

**To:** City Executive Board **Item No: 14**

**Date:** 9 March 2011

**Report of:** Head of Finance

**Title of Report:** BUDGET MONITORING AS AT 31<sup>ST</sup> DECEMBER 2010

**Purpose of report:** This report sets out the forecast outturn position for the Council's Capital and Revenue budgets as at 31<sup>st</sup> December 2010. The data and explanatory notes cover the period 1<sup>st</sup> October 2010 to 31<sup>st</sup> December 2010 (Quarter 3)

Variances in the report are described against the Council's position as Q2 (30<sup>th</sup> September 2010)

In addition it provides information on key financial indicators in order to provide an assessment of the overall financial health of the organisation

**Key decision?** No

**Executive lead member:** Ed Turner

**Policy Framework:** Budget

**Recommendation(s):** That CEB note this report

## 1 EXECUTIVE SUMMARY

The report shows that:

- The forecast outturn for the General Fund as at the 31<sup>st</sup> December 2010 (Q3) is £28.671m which is £295k (1%) over the 2010/11 budget, after transfers from reserves. This is an improvement of £516k on the position as at 30<sup>th</sup> September 2010 (Q2) and is primarily a consequence of :-

- An improved outlook relating to local cost of Benefits, £202k favourable. This is a result of an improved collections rate and a lower provision for bad debt requirement;
  - A catch up on invoicing for property income, £200k favourable. This is a result of a recent rent roll review exercise conducted by Finance;
  - A line by line review of the Housing and Communities and City Leisure budgets to identify areas where budget would not be spent before the year end. This has generated a favourable variance of £310k (£150k Housing and Communities, £160k City Leisure)
  - An improvement in the Council's net interest position of £95k (Interest payable, interest receivable and Item 8 interest)
  - Savings that have been identified as unachievable in the period: £165k adverse (Procurement £75k and Business Transformation £90k)
  - A worsening in the Customer Services position of £171k, driven by a reduction in expected court cost income of £90K, temporary staffing costs relating to stabilisation of the service of £30k and £50k relating to supplies and services budget which has been utilised to improve service quality in Customer Services, (development and execution of the Service improvement plan)
- There is a risk that the overall position may deteriorate further if savings classified as "will be achieved by year end" slip over the next 3 months. A total of £1m has been classified in this way.
  - The potential overspend of 1% is, at this stage manageable as there is a general trend of improvement as we approach year end.
  - The Housing Revenue Account forecast outturn shows that there is no variance to the originally budgeted surplus of £0.5m and no variance compared to Q2.
  - The Council's Capital Programme is projected to spend £29.7m during 2010-11 compared to a budget of £35.5m.
  - As at the end of Q3 42% (£1.9m) of the Council's aged debt is over 3 years old, the majority of this relates to Housing Benefit overpayments which represent 40% (£1.77m) of total; council debt aged over 3 years. For more detail see section 8, Table 6.

## **2 GENERAL FUND REVENUE EXPENDITURE**

Appendix A provides an analysis of the forecast General Fund revenue outturn broken down by Directorate. Table 1 below, provides a summary.

**Table 1 – General Fund Forecast Outturn as at 31st December 2010**

Directorates	Approved Budget	Outturn Variance as at Qtr 2 (Sept 10)	Outturn Variance as at Qtr 3 (Dec 10)	Forecast Outturn as at 31/12/10	Outturn Variance Qtr 2 on Qtr 3
	£000's	£000's	£000's	£000's	£000's
Chief Executive	4,026	153	119	4,145	(34)
City Regeneration	7,088	(268)	(688)	6,401	(420)
City Services	9,124	800	870	9,993	70
Finance & Efficiency	3,842	45	120	3,962	75
<b>Net Service Expenditure</b>	<b>24,081</b>	<b>730</b>	<b>421</b>	<b>24,502</b>	<b>(309)</b>
Corporate	4,295	81	(126)	4,170	(207)
<b>Net General Fund</b>	<b>28,376</b>	<b>811</b>	<b>296</b>	<b>28,671</b>	<b>(516)</b>
(Use of)/ transfer to Working Balance	1,256	0	0	1,256	0
<b>Net Budget Requirement</b>	<b>29,632</b>	<b>811</b>	<b>296</b>	<b>29,927</b>	<b>(516)</b>
Transfer to/(from) Reserves	(490)	0	0	(490)	0
<b>Funding</b>	<b>(29,632)</b>	<b>(1)</b>	<b>(1)</b>	<b>(29,633)</b>	<b>0</b>
<b>(Under)/Overspend</b>	<b>0</b>	<b>810</b>	<b>295</b>	<b>295</b>	<b>(516)</b>

