

ITEM 8

AUDIT COMMITTEE

2 SEPTEMBER 2009

Key Decision	Yes
Listed on Forward Plan	Yes
Within Policy	Yes
Policy Document	

BUDGET MONITORING REPORT – TO END MAY 2009 (P2)

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1 Purpose

- 1.1 To advise the Audit Committee of the risks affecting revenue outturn position for the General Fund, Housing Revenue Account (HRA) and the Collection Fund, as at the end of May 2009.

2 Recommendations

- 2.1 That the identified risks and areas of concern be noted.
- 2.2 That the Section 151 Officer's comments on efficiency targets and significant risks be noted and that the Audit Committee be aware of the potential impact of these.
- 2.3 That the risks identified be monitored closely by Directorate Management Teams on a monthly basis, with particular focus upon their potential effect on projected outturns.

3 Issues and Choices

- 3.1 As Members will be aware, the Cabinet at their meeting held on 21 September considered reports on:
 - 3.1.1 Budget Management 2009/10 and Medium Term Financial Planning 2010/13; and
 - 3.1.2 Revenue and Capital Budget Monitoring reports for the end of May 2009 (P2)

- 3.2** As a result of the discussions undertaken at that meeting and to enable Tim Hannam, newly arrived Corporate Director of Finance and Risk Management to review both the position facing the authority and the Budget Monitoring process it was agreed that there would be no reports on the period to the end of June 2009 (P3).
- 3.3** To ensure that the Audit Committee is kept fully informed this report sets out the Risks and Areas of Concern identified at P2.
- 3.4** At the next meeting of the Audit Committee on 29th September 2009 a full report will be provided which will set out the revised position to the end of July (P4).

SIGNIFICANT REVENUE BUDGET RISKS BY DIRECTORATE

Children and Young People's Services Directorate

Income targets:

- 3.5** The directorate has stated that £75k of budgeted income for senior managers in respect of joint commissioning with the PCT, is unlikely to be achieved.

Sir Frank Markham:

- 3.6** The school's deficit at the time it converts to Academy status in September 2009 is likely to be up to £300k (currently estimated at £260k). The financial burden of this residual deficit will impact upon the MKC budget in 2009/10, although the first call will be upon DSG.

Gatehouse School:

- 3.7** The relevant issues are outlined in the report on Gatehouse School issued late in 2008/09.

Children's Social Care

- 3.8** There has been a significant increase in the number of statements, which could lead to an overspend on the Special Education Needs AER Contingency.

Capital Development Team

- 3.9** There may be a budget pressure regarding the funding of this team dependent on the outcome of issues relating to the definition of spending and income managed by the team.

Environment

Economic slowdown:

- 3.10** Many of the Environment budgets are demand-led and will fluctuate depending upon the severity and longevity of the economic slowdown. Fee income for Land Charges, Development Control and Building Control is reduced by the downturn in the housing market.

Legal Costs

- 3.11** Budgets contain no provision for legal costs associated with transfers of land or the devolution of services to parishes.

Insurance Claims

- 3.12** A break-in at a Landscape depot has required the submission of an insurance claim for approximately £100k.

Neighbourhood Services

Population growth

- 3.13** The higher-risk budgets lie primarily in demand-led areas such as Older People, Domiciliary Care, Internal Homecare and Disability. Costs in these areas are particularly sensitive to demographic factors such as population growth, as the cost of an individual care package is significant. However, the ongoing decline in economic activity will have a dampening effect on the level of population growth and thereby ease some of this budget pressure.

Adult Continuing Education shortfall

- 3.14** Insufficient fee income, which will require offset by reductions in book purchases.

Debt recovery issues

- 3.15** There are doubts over the recovery of debts in respect of the following: Golf Course rents, Bletchley Park loan; Woughton Leisure Centre payroll service debt.

Link Worker funding (Commissioning & Contracts)

- 3.16** Potential £175k exposure in respect of Link Worker funding and associated outstanding debts.

Excelcare Contract

- 3.17** Potential exposure in negotiations to additional costs above the amount provided in the budget.

Strategy, Governance & Performance

Savings Targets

- 3.18** These are being reviewed to ensure that they reflect savings identified since the Star Chamber process and to confirm that there is no double-counting.

Legal services

- 3.19** It is possible that Legal Services will be unable to achieve its income targets due to delays in implementation of the new case management system.

Strategic Finance costs arising from IFRS implementation

- 3.20** The budget manager is presently reviewing the implementation project to ascertain the potential additional costs arising.

