

Scrutiny Committee Report



Report of Head of Finance

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To: SCRUTINY COMMITTEE

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Financial outturn 2012/13

Recommendation(s)

- (a) Note the overall outturn position of the council as well as the outturn of individual service areas.
- (b) Take into account the impact of the outturn position in the integrated service and financial planning process when setting the 2014/15 original budget.
- (c) Note the slippage in the capital programme to 2013/14.

Note: If committee members wish to raise specific questions please send these in advance if possible to either the committee clerk or the accountancy manager. Please be aware that if questions are not submitted in advance, it may not be possible to answer these in detail at the meeting.

Purpose of Report

1. To report the final year end position for revenue and capital expenditure against budget for the financial year 2012/13.

Strategic Objectives

2. Monitoring actual performance against budget ensures that expenditure continues to be in accordance with the delegated powers within the constitution, and that changes in circumstances which have affected spending requirements are recognised and can be considered in the preparation of future years' budgets.

Background

3. The attached papers contain summarised detail revenue and capital expenditure for 2012/13; they also present an explanation of the significant variances against budget. This is presented by service, and follows the format of the budget monitoring reports presented to cabinet briefings throughout the year.
4. A detailed report was presented to Cabinet briefing on 24 July and provided the opportunity for cabinet to discuss the outturn with senior management, and also for individual portfolio holders to further discuss with their heads of service.

Revenue Outturn 2012/13

5. The council's budget requirement for 2012/13 was £14.704 million. Net expenditure for services at year end was £11.715 million – this equates to a variation of £2.989 million, which has been transferred to the council's reserves. This will therefore improve the council's financial position going into what is likely to be yet another very challenging budget setting period when the budgets are set for 2014/15.
6. The council has continued to deliver on its various savings initiatives started in previous years to further reduce the council's expenditure in support of central government's austerity programme of public sector funding cuts.
7. Table 1 below summarises the outturn position by service. More detail of variances is shown at Appendix 1.

Table 1: summary of revenue budgets and variances

Summary of revenue budgets and variances	Budget £000	Actual £000	Variance £000
Corporate management team	595	103	(492)
Corporate strategy	5,364	4,711	(653)
Economy leisure and property	(16)	(405)	(389)
Finance	2,591	2,262	(329)
Housing and health	1,671	1,276	(395)
HR, IT and customer services	1,654	1,536	(118)
Legal and democratic services	833	571	(262)
Planning	1,690	1,661	(29)
Contingency	322	0	(322)
Net cost of services	14,704	11,715	(2,989)

Capital

8. Including new growth bids, the original capital budget for 2012/13, as agreed by council in February 2012, was £4.614 million. Of this, £2.801 million was included in the approved capital programme and £1.813 million was budgeted in the provisional programme.

Approved capital programme

9. Details of the changes of the approved capital programme in year are summarised in table 2, below:

Table 2: movement on approved capital programme

	2012/13 £000
Original budget 2012/13	2,801
Roll forward from 2011/12	2,757
Schemes deleted from approved programme in year	(36)
Schemes added to approved programme in year:	
Land acquisition at Didcot	2,935
Flood alleviation	23
Transfer from provisional programme	1,338
Slippage into 2013/14	(3,236)
Approved programme 31 March 2013	6,582

10. Capital expenditure for 2012/13 was £5.913 million. £2.626 million of this spend was funded from government grants and other contributions with the balance drawn from capital receipts and earmarked revenue reserves. Detail of the variance of spend against budget is shown in appendix 2 to this report.

Provisional capital programme

11. When funding for schemes is approved by council they are added to the provisional capital programme. Transfers to the approved capital programme are made after submission of a detailed capital scheme appraisal report to cabinet or by individual cabinet member's decision, at which point the scheme can commence. The movement on the provisional capital programme for 2012/13 is shown in table 3, below:

Table 3: movement on provisional capital programme

	2012/13 £000
Original budget 2012/13	1,813
Rolled forward from 2011/12	1,617
Additions to programme	433
Transferred to approved programme	(1,338)
Slippage identified in year	(135)
Balance at 31 March 2013 to be carried forward to 2013/14	2,390

12. The £2.390 million remaining in the provisional programme relates to schemes that have not been progressed for a number of reasons, including the emergence of higher priorities or scheme delays. These will now be rolled forward to 2013/14.

Analysis of Revenue Underspend

13. The variations between budgeted and actual revenue income and expenditure are summarised in table 4 below:

Table 4: variations between budgeted and actual revenue income and expenditure

	Total variance	Income variance		Expenditure variance				Notes	Under-spends c/fwd to 2013/14
		Grants and contributions	Fees and Charges	Employee costs	Supplies and services	Third party payments	Other gross expenditure		
	£000	£000	£000	£000	£000	£000	£000	£000	
Corporate management team	(492)	(400)	(130)	(25)	62	0	1	34	
Corporate strategy	(653)	(13)	(95)	19	(159)	(382)	(23)	7	
Economy leisure and property	(389)	(31)	(73)	17	(202)	25	(125)	4	
Finance	(329)	(1,073)	(376)	(16)	(502)	129	1,509	45	
Housing and health	(395)	(240)	(30)	(55)	(111)	0	41	0	
HR, IT and customer services	(118)	0	18	(45)	(111)	26	(6)	20	
Legal and democratic services	(262)	36	(111)	(46)	(121)	3	(23)	24	
Planning	(29)	(32)	111	(187)	68	50	(39)	0	
Contingency	(322)								
Total	(2,989)	(1,753)	(686)	(338)	(1,076)	(149)	1,335	134	

14. We have analysed the outturn position to identify cross-council explanations for the significant variation from budget, excluding a number of budgets that have a net zero impact on the council's bottom line. The following key reasons for variances have been identified.

