
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	4th SEPTEMBER 2014	CATEGORY: DELEGATED
REPORT FROM:	DIRECTOR OF FINANCE AND CORPORATE SERVICES	OPEN
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SUBJECT:	BUDGET and FINANCIAL MONITORING 2014/15	REF
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendation

- 1.1 That the first quarter's budget and financial monitoring figures for 2014/15 are considered and approved.

2.0 Purpose of Report

- 2.1 In accordance with its financial management framework, the Council monitors income and expenditure against its budgets on a regular basis throughout the year. This is undertaken on at least a monthly basis.
- 2.2 Financial information is available directly on the Council's Financial Management System to enable day-to-day monitoring within services. Formal monitoring involves budget managers together with their service accountant, meeting and reviewing performance against their particular budgets. This is intended to identify any variances as early as possible to enable remedial and timely action to be taken.
- 2.3 Overall financial performance and the major budget variances are reported to this Committee throughout the year. In accordance with its Treasury Management Strategy, the Council monitors its lending and borrowing on a regular basis.
- 2.4 The Council's cash flow is monitored and actioned on a daily basis, with monthly reports summarising activity provided to the Chief Finance Officer. Again, overall performance is reported to this Committee throughout the year.
- 2.5 This is the first monitoring report for the financial year 2014/15. It details performance up to 30th June 2014, unless otherwise stated.

3.0 Detail

GENERAL FUND REVENUE ACCOUNT

- 3.1 Apart from Council Housing, day to day income and expenditure is accounted for through the General Fund. The net expenditure is financed from Government Grant and Council Tax, with any shortfall/deficit being financed from the Council's Reserves.
- 3.2 The original budget, which was approved in February 2014, estimated a budget surplus of £170,310 in 2014/15. As in previous years, the Budget includes contingent sums set-aside for inflation, growth and the implementation of the local pay and grading review.
- 3.3 Since the Budget was set in February, £22,866 has been transferred from the HRA into the General Fund. This is in respect of a post identified as non-HRA following last year's restructuring in Housing Services. The updated Budget is summarised in the following table.

Net Expenditure on Services	£10,701,042
Depreciation and Capital Charges (in above)	-£515,369
Minimum Revenue Provision	£347,663
Contribution to Bad Debts Provision	£20,000
Contingent Sums	£386,901
Total Estimated Spending	£10,940,237
Financing	-£11,087,681
Estimated Surplus	-£147,444

- 3.4 In accordance with budget monitoring arrangements, the position on Net Expenditure on Services is the main area that is subject to on-going review. This is the amount (£10,701,042) that is directly managed and controlled by the various budget holders across the Council.

Latest Monitoring Figures

- 3.5 The Budget, together with major variances identified as at June 2014 is summarised in the tables which follow. A full analysis of each service area at Cost Centre level with variances across each policy committee is detailed in **Appendices 1 to 3**.
- 3.6 These appendices also show actual spend to-date, budget remaining, together with notes on assumptions, risks and reasons for major variances.

Performance against Budget 2014/15 as at June 2014 (by Committee)

Summary by Policy Committee	Budget £	Projected Actual £	Projected Variance £	Earmarked Reserves £	General Reserve £
Environmental and Development Services	3,591,463	3,522,466	-68,997	-24,304	-44,693
Housing and Community Services	2,229,667	2,229,177	-490	-28,509	28,021
Finance and Management	4,879,913	4,809,873	-70,040	0	-70,040
TOTAL	10,701,043	10,561,516	-139,527	-52,813	-86,713

Performance against Budget 2014/15 as at June 2014 (by Service)

