

REPORT TO

Organisation Improvement & Environment Overview
and Scrutiny Commission

DATE:

16 January 2008

REPORTING OFFICER:

Head of Financial Management
(*Val Hunter*)

SUBJECT:

**DRAFT GENERAL FUND BUDGET 2008/2009 –
FINANCIAL MANAGEMENT BUSINESS UNIT**

WARD/S AFFECTED:

None

FORWARD PLAN REF:

None

1.0 PURPOSE OF REPORT

1.1 To provide the Cabinet Member with financial information for the Financial Management Business Unit including the Asset Management Revenue Account:

- Revised estimates for 2007/2008
- Draft revenue estimates for 2008/2009
- Projections for 2009/2010 and 2010/2011

2.0 RECOMMENDATIONS

2.1 That the revised estimates for 2007/2008 are noted.

2.2 That the draft estimates for 2008/2009 are recommended to Cabinet.

2.3 That the projections for 2009/2010 and 2010/2011 are noted.

2.4 That the efficiency saving set out in **Appendix B** is noted.

3.0 ALTERNATIVE OPTION CONSIDERED AND RECOMMENDED FOR REJECTION

3.1 None. It is a required of the Council's Financial Procedure Rules for a budget to be recommended to the Cabinet Member and Cabinet.

4.0 THE FINANCIAL MANAGEMENT BUSINESS UNIT

- 4.1 The Financial Management Business Unit consists of a number of General Fund budgets (details of which are set on page G1 of **Appendix A**) together with the Support Service budgets for Accountancy and Internal Audit. The latter are recharged in full to other services across all departments.
- 4.2 The Financial Management Business Unit also includes the budget for the Asset Management Revenue Account. This account, which is maintained in accordance with CIPFA capital accounting requirements, collects external interest transactions, the statutory minimum charge for depreciation and debt repayment and the statutory recharge to the Housing Revenue Account for its share of interest costs and debt repayment and compares these to the capital charges made to services for the use of fixed assets. The resultant balance is credited to the summary revenue account, below the total of portfolios.

5.0 REVISED ESTIMATE 2007/2008

5.1

General Fund Services

The revised estimate in respect of General Fund services shows a net increase of **£214,770** when compared to the Original Estimate. This includes contributions to reserves funded from 2006/2007 underspends, which were agreed as part of the 2006/2007 final accounts process:

- ◆ Counsels' Fees Reserve £70,000
- ◆ Insurance Reserve £50,000
- ◆ Business Unit Reserves £11,110

If these contributions from 2006/2007 underspends are excluded there is an increase of **£83,660**.

- 5.2 A detailed analysis of the reasons for the variance is set out on page G2 of **Appendix A**. Further details on the main variances are set out below:
- 5.3 **Miscellaneous Financial Items – Payment in lieu of interest Royal Hall Restoration Fund (+£45k)** - The Council has agreed to make payments in lieu of interest to the Royal Hall Restoration Trust in respect of monies paid over by the Trust until such time as the money is spent. The additional interest earned by the Council from holding this money is shown within the Asset Management Revenue Account.
- 5.4 **Miscellaneous Financial Items – Judicial Review Costs (-£45k)** - There has been saving of £45,000 against the budget of £70,000, which was provided from 2006/2007 underspends to pay for the Judicial Review on Local Government Reorganisation.

- 5.5 **Miscellaneous Financial Items – Contribution to HIC re Marketing post (+£29k)** - Following a review of the Council's marketing function it was agreed to transfer a surplus post within Leisure to HIC. At the same time it was agreed to provide HIC with 100% funding for the post in 2007/2008 reducing to 66% in 2008/2009, 33% in 2009/2010 and nil thereafter.
- 5.6 **Miscellaneous Financial Items – Contributions from reserves (-£39k)** - Following a review of reserves it has been agreed to reduce the level of funding on the Tax Reserve from £48,500 to £20,000 in line with an assessment of spending needs. The unspent balance on the Member Budget scheme (£10,710) has also been released back to the General Fund.
- 5.7 **Miscellaneous Financial Items – Reduced contribution to Single Status Reserve (-£13k)** - Revised salary estimates for HIC and posts affected by the senior management restructure within Leisure, Museums & Arts have been prepared based on post JEQ grades. The appropriation to the Single Status Reserve has been reduced to reflect the additional costs included within the relevant service budgets.
- 5.8 **Miscellaneous Financial Items – Increased Holding Account balances (+£109k)** - The production of estimates for Support Services is undertaken at an early stage in the budget process and charges are issued to service users. It is often necessary to estimate recharges from other support services. The subsequent inclusion of actual recharges together with any late budget adjustments will result in the Support Service either under or over recovering its costs. These holding account balances are either credited or debited to Miscellaneous Financial Items in order that the budget balances overall. In 2007/2008 Original Estimate there was a net over recovery of support services of £79,400. The position at Revised Estimate is an under recovery (net of appropriations from reserves) of £29,490. The result is an increased cost to Miscellaneous Financial Items of £109,890.
- 5.9 **Support Services**
The revised estimate in respect of Support Services shows a net increase of **£110,770** when compared to the Original Estimate. A detailed analysis of the reasons for the variance is set out on page G5 of the Appendix. Further details on the main variances are set out below:
- 5.10 **Increased Employee costs (+£32k)** - The 2007/2008 revised estimate includes for the cost of temporary staff to support the Payroll/HR implementation. This is funded from reserves (through appropriations within Miscellaneous Financial Items) and ongoing savings within DR Business Support.
- 5.11 **Increased Additional Expenditure (+£86k)** - There is a net increase in additional expenditure of £85,970. The main reason for this is a net increase in the Computer SLA of £81,170.

