

# APPENDIX B

## WAVERLEY BOROUGH COUNCIL

**EXECUTIVE**  
**1<sup>ST</sup> SEPTEMBER 2009**

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**Title:**

**BUDGET REVIEW**  
**JULY 2009**

**[Portfolio Holder: Cllr Mike Band]**  
**[Wards Affected: All]**

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**Summary and purpose:**

This report is a formal review of both the General Fund Revenue Budget and the Housing Revenue Account Budget based on the spending up to the 31<sup>st</sup> July 2009 that was requested by Council on 24<sup>th</sup> February, given the challenging economic environment that faces the Council.

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**How this report relates to the Council's Corporate Priorities:**

Sound financial management with robust budget monitoring is established to help the Council deliver its corporate priorities.

**Equality and Diversity Implications:**

The Council's budget allows financial resources to support the Council's Equality and Diversity objectives. An equality impact assessment has been undertaken to examine potential effects of this budget review on the services of the Council.

**Resource/Value for Money implications:**

The Council's budgets and the importance of good value for money are essential to deliver the Council's services and priorities. Where there is any variation from the budget the Council must consider mitigating action to bring the budget back into balance.

**Legal Implications:**

The Chief Finance Officer is required by law to report on the robustness of the estimates, the adequacy of reserves and the budget monitoring arrangements in place.

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## **Introduction**

1. At the Council meeting on 24<sup>th</sup> February the Council agreed to a formal review of the budget in the light of the challenging economic climate that Waverley is operating in. Since February there have been a number of issues affecting the Council's budgets. The first relates to the outturn for the 2008/09 final accounts. These figures were reported to the Executive on 9<sup>th</sup> June. They show an underspend for the year of £372,000 on the General Fund. This reflected a continued improvement on the January budget monitoring position and allowed additional resources to be added to the General Fund balance. Conversely, the Housing Revenue Account (HRA) outturn showed an overspend of £112,000 with a reduction to the HRA balance.
2. Since setting the budget in February, Council has had to reset the overall Council Tax in Waverley because of the Surrey Police Authority capping. This will cost the Council in the region of £110,000 but it is anticipated that this money will be eventually recovered from the Surrey Police Authority. The new Council Tax should have no direct impact on Waverley, although there is additional work for Council officers and Council Tax collection levels will be closely monitored as the revised bills come into effect.
3. On a similar vein, Council reset Council house rents following the belated changes to the Government's rent guideline figures. This allowed the increase in rents to be pegged back to 2.9%. The associated budgeted changes to this loss of rent income included a small reduction in the negative housing subsidy, provision for the additional cost of the pay award and the administrative costs of resetting rents. Overall, the effect was broadly neutral on the HRA balance.

## **General Fund Budget Summary**

### 4. Overview

The latest budget position is shown on the attached budget review sheets at Annexe 1. It shows the main variation in the Council's budget, both for 2009/10 and for 2010/11. The continuing economic downturn is impacting significantly on the Council with a forecast shortfall of £477,000.

5. The main elements of this net increase in expenditure arise from:

	£
Additional Expenditure	152,000
Reduced Income	430,000
Other Minor Items	4,000
Supplementary Estimates	<u>89,800</u>
Sub Total	675,800
Less Use of Balances	89,800
Less Virement to pay for increased pay award	<u>109,000</u>
Net increased expenditure	<u>£477,000</u>

## **Additional Expenditure**

6. Apart from the January pay award, which has previously been reported to Council, there are some fairly minor variations in expenditure, which add to the overspend item of £152,000. Council agreed that the increased pay award should be met in the first instance from the unallocated contribution to capital expenditure. Whilst the Council's General Fund staffing budget has a vacancy factor of £250,000, turnover rates have slowed down currently causing a budget shortfall. Corporate Management Team (CMT) has, however, agreed to take action to slow recruitment down, where appropriate, to bring the staffing budget into balance by the year end.

## **Income**

7. Turning to income, most movements are negative, the biggest of these relates to car parking where the loss of pay and display income in the recession is now approaching the position faced in neighbouring local authorities. The recession is also having an impact on recycling rates, particularly as there is less volume of paper available, which reduces both recycling credits and recycling sales. A further review of the Animal Control service in the Autumn will aim to recover the position to break-even by focussing on high-income activities. This action should reduce the shortfall projected in Annexe 1.
8. Whilst there is some recent improvement in the property market, as indicated by the stability of Land Charges income, Building Control continues to have a budget shortfall of £40,000. Although activity levels in the residential sector remain slightly positive, large developments are not occurring, thereby accounting for the shortfall.
9. The base rate of 0.5%, with investment rates marginally above that, mean that investment income is significantly less than in previous years (as forecast in the budget estimates). However, based on current forecast, additional interest income of £30,000 is expected.

## **Savings**

10. Currently no savings are forecast in 2009/10 beyond those already included in the budget, but items totalling £55,500 fall out of the 2010/11 budget in addition to the £47,000 full year General Fund saving arising from the reconfiguration of the Cash Collection service.

## **Supplementary Estimates**

11. Supplementary Estimates totalling £89,800 have been agreed for 2009/10. These will be funded from the General Fund balances. Whilst £36,000 of this extra spending is ongoing, officers will be looking to identify offsetting savings in 2010/11 and future years.

## **Inflation Provision**

12. The Budget includes an Inflation Provision of £690,000. This covers all of the known major cost increases. To date some £379,000 of the provision has been allocated and, taking account of other known calls on this provision, at this stage it is estimated that the balance will be sufficient to meet all the inflationary demands.