Summary by Main Service Area	Budget £	Projected Actual £	Projected Variance £	Transfer to (-) /from Earmarked Reserves £	Transfer to (-) /from General Reserves £
Transport Account	702,298	792,297	90,000	0	90,000
Economic Development	233,829	212,014	-21,815	0	-21,815
Environmental Education	69,104	44,800	-24,304	-24,304	0
Environmental Health Services	533,252	504,633	-28,619	0	-28,619
Highways	18,651	15,876	-2,776	0	-2,776
Licensing and Land Charges	-46,162	-118,765	-72,602	0	-72,602
Planning	542,352	477,647	-64,705	0	-64,705
Town Centre	69,463	69,222	-241	0	-241
Waste Collection & Street Cleansing	1,468,677	1,524,742	56,065	0	56,065
Community Development and Support	536,930	490,267	-46,663	-43,460	-3,202
Leisure and Recreational Activities	128,326	126,300	-2,027	-1,929	-97
Leisure Centres and Community Facilities	470,479	558,891	88,413	23,384	65,029
Parks and Open Spaces	693,733	675,415	-18,318	-6,504	-11,813
Private Sector Housing	400,200	378,304	-21,896	0	-21,896
Central and Departmental Accounts	3,297,130	3,329,381	32,251	0	32,251
Concessionary Travel	0	-160	-160	0	-160
Corporate and Democratic Costs	734,864	681,712	-53,152	0	-53,152
Electoral Registration	143,336	142,956	-380	0	-380
Payments to Parish Councils	318,108	318,109	0	0	0
Pensions, Interest Payments and Receipts	204,620	156,021	-48,599	0	-48,599
Property and Estates	-167,696	-167,696	-0	0	-0
Revenues and Benefits	349,550	349,549	-0	0	-0
TOTAL	10,701,043	10,561,516	-139,527	-52,813	-86,713

3.7 The variances reflect the latest situation and although projected to out-turn at this level, could change during the remainder of the year. Areas of projected overspend are kept under review in order to mitigate the effects on the overall budget.

- 3.8 The previous tables show that based on current spending, there will be a decrease in net expenditure (after allowing for adjustments between earmarked reserves) of £86,713 compared to the Budget for the year.

Transfers to/from Earmarked Reserves

- 3.9 These relate to services in Leisure and Community Development where funding is transferred in and out of earmarked reserves depending on the timing of projects and schemes. This can vary from year to year.

Main Variances

- 3.10 The main reasons that account for the projected variance of approximately £87,000 are summarised in the following table. They show services where current spending is expected to vary compared to the Budget as at June 2014. This could change over the remainder of the year and all areas are kept under review.

	£'000
Budget Savings - Restructure in Legal, Democratic and Land Charges	-88
Additional Planning Income	-75
Pensions - Lower Past Service Deficit Costs	-49
Waste & Cleansing - Savings on Agency costs to fund permanent posts	-49
Vacant Posts	-51
Additional Environmental Health Income	-24
Additional Land Charges Income	-10
Waste & Cleansing - Purchase of new bins	20
Waste & Cleaning Overtime	25
Waste & Cleansing - 3 x Permanent Operative Staff	60
Repairs at Green Bank Leisure Centre	65
Maintenance of Vehicles	99
Other Variances (net)	-10
TOTAL PROJECTED VARIANCE @ JUNE 2014	-87

- 3.11 The budget savings following the restructures were as planned. The additional income in Planning, Environmental Health and Land Charges, continues to follow the pattern that emerged during 2013/14.
- 3.12 The Agency costs in Waste and Cleansing is now expected to fall as permanent operatives are employed. There are also several vacant posts across the Council.
- 3.13 The table however shows some fairly significant cost pressures. In particular the maintenance of vehicles and repairs at Green Bank Leisure Centre. Following the commencement of capital works at the Leisure Centre, there is an urgent need to replace part of the roof; this was unforeseen.
- 3.14 A procurement exercise has been undertaken in accordance with the Contract Procedure Rules. The additional expenditure will need to be financed from the General Reserve as the contingent sum in the Capital Budget is insufficient.

Contingent Sums

3.15 The Budget includes the following contingent sums totaling approximately £387,000

Contingent Sums	£
Pay and Grading Review	164,000
Pay Inflation	68,620
Inflation on other Costs	54,281
Growth	100,000
Total	<u>386,901</u>

3.16 As at 30th June, no call had been made against these amounts.

Provisions

3.17 The following provisions were made in the Council's accounts in 2013/14 for liabilities due in 2014/15.

Provision For	Provision Made	Actual Liability
Voluntary Redundancies – restructures in Legal, Democratic and Land Charges Units	£104,000	£104,000
Refund of Personal Searches	£100,000	£97,000
Clawback of Housing Benefit Subsidy	£85,000	£64,000
Planning Appeal	£70,000	£70,000
TOTAL PROVISIONS	£359,000	£335,000

The Collection Fund

3.18 The Collection Fund is the statutory account that records the collection of Council Tax and Business Rates and shows how that income has been distributed to the Government and Preceptors on the Fund, including this Council.