3. The Net General Fund forecast outturn for 2010/11 is predicted to be £28.671m against the budget of £28.376m, a projected net overspend of £296k (1%). As at Q2 this variance was £811k. The main reasons for the favourable movement of £516k are as follows:

**Chief Executive is £119k overspent compared to the 2010-11 approved budget. This represents an improvement of £34k compared to the position as at Q2.** This is a consequence of Law and Governance carrying out a detailed review of supplies and services budget lines and identifying further in-year savings of £34k.

- **City Regeneration is £688k underspent compared to the 2010-11 approved budget. This represents an improvement of £420k compared to the position as at Q2. Of this the major contributors are:**

£200k favourable relating to a catch up on invoicing within Corporate Assets' commercial property income following a rent roll review.

£238k favourable within Community Housing and Development driven by a line by line review of the budget identifying £157k of budget that is unlikely to be spent before the end of the year. In addition there is £27k of elderly services income that was unexpected in the period. A further £57k of favourable salary variance has been delivered through posts that will not be filled before the end of the year.

The remaining variance of £18k adverse represents overspend across various City Development budget lines.

- **City Services is £870k overspent compared to the 2010-11 approved budget. This represents a deterioration of £70k compared to the forecast as at Q2. The major contributors to the increased overspend are:**

£171k adverse in Customer Services where court cost income is £90K adverse, temporary staffing costs are £30k adverse and the supplies and services budget is a further £50k adverse.

£70k favourable within City Leisure where a line by line review of budget has identified areas which are unlikely to be fully utilised before the end of the year.

£27k favourable within Environmental Development where in-year savings have been identified relating to vacant posts that will not be filled during the remainder of this year.

The remaining £4k of favourable variance relates to small levels of under spend across City Services cost centres

- **Finance and Efficiency is £120k overspent compared to the 2010-11 approved budget. This represents a deterioration of £75k compared to the outturn presented at Q2. Of this the major contributor is:**

£75k of savings that had been declared unachievable within the Strategic Procurement and Shared Services area. £20k of this relates to under achievement of income through working with other authorities and £50k relates to a blanket 1% savings target on procurement during 2010-11 which has not been achieved.

- **The Corporate centre is £126k underspent compared to the 2010-11 approved budget. This represents an improvement of £207k compared to the outturn presented as at Q2. Of this the major contributor is:**

Local cost of Benefits £202k favourable. It is now extremely unlikely that the lower threshold for local authority errors in relation to Housing Benefit over payments will be breached. Oxford City Council can therefore claim 100% of subsidy on all over payments. Collection rates also have a more favourable outlook. The rate currently stands at 54.61% for Housing Benefit overpayments against a previous forecast of 52%. As a result the provision required for bad debt is expected to rise by less than previously expected. These factors combined impact the forecast for Local Cost of Benefits which is now £77k favourable against an approved 2010-11 budget of £15k.

The remaining £5k favourable is made up from various other Corporate budget lines.

#### **4 Achievement of Savings and efficiencies**

The approved budget for 2010/11 included savings and efficiencies of £3.8m (£2.7m General Fund £1.1m Housing Revenue Account). Achievement of these savings is monitored through a system of 'traffic light reporting' highlighting whether the savings have been 'achieved' are 'partially on track', 'on track' or 'unachievable'. Details are included in Appendix B and summarised below.

