REVENUE AND CAPITAL BUDGET MONITORING REPORT – TO END JULY 2009 (P04) *[INCORPORATING P03]*

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1 Purpose

1.1 To advise Audit Committee of the forecast outturn position for the General Fund, Housing Revenue Account (HRA) and the Collection Fund, at the end of July 2009.

1.2 To advise Audit Committee of the forecast outturn position for the Capital Programme, at the end of July 2009, and programme slippage brought forward from 2008/09 into the 2009/10 Capital Programme monitor.

1.3 To advise Audit Committee of the progress officers have made in addressing the need to make £7m of in-year savings.

1.4 To advise Audit Committee of the risks affecting the forecasts.

2 Recommendations

2.1 That the forecast outturn positions reported by Directorates be noted.

2.2 That the identified risks and areas of concern, reflecting the views of the Corporate Director of Finance and Risk Management and other relevant Corporate Directors, be noted.

2.3 That these risks be monitored closely and effectively managed by the Corporate Leadership Team to ensure the Council manages its spending within the approved budget.

2.4 That the expenditure to date, projected outturn and funding position for the 2009/10 Capital Programme be noted.

2.5 That the variations approved by delegated decision to 9 September 2009 and set out at **Annex H** be noted.

3 Summary

3.1 Previous reports to Cabinet have highlighted the significant financial challenges facing the Council. T his report indicates that, without further management action, there would be a projected overspend at 31 March 2010 of £1.431m, which, together with the other planned changes in general reserves would lead to a reduction in the General Fund balance of close to £1m, which in the view of the Corporate Director of Finance and Risk Management would be wholly inadequate.

3.2 As a consequence of earlier projections Cabinet agreed on 22 July 2009 that officers were required to seek savings of £7m to underpin the financial position of the Council, which in turn would restore the General Fund balance to a level that the Corporate Director of Finance and Risk Management assessed as being adequate in the light of the risks.

3.3 Period 4 monitorING also identifies a number of pressures at directorate level, totalling £1.949m which officers have been required to address through management action. The action to address these pressures together with the savings called for by Cabinet are consolidated into the savings plans referred to below.

3.4 Following Cabinet on 22 July 2009, officers have been working to identify savings in line with the target and to address the forecast overspend. To date savings of £7.306 m have been identified, which is in line with the target set by Members. However, to fully address both the savings target set by Members and the overspend position at directorate level will require further savings of £1.643m to be found. Corporate Directors are committed to continue to seek these further savings to fully address the financial position and to minimise the impact of any further changes arising from budget pressures and emerging risks, as well as any shortfall in the achievement of the savings set out in this report.

3.5 Officers have worked to identify savings which would have a modest impact on service delivery. In broad terms these management actions fall into five broad categories:

(i) More efficient management of workforce, including holding vacancies and deletion of posts

(ii) Managing externally commissioned services more effectively

(iii) Reducing spend on supplies and services and other non-critical budgets

(iv) Maximising use of grant opportunities and capital resources

(v) Increasing income

These are listed on a directorate by directorate basis, in addition to which, there are some savings falling outside these categories and a number which require further Member consideration, these are listed separately. The Corporate Director of Finance and Risk Management’s view is that the majority of savings are deliverable, with the exception of the recovery of costs from contractors which I am content should be included in the list of savings but recognise that this item (£1.5m) is a particularly high risk item both in terms of achieving the recovery, the timing of any recovery, and the accounting treatment.

3.6 Inevitably there are a number of risks around the forecast and the savings, which are reflected in the commentary at a directorate level. These create some very real challenges to the delivery of the forecasts and savings, however the Corporate Leadership Team is reasonably confident that the budget pressures can be managed and, as referred to above, further savings identified. In addition there are some potential upside risks which would further strengthen the Council’s overall financial position, notably:

(i) A lower pay award than was anticipated at the time the budget was set. A settlement of c1% is being discussed, compared to a planning assumption of 2.5%. This would benefit the Council by £0.5m.