3.19 Any surplus or deficit on the Fund is transferred to the General Funds of the Preceptors, in proportion to precepts levied each year. The current estimated position on the Fund for 2014/15, based on transactions up to 31st July 2014 is detailed in **Appendix 4**.

3.20 The projected surplus on the Fund as at 31st March 2015 is currently £838k for Council Tax and £337k for Business Rates.

3.21 Based on these amounts, the Council's share would be £95k Council Tax (11.3%) and £135k Business Rates (40%).

- 3.22 The situation can change over the remainder of the year depending on collection rates and changes to the tax base, etc.
- 3.23 The estimated balance on the Collection Fund as at March 2015 will need to be officially declared to preceptors in January 2015 as part of the budget setting process for 2015/16. Any surplus or deficit declared at that stage will be transferred to the General Fund of each of the preceptors in 2015/16.

Council Tax

- 3.24 The amount of Council Tax collectable has already exceeded the estimated amount for the year; the estimate allowed for a 3% increase on that collectable in 2013/14. This was on the basis of 40,500 properties (estimated in December 2013) compared to the actual number of 40,700 as at July 2014.
- 3.25 The Tax Base continues to grow steadily and it is likely that this will continue for the remainder of the year. In addition, the cost of the Local Council Tax Support Scheme continues to reduce. In 2013/14, it reduced from £4.95m to £4.65m and is currently estimated to be £4.45m by March 2015.

Business Rates

- 3.26 There has also been an increase in the Business Tax Base, mainly due to the development of two larger businesses in the District. In addition, a much lower provision for bad debts will be made in 2014/15 compared to that estimated.
- 3.27 A substantial provision for arrears was set up in 2013/14 following the introduction of the Business Rates Retention System. This led to a deficit on the Collection Fund in 2013/14. It is not expected that any material change will be required to this provision, with the Fund returning to a surplus position in 2014/15.
- 3.28 The Tax Base for Business Rates can be more volatile from reassessments of rateable value and the granting of reliefs, etc. which can change the collectable rates for distribution.
- 3.29 The General Fund shows an estimate of retained business rates (after the payment of the Tariff) of £2.3m in 2014/15. This is the Baseline which is included in the Council's financial settlement from the Government.
- 3.30 Based on current transactions, this is projected to out-turn at approximately £2.8m as detailed in Appendix 4. This means that the Council's Tax Base and collection of Business Rates is much better than the baseline position which was set ahead of 2013/14. The impact of this on future budgets will be reviewed as part of 2015/16 Budget Round.

General and Specific Grants Receivable 2014/15

3.31 The following grants have been confirmed for the year.

	Estimate £	Actual £	Diff £
Grants within General Fund			
New Homes Bonus (NHB)	1,779,758	1,779,757	-1
NHB - Returned Funding	0	7,572	7,572
Revenue Support Grant	2,563,000	2,563,846	846
Council Tax Freeze Grant	49,648	49,969	321
Section 31 Grant	24,000	0	-24,000
Council Tax Support Admin Subsidy	88,000	88,392	392
Housing Benefit Admin Subsidy	281,226	279,051	-2,175
Business Rate Reliefs	361,790	361,790	0
	5,147,422	5,130,377	-17,045
Specific Grants			
Welfare Reform	0	83,146	83,146
Community Right to Challenge	0	8,547	8,547
Assets of Community Value	0	7,855	7,855
Data Transparency Code	0	2,588	2,588
Individual Electoral Registration	0	34,237	34,237
	0	136,373	136,373

3.32 General Fund grants are mainly as estimated following the confirmation of the Council's Budget to the DCLG. Some additional NHB funding has been received following the re-allocation of unused grants nationally. The Section 31 grant has been superseded by the grants received for applying various reliefs for Business Rates.

3.33 Specific grants are not budgeted for as they vary from year to year and are used to fund one-off expenditure. They are set-aside to deal with additional costs of implementing Government proposals under the "New Burdens Doctrine."

3.34 Anything not spent in the year is transferred to an earmarked reserve to meet future costs associated with each area. Funding for Welfare Reform and Individual Electoral Registration is likely to be used during the year. No costs have yet been incurred for other areas and these amounts will be transferred to the relevant reserves at the year end.