**Note:** During December 2010 Finance reviewed the categories assigned to savings, the objective was to present a clearer view of progress on delivery of savings. As a result of this review Finance have made the following changes:-

Previous Category	New Category
Achieved	- Completed
Partially on track	- Will be achieved by year end OR - Will not be achieved by year end
On Track	- Will be achieved by year end

As a result all savings categorised as “Partially on track” during November 2010 have been allocated within the new headings

**Table 2 – Savings status as at 31<sup>st</sup> December 2010**

	Completed £000's			Partially on Track £000's			Will be achieved by year end £000's			Will not be achieved by year end £000's		
	Q2	Q3	Var	Q2	Q3	Var	Q2	Q3	Var	Q2	Q3	Var
Chief Executive	111	121	10	35	0	(35)	40	20	(20)	15	60	45
Finance / Efficiency	196	236	40	130	0	(130)	70	50	(20)	30	140	110
City Services	561	651	90	191	0	(191)	710	620	(90)	15	206	191
City Regen	406	367	(39)	36	0	(36)	164	204	40	0	35	35
HRA	959	959	0	110	0	(110)	110	110	0			
<b>Total</b>	<b>2,233</b>	<b>2,334</b>	<b>101</b>	<b>502</b>	<b>0</b>	<b>(502)</b>	<b>1094</b>	<b>1004</b>	<b>(90)</b>	<b>60</b>	<b>441</b>	<b>381</b>

Appendix B shows the detail of Savings Q2 vs. Q3 with details of the movement by Service area

As at the end of Q3 the total value of savings that we estimate will not be achieved by the year end is £441k. This represents an adverse movement from Q2 of £381k. The major contributors to this movement are:

£100k within Business Transformation where savings related to Invest to Save schemes will not materialise in this financial year,

£90k in Customer Services where savings relating to Face to Face contact with members of the public will not be delivered. The strategy for delivering Face to Face contact will be assessed as part of the upcoming Customer Services fundamental service review,

£30k within Policy Culture and Communications, where the expected uplift in Town Hall usage has not occurred in this year. Expectations are that this will be delivered next year once the Offices for the Future project and Town Hall rationalisation process has delivered (including proposals relating to the museum),

£20k within People and Equalities where savings related to organisational development have not been made, in addition a £20k saving related to the reduction in the supplies and services budget has not been made,

£27k related to Burial Services in City Leisure where the initial saving will not be made, In addition, a further £20k has not been delivered relating to Parks and other budgets and a further £20k relating to Countryside will not be made

The remaining £54k relates to smaller unachievable savings across various City Regeneration cost centres.

Of the General fund savings highlighted above £190k has been included in the 2011-12 base budget. The remainder will be carried over within 2011-12 service budgets

HRA savings remain unchanged from Q2 with £0.9m of £1m completed and £0.1m on track to deliver by the end of the year

In addition to the savings monitored within the Traffic Light report it should be noted that services are carrying a further £194k of savings brought forward from 2009 -10. It is highly unlikely that these savings will be delivered. As a result they have been factored into the outturn forecast (Table 1). The savings are detailed below, and have been reported previously:

- Customer Services – £90k this relates to Partnership working in Council Tax (savings reference 10SCS11)
- Business Transformation – £32k this was part of an invest to save plan totalling £100k, the service did achieve ongoing savings of £68k against this target last year.
- Procurement – £72k relates to blanket procurement savings which are unlikely to be achieved

The Medium Term Financial Plan has been adjusted to take in to account the underlying budget pressures associated with the historical savings mentioned above.

## **5 Contingencies, Reserves and Balances**

The Council holds a number of earmarked reserves for specific purposes. Reserves have been utilised as follows:

£324k has been released from the employee reserve. An ongoing pressure of £324k was identified arising from the adoption of 5 in 7 working in the suburban Street Cleansing service. This ongoing pressure has been addressed in the Medium Term Financial Plan.

£33k has also been released from the employee reserve to cover employee pressures elsewhere within the overall budget.

£72k has been released from the Customer Services Server Replacement Reserve fund a replacement server.

£61k has been released from the City Centre Waste Bins Reserve to cover cost related to the purchase of stainless steel bins for the city centre.

In addition to earmarked reserves the Council has, within the approved budget, a £558k contingency. This was designed to cover financial pressure arising from the

recession and high risk savings identified above. Use of this contingency would bring the budget back into balance based on the current forecast position, although at this stage this action is not considered necessary.

The budget also provides for a £1.256m transfer to General Fund working balances. General Fund Balances are budgeted to rise to £4.3m by the end of 2010-11

## 6 Housing Revenue Account

As at Q3 the HRA position as set out in Table 3 remains on track to deliver a £500k surplus. There is no change to this compared to the position reported as at Q2.

