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REPORT TO	Cabinet Member Resources
DATE:	17 December 2008
REPORTING OFFICER:	Head of Financial Management (<i>Val Hunter</i>)
SUBJECT:	DRAFT GENERAL FUND BUDGET 2009/2010 – 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 Treasury Management Revenue Account:

- Revised estimates for 2008/2009
- Draft revenue estimates for 2009/2010
- Projections for 2010/2011 and 2011/2012

2.0 RECOMMENDATIONS

2.1 That the revised estimates for 2008/2009 are noted.

2.2 That the draft estimates for 2009/2010 are recommended to Cabinet.

2.3 That the projections for 2010/2011 and 2011/2012 are noted.

2.4 That the efficiency saving set out in Paragraph 7 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 Treasury 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 2008/2009

5.1 General Fund Services

The revised estimate in respect of General Fund services shows a net reduction of **£558,980** when compared to the Original Estimate. This includes contributions to reserves funded from 2007/2008 underspends, which were agreed as part of the 2007/2008 final accounts process:

- ◆ Business Support (Resources) BU Reserve £120,000 (re Financial Services review accommodation costs)
- ◆ Single Status Reserve £100,000
- ◆ Human Resources BU Reserve £80,000 (re Payroll/HR Project team)
- ◆ Counsels' Fees Reserve £16,130
- ◆ Other Business Unit Reserves £5,760

If these contributions from 2007/2008 underspends are excluded there is a reduction of **£880,870**.

- 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 – Reduced contribution to Single Status Reserve (-£976k)** - Salary estimates across the Council have now 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.
- 5.4 **Miscellaneous Financial Items – Deleted Vacancy Provision (+£100k) –** Salary estimates across the Council have now been prepared taking into account the agreed 0.5% increase to vacancy provision. The central provision has been deleted to reflect the additional provision now included within the relevant service budgets.

- 5.5 **Miscellaneous Financial Items – Strike Savings (-£44k)** – There is currently a saving of £44,400 resulting from the 2-day Unison strike in August. It is possible that this saving may be required to help fund the pay award if an increase above 2.5% is ultimately agreed.
- 5.6 **Miscellaneous Financial Items – Increased contribution to Counsels’ Fees Reserve (+£25k)** – In view of the likely draw down from the Counsels’ Fees Reserve in 2008/2009 to meet the cost of an exceptional level of cases, it has been agreed to use £25,000 of projected overall savings in 2008/2009 to replenish the reserve.
- 5.7 **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:
- ◆ An increased contribution **to** HIC in respect of Royal Hall feasibility works (£11,880);
 - ◆ An reduced contribution **to** HIC in respect of deferred charges (£30,290);
 - ◆ A reduced contribution **from** HIC in respect of capital charges (£30,630)
- 5.8 **Support Services**
The revised estimate in respect of Support Services shows a net reduction of **£35,090** 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:
- 5.9 **Reduced Employee costs (-£28k)** – There is a net reduction of £27,680 in employee costs. If the net effect of JEQ and vacancy provision adjustments is excluded this saving increases to £35,440. Salary savings due to vacant posts and appointment of new staff at lower spinal columns points are partially offset by increased overtime and temporary staff costs. The net saving has been allocated towards early retirement costs relating to the review of financial services and to fund the agreed extension to the Agresso secondment
- 5.10 **Treasury Management Revenue Account**
The revised estimate in respect of the Treasury Management Revenue Account shows a net increase of **£51,780** when compared to the Original Estimate. Of this £189,370 relates to variations in capital charges, for which a contra entry exists in service budgets, resulting in a saving is **£137,950**. The principal reasons for this are set out below:
- 5.11 **Treasury Management – decreased net cost (-£128k)** The net cost of treasury management has reduced by £127, 950. The main reasons for the reduction are higher than estimated interest rates on longer term lending (£564,000) and increased interest received due to higher internal balances (£124,000) offset by reduced interest due to lower than estimated interest rates on temporary lending (£530,000). Balances are higher than estimated at the time of preparing the 2008/2009 budget, due to slippage on capital

spending and the transfer of 2007/2008 revenue underspendings to reserves. The total saving is reduced by increased net interest due to the Housing Revenue Account (£30,000)

- 5.12 **Debenture Premium (-£10K)** The Council has recently received repayment of a £50,000 debenture lent to the Association District of Councils some years ago to finance the purchase of accommodation. The repayment included a premium of £10,000, which has been credited to the Treasury Management Revenue Account.

6.0 ORIGINAL ESTIMATE 2009/2010

6.1 General Fund Services

The original estimate for 2009/2010 in respect of General Fund services shows a net reduction of **£606,120** when compared to the original estimate 2008/2009.

- 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 to Single Status Reserve (-£864k)** - Salary estimates across the Council have now been prepared based on post JEQ grades. The provision within Miscellaneous Financial Items has been reduced to reflect the additional costs included within the relevant service budgets. The first draft budget for 2009/2010 includes a further £350,000 towards the ultimate cost of implementing single status.

