AGENDA ITEM:

SUMMARY

Report for:	**Finance and Resources Overview and Scrutiny Committee**
Date of meeting:	**4 September 2012**
PART:	1
If Part II, reason:	

Title of report:	**Quarter 1 Outturn Report 2012/13**
Contact:	Cllr Nicholas Tiley, Portfolio Holder Finance & Resources Sally Marshall, Corporate Director (Finance & Governance) Author: James Deane, Group Manager (Financial Services)
Purpose of report:	To provide details of the forecast outturn position as at the end of Quarter 1, 2012/13.
Recommendation:	That Committee note the forecast outturn position
Consultees:	Budget managers
Glossary of acronyms and any other abbreviations used in this report:	CSSG – Capital Strategy and Steering Group DCLG – Department of Communities and Local Government F&R – Finance & Resources GF – General Fund H&C – Housing & Communities HRA – Housing Revenue Account LGPS – Local Government Pension Scheme OSC – Overview and Scrutiny Committee PWLB – Public Works Loan Board SPE – Strategic Planning & Environment

1. Introduction

1.1 The purpose of this report is to update the Finance and Resources (F&R) Overview and Scrutiny Committee (OSC) on the Council's forecast outturn for 2012/13 as at 30 June 2012. The report covers the following budgets:

- General Fund
- Housing Revenue Account (HRA)
- Capital Programme

1.2 Analysis throughout this report is based on the variance between forecast outturn and the budget approved by Full Council in February 2012.

2. General Fund Revenue Account

2.1 The General Fund (GF) revenue account records the income and expenditure associated with all Council functions except management of the Council's own housing stock, which is accounted for within the Housing Revenue Account (HRA) (see Section 5).

2.2 Appendix A shows that General Fund Service Expenditure is forecast to exceed budget by £13k at year-end (0.06% over budget). However, this is more than offset by a forecast £48k (9.6%) over-achievement of budgeted Interest Receipts. The net impact of these variances is shown in Appendix A as a reduced requirement of £35k to be drawn from working balances.

2.3 Appendix A separates expenditure into controllable and non-controllable categories in order to focus scrutiny on those areas where Officers are able to influence the outturn position, i.e. the controllable.

2.4 The majority of non-controllable costs result from year-end accounting adjustments, e.g. depreciation charges, which are required to show the true value of resources used to provide the Council's services, but which do not result in a cash charge to taxpayers. As these costs will not be known until year-end, the forecast outturn for all areas is shown as on budget.

2.5 The following sections provide an analysis by Scrutiny area of the forecast controllable budget variances contributing to the forecast General Fund Service Expenditure variance of £13k.

3. Finance & Resources

3.1 The table below shows the provisional outturn position for the F&R OSC by type of expenditure/income:

	Controllable Budget £'000	Forecast Outturn £'000	Forecast Variance £'000
Finance & Resources			
Employees	11,747	11,346	(401)
Premises	1,896	2,336	440
Transport	48	51	3
Supplies & Services	4,857	4,904	47
Third-Parties	264	264	0
Transfer Payments	56,788	56,788	0
Income	(63,676)	(63,736)	(60)
	11,924	**11,953**	**29**

3.2 The forecast outturn position for F&R is £30k (0.25%) over budget.

3.3 Material variances within each category of expenditure are explained below.

Employees – £401k under budget (3.4%)

- £371k underspend in Facilities Management following the outsourcing of this service to Serco. This underspend is offset by part of the £440k overspend against the Premises budget, and reflects the fact that the cost of these employees is now met through the service payments to Serco. A virement will be passed to correct the budget allocation.

- £208k overspend in ICT arising from the recently extended contracts (until December) for the interim ICT manager and an IT consultant working on the Flexible Working project.

- £100k underspend within Financial Management. £70k arises from vacancies within the Transactional Finance team (including the Team Leader post), which are being carried pending review of the resource impact of the implementation of Government Procurement Cards. The remaining £30k arises from reduced hours following return from maternity leave, and employees opting out of the Local Govt Pension Scheme (LGPS).