**Table 3 – HRA Outturn as at 31<sup>st</sup> December 2010**

HRA	Actuals to date	Annual Budget	Forecast Outturn As at 30th Nov 10	Forecast Outturn As at 31st Dec 10	Outturn Variance to approved Budget	Outturn Variance Month on Month
	£'000	£'000	£'000	£'000	£'000	£'000
<b>£'000</b>						
<b>Income &amp; Expenditure Account</b>						
Income from Rent & Service Charges	(26,186)	(34,129)	(34,529)	(34,529)	(400)	0
Expenditure of Repairs & Maintenance	11,857	16,584	16,128	16,125	(459)	3
Subsidy, Finance & Appropriations	13,389	17,045	17,900	17,900	855	0
<b>Deficit/(Surplus)</b>	<b>(941)</b>	<b>(500)</b>	<b>(500)</b>	<b>(503)</b>	<b>(3)</b>	<b>3</b>

The HRA has identified a number of savings shown in Table 4 below.

**Table 4 – HRA Savings Identified**

Area	Value	Description
Tenants participation	£48k	Tenants improvements not spent and staffing costs
Rent/income collection	£100k	Bad debt provision unlikely to be required
Caretaking	£40k	Caretakers paid at lower rate than budgeted and materials not purchased
Contact Centre	£50k	2 x receptionists posts at Horspath road part of Contact Centre team
Management infrastructure	£45k	Staff vacancy not filled
Major projects/Policy/technical	£15k	Consultancy fees not used
Contracting prime costs	£500k	Subcontractor spend not used. £400k under spent at Nov 2010, but the current weather is likely to stretch in-house resources to deal with all repairs and sub contractors will be needed to deal with all work.
Planned maintenance	£100k	Saving identified in void work.
<b>Total Savings Identified</b>	<b>£898k</b>	

A review carried out by PWC in Feb 2010 highlighted errors in the assumptions used to charge revenue related costs to capital. As a result the HRA were required to review these assumptions and as a consequence made changes to the revenue to capital charging process. These changes have resulted in a lower revenue charge to capital than was assumed in the 2010-11 budget. At the year end the service expect the budget shortfall to be in the region of £0.9m.

To offset this pressure the HRA have reviewed the budget and have identified savings totalling £0.9m (See table 4)

## 7 Capital Programme

### General Fund and HRA Capital Programme

The budget approved for the General Fund and HRA Capital Programme for 2010/11 is shown in summary in Table 5 below. The General Fund element of the programme was reported to Council on 18<sup>th</sup> October 2010. Appendix C attached shows the Capital programme on a scheme by scheme basis.

The forecast outturn as at Q3 is £29.8m compared to the approved budget of £35.5m. The difference of £5.7m relates to an under spend within the HRA Capital Programme £2.9m and slippage in the General Fund programme of £2.8m

**Table 5 – Capital Programme as at 31<sup>st</sup> December 2010**

	Actuals to date	Revised Budget 2010-11	Latest Forecast Dec 2011	Var	Budget 2011-12
City Development	283	593	521	(72)	744
Environmental Development	312	742	670	(72)	690
Community Housing & Development	640	4,041	1,826	(2,215)	2,221
Corporate Assets	3,251	5,097	4,879	(218)	5,568
Customer Services	0	18	18	0	161
City Leisure	919	2,678	1,839	(839)	991
Direct Services	1,302	1,843	2,443	600	680
Business Transformation	0	50	50	0	300
<b>General Fund Total</b>	<b>6,707</b>	<b>15,062</b>	<b>12,246</b>	<b>(2,816)</b>	<b>11,355</b>
HRA Decent Homes Programme	5,048	9479	7438	(2,041)	300
New Build Council Housing	6,230	10385	8965	(1,420)	300
Aids and Adaptations	861	580	1100	520	300
<b>HRA Total</b>	<b>12,139</b>	<b>20,444</b>	<b>17,503</b>	<b>(2,941)</b>	<b>300</b>
<b>Total Council</b>	<b>18,846</b>	<b>35,506</b>	<b>29,749</b>	<b>(5,757)</b>	<b>300</b>

### General Fund

The majority of favourable variances are made up of schemes that have slipped into the 2011-12 Programme. In these cases the budget has been removed from 2010-11 and reallocated in 2011-12. The material slippages are as follows:

#### **Community Housing and Development**

£1.7m related to the Old Fire Station project: ROK (the main contractor for the Old Fire station project) has entered administration and a new contractor is being sought. Award of the new contract is imminent but this has caused a delay to the project, as a result £1.7m of the approved budget will be slipped into the next financial year. A bond of £250k will be called upon to cover the extra costs caused by the delay.