- 6.4 **Miscellaneous Financial Items – Deleted Vacancy Provision (+£100k) –** Salary estimates across the Council have been prepared taking into account the agreed additional 0.5% increase to vacancy provision. The central provision has been deleted to reflect the additional provision now included within the relevant service budgets.

- 6.5 **Miscellaneous Financial Items - Reduced contribution from HIC (+£174k)** - 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 (£6,620);
- ◆ An reduced contribution **to** HIC in respect of deferred charges (£17,160);
- ◆ An increased contribution **from** HIC in respect of efficiency savings (£22,000);
- ◆ A reduced contribution **from** HIC in respect of the CSU Operations Manager (£5,000);
- ◆ A reduced contribution **to** HIC in respect of the transferred marketing post (year 2 of 3) (£9,710);
- ◆ A reduced contribution **from** HIC in respect of capital charges (£226,400) – offset by reduced appropriation to Capital Reserve (see paragraph 6.12 below)

- 6.6 **Miscellaneous Financial Items – Financial Services Review (-£90k) –** Following a review, and agreement to centralise the provision of financial services, a net saving of £90,000 has been identified. This saving has been provisionally credited to Miscellaneous Financial Items. Budgets reflecting the revised structures (and savings) will be produced at Revised Estimate 2009/2010.
- 6.7 **Miscellaneous Financial Items – Reduced Holding Account balance (+£63k) -** 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 2008/2009 Original Estimate there was a net over recovery of support services of £8,220. The position at for 2009/2010 is an under recovery (net of appropriations from reserves) of £54,310. The result is an increased cost to Miscellaneous Financial Items of £62,530.
- Support Services**
- 6.8 The original estimate 2009/2010 in respect of Support Services shows a net increase of **£58,020** when compared to the original estimate 2008/2009. A detailed analysis of the reasons for the variance is set out on page G5 of **Appendix A**.
- 6.9 **Treasury Management Revenue Account**
The original estimate 2009/2010 in respect of the Treasury Management Revenue Account shows a net increase of **£534,060** when compared to the original estimate 2008/2009. Of this £295,650 relates to variations in capital charges, for which a contra entry exists in service budgets resulting in a real increase of **£238,410**. The principal reasons for this are set out below.
- 6.10 **Treasury Management – increased net cost (+£455k) -** The net cost of treasury management has increased by £454,810. The main reason for the increase is reduced interest received due to reduced interest rates (£714,000), which is partially offset by the net effect of redeeming high interest PWLB debt (£270,000).
- 6.11 **Hydro Replacement Reserve (+£10k) -** The contribution to the Hydro Replacement Reserve has increased by £10,000. This is year four of a five year phased increase to bring the contribution in line with the revised depreciation charge, following a revaluation of the pool.
- 6.12 **Reduced contribution to Capital Reserve (-£227k) –** The reduced contribution of £226,400 by HIC towards capital charges (see Para. 6.5 above) has been offset by a reduced appropriation to the Capital Reserve within the Treasury Management Revenue Account.

7.0 EFFICIENCY SAVINGS

- 7.1 The Financial Management Business Unit has a cash efficiency savings target of **£12,000** (3%) for 2009/2010.
- 7.2 An annualised saving of **£3,900** per annum has been achieved on bank charges following the recent tender exercise.
- 7.3 In addition to this, the overall saving of £90,000 that has been achieved through the centralisation of financial services includes a net contribution from the Financial Management Business Unit of **£13,870** resulting from reduced hours for two posts.

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 continue to fall. The Bank Rate may fall as low as 0.5% in early 2009 and remain there for the whole of 2009/2010. The forecasts, however, are based on a premium of approximately 1% being achieved on average over the Bank Rate. 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. However, given the uncertainty in the economy the interest rate forecasts may still prove to be optimistic, especially given the recent significant cuts in Bank Rate and possible future cuts that are expected.
- 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 2010/2011 AND 2011/2012

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 following Earmarked Reserves within the control of Financial Management were reviewed at the budget meeting with the Director of Resources in November:

- ◆ Tax Reserve
- ◆ Pensions Funding Reserve
- ◆ Insurance Reserve
- ◆ LABGI Reserve
- ◆ Debt Redemption Reserve
- ◆ Commuted Sums Reserve
- ◆ Hydro Replacement Reserve

11.2 Full details of the purpose and proposed use of each reserve is set out at **Appendix B**.

11.3 In respect of the Debt Redemption Reserve, it was agreed to review this at 2008/2009 close down to determine whether the funds should be credited back to the working balance as it was unlikely that it would ever be beneficial for the Council to redeem debt early.

11.4 The overall report submitted to the Corporate Management Team on the 2009/2010 budget includes an option to use some or all of the balance of £519,000 on the Commuted Sums Reserve to provide time-limited support to the revenue budget. CMT's view on this will be reported verbally at the meeting.

11.5 In relation to the other reserves, it was agreed that the level and proposed use of the reserves was appropriate.

11.6 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 14 January 2009.

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		✓	

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