5.12

Asset Management Revenue Account

The revised estimate in respect of the Asset Management Revenue Account shows a net reduction of **£872,540** when compared to the Original Estimate. This includes a contribution to the Capital Reserve of £358,000 funded from 2006/2007 underspends, which was agreed as part of the 2006/2007 final accounts process. If this contribution from 2006/2007 underspends is excluded the reduction is **£1,230,540**. Of this £535,570 relates to variations in capital charges, for which a contra entry exists in service budgets, resulting in a real saving is **£694,970**. The principal reasons for this are set out below:

5.13 **Treasury Management – decreased net cost (-£650k)** The net cost of treasury management has reduced by £650,000. The main reason for the reduction is increased interest received due to increased interest rates (£280,000) and higher internal balances (£450,000). Balances are higher than estimated at the time of preparing the 2007/2008 budget, due to slippage on capital spending, the transfer of 2006/2007 revenue underspendings to reserves and new capital receipts. The total saving is reduced by increased interest due to the Housing Revenue Account (£80,000)

5.14 **Royal Hall Restoration Fund (-£45k)** - This represents interest on the funds raised by the Royal Hall Restoration Trust towards the total cost of the project and paid over to the Council. An equivalent payment in lieu of interest to the Trust is included within Miscellaneous Financial Items.

6.0 ORIGINAL ESTIMATE 2008/2009

6.1

General Fund Services

The original estimate for 2008/2009 in respect of General Fund services shows a net increase of **£84,160** when compared to the original estimate 2007/2008.

6.2 A detailed analysis of the reasons for the variance is set out on page G3 of **Appendix A**. Further details on the main variances are set out below:

6.3 **Miscellaneous Financial Items - Reduced contribution from HIC (+£14k)**
- There has been a net reduction in the contribution to the General Fund from HIC. This is made up of:

- ◆ A reduced contribution **to** HIC in respect of Royal Hall feasibility works (£30,380);
- ◆ An increased contribution **to** HIC in respect of deferred charges (£28,420);
- ◆ An increased contribution **from** HIC in respect of efficiency savings (£10,910);
- ◆ A reduced contribution **from** HIC in respect of the CSU Operations

Manager (£5,000);

- ◆ A new contribution to HIC in respect of the transferred marketing post (see Revised Estimate) (£19,980)

6.4 **Miscellaneous Financial Items - Reduced contribution to Single Status Reserve (-£9k)** - The appropriation to the Single Status reserve has been reduced by £9,290. The 2007/2008 Original Estimate has been reduced by £3,540 to reflect the final year of the Chief Executive pay increase, which has correctly been reflected in the relevant departmental budget and £55,390 in respect of HIC and Leisure salaries that have been budgeted at post-JEQ salary levels. To this has been added a further global provision of £50,000 towards the ultimate cost of implementing single status.

6.5 **Miscellaneous Financial Items – Increased Holding Account balances (+£77k)** - In 2008/2009 there has been an over recovery by support services (net of appropriations from reserves) of £2,560. This compares to an over recovery of £79,400 in 2007/2008 Original Estimate resulting in an increased cost to Miscellaneous Financial Items of £76,840.

Support Services

6.6 The original estimate 2008/2009 in respect of Support Services shows a net increase of **£78,140** when compared to the original estimate 2007/2008. A detailed analysis of the reasons for the variance is set out on page G5 of **Appendix A**.