£0.2m slippage on a project to provide/enhance community facilities in the Rose Hill area. This scheme will be rolled into wider regeneration initiatives planned on Rose Hill funded in part by S106 contributions, hence the slippage to next year.



There are number of smaller schemes (7) that have also been slipped in to 2011-12 totalling £0.3m – See appendix C for further detail.

### **Corporate Assets**

There are a number a schemes relating to repair and refurbishment work that have been slipped to 2010-11. These deferrals relate to work that has started in 2010-11 and will be completed in 2011-12 (See appendix C for further detail).

### **City Leisure**

£0.7m of slippage related to playground refurbishment. Progress on refurbishment has slowed as the scheme reassesses which playground sites to prioritise and also explores the funding arrangements for year 3 of the scheme (currently in year 2).

In addition to the slippage detailed above Direct Services are forecast to overspend by £600k. This relates to the roll out of recycling bins across the city as part of the new waste and recycling programme.

### **HRA**

#### **HRA Decent Homes - £2m Favourable**

- The work carried out replacing Kitchens and Bathrooms is under spent by £0.7m as at Q3, this is due to lower than expected unit costs for installations.
- Major Voids is overspent by £0.1m. Much of the work done in major voids involves replacing kitchens, bathrooms and heating systems in empty properties prior to re-letting, there is some element of cross over with the Kitchens and Bathrooms budget above.
- Tower Blocks are forecast to be £0.6m favourable at year end. This is a result of delayed decisions for long term ownership of the blocks. Should the decision be to retain ownership of tower blocks work will be required to replace windows and wall ties.
- Heating is forecast to be £0.1m over spent at year end as a consequence of increased labour time.
- The Sheltered blocks area is expected to be £0.6m under spent at year end as a result of a delay in deciding future of the blocks.
- Shops are forecast to be £0.2m under spent at year end, this is driven by some costs being absorbed in work completed on flats and maisonettes above the shops. Work can only be done when shops are void and year to date very few properties have become vacant.

#### **HRA New Build - £1.4m favourable**

- There is a favourable variance of £1.4m driven by an under spend on the Lambourn Road project and the refurbishment of Cardinal House. Both projects are forecasting an under spend against their budgets.

#### **HRA Aids and Adaptations £0.5m adverse**

- As at Q3 Aids and Adaptations are forecast to be overspent by £0.5m. It should be noted that all adaptations are installed on the recommendation of an Occupational Therapist. Adaptations include the installation of level access showers, stair lifts and extensions to properties. To date OCH has installed approximately 91 level access showers with an average cost of £3.5k, 13 stair lifts averaging £3.4k each and worked

on 7 extensions with a total cost of £142k. Work on a further 5 extensions is anticipated between now and the year end with an average cost of £25-30k. The installation of level access showers is difficult to predict, it is assumed that the same volume of works will be completed and about 2 stair lifts a month.

## 8 Performance Information

There are a number of key performance indicators which when combined with budgetary performance information will give an overall picture of financial health of the organisation. These indicators are as follows:

**Table 6 – General Fund Debtors as at 31<sup>st</sup> December 2010**

<b>30/12/2010</b>	<b>Sundry Debtors</b>	<b>Periodic Income &amp; Service Charges</b>	<b>Housing Benefit Overpayments</b>	<b>City Works, Parks &amp; OCH Debtors</b>	<b>Grand Total</b>
31-90 Days	254,068	25,478	374,750	106,832	761,127
91-180 Days	471,321	13,653	384,683	61,744	931,402
< 1 Year	9,518	(30,770)	549,247	97,126	625,121
< 2 Years	3,436	(3,806)	625,687	83,637	708,955
< 3 Years	15,409	(4,186)	502,091	54,258	567,572
< 4 Years	9,051	(604)	325,473	20,686	354,606
< 5 Years	451	(457)	237,165	8,384	245,544
< 6 Years	2,436	5,973	234,682	1,196	244,287
Over 6 Years	3,839	(2,534)	463,947	0	465,252
<b>Total</b>	<b>765,690</b>	<b>5,281</b>	<b>3,233,779</b>	<b>433,864</b>	<b>4,438,615</b>