(ii) The transfer out of the General Fund to the Value for Money Fund can be revised as the funds remain largely uncommitted

(iii) Any recoveries from the Radcliffe Initiative can be taken to the General Fund reserve.

4 Revenue Period 4 Monitoring

4.1 Table 1 overleaf summarises the forecast revenue outturn figures reported by the Directorates at the end of July 2009.

Table 1: General Fund Provisional Outturn Summary (£000)

An overall £1,431k deficit to the General Fund before implementation of in-year saving action plans.

Projected Directorate variances for the year ending 31st March 2009	Per SAP accounting system			Reported position		
	Latest budget £'000	Projected Outturn £'000	Variance including DSG £'000	Known issues not in SAP £'000	Remove DSG Variance £'000	General Fund Variance £'000
Children and Young People's Services	64,907	66,604	1,697	99	205	2,001
Environment	56,977	57,883	906	0	0	906
Community Wellbeing	65,982	65,402	(580)	(303)	0	(883)
Chief Executive's Office	(68)	0	68	240	0	308
Finance & Risk Management	(7,455)	(7,945)	(490)	184	0	(306)
Strategy & Partnership	8,006	7,897	(109)	32	0	(77)
Debt Financing	19,052	18,534	(518)	0	0	(518)
Total directorate variance	**207,401**	**208,375**	**974**	**252**	**205**	**1,431**

4.2 The projected directorate variations summarised in Table 1 do not include those savings identified to date as part of the £7million savings target programme, which are discussed in further detail below.

Significant Variances

4.3 From Table 1 above it can be seen that the General Fund variance is projected at Period 4 to be an overspend of £1,431k. **Annexes A** and **B** give a detailed analysis by directorate of the variances in comparison with the budget.

4.4 **Annex B** also sets out the significant risks identified for each directorate. These risks apply both to the services provided and the savings identified within each directorate.

In-year Savings

4.5 As at the end of Period 4, £7,306k of in-year savings had been identified by the directorates. If pressures in those directorates to which the savings targets apply are taken into account, a further £1,643k of savings are still to be identified and implemented in order to achieve the agreed £7m target.

4.6 The progress of the relevant directorates against their respective shares of the £7m savings target is summarised in Table 2, below.

Table 2: Progress against the agreed £7m In-year Savings Target

Directorates presently need to identify and implement a further £1,643k of savings to meet the agreed target of £7 million, as detailed below

Projected Directorate variances for the year ending 31st March 2009	General Fund Variance £'000	In-year Savings identified and not reflected in GF variance £'000	Variance if identified in-year savings achieved £'000	Share of £7m savings target £'000	Savings still to be found £'000
Children and Young People's Services	2,001	(3,249)	(1,248)	(1,750)	502
Environment	906	(2,519)	(1,613)	(1,950)	337
Community Wellbeing	(883)	(471)	(1,354)	(2,450)	1,096
Chief Executive's Office	308	0	308	(10)	318
Finance & Risk Management	(306)	(587)	(893)	(570)	(323)
Strategy & Partnership	(77)	(480)	(557)	(270)	(287)
Total of directorates included in Efficiency Target exercise	**1,949**	**(7,306)**	**(5,357)**	**(7,000)**	**1,643**
Debt Financing	(518)	Debt Financing is excluded from this analysis because no Savings Target is applicable to this section.			
Total directorate variance	**1,431**				

4.7 Table 3 summarises the savings identified to date.

Table 3: In-year Savings identified to date by Directorates

Projected Directorate variances for the year ending 31st March 2009	Management actions £'000	Already included within directorate forecast £'000	Management actions not already in forecast £'000	Member consideration £'000	Total savings identified at P4 £'000
Children and Young People's Services	(1,749)	0	(1,749)	(1,500)	(3,249)
Environment	(1,987)	0	(1,987)	(532)	(2,519)
Community Wellbeing	(1,641)	1,170	(471)	0	(471)
Chief Executive's Office	0	0	0	0	0
Finance & Risk Management	(587)	0	(587)	0	(587)
Strategy & Partnership	(202)	0	(202)	(278)	(480)
Total of directorates included in Savings Target exercise	**(6,166)**	**1,170**	**(4,996)**	**(2,310)**	**(7,306)**