Over achievement of income budgets

15. We have overachieved against a number of income budgets for three main reasons.

16. Firstly, the government awarded us a number of grants during the year which we had no knowledge of when setting the budget in January 2012. These include £400,000 in corporate management team from the Homes and Communities Agency towards Didcot town centre redevelopment, and £116,000 in health and housing for air quality and contaminated land initiatives. Also in health and housing, and in finance, additional benefit subsidy was received as a result of the increased benefits paid out.

17. Second, in a number of services we have raised significantly more in fees and charges that we budgeted for. The main examples are as follows:

- In legal services income from taxi licences and land charges exceeded budgets by £57,000 and £48,000 respectively;
- In economy, leisure and property income from the council's car parking operations was £128,000 above budget.

The large under-achievement of income in planning was in both building control and development management, where employee and running costs were below budget by comparable amounts.

18. Finally we have identified more housing benefit overpayment income than estimated of which we believe we will recover £290,000.

Underspend against employee budgets

19. The underspend on employee costs (£338,000) accounts for about 11 per cent of the council's total underspend. This reflects the in-year savings delivered by the on-going Fit for the Future programme throughout the council and also the natural vacancy factor around the recruitment process (i.e. there is a time-lag between staff replacing those who have left due to the recruitment process and the new employee serving out notice at their previous employment). It also reflects the underspends in planning referred to in the previous paragraph 16.

Underspends in supplies and services budgets

20. Included within the £1.076 million underspend on supplies and services is £450,000 adjustment to the bad debt provision which has been made now that the more effective debt management by the council and its contractor has proved to be sustainable. There was also a significant underspend on consultancy costs across services, equating to £248,000 reflecting lower than anticipated demand for external support in a number of services including economy, leisure and property, and in legal and democratic services. In addition to these two items a significant cumulative underspend was realised across many supplies and services budgets across the council. This suggests that a number of these budgets are set at a level that caters for the worst case scenario, and that the level of these budgets could be reviewed.

Underspends in third party payments budgets

21. Within third party payments there was a £0.346 million underspend on payments to the council's waste and street cleansing contractor, Biffa. The budget for payments to Biffa was set assuming that the highest costs to the council across the services provided would be incurred. This proved to be too pessimistic and has been addressed in the budgets set for 2013/14. There was also an overspend on payments to the financial services contractor, Capita, of £0.129 million. This is shown within finance and reflects increased payments to Capita as a result of improved performance a part of which relates to the vastly improved debt collection performance that has allowed us to substantially reduce our bad debt provisions (see above).

Measures to aid more accurate budget setting

22. Officers propose a number of measures designed to aid more accurate budget setting. The paragraphs below list some of these proposed measures.

Employee costs

23. In the 2013/14 budget setting process, a two per cent managed vacancy factor (net across the council) has been introduced, taking £182,000 from employee budgets. The level of this will be reviewed for the 2014/15 budget setting parameters in the

light of historic staff cost savings. Excluding planning, where staff costs were below budget commensurate with lower than expected income, the two per cent was broadly in line with the employee cost underspend.

Challenge process during budget setting

24. The fit for the future reviews of services have resulted in significant reductions in staffing numbers as the employee establishment has been adjusted in accordance with service requirements. This replicates the process of zero based budgeting that builds budgets from scratch based on need. The major contracts of the council are uplifted by contractually set inflation, and therefore straightforward to estimate. However, where there are variable elements in the contracts the budgets for these should be understood and challenged.
25. In terms of other costs, these can be challenged to identify if they are being set at a level to satisfy the worst case scenario in terms of demand. Another area for challenge meanwhile is around the growth bids (unavoidable and service growth). In future years, growth bids will be reviewed along side any prior year underspend in the bidding service. Challenge should be made by portfolio holders and , strategic management board.

Closer review of quarter 3 outturn forecasts

26. This was focussed on last year, and the variance between quarter 3 forecasts and actual outturn are shown at appendix 1. This will be focussed on again at quarter 3 this year with high importance being accorded to accurate forecasts to improve the budget monitoring and also to provide some assurance on the level of balances when setting the 2014/15 budgets.

Optimistic budget setting

27. A tendency will exist for HoS and service managers to be optimistic about what could be delivered in year by their teams, and therefore budgets are requested accordingly. This is to be encouraged as it sets stretching objectives, however should be considered when reviewing underspent budgets.

Pessimistic identification of budget pressures

28. By nature, services will take a pessimistic view of pressures, both when setting budgets and also monitoring them in year. During setting, consideration could be given to best, worst and median case scenarios, with an agreement to fund at either best case (i.e.: for removal of doubt the best case is the lowest cost pressure) or median case, with acknowledgement that if the worst case did materialise, then contingency could be called upon – this might mean increasing the amount in contingency, but it is better to underspend on use of contingency at year end than in the services due to over cautious budgeting and funding of pressures.

Financial, legal and any other implications

29. The financial implications are as set out in the body of the report. There are no other implications of this report.

Conclusion

30. Despite the backdrop of the economic downturn and austerity, the council has underspent on both revenue and capital for 2012/13, and as a result the council's financial position continues to be healthy.

Appendices

1. Revenue outturn 2012/13 and commentary on major variances
2. Capital outturn 2012/13 – summary and commentary

Background Papers

- Annual statement of accounts 2012/13 (currently being audited)
- Annual budget papers for 2012/13

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