### Sundry Debtors

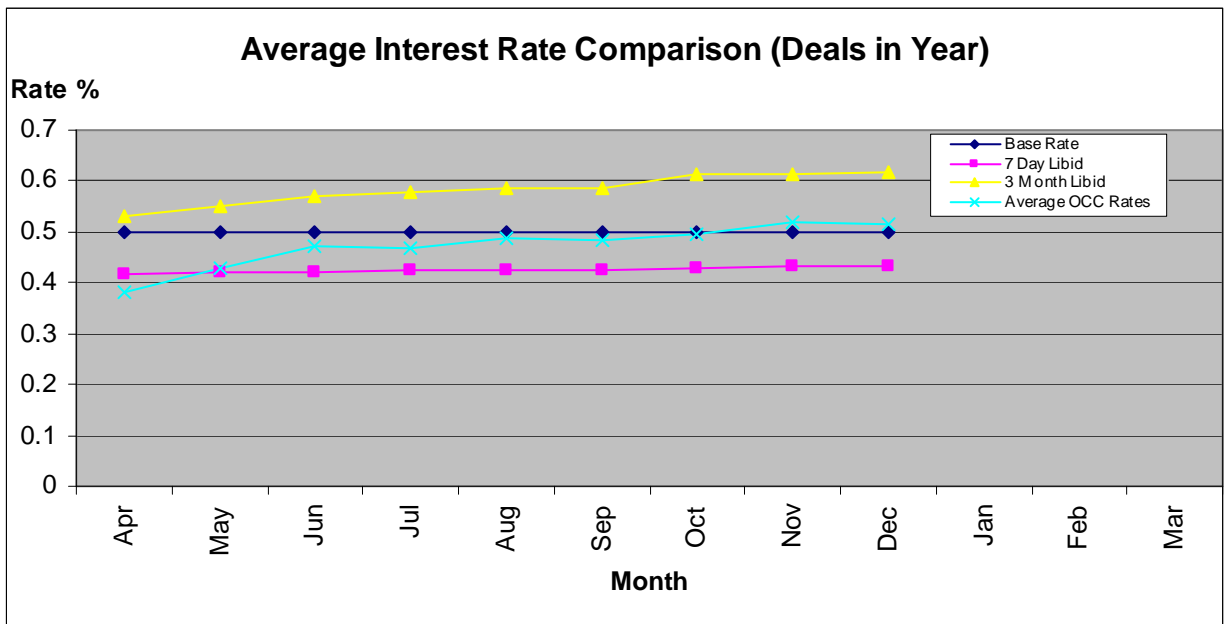
Sundry Debtors at Q3 stand at £766k, this is £237k better than as at (Q2). Debt over 1 year remains at a similar level to Q2. Debt aged 91-180 days has fallen significantly by £936k primarily as a result of £655k Oxfordshire County Council debt being collected, this debt relates to section 42 – Highways maintenance work carried out by Oxford City Council on behalf of Oxfordshire County Council.

### Housing Benefit Overpayment

Payments continue to be recovered from old debt. Of the £3.9m outstanding £1.7m is 3 years or older. Given the age of this debt the Council holds a bad debt provision of approx 90% and expects to recover c£170k.