- £60k net underspend within Revenues and Benefits. £40k relating to maternity leave, £35k relating to newly vacant posts, and £18k relating to employees opting out of the LGPS. This is partly offset by £35k expenditure on overtime to address the backlog of benefits. There is scope for the forecast underspend to be eradicated before year end as the Group Manager seeks authorisation to appoint 5 apprentices.

- £57k underspend in Customer Service Unit (CSU). This is primarily due to 3 vacancies currently being carried, and 13 employees (from a team of 43) opting not to join the LGPS. This forecast underspend is likely to reduce following a recent CSU recruitment campaign and a request for 4 apprentices to be funded through underspends.

Premises – £440k over budget (9%)

- £426k overspend in Facilities Management. This offsets the underspend within Employees, described above, and reflects the outsourcing of the function to Serco. A virement will be passed to transfer the relevant budget from Employees to Premises.

Supplies and Services – £47k over budget (1%)

- £77k overspend within Revenues and Benefits for the purchase of IT licenses. This cost could be capitalised (thereby removing this revenue overspend) following consideration by Capital Strategy Steering Group (CSSG). However, until approval has been granted it remains as a pressure within the revenue budget.

- £31k overspend within PIT following the recruitment of a consultant to lead on the market testing element of the CSU review.

- £52k underspend within Facilities Management, partially offsetting the above overspends. This relates to the Serco contract, and a virement will be passed to transfer budget out of the Supplies and Services category that will now be part of the contract payment to Serco within the Premises category.

Income – £60k over achievement (0.1%)

- £47k relates to rental income following backdated rent reviews.

4. Strategic Planning & Environment

4.1 The table below shows the provisional outturn position for the SPE OSC by type of expenditure/income:

	Controllable Budget £'000	**Forecast Outturn** £'000	**Forecast Variance** £'000
Strategic Planning & Environment			
Employees	8,089	8,114	25
Premises	844	861	17
Transport	1,537	1,492	(45)
Supplies & Services	5,918	5,892	(26)
Third-Parties	64	64	0
Income	(9,927)	(9,907)	20
	6,525	**6,516**	**(9)**

4.2 The forecast outturn position for SPE is £9k (0.14%) under budget.

4.3 Material variances within each category of expenditure are explained below.

Employees – £25k over budget (0.3%)

- £80k overspend within Spatial Planning relating to two posts funded through the Local Development Framework (LDF) reserve. These costs will be offset once the reserve is released later in the financial year, subject to approval of a supplementary estimate later in the year.

- £15k overspend within Building Control incurred through the use of agency staff to cover permanent vacancies. Legislation requires that the majority of costs associated with the Council's Building Control function are recouped through the service's fees. This should see employee costs within BC break even over a three-year business cycle.

- £40k underspend in Clean Safe and Green partially offsetting the above. This arises from a vacant supervisor post scheduled to be filled in August (£15K), and two new starters employed at lower spinal points and without the contracted overtime originally budgeted.

Transport - £45k under budget (2.9%)

- £45k within Environmental Services due to fuel prices currently tracking below the anticipated inflation rates assumed in the budget.

5. Housing & Communities

5.1 The table below shows the provisional outturn position for the General Fund (GF) element of the H&C OSC by type of expenditure/income:

	Controllable Budget £'000	**Forecast Outturn** £'000	**Forecast Variance** £'000
Housing & Communities			
Employees	3,122	3,136	14
Premises	356	358	2
Transport	57	61	4
Supplies & Services	2,404	2,427	23
Third Parties	24	24	0
Transfer Payments	5	6	1
Income	(3,980)	(4,031)	(51)
	1,988	**1,981**	**(7)**

5.2 The forecast outturn position for H&C is £7k (0.35%) under budget.

5.3 Material variances within each category of expenditure are explained below.

Supplies & Services - £23k over budget (1%)

- £22k overspend in Community Cohesion relating to Olympics and Diamond Jubilee.

Income

- £50k over achievement within Anti-social Behaviour and Neighbourhood Action team due to additional grant funding secured, including £30k from HCC and £10k from Herts. Constabulary towards Community Safety Coordinator role.

