2008/09 budget included provision of £75,000 for Housing & Planning Delivery Grant. As a result of the Housing and Planning departments meeting specific targets and criteria set out in relation to the awarding of the grant, they have secured an additional £27,000 in grant awarded for the current year.

23. Throughout the course of the year, various works have been required in relation to the Council's buildings to ensure they are adequately maintained and continue to be fit for purpose. In addition to the general maintenance of buildings it has been necessary to undertake specific projects of work placing an additional burden on the revenue budget. These include Fire Risk Assessments, Legionella works, and the Town Hall office refurbishments. The additional cost of these works, together with the cost of ongoing maintenance and repairs, is forecast to result in a budget overspend of around £31,000 in 2008/09. This expenditure is non-recurrent and is mainly backlog maintenance.

24. One budget that has the potential to impact significantly on our year-end position is the budget for housing benefit payments and overpayments recovered. As we have seen in recent years it is impossible to accurately predict the level of spend on the budget due to the size and also the nature of the budget in that it is demand driven. Based on the information available to the end of December and comparison with previous years, I feel it is prudent at this stage to advise of an additional shortfall of £50,000. It should be noted that additional provision has been built into the draft revenue budget for 2009/10 to meet this extra demand.

25. The 'Net Financing Transactions' budget consists of the provision to repay borrowing, plus interest payable on external borrowing, less interest receivable on cash balances invested. Overall the forecast for 'Net Financing Transactions' is a reduction in the net credit by a further £100,000, which in the main reflects the reduction in interest rates offered by borrowers.

26. Details of the current cash balances deposited as at 3rd February 2009 are presented in Appendix 2.

27. It is not yet clear how much of the £2 million cash deposited in Iceland will be recoverable. It is possible that an estimated "impairment" or bad debt will be chargeable to the revenue account in 2008/09. However, the Government has indicated that new regulations would enable councils to reverse such charges in 2008/09 and 2009/10, rather than councils having to request capitalisation directions to mitigate the impact on revenue budgets. The revenue impact of any investment bad debt would be felt in 2010/11 at the earliest, though loss of interest on the investment is taken into account from 2008/09 onwards. In 2010/11, councils should be able to apply for directions to capitalise any investment bad debts if these would be considered unaffordable from revenue resources, but there is no certainty that such applications would be approved.

CONCESSIONARY TRAVEL

28. In my previous monitoring report to Cabinet I highlighted the position on Concessionary Travel and forecast a potential budget gap of up to £250,000 based on the first cost information received for the period 1 April to the 9 August. Based on actual data to the end of November 2008, the revised forecast outturn has reduced to £1.348m, prior to any pooling adjustment. This has reduced the forecast overspend to around £223,000. Once the agreed pooling arrangement is taken into account, the Council benefits by a reduction in contribution to the pool of around £80,000 therefore reducing the budget overspend to £143,000.

29. Members should note that whilst the budget overspend is forecast to be in the region of £143,000 for concessionary travel, this is budgeted overspend. The true cost to the Council is £404,000 which represents the additional costs of the free scheme less the additional grant the Council received of £275,000. This is calculated as follows:

	£m
Forecast outturn 2008/09	1.348
Less cost of contracted services	0.100
Net Cost of Statutory Scheme	**1.248**
Less cost in 2007/08	0.569
Additional cost of new scheme	**0.679**
Less grant awarded 2008/09	0.275
Cost to the Council	**0.404**

30. The 2008/09 budget was increased over and above the grant received by £181,000 to mitigate against the potential increase. Anything over and above the additional grant is effectively being financed from council tax or the pool and is currently forecast to be £404,000, which represents the additional budget provision of £181,000 plus the anticipated overspend of £143,000 plus the pooling adjustment of £80,000.

31. The demand for Community Transport Services has also seen a significant increase over the last twelve months and as a result the costs are anticipated to be around £23,000 in excess of the 2008/09 budget provision of £65,000. The combined result is a forecast overspend of around £166,000 for 2008/09.

32. I indicated in my capital programme monitoring report presented to the Executive Cabinet meeting of 8th January 2009 that I had applied for permission to capitalise the projected overspending relating to Concessionary Travel. I have now been informed by the DCLG that they were not satisfied that the circumstances were sufficiently exceptional to justify the issue of a capitalisation direction, therefore the application was refused. Only four councils had capitalisation applications on the grounds of exceptional circumstances accepted, but the nature of their applications is not known. I will approach the DCLG to emphasise the impact of the additional cost of Concessionary Travel on taxpayers, and to establish whether the application could be reconsidered.

OTHER BUDGET ISSUES

33. This outturn forecast has been prepared on the assumption that the statutory redundancy costs and associated pension fund contributions arising from the restructuring of departments during 2008/09 can be capitalised. As I indicated in the previous capital programme monitoring report, I have applied to capitalise £530,000 revenue expenditure, being redundancy costs of £155,000 and pension fund contributions of £375,000. I have now been informed by the DCLG that such revenue expenditure up to these totals can be capitalised in 2008/09. The expenditure to be capitalised has already been included in the current capital programme and the revenue consequences reflected in the draft budget for 2009/10.

34. It has been necessary to transfer some budgets from the capital programme to the revenue budget, in particular expenditure relating to feasibility studies and option appraisals, which cannot be capitalised. I indicated in previous capital programme monitoring reports that the effect of such changes should be neutral if the expenditure to be charged to revenue could be financed with a share of the VAT Shelter income due in 2008/09. This income is receivable from Chorley Community Housing and relates to VAT on improvements to former council dwellings implemented after stock transfer. Based on precedents set by other councils, including two authorities in Lancashire, my intention is to

treat the income as revenue income, which can be used to finance either revenue or capital expenditure. However, I now understand that the Audit Commission disagrees with the treatment of such post-LSVT income being accounted for as revenue income, despite the precedents, and might be prepared to require councils to treat it as capital income. If treated as a capital receipt, it could not be used to finance any expenditure transferred to the revenue budget, but could still be used to finance capital expenditure. In order to avoid possible adverse consequences for the revenue budget, I will discuss this issue with the Audit Commission at the earliest opportunity and will advise budget holders to minimise the expenditure transferred from the capital programme to the revenue budget.

IMPLICATIONS OF REPORT

35. This report has implications in the following areas and the relevant Corporate Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		No significant implications in this area	

36. The financial implications are detailed in the body of the report.

GARY HALL
ASSISTANT CHIEF EXECUTIVE (BUSINESS TRANSFORMATION AND IMPROVEMENT)

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Dave Bond/Michael Jackson	5488/5490	23/01/09	Revenue Budget Monitoring 2008-09 – Sept 08.doc