Housing Benefits and Council Tax

Recovery of overpayments

- 3.21** Software delays in respect of the Benefit Overpayments system mean that the planned review of benefit overpayments (with a view to the increased recovery thereof) cannot commence until June 2009. It is only then that meaningful data will arise which may lead to increased recovery of overpayments.

Economic downturn

- 3.22** There is the possibility with the downturn in the economy that the case load and subsequently work load of the benefits section increases. This may lead to an increased backlog and Local Authority overpayments being created which are not recoverable from DWP. A 0.1% change in the recovery percentage has an impact of £50k based on current levels of spend.

Department of Work and Pensions Audit

- 3.23** The Audit Commission has audited the 2007/08 claim form and the qualification letter has been received. MKC will not be notified of the financial impact of the qualification until DWP have formed a view. This is a change in Audit Commission and DWP process.

Receipt arising from annual subsidy return

- 3.24** MKC may receive an additional receipt of £232k from the DWP, arising from this return, as the Council has achieved the 100% threshold for local authority overpayment. However, this is subject to audit, which commences in June 2009.

Debt Financing

Interest income

3.25 The primary exposure is to interest rate fluctuations. A detailed review of assumptions is being undertaken.

SECTION 151 OFFICER'S COMMENTS IN RESPECT OF GENERAL FUND

3.26 Table 1: Assessment of probability and potential impact of known risks

Risk	Directorate	Impact	Likelihood
Economic downturn having an adverse effect on income streams. Particularly relevant to demand-led services in Environment and Neighbourhood.	All	Medium	High
Failure to achieve outstanding efficiency targets	All	High	Medium
Failure to achieve income targets re: joint commissioning with PCT	CYPS	Medium	High
Deficit at Sir Frank Markham School resulting in impact on General Fund	CYPS	Medium	Low
Potential financial costs arising from current issues at Gatehouse School	CYPS	Low	Low
Increased Children's Social Care statements, creating pressure on the AER contingency	CYPS	Medium	Low
Insurance claim costs in respect of break-in at Landscape depot	Environment	Medium	Medium
Unbudgeted legal costs in respect of land transfers and service devolution	Environment	Medium	Medium
Shortfall in Adult Continuing Education fee income	N'hood	Medium	Medium
Debt recovery issues re: golf course rents, Bletchley Park Loan and Woughton Leisure Centre	N'hood	Medium	Medium
Exposure to overspends arising through Link Worker funding	N'hood	Medium	Medium
Excelcare contract negotiations resulting in additional costs	N'hood	Medium	Medium
Savings Targets not reflecting post-Star Chamber savings	SGP	Medium	Medium

Table 2 (cont)

Risk	Directorate	Impact	Likelihood
Failure to meet Legal Services income targets	SGP	Medium	Medium
Additional costs from IFRS	SGP	Medium	Medium
Reduced recovery of overpayments because of software delays	Housing Benefits	Medium	Medium
Financial impact of DWP 2007/08 claim qualification	Housing Benefits	Medium	Medium
Additional receipt arising from Annual Subsidy return	Housing Benefits	Medium	Medium

The categorisation shown for each risk identifies the perceived impact and the likelihood of the risk actually having an impact on the revenue budget.

3.27 Comments on Risk Analysis

This risk analysis has allocated risk factors in a manner consistent with the methodology used to assess the adequacy of reserves for the s151 Officer review each year.

The Corporate Management Team is undertaking a scoping exercise to identify potential mitigating actions to ensure any overspending is avoided.

3.28 Efficiencies

At this stage, there are significant risks to the delivery of efficiency targets. This is subject to detailed ongoing review to ensure that these are identified and understood by directorates, who will be expected to take the actions necessary.

DEDICATED SCHOOLS GRANT

Children and Young People's Services Directorate

SECTION 151 OFFICER'S COMMENTS IN RESPECT OF D.S.G.

3.29 Table 3: Assessment of probability and potential impact of known risks

Risk	Impact	Likelihood
DSG position making it impossible for the deficit to be recovered	Medium	Very Low

The categorisation shown for each risk identifies the perceived impact and the likelihood of the risk actually having an impact on the revenue budget.

3.30 Comments on Risk Analysis

This risk analysis has allocated risk factors in a manner consistent with the methodology used to assess the adequacy of reserves for the s151 Officer review each year. The analysis of general reserves reported to Cabinet in February and the increased level of reserves resulting from the better-than-anticipated outturn put the authority in a position where it can meet the potential impact of the risks identified within this report.