Housing Revenue Account (HRA)

5.4 The HRA is a ringfenced account relating to the Council's Landlord functions, which falls within the H&C Scrutiny area. A guiding principle of the HRA is that revenue raised from rents and service charges must be sufficient to fund expenditure incurred. The forecast outturn position for the HRA is shown at Appendix B.

5.5 The HRA balance at the end of 2012/13 is forecast to be £8.732m, which is £6.359m higher than the anticipated closing balance when the budget was set by Council in February 2012.

5.6 £816k of the £6.359m favourable variance results from a higher opening balance at the start of 2012/13 (resulting from a net underspend within 2011/12) than had been forecast at the time the budget was set.

5.7 Significant variances contributing to the remaining £5.543m variance are:

Revenue Contribution to Capital - £1.196m (30.3%) underspend

- The Revenue Contribution to Capital reflects that element of revenue surplus which is required to 'top up' capital funds so that investment plans are adequately financed.

  Around £1m of this variance arises because the actual 2012/13 opening balance on the Major Repairs Reserve (which is the first source of capital financing) was £1m higher than anticipated at the time the budget was set. This means that £1m less 'top up' is required from revenue surpluses.

  The remaining variance is due to minor changes to the HRA investment plans which reduced the in-year costs and meant that a lower revenue 'top up' was required.

Interest Payable - £4.317m (27%) underspend

- This relates to the interest payable on the loan of £354m taken to finance the payment to Department for Communities and Local Government (DCLG) for the transition to Self Financing. The interest rates of the loans taken from the Public Works Loan Board (PWLB) could not be finalised until 26 March 2012, after the budget had been set. Therefore, for budgeting purposes a prudent view of the likely rates was taken, and the budget was set to reflect an assumed flat rate of 4.5%.

  On the date the loans were booked, the Council was able to secure an average interest rate of 3.3%. The difference between the forecast rate and the actual rate resulted in a saving on the interest payable of £4.317m for 2012/13.

5.8 The £4.317m underspend arising from the lower interest rates was reported to Cabinet at its meeting of 27 March 2012, as soon as the rates were finalised by PWLB. Cabinet resolved to review the performance of the business plan throughout 2012/13 before considering how best to invest this additional capacity. A report will follow later in the current financial year.

6. Capital Expenditure

6.1 The capital programme was developed during budget-setting 2012/13 and presented to Cabinet on 7 February 2012 for approval by Council on 29 February. During budget-setting the programme was reviewed, as required by the Capital Strategy, to identify projects that were no longer required, and to reschedule projects to ensure that expenditure is planned for the appropriate year.

6.2 As part of this exercise it was evident that further reprofiling would be valuable for two reasons:

- to provide a better fit between the period in which expenditure in the programme was likely to fall and the financial year in which the related projects were due to be undertaken, thereby reducing short term slippage on the programme

- to improve cashflow reporting and enable funds currently held available to fund capital projects to be moved to longer term investments where it is clear that the funds would not be required in the short term

6.3 The capital programme, in Appendix C, shows the revised budget resulting from this exercise, (approved by Cabinet in June 2012), which reflects £8.7m having been rescheduled from 2012/13 to subsequent years.

6.4 As at 30 June 2012, the forecast capital outturn remains on budget with the exception of the following:

Strategic Acquisitions – line 41 on Appendix C
The revised budget of £700k was included within the GF capital programme to fund the purchase of a specific building. This purchase has not yet been made, but an additional £700k has been committed to the purchase of two further properties.

These properties have been assembled within the GF, with a view to appropriating them to the HRA to provide land for planned new build projects. On this basis the GF forecast remains on target (once the reimbursement of funds has come from the HRA), with a £700k pressure on the HRA.

The necessary approvals for appropriation to the HRA will be sought through CSSG and Cabinet, and will recommend that the HRA finances the appropriation through revenue surplus or use of its remaining capital funds.

Hemel Gym refurbishment – line 74 on Appendix C
Around £600k on this project is now expected to slip into 2013/14 due to delays in the procurement process.