4.8 Those savings identified by directorates include items which it is felt should be the subject of Member consideration. These are:

Item	Savings £000
Children and Young People	
PCP Schools Capital – Recovery of costs from contractors	(1,500)
Environment	
Waste - Extension of Contract	(130)
Waste - Charge for special collections by appointment	(2)
Traffic - Extension of Contract/increase in parking spaces	(400)
Strategy and Partnerships	
Economic Development – LABGI additional allocation received in 2009-10 which had not been expected or taken into account in previous budget discussions. This is believed to be the final allocation from this tranche of the LABGI fund.	(251)
Human Resources – Delay introduction of Employee Assistance Scheme	(15)
Communications – Reduce Live MK by 2 editions	(12)
TOTAL	**(2,310)**

4.9 **Annex C** provides a detailed analysis of the in-year savings identified by each directorate categorised by the five headings referred to in paragraph 3.5 to this report.

4.10 In addition, two schemes for further in-year savings have been considered by officers but are not recommended and so are not included in Tables 2 and 3 above. These are set out below to allow Members to consider them:

Item	Savings £000
Strategy and Partnerships	
Member Initiatives Fund	(102)
Parish Regeneration Fund	(200)
TOTAL	**(302)**

<u>Collection Fund</u>

4.11 At 31 March 2009, the closing balance on the Collection Fund was a £177k surplus.

4.12 The 2009/10 budget assumed a projected year-end deficit, of which the MKC share was a significant call on budgeted Council Tax income. The better than-expected-outturn should benefit the Council in the formulation of the 2010/11 budget.

Impact on General Fund Balances

4.13 The Period 4 projection of directorates' progress in respect of the savings programme indicates that £7,306k of in-year savings have been identified to date and that directorates are forecasting a net pressure of £1,431k. If these are brought into the projection of General Fund balances, the projected position would be £8,832k at 31 March 2010, falling to £7,832 k by 31 March 2011.

4.14 This remains a very serious potential position in the context of the minimum approved level of balances. It is vital that sufficient savings are identified, implemented and delivered in order to achieve the £7m target and thereby restore the General Fund reserves to an acceptable level. Failure to meet the target identified for in-year savings will bring with it the risk that General Fund balances will be below the minimum agreed level of £8m.

4.15 Table 4 below summarises the General Fund balances.

Table 4: General Fund Balance 2009-12

	Outturn £'000
General Fund balance at 1st April 2009	**7,678**
Projected variation in Directorates, as forecast at P04	(1,431)
Earmarked for Value For Money Fund	(1,560)
Council priorities deferred from 2008/09	(1,350)
Earmarked reserves returned to General Fund	1,000
Budgeted use of earmarked reserves (agreed by Council 26th February 2009)	(1,000)
Budgeted 2008/09 Use of Reserves (agreed by Council 26th February 2009)	(1,811)
In-year Savings identified (target £7m)	7,306
General Fund movement in 2009/10	**1,154**
Estimated General Fund Balance at 31st March 2010	**8,832**
Budgeted 2010/11 Use of unearmarked Reserves (approved 26th February 2009)	(1,000)
Estimated General Fund Balance at 31st March 2011	**7,832**
Budgeted 2011/12 Use of unearmarked Reserves (approved 26th February 2009)	0
Estimated General Fund Balance at 31st March 2012	**7,832**

4.16 The approved £7m savings programme is intended to address budget pressures and to deliver sufficient savings to restore General Fund balances to acceptable levels.