**- Investment Performance**

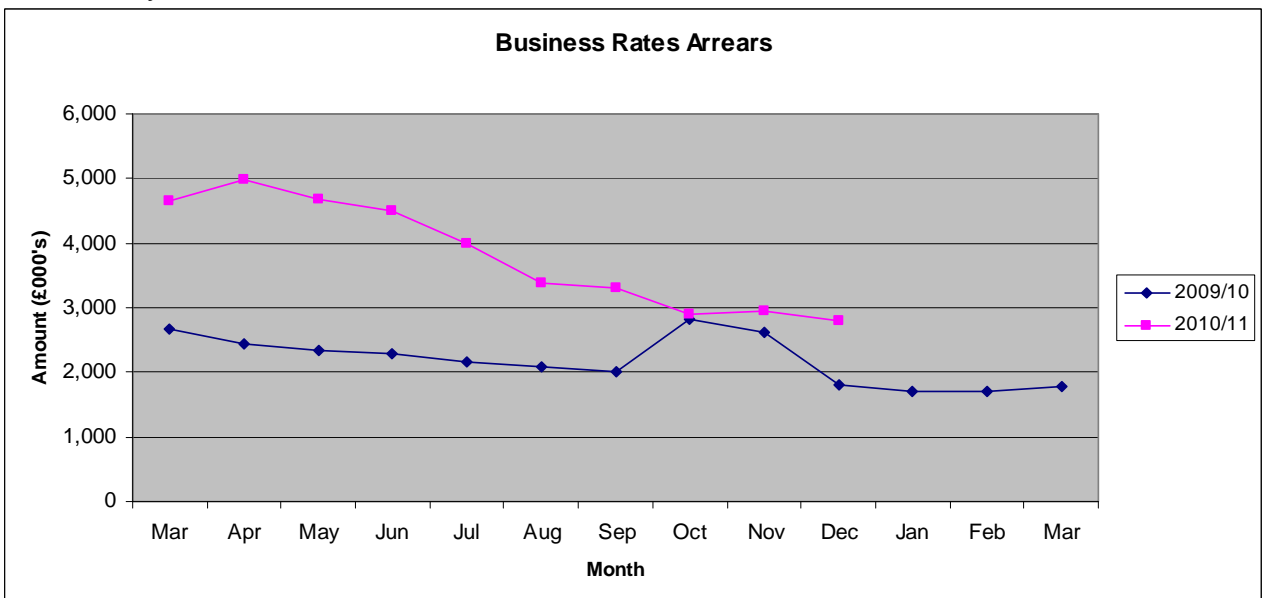
The year to date average rate of interest is 0.52%, this is a 0.04% increase on the rate as at Q2 the Base Rate remains at 0.50% unchanged on Q2. The Council Monitors its performance against the 7 day Libid rate (0.43%), which is 0.01% up on the rate as at Q2



**- Business Rates**

Arrears fell during Q3 by £88k, total arrears now stand at £2.8m

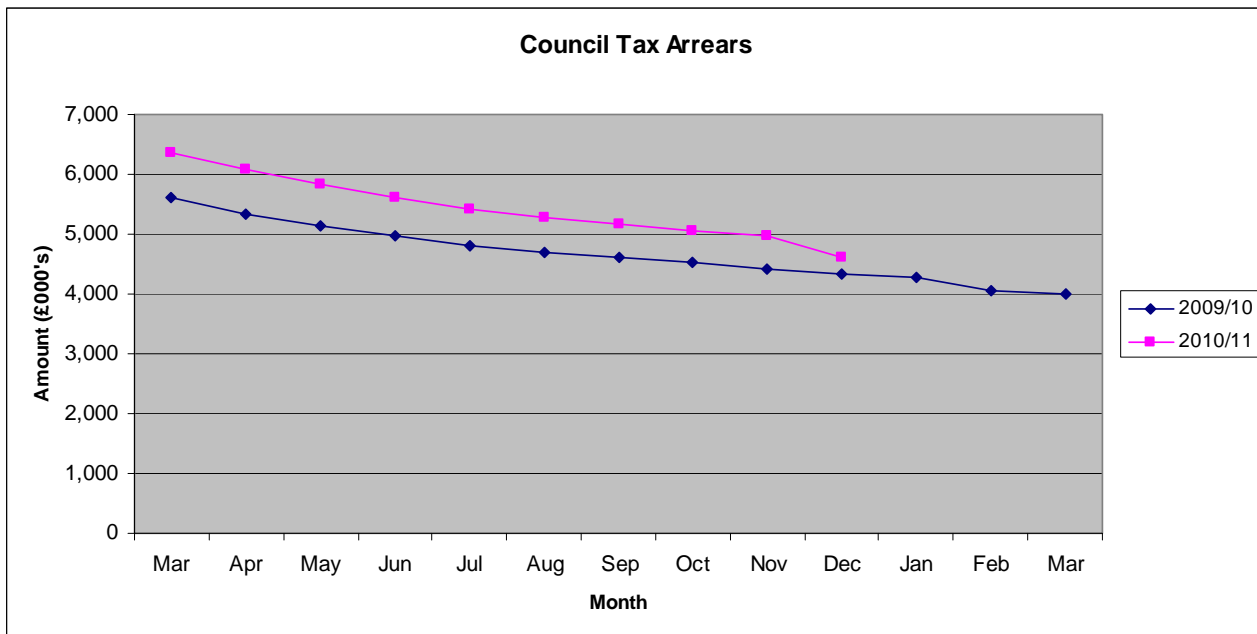
As at Q3 the collection rate for this years Business Rates is 87.93% this is 0.15% compared to the 2009-10 Q3 position (88.08%). The target for collection in 2010-11 is 97%. Forecasts suggest the 2010-11 collection rate may fall short of the target and as a result arrears at the year end may exceed £5m. This position will be closely monitored



