

<b>COMMITTEE:</b>	<b>CABINET</b>	
<b>DATE:</b>	<b>7th NOVEMBER 2002</b>	
<b>SUBJECT:</b>	<b>CIVIC BUDGET 2002-2003: UPDATE</b>	
<b>REPORT OF:</b>	<b>DIRECTOR OF FINANCE AND CORPORATE SERVICES</b>	
<b>Ward(s):</b>	All	
<b>Purpose:</b>	<p>1) To update Members on the General Fund revenue budget position to the end of September, the projected outturn forecast for the full financial year, and the options identified to achieve a balanced budget.</p> <p>2) To update Members on the Housing Revenue Account budget position to the end of September and the projected outturn forecast for the full financial year.</p> <p>3) To update Members on the current position of the Capital Programme.</p>	
<b>Contact:</b>	Sue McHugh, Director of Finance and Corporate Services, Telephone No. 01323 415104 or internally on extension 5104.	
<b>Recommendations:</b>	Members are asked to -	
	i) note that general fund revenue net expenditure is under budget at the end of September by £9,000	
	ii) note that General Fund revenue net expenditure was previously forecast to be £324,000 over budget at 31 <sup>st</sup> March 2003	
	iii) approve savings options totalling £323,000 as detailed in Appendix A, which have been identified in the series of meetings held between each of the Directors, together with their respective Cabinet Member, and the Director of Finance and Corporate Services and the Cabinet lead member for finance	
	iv) consequent upon recommendation iii), approve a revised General Fund forecast outturn which is in line with the original budget	

	v) note that Housing Revenue Account net expenditure is under budget at the end of September by £205,000				
	vi) note that Housing Revenue Account net expenditure is currently forecast to be £250,000 under budget at 31 <sup>st</sup> March 2003				
	vii) note the current position on the Capital Programme.				
<b>1.0</b>	<b><u>Introduction</u></b>				
<b>1.1</b>	Cabinet receives regular information on the Council's financial position to enable it to monitor performance and agree appropriate action to ensure that spending is in line with budget. This update follows the October Cabinet report informing Members that potentially the general fund revenue account could be overspent by £324,000 at 31 <sup>st</sup> March 2003.				
<b>1.2</b>	Today's report shows the position after six months of the financial year has been completed, and brings into account further savings options which are presented to bring the budget back on target.				
<b>1.3</b>	The report also updates Cabinet on this year's current and forecast budget position for the Housing Revenue Account, and on the current position for the Capital Programme and Capital Resources.				
<b>2.0</b>	<b><u>April – September Monitoring</u></b>				
<b>2.1</b>	<b><u>Spend to date</u></b>				
	The position at 30th September 2002 is shown in the table below, and has also been reported through the October Finance Briefing in the Members Newsletter.				
	<b>General Fund</b>	<b>Budget</b>	<b>Profile</b>	<b>Actual</b>	<b>Variance</b>
	<b>Department</b>	£'000	£'000	£'000	£'000

	Chief Executive	2,273	809	780	Cr29
	Housing, Health & Community Finance	2,675	1,498	1,536	38
	Tourism & Leisure	4,292	2,577	2,584	7
	Finance & Corporate Services	2,189	914	881	Cr33
	Planning, Regeneration and Amenities	3,131	1,371	1,303	Cr68
	Corporate Costs	(285)	91	167	76
	<b>Total</b>	<b>14,275</b>	<b>7,260</b>	<b>7,251</b>	<b>Cr9</b>
	<p>This is a substantial improvement on the position reported to Cabinet at its previous meeting, which showed an overspend of £109,000 at the end of August. The turnaround of £118,000 comes from further expenditure savings, for example employee vacancies and unspent repair and maintenance budgets, and from extra income achieved above targets.</p> <p>These beneficial gains have been included in the list of savings options presented at Appendix A.</p>				
<b>2.2</b>	<b><u>Forecast Outturn</u></b>				
	<p>In accordance with the recommendation approved by Cabinet at its meeting of 5<sup>th</sup> September, a series of meetings has been held recently between each of the Directors, together with their respective Cabinet Member, and the Director of Finance and Corporate Services and the Cabinet lead member for finance. The purpose of these meetings has been to identify further savings options which bring the budget back on target.</p> <p>The table below provides a summary of the outcomes from these meetings.</p>				
	<b>Movement on forecast outturn</b>	At 31st Aug £'000	Savings Options £000	Revised Forecast £'000	
	Department				
	Chief Executive	Cr35	Cr23	Cr58	