3.31 Recovery of prior-year DSG deficits

DSG deficits may be carried forward for recovery against DSG surpluses in future years. The 2009/10 DSG surplus of £(210k) being forecast at present would yield the following DSG position at year-end:

	Budget £'000	Forecast £'000
DSG Balance brought forward at 1/4/2009	278	(308) actual
Deficit to be recovered in 2009/10	(139)	0
Shortfall in final DSG allocation against budget – allocation still awaited	-	0
Forecast underspend on Central LEA Services (after taking account of items omitted from SAP)	-	(210)
DSG (surplus)/deficit carried forward at 31/3/2010	139	(518)

HOUSING REVENUE ACCOUNT

Neighbourhood HRA

Rent Income reduction

- 3.32** Tenants' rental increase due to be reduced from 5.5% to 3.1% on average, subject to approval by Cabinet in July 2009.

Housing subsidy

- 3.33** The subsidy payment will reduce by more than the corresponding reduction in the rental income increase.

Revenue Contribution to Capital

- 3.34** Initial review of the capital programme and funding indicate that additional revenue funding may be required.

SECTION 151 OFFICER'S COMMENTS IN RESPECT OF HRA

- 3.35** **Table 4: Assessment of probability and potential impact of known risks**

Risk	Impact	Likelihood
Reduction in the increase in tenant rents	Medium	High
Corresponding reduction in housing subsidy payment	Medium	High
Revenue contribution to capital required	Medium	Medium

Collection Fund

- 3.36** At 31st March 2009, the closing balance on the Collection Fund was a £177k surplus. Pending the ongoing review of the monitoring arrangements for the Collection Fund, no change is anticipated at this stage.

SECTION 151 OFFICER'S COMMENTS IN RESPECT OF THE COLLECTION FUND

- 3.37** **Implications for 2009-10 budget**

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 MKC in the formulation of the 2010-11 budget.

SIGNIFICANT CAPITAL BUDGET RISKS

SECTION 151 OFFICER ANALYSIS

3.38 The changes to the Capital Programme after the original programme was approved on 26 February arose from

- (i) Slippage of schemes from 2008-09 of £22.809m, including Radcliffe (£13.845m), Western Expansion Area Infrastructure (£2.639m), Lord Grey (£0.900m) and Emerson Valley Sports Pavilion (£0.964m).
- (ii) New schemes introduced to the programme totalling £5.725m, including Shenley Wood Retirement Village (£2.630m), Phase 3 of the Sure Start programme (£1.665m) and Hazeley School Phase 4 (£1.360m).

3.39 The major risk factors identified in relation to the Capital Programme are:

Scheme	Risk	Action
Radcliffe	The downturn in the housing market has had a substantial impact on land values and the viability of the scheme approved in July 2008.	A programme board comprising the council, the school and other parties involved with Radcliffe is reassessing the scope of the project and related financing options, including sale of land for housing.
Bletchley Leisure Centre	Members have previously been advised that there is a shortfall in funding of £1.374m for which resources are to be identified, and that the timing of capital receipts inwards is not in line with the original project structure.	Resources will be identified to meet the shortfall from Capital Programme 'slippage' during 2009/10 as a 'first call' on such available funds due to the urgent and strategic nature of the scheme and the need to protect the Council's investment to date. This issue will be addressed at the next review of the capital programme.
Junction 14	The contractor has submitted a range of claims upon completion of the works. These are disputed by the council.	Settlement negotiations are continuing with the contractor.

Beanhill Children's Centre	An overspend of £0.418m is projected. This is ascribed to deficiencies in the tendering and design stages.	Officers are working to identify funding to meet the forecast overspend.
General	The downturn in the economy may result in insufficient funding through Tariff, capital receipts and s106 monies being available.	Continual monitoring of both expenditure and income to ensure that no significant funding issues arise.

Future allocations

- 3.40** 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 MKC and MKP to reimburse the GAF project with Tariff and to ensure that delivery of green spaces projects is not prejudiced by this loan arrangement.
- 3.41** 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.

4 Resources and Risk

Resources

- 4.1 The minimum level of General Fund reserves is £8 million
- 4.2 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).
- 4.3 These are built into the Council's debt financing and other revenue budgets as appropriate through the Medium Term Planning process.

Significant Risks

- 4.4 There are a number of factors which are not yet fully evaluated and therefore have not been taken into account in the revised General Fund balance position shown above. These have been considered in detail within the Section 151 Officer Commentaries throughout the report.

x	Capital
	IT

x	Revenue
x	Medium Term Plan

	Accommodation
	Asset Management

Legal

4.5 None.

4.6 Other Implications

	Equalities / Diversity
	E-Government
	Carbon Management

x	Sustainability
	Stakeholders

	Human Rights
	Crime and Disorder

Background Papers:

Cabinet Reports to meeting held on 21 July 2009.

Officer Working Papers, report to all Members