**- Council Tax arrears collection**

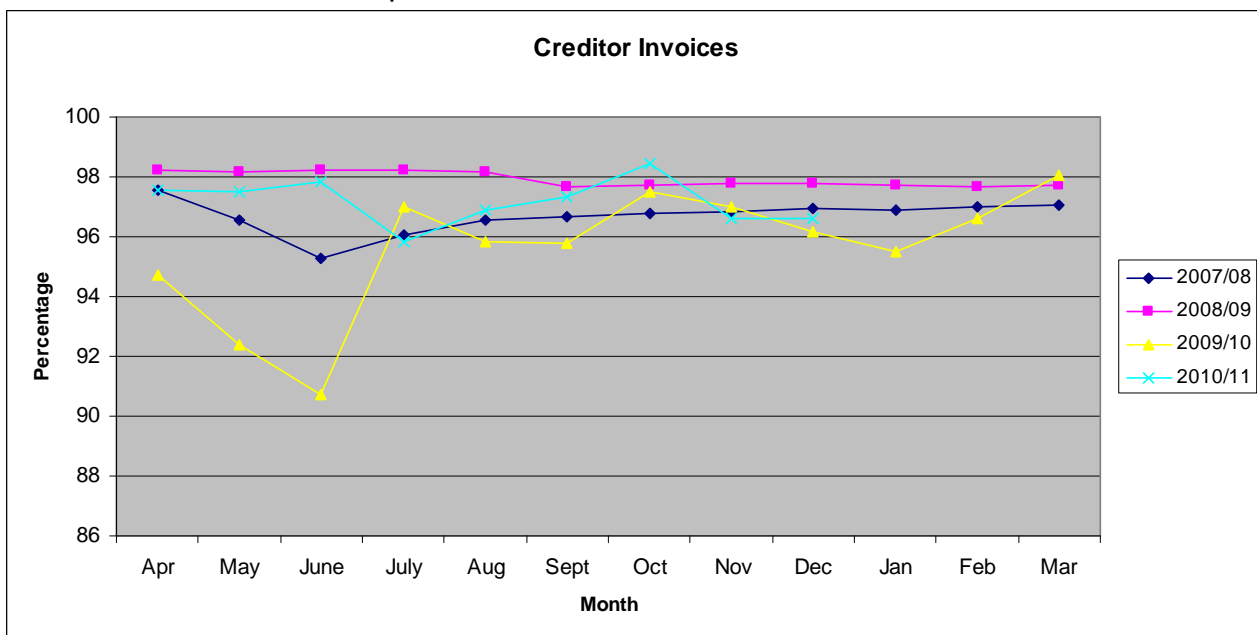
Arrears dropped by £461k over Q3, total arrears as at Q3 are £4.6m. The collection rate is forecast to be 97%; this is up 0.57% on the collection rate as at

Q3 2009-10. Assuming the current collection rate continues arrears at the year end are forecast to be £6.4m



**- Creditor Payment Times**

As at Q3 96.61% of invoices were paid on time. This is 0.7% down on (Q2). This trend is expected as the time taken for invoices to pass through the organisation slows over the Christmas period.



**9 Implications**

Legal Issues (Monitoring Officer)

There are no legal implications in connection with the recommendations contained within this report

**10 Potential Risks / Opportunities**

Budget projections can be volatile. However the overall position has been improving month on month. At this stage the variance represents 1% of the approved budget and is within manageable limits.

Officers have been working to review expected spend within Q4, this has resulted in a number of identified under spends which have resulted in an improved outturn.

There is still a risk that the £1m of savings that have still be completed by the end of the year do not deliver and therefore impact the outturn variance. Officers continue to closely monitor progress in this area.

The Medium Term Financial Plan has been adjusted to take in to account the underlying budget issues mentioned in this report. Items such as unachievable savings and payroll pressures have been built in to the 2011-12 budget base.

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