## **General Fund Balance**

13. The General Fund Working Balance at 31<sup>st</sup> March 2009 of £3.2m, shows a healthy position. With the continuing volatility in the economy, whereby locally, Waverley has seen huge fluctuations in income and interest, together with future known pressures and doubts over future public sector government support, it is desirable to maintain a cushion above the minimum level of Balance. This position will be reassessed as part of the Financial Strategy starting in Autumn 2009, however with a current shortfall of £477,000 the case for higher balances is well made.

## **Housing Revenue Account**

### 14. Overview

The latest HRA budget position is shown on the attached budget review sheets at Annexe 2.

## **Main Variations**

### 15. Negative Housing Subsidy £100,000:

The increase in rent rebates as a result of the economic downturn impacts on the HRA through the rent rebate subsidy limitation (RRSL) penalty. Current indications are that this could cost the HRA an additional £100,000.

### 16. Council Tax £28,000:

The HRA is responsible for paying council tax on properties within its ownership that are empty in the long term. Assumptions were made in the budget about the two large sites, Rowland House and Marshalls, within the HRA that are empty pending redevelopment; and about general void levels. The budget provision is now likely to be exceeded. Assuming the sale of these sites within the current financial year there will be a significant reduction in the council tax liability in 2010-11.

### 17. Revenue Repairs £51,290:

Following the transfer of some repairs expenditure from capital to revenue during the final accounts process, the proposed funding of the 2009-10 repairs budgets has been reviewed. This has resulted in the funding of some work being transferred to revenue and a general realignment of both capital and revenue repairs budgets. This has been managed within the approved budget sums apart from £51,290, which will be funded from the Repairs Fund balance. At 1<sup>st</sup> April 2009 this stood at £363k.

18. Dwelling Rent Income (£85,000):

On the basis of the first 17 weeks rent debit it looks likely that the income budget will be exceeded by some £85,000. This is wholly attributable to reduction in void turnaround times. The standard void allowance of 2% of gross debit (£466,901) was made in the budget process but improved performance to date is resulting in projected void rent of some £351k i.e. an improvement of over £100k. If this performance is maintained the void allowance can be reviewed when setting the 2010-11 budget.

19. Heating Income (£30,000):

This improvement on the budgeted income will achieve a break-even on energy costs in sheltered accommodation and some other flat blocks rather than being subsidised from general rent income.

20. Pay Award £18,000:

The re-setting of the HRA budget following the Government's late reduction of guideline rents allowed for the additional cost of the pay award to be built into the base.

### **Housing Revenue Account Balance**

21. At the end of July the indications for the HRA are that an overspend of some £44,000 is likely. The original budget was to make a contribution to balances of £109,000 to bring the working balance up to the S151 officer's recommended level. The current projected position would reduce this contribution to £65,000 achieving a working balance of some £1.22m at the end of the financial year. The volatility of some major items within the HRA budget emphasises the need for maintaining prudent working balances.

### **Conclusion and Options for Dealing with Budget Shortfall**

#### **General Fund**

The Budget Review for 2009/10, based on monitoring to 31<sup>st</sup> July, shows overall General Fund increased expenditure/reduced income in the region of £477,000. As Waverley's budgets have been carefully managed over the years, the opportunity to identify offsetting savings will be extremely difficult to achieve. However, a number of options exist:

Option 1: Increase vacancy factor (currently £250,000). Whilst this measure has been used in previous years to help balance budget shortfalls, the deletion of some 30+ posts in the 2009/10 base budget makes the current target very demanding and is already requiring special measures to meet the target by the year end. In view of this, CMT recommend that the vacancy factor be left as it is now.

Option 2: CMT to examine the budget in detail in the light of the 2008/09 Outturn to identify any savings that can be made in 2009/10, or to identify schemes/spending that can be deferred until future years. This is a worthwhile option, but given the downward pressure on the base budget in 2009/10 it is not expected that major savings will be identified using this approach. CMT will arrange for a detailed examination of the 2009/10 budget in September.

Option 3: Identify any savings in the current year's capital programme. Monitoring of the Council's capital programme is well developed. It is suggested that by the end of September CMT will identify a list of savings/or capital schemes that could be deferred. If successful and the Executive accept the results, the contribution to capital could be reduced, thereby producing a revenue saving.

Option 4: Vire the unallocated contribution to capital to fund the shortfall. The 2009/10 budget included an unallocated £448,000 contribution to capital, pending the outcome of the pay award and possible allocation to future years' capital schemes. So far £109,000 has been committed to cover the additional cost of this year's pay award. This leaves £339,000 available. It is CMT's view that whilst this could be used to help fund any budget shortfall in the current year, this should only be considered as a final option. This is because capital resources remain limited and spending it to pay for a short-term budget shortfall is not sustainable, and would prevent other longer-term schemes being delivered including invest-to-save schemes.

### **Housing Revenue Account**

The forecast shortfall on the HRA in 2009/10 is £44,000. Whilst this is significantly less than the General Fund, it will still be difficult to offset given other budget pressures and savings already achieved in the base budget and of course the £10.8m paid to the Government in negative housing subsidy. In view of the level of the shortfall, CMT recommend a detailed examination of the budget to identify possible savings.

### **Implications for 2010/11 Budgets**

The annexes both for the General Fund and HRA include initial forecasts of the implications on next year's budget. These will provide a useful starting point in the Financial Strategy process, which will be starting shortly.

### **Recommendation**

The Executive is asked to:

1. Note the outcome of the Budget Review for 2009/10 and endorse the actions taken which includes:
  - i. Agreeing to the CMT review of the current year's revenue budget during September, reporting back to the Executive in October

- ii. Agreeing to the CMT review of the current year's capital programme during September, reporting back to the Executive in October
  - iii. Noting the availability of unallocated contribution to capital and agreeing an embargo on its use until later in the year, when a clearer assessment can be made about the need to use it, and
2. Note the potential impact of the Budget Review on 2010/11.

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Background Papers ( DCE )

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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