	Housing, Health and Community Finance	182	Cr68	114
	Tourism and Leisure	106	Cr88	18
	Finance and Corporate Services	Cr22	Cr90	Cr112
	Planning, Regeneration and Amenities	Cr23	Cr54	Cr77
	Corporate Costs	116	0	116
	<b>Total</b>	<b>324</b>	<b>Cr323</b>	<b>1</b>
	<p>It shows that, whilst not every department has been able to break-even given particular pressures experienced this year, in total the departments have produced enough savings options to virtually eliminate the previous forecast shortfall.</p> <p>A full analysis of outcomes for each department is given in Appendix A.</p> <p>Members need to be aware that some of the savings options rely on the generation of extra income over and above previous forecasts - e.g. car parking, theatre shows, land charges, planning, building control.</p> <p>Whilst officers believe that these are reasonable assumptions based on current experience and trends, actual income levels will have to be very actively monitored each month to ensure that the new targets can be delivered by the end of the financial year.</p>			
<b>2.3</b>	<b><u>Contingency Budget</u></b>			
	<p>The budget includes a contingency of £134,000. This sum is largely earmarked for the national pay award, which is in excess of the 3% provided in service base budgets.</p> <p>Members will be aware that the Local Government Unions and the Employers side have now agreed a settlement which was brokered by ACAS. Principally this provides for a 3% increase from 1<sup>st</sup> April 2002 followed by a further 1% from 1<sup>st</sup> October 2002. It is estimated that this will cost an additional £88,000 in the current financial year.</p> <p>The outturn forecast assumes that the contingency will be spent in full.</p>			

2.4	<p><b><u>Key Risk Areas</u></b></p> <p>If Cabinet approves the savings options listed in Appendix A, then the key risk areas that have emerged for the current year will be covered. However, this does not mean that these key risks have disappeared. It is important to continue to actively monitor and manage these particular budgets.</p> <p>An update on the current status of each of the key risk areas is given below.</p>	
2.5.1	<p><b><u>Eastbourne Leisure</u></b></p>	
	<p>Income results continue to fall below budget expectations. It is clear from this, and from similar performances in recent previous years, that income targets are unrealistically high. The strategy employed to contain these reductions in income is through reduced spending. This strategy has been consistently employed over a number of years.</p> <p>Although the current position shows a budget overspend, the officers forecast is for a breakeven position to be achieved by the year end.</p>	
2.5.2	<p><b><u>Coastline Caterers</u></b></p>	
	<p>Nothing in the results to date, or expectations for the rest of the financial year, has changed the forecast, which remains at a shortfall of £100,000.</p> <p>The current position shows a shortfall of £72,000.</p>	
2.5.3	<p><b><u>Benefits Subsidy</u></b></p>	
	<p>The extra net expenditure forecast for the current year remains at £175,000. Housing Benefit payments have stabilised following the peak earlier in this financial year. Details are still awaited from the Department for Work and Pensions of if, and how, it intends to increase subsidy to councils that are Verification Framework compliant (as Eastbourne is).</p>	
2.5.4	<p><b><u>Weekly Incorrect Benefits Scheme</u></b></p>	
	<p>We await details from the Department of Work and Pensions of any protection it intends to afford to Councils who are out of pocket as a result of the change from the Weekly Benefit Savings (WBS) to the Weekly Incorrect Benefits Scheme (WIBS). Our expectation is that we will earn £60,000 from the new scheme (WIBS) compared with £140,000 from the previous one (WBS). The shortfall of £80,000 is included in our current forecast for the year.</p>	