Dedicated School Grant

4.17 At Period 4 the projected position is that there will be an in-year surplus of £205k in 2009/10.

Dedicated Schools Grant	Expenditure variance £'000	Income variance £'000	Net pressures in SAP £'000	Known issues not in SAP £'000	Adjusted net pressure £'000
Reported variance	(205)	0	**(205)**	0	**(205)**

Housing Revenue Account

4.18 The Period 4 projected outturn position for the HRA shows an overspend of £1,838k, being £2,748k in-year deficit less £(910k) additional uncommitted reserve brought forward.

4.19 **Annex D** provides a more detailed analysis of projected budget variances for the HRA, while **Annex E** provides further detail of variances

4.20 The outturn data indicates that the HRA will have a balance on reserves of (£4,029k) surplus as at the 31 March 2010.

4.21 Table 5 below summarises the HRA provisional outturn position.

Table 5: HRA Outturn Summary (£'000)

	Revised 2009-10 Budget £'000	Provisional Outturn per SAP £'000	Known issues not in SAP £'000	Adjusted provisional outturn £'000	Variance £'000
Uncommitted reserve b/f	(5,026)	(5,936)	0	(5,936)	(910)
Net (surplus)/deficit in year	(841)	1,907	0	1,907	2,748
Uncommitted reserve b/f	**(5,867)**	**(4,029)**	**0**	**(4,029)**	**1,838**

5 Capital Period 4 monitor

2008/09 Capital Programme Outturn

5.1 The 2008/09 Capital Programme Outturn was reported to the Cabinet meeting held on 23 June 2009 (Minute C22 refers). This report outlined the position for each directorate and also set out the reasons for major variances when the outturn was compared with the approved budget

5.2 The bulk of these variances relate to slippage and re-phasing of capital projects, which now require revisions to the 2009/10 Capital Programme.

5.3 £5.655m of the Children and Young People Services (CYPS) slippage relates to school projects. Of this, £2.1m arose through delays in settlement of final accounts, and a further £2.1m through delays through bad weather at the Sir Frank Markham academy. The balance of schools slippage is largely from delays on site.

5.4 £2.658m of the Environment slippage is for the Coachway, on which works had not begun at 31 March 2009. A further £1.070m is for Portway/North Grafton, where the Council is involved in a partnership scheme, but is not responsible for all of the budgeted cost. £2.924m of the slippage is a further delay to implementation of the Street Lighting 'spend to save' scheme, which has experienced a series of implementation difficulties. The balance of £2.815m slippage on Environment is spread over a wide range of projects which had started but were not complete at the year-end. Some of the delays are directly attributed to bad weather.

5.5 The Radcliffe Initiative, which has developed from the Radcliffe project for development of the school and the pool on the adjacent site, has changed dramatically from what was proposed when a contract for the sale of land to Lagan Homes was in place in mid-2008. That contract was not completed, since when the funding and nature of the scheme remain to be determined. Any further costs incurred until the details of the project are clearer will be charged to revenue rather than capital, and it is proposed that capital funding for Radcliffe be removed until resources are confirmed. This will require a reduction in the 2009-10 programme in respect of Radcliffe of £13,845,164.

5.6 During 2009/10 a revised appraisal for Radcliffe will be completed and the scheme added to the capital programme along with details of the revised funding.

5.7 Overall, slippage of £18.455m has now been included within the 2009-10 Capital Programme (as reflected in Table 7 below and **Annex F**). Members are requested to approve the changes to the Capital Programme that result from slippage.

2009/10 Capital Programme

5.8 The original Capital Programme for 2009/10 was approved by Council on 26 February 2009. The value of the approved programme was £103.371m.

5.9 The revised programme for 2009/10 following inclusion of approved variations is £132.044m.

5.10 The requirements of the Financial Regulations in respect of the project appraisals and project variations which are required to support any changes to the programme are outlined at **Annex G**.