6.7

Asset Management Revenue Account

The original estimate 2008/2009 in respect of the Asset Management Revenue Account shows a net reduction of **£1,356,010** when compared to the original estimate 2007/2008. Of this £757,480 relates to variations in capital charges, for which a contra entry exists in service budgets resulting in a real saving of **£598,530**. The principal reasons for this are set out below.

6.8 **Treasury Management – reduced net cost (-£609k)** - The net cost of treasury management has reduced by £608,530. The main reason for the reduction is increased interest received due to increased interest rates (£189,000) and higher internal balances (£410,000). The total saving is offset by increased net interest due to the Housing Revenue Account (£10,000) and a reduced Minimum Revenue Provision (£20,000).

6.9 **Hydro Replacement Reserve (+£10k)** - The contribution to the Hydro Replacement Reserve has increased by £10,000. This is year three of a five year phased increase to bring the contribution in line with the revised depreciation charge, following a revaluation of the pool.

7.0 EFFICIENCY SAVINGS

7.1

The Financial Management Business Unit has a cash efficiency savings

target of **£5,000** (1%) for 2008/2009.

- 7.2 Efficiency savings of **£6,000** have been identified. Details are provided in **Appendix B**. The saving has been included in the base budget.

8.0

OPTIONS FOR DISCRETIONARY GROWTH

- 8.1 No requests for discretionary growth have been submitted by the Financial Management Business Unit.

9.0

FINANCIAL RISK MANAGEMENT

- 9.1 A key aspect of the Council's approach to budgeting is a risk management assessment, which is carried out throughout the budget process.
- 9.2 In the case of expenditure, there is little risk to most of the Business Unit's estimates and the budget can be fairly accurately predicted, for example employee costs and running expenses.
- 9.3 An area of vulnerability relates to the need to predict the likely movement in interest rates. This is difficult at the present time as there is divergence of opinion amongst 'experts' over how low and how quickly rates are likely to fall. The assumed rate in the 2008/2009 original estimate is 5.25% for the whole of the financial year falling to 5.0% in 2009/2010. Given the impact on the budget of a relatively small reduction in interest rates, the approach of the Council has always been to take a cautious but realistic view when trying to predict likely movements.
- 9.4 Another area of risk relates to the negotiation of insurance premiums. Whilst the Authority takes a pro-active approach to risk management in an attempt to mitigate rises in insurance premiums, there are still a large number of factors affecting the global insurance market over which the Council has no control.
- 9.5 A key element of the risk assessment process is the review of all budgets by the Director of Resources and myself in conjunction with the business unit/cost centre managers, which takes part routinely as part of the Budget preparation process.

10.0

PROJECTIONS 2009/2010 AND 2010/2011

- 10.1 Under the Government's Prudential Code and also for the Comprehensive Performance Assessment, the Council is required to produce budgets for the next 3 years. These projections are only a very broad indication of likely net expenditure levels and have been compiled in accordance with the guidance and parameters set. NB projections are not currently produced in respect of accounts that are full recharged to other services.

11.0 USE OF RESERVES

- 11.1 The Earmarked Reserves within the control of Financial Management were reviewed at the budget meeting with the Director of Resources in November. A reduction to the level of funding on the Tax Reserve from £48,500 to £20,000 was agreed. This was in line with an assessment of likely future spending needs. In relation to the other reserves, it was agreed that the level and proposed use of the reserves was appropriate.
- 11.2 Full details of the purpose and proposed use of the reserves is set out at **Appendix C**.
- 11.3 The planned use of the Financial Management Business Unit Reserve in the current and future years was included in the Annual Review of Business Unit Reserves that was considered by Cabinet in September. Any expenditure from Business Unit reserves is subject to Financial Procedure rules with regard to the level of authority required.

12.0 SCRUTINY

- 12.1 This report will be considered by the Organisation, Improvement & Environment Overview & Scrutiny Commission on 16 January 2008.

Background Papers: None as defined in the Act

OFFICER CONTACT: Please contact Val Hunter if you require any further information on the contents of this report. The officer can be contacted at Council Offices, Crescent Gardens, Harrogate HG1 2SG, by telephone on 01423 556124 or by email val.hunter@harrogate.gov.uk

SUSTAINABILITY ASSESSMENT/POLICY CONSIDERATIONS

		Implications are		
		Positive	Neutral	Negative
A	Economy		✓	
B	Environment		✓	
C	Social Equity			
(i)	General		✓	
(ii)	Customer Care/People with Disabilities		✓	
(iii)	Health Implications		✓	
D	Crime and Disorder		✓	

	Implications			
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If all comments lie within the shaded areas, the proposal is sustainable.