2.5.5	<h2><b><u>Treasury Management Costs</u></b></h2>	
	<p>The repayment of a loan of £3.5 million on 19<sup>th</sup> September not only improved the current year situation, but also the forecast position for next year.</p> <p>Notwithstanding this, the repayment has generated a premium of just over £1 million of which £142,000 falls as a charge on the General Fund. Added to this are the additional costs of treasury management, which the General Fund has been bearing due to taking an increasing share of the Council's total debt.</p> <p>Fortunately, for this year, the strategic change fund is available to make a planned contribution to partially offset the premium.</p> <p>Nevertheless, the forecast outturn remains at an overspend of £116,000.</p>	
2.6	<p><u>New Risk Area</u></p>	
2.6.1	<p>A new risk area has emerged following the completion and submission of the final claim for housing benefit subsidy for last financial year. This relates to a subsidy reduction of 1% due to benefit period overruns, which gives rise to a financial penalty of £234,000.</p>	
2.6.2	<p>Benefit overruns occur when benefit is paid on claims for longer than the legal limit (generally 52 weeks) without being renewed. If the number of overrun weeks is less than 5% of total benefit weeks in the year, then no subsidy penalty is invoked. In all of the many previous years for which this Council has been responsible for housing benefit, we have not exceeded the 5% limit.</p>	
2.6.3	<p>The overrun position for 2001-2002 is therefore unique to us, and has occurred as a direct result of the mainframe migration which gave us two significant problems. First, we were unable to produce and send forms out for people to renew their claims. Second, claims that had been renewed on the former system, did not have those records passed across to the new system at the time of migration.</p>	
2.6.4	<p>Following advice from District Audit, who have already begun work on the reliability of the information coming from the new system, we wrote to the Department for Work and Pensions (DWP) on 8<sup>th</sup> October. Our letter asks the DWP to exercise any discretion it may have in not applying such a severe subsidy penalty given our particular circumstances. At the time of writing this report, we await a response. The Director of Housing, Health and Community Finance will provide an update to Cabinet at today's meeting.</p>	

2.6.5	At present, this potential loss of £234,000 from last years housing benefit subsidy claim has not been factored into the forecast outturn for the current year. However, depending on the outcome of how the DWP treat our case, it represents a key risk. In a worst case outcome, we will need to determine how we manage such a substantial loss of subsidy from within the full range of General Fund resources available to the Council.				
2.6.6	<p>In the current year, Community Finance activity is being targeted to maximise income and future subsidy. We are also awaiting decisions on additional financial support from Government and specific bids for funding, e.g.</p> <ul style="list-style-type: none"> <li>.. activity in relation to changes of circumstances, benefit renewals and fraud prosecutions is being prioritised</li> <li>.. invoices are being issued and recovery activity is being targeted in relation to benefit overpayments</li> <li>.. a Joint Operational Board bid has been submitted to part fund Fraud Investigation service</li> </ul>				
3.0	<b><u>Housing Revenue Account (HRA)</u></b>				
3.1		<b>Profiled Budget £000</b>	<b>Actual to 30<sup>th</sup> Sept £000</b>	<b>Variance £000</b>	<b>Forecast Outturn Variance £000</b>
	Income	Cr 8,074	Cr 8,069	5	Cr 110
	Expenditure	8,161	7,951	Cr 210	Cr 140
		87	Cr 118	Cr 205	Cr 250

3.2	<p><b>A net subsidy gain of approximately £300,000 is expected as a result of the movement of capital financing charges away from the HRA.</b></p> <p><b>This is the principal factor behind the favourable forecast outturn variance.</b></p>	
3.3	<p><b>Key movements in income for the first half year include -</b></p> <p>“ a reduction in rental income due to a lower stock level at 1<sup>st</sup> April because of a higher level of right to buy sales at the end of 2001-2002 after the budget was set</p>	
	<p><b>“ a reduction in rental income as a result of the higher void levels that have occurred during the conversion works of Gwent Court.</b></p>	
3.4	<p><b>Key movements in expenditure for the first half year include -</b></p> <p>“ an increase in the bad debts provision because of higher housing benefit overpayments, the potential for the write off of arrears, and the general level of rent arrears.</p>	
	<p>“ an underspend within Supervision and Management due to vacancies</p>	
	<p><b>“ lower repairs and maintenance expenditure at the end of September compared with budget. Officers are taking action to ensure that our investment in tenants properties is maximised.</b></p>	