Expenditure to date and outturn forecast

5.11 At the end of July the forecast outturn is £114.134m, an under-spend of £23.721m against the latest approved budget plus slippage. The summarised data is represented in Table 6 below.

5.12 The reasons for any major variances in forecast outturn against budget in the table below are reported at **Annex H**. As noted later in the report, this underspending typically reflects deferments and re-programming of schemes, and so the associated financing will also be rolled forward to future years.

Table 6: Capital Programme 2009/10 – Summary of capital budgets, forecasts and expenditure as at 31 July 2009

Directorate	Latest Approved Budget	Forecast Outturn	(Under)/ Over spend	Expenditure to 31 May 09 (excluding commitments	Expenditure to 31 May 09 (including commitments)
	£m	£m	£m	£m	£m
Children & Young Peoples Services	57.749	55.004	(2.745)	11.962	19.592
Environment	52.100	26.427	(25.673)	3.289	7.208
Strategy, Governance & Performance	0.560	0.569	0.009	0.037	0.187
Community Wellbeing	16.413	16.382	(0.031)	3.419	4.399
Community Wellbeing HRA	10.884	15.752	4.868	3.336	12.538
Total	**137.706**	**114.134**	**(23.572)**	**22.043**	**43.924**

5.13 2009/10 Appraisals for:

(a) Purchase of a new database facilitated by additional DCSF grant of £0.024m, approved by delegated decision on 11 August 2009;

(b) Upgrade of the air conditioning at the Civic Offices (£0.250m) approved by delegated decision on 30 June 2009; and

(c) Play area refurbishment (£0.528m) approved by delegated decision on 30 June 2009

are being reported to Cabinet on 22 September 2009 for noting. Details are shown at **Annex I**.

5.14 A 2009/10 project variation enabling essential works to the computer room with no net effect on the value of the programme, which was approved by delegated decision on 30 June 2009, is being reported to Cabinet on 22 September 2009. Details are shown at **Annex I**.

5.15 The value of the latest proposed programme is £137.706m.

5.16 Table 7 below summarises the financial impact of the actual and proposed changes outlined above

Table 7: Original, latest and proposed Capital Programme 2009/10 to 2013/14

	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 onwards £m
Original Programme agreed by Council 26 Feb 09	**103.371**	**48.792**	**19.148**	**29.075**	**10.184**
Variations agreed by Cabinet after Original Programme (detailed in Cabinet report 17 July)	28.673	2.892	(0.100)	(0.190)	0
Financing adjustment - Radcliffe	(13.845)	0	0	0	0
Variation agreed by Cabinet 21 July 2009	0.250	0.050	0	0	0
Slippage from 2008-09	18.455	0	0	0	0
Items brought to this Cabinet					
Appraisal/Variations to be approved	0.802	0	0	0	0
Latest Proposed Programme	**137.706**	**51.734**	**19.048**	**28.885**	**10.184**

5.17 In line with the Comprehensive Performance Assessment (CPA) Use of Resources recommendations, the Council uses a traffic light system in its monthly revenue and capital budget monitoring reports. The RAG (Red, Amber, and Green) criteria are used to highlight the level of concern over forecast outturns at directorate level. For capital monitoring, this compares the forecast overspend to the latest approved budget as follows:

RAG Criteria	**Percentage Forecast Overspend**	**OR**	**Value Forecast Overspend**
Red (R)	>5%		>£500,000
Amber (A)	2.5% to 5%		£250,000- £499,999
Green (G)	<2.5%		<£250,000

5.18 Forecast underspends against latest approved budget will normally be shown as Green unless there are adverse service implications.

5.19 The RAG status of all directorates is currently green. A short commentary on the main variations is given below.

5.20 At Period 4 the Environment Directorate is showing an underspend. However, revisions are being made to reflect changes in profile, schemes not attracting Government funding (thus withdrawn) and where there is double counting of one scheme. The following shows these changes:

- CMK Superstop (£3.500m) has been previously included along with CMK Public Transport Access Improvements

- The following schemes have been withdrawn due to not attracting Government funding – East/West Core routes (£0.5m), Westcroft Bus stop (£0.5m) & A422 improvements (£3.5m). There are no service implications as a result.