3.5	<p>In recognising the forecast underspend within the HRA, it is our intention to utilise such funds in future years on stock investment. This is in line with the content of our 2002 HRA Business Plan, and will assist in our delivery of improvements to meet the Government's Decent Homes standard.</p> <p>As part of the above approach, this year, we intend to utilise such funds for the following purposes:</p> <ul style="list-style-type: none"> <li>.. to finance ongoing changes to staffing resources within our Property Services team. These are designed to improve our ability to deliver a complex and diverse range of capital schemes, to meet the complexities of delivering Decent Homes work, and facilitate the meeting of Health &amp; Safety implications of managing the Council Housing stock</li> <li>.. to finance additional stock condition work during this year, to continue to analyse our stock condition in line with Decent Homes objectives, and thereby assist in the development of a long term investment strategy</li> <li>.. to ensure that we have sufficient funds to deliver an effective Domestic Gas Contract, pending the outcome of other litigation</li> <li>.. to meet any interim resource requirements associated with the outcome of Part 1 of our Best Value Review of Housing Management</li> </ul>				
4.0	<b><u>Capital Programme</u></b>				
4.1	<b>Expenditure on the capital programme is shown in the table below.</b>				
		<b>Full Year Budget £000</b>	<b>Actual To Date £000</b>	<b>Variance £000</b>	
	<b>Housing Investment Programme</b>	<b>7,641</b>	<b>2,288</b>	<b>5,757</b>	
	<b>Other Programmes</b>	<b>2,661</b>	<b>544</b>	<b>2,117</b>	

		<b>10,702</b>	<b>2,832</b>	7,470	
	<b><u>Housing Investment Programme</u></b>				
4.2	<p><b>Expenditure on HRA schemes is broadly in line with the profiled budget. Stage payments have been made on the very significant replacement window programme, as well as on Gwent Court conversion works.</b></p>				
4.3	<p><b>On the general fund side, officers in Environmental Health continue to monitor very closely the progress of private sector housing renewal grants which have been fully committed for the year.</b></p> <p><b>The same officers are working closely with East Sussex County Council occupational therapists to ensure that we maximise our spending on disabled facilities grants.</b></p>				
	<b><u>General Fund Capital Schemes</u></b>				

4.4	<p><b>Expenditure to date mainly relates to the completed roofing works at the Devonshire Park Theatre, and grant expenditure under the Conservation Area Partnership and the Heritage Economic Regeneration Scheme.</b></p> <p><b>This expenditure has been financed by resources brought forward from last financial year.</b></p>	
4.5	<p><b>General fund schemes are dependent upon receipts being generated from the approved asset disposal programme. To date no such sales have been completed, but there are two in very advanced stages which are expected to be determined in December. These imminent receipts will allow the release of further schemes from the approved programme.</b></p>	
5.0	<p><b><u>Consultations</u></b></p>	
5.1	<p>Not relevant for this report.</p>	
6.0	<p><b><u>Implications</u></b></p>	
6.1	<p>There are no other relevant implications for this report.</p>	
<p><b>Sue McHugh</b></p> <p><b>Director of Finance and Corporate Services</b></p>		

**Background Papers:**

Civic Budget 2002-2003

Civic Budget 2002-2003 : Revenue and Capital Monitoring Report – Cabinet 1<sup>st</sup> August 2002

Civic Budget 2002-2003 : Update Report – Cabinet 5<sup>th</sup> September 2002

Civic Budget 2002-2003 : Update Report – Cabinet 2<sup>nd</sup> October 2002