- The following scheme has been re-profiled due to delay in receiving Government funding – CMK Public Transport Access Improvements (£2.429m) nb the funding has been subsequently secured.

5.21 There are further reductions in projected expenditure for 2009/10 from delays to projects, rather than changes in total expected cost. In Environment, these include Western Expansion Area (£2.000m), CMK Public Transport Access Improvements (£1.916m), Station Square (£3.035m), Wolverton Station (£0.820m), Street Lighting Spend to Save (£2.374m), Crematorium (£1.361m), Waste Depot (£1.300m) and Green Space Provision (£1.200m).

5.22 The Children and Young Peoples Services Directorate is showing projected savings on Walton High Roof Replacement (£1.053m) and a delay on Walton High (additional Form of Entry) of £(1.000m). There is also a funding adjustment required on Tattenhoe Rise Primary to the value of £1.172m).

5.23 All directorates have a RAG status of Green.

Directorate	RAG Status
Strategy, Governance & Performance	Green
Environment	Green
Children & Young Peoples Services	Green
N’hood GF	Green
N’hood HRA	Green

5.24 Housing Revenue Account investment is forecast to exceed the 2009/10 budget by £4.868m, taking advantage of the opportunity to bring forward Major Repairs Allowance from 2010/11. This will lead to a reduction in the later year's allocation and expenditure.

5.25 Project variations will be produced for these changes to amend the programme in line with forecasts.

5.26 **Annex H** explains, by directorate, the most significant factors impacting upon projected outturn variations from budget.

Future allocations

5.27 The Council has a contractual commitment to provide a new waste vehicle depot for the new waste contractor by autumn 2010. Milton Keynes Partnership has approved the Business Case for Tariff funding (£2.1m) for this project. As this Tariff money is not yet available, funding is proposed to be loaned from a Growth Fund project - expansion areas green spaces. A legal agreement is currently being drafted between the Council and Milton Keynes Partnership to reimburse the GAF project with Tariff and to ensure that delivery of green spaces projects is not prejudiced by this loan arrangement.

5.28 It is expected that the remaining £0.973m of Growth Fund monies will be reserved pending the outcome of further investigations and capital appraisals of additional projects. In order of priority, these projects are a Park and Ride Site at Denbigh Stadium, the new Waste Depot, and Broughton Pavilion. This is the subject of a further report elsewhere on this agenda

6 Implications

6.1 Policy

The recommendations of this report are consistent with the Council's Revenue and Capital Strategies.

6.2 Resources and Risk

Revenue Budget Monitoring

Resources

The minimum level of General Fund reserves is £8 million.

Significant Risks

Where these are known they are listed in **Annex B**

Capital implications are fully considered throughout the report.

Revenue implications may arise from capital schemes in respect of:

(a) Borrowing to fund capital expenditure (principal and interest),

(b) Running costs associated with capital schemes, and

(c) Efficiency savings (e.g. reduced maintenance costs).

These are built into the Council's debt financing and other revenue budgets as appropriate through the Medium Term Planning process.

x	Capital	x	Revenue		Accommodation
	IT	x	Medium Term Plan		Asset Management

6.3 Legal

Legal implications may arise in relation to specific capital schemes. In particular a capital scheme may be needed to meet a specific legal requirement. These implications are addressed in the individual project appraisals.

There are no significant legal implications arising as a result of this report.

6.4 Other Implications

All implications are outlined within the report.

	Equalities / Diversity	x	Sustainability		Human Rights
	E-Government		Stakeholders		Crime and Disorder
	Carbon Management				

Background Papers: Officer Working Papers, report to all Members

Previous reports to both Cabinet and Council as mentioned within the body of the report