3.35 Ultimately, if no additional costs are incurred, the Council can transfer these amounts to use on other services.

Overall General Fund Position and Effect on Reserves

3.36 After allowing for all variances and adjustments, the projected overall position on the General Fund for 2014/15, compared to the Budget, is shown in the following table.

	£'000
Lower Net Expenditure	-87
Use of Contingent Sums Lower	-387
Reduction in Provisions	-24
Additional Business Rates Income	-572
Lower General Fund Grants	17
Projected Reduction in Net Expenditure	-840

HOUSING REVENUE ACCOUNT (HRA)

3.37 The Council is required to account separately for income and expenditure in providing Council Housing.

3.38 The approved HRA Budget was set with a deficit to finance from reserves of £193,598. Since the Budget was set in February, £20,146 has been transferred from the HRA into the General Fund. This is in respect of a post identified as non-HRA following last year's restructuring in Housing Services.

3.39 Performance on the HRA as at June 2014 is summarised in the following table.

Summary HRA 2014/15	Budget £	Projected Out-turn £	Projected Variance £
Supervision and Management Costs	1,548,584	1,567,734	19,150
Housing Repairs	3,287,489	3,170,092	-117,397
Interest on Debt	1,614,555	1,613,021	-1,534
Supported Housing	250,326	250,326	0
Rent and other Income	-12,382,321	-12,383,431	-1,110
Contribution to Capital Works	5,500,000	5,500,000	0
Contribution to New Build	286,800	286,800	0
Contingent Sums	68,380	0	-68,380
TOTAL	173,812	4,542	-169,270

3.40 The table shows that the deficit is now projected to be much lower. Firstly, similar to the General Fund, no call as yet been made on the Contingent Sums.

3.41 Secondly, spend on Housing Repairs is currently projected to be less than the Budget due to the cost of contracted work being lower than estimated. However, there are some additional staffing costs being incurred to cover vacant posts.

CAPITAL EXPENDITURE and FINANCING 2014/15

- 3.42 Following the out-turn for 2013/14, the remaining budgets for work-in-progress on major capital schemes, have been carried forward. The updated programme for 2014/15 is detailed in **Appendix 5**. Progress in 2014/15 to-date is summarised in the following table.

Capital Spending 2014/15 (as at June 2014)	Approved Budget £	Actual £
Council House Improvements	5,938,932	1,759,852
Private Sector Housing and DFGs	448,693	116,868
Leisure and Community Development	3,606,856	420,518
Environmental Schemes	20,000	0
Vehicles, Property and Plant	803,749	19,005
Total	10,818,230	2,316,243

Leisure Schemes

- 3.43 The schemes at Green Bank Leisure Centre and Eureka Park are now well advanced and further contract payments will be due in the next quarter. The final funding package for improving the fitness facility at Etwall Leisure Centre is due to be finalised and works should then commence later in the year.
- 3.44 External funding arrangements and land leases are still to be fully completed for the recreational facilities in Melbourne through the Sporting Partnership. Some preliminary works have been completed and an initial procurement exercise to appoint contractors has commenced.

Replacement Vehicles

- 3.45 The procurement of new refuse freighters is due to be undertaken later in the year.

Capital Receipts

- 3.46 The only capital receipts in the first quarter were from 7 Council House Sales which generated £397k gross and £310k after pooling. This amount has been transferred to the New Build Reserve.

Council House New Build

- 3.47 The accumulated balance on this Reserve is now £1.6m, with a further £1.4m earmarked in the HRA Reserve – approximately £3m in total. In addition, there is borrowing capacity against the HRA's debt cap of £8m.
- 3.48 Furthermore, the Council has been awarded a grant of £190k from the Housing and Communities Agency. This is to progress a specific scheme in Swadlincote.

Financial Target

- 3.49 Under an agreement with the Government, which allows a greater share of HRA asset sales to be retained locally, the following New Build targets (in financial terms) need to be achieved otherwise retained sums will be reclaimed by the Treasury.

Current New Build Targets

£	
Sep-15	191,058
Dec-15	324,056
Mar-16	628,347
Jun-16	628,347
Sep-16	686,430
Dec-16	1,112,561
Mar-17	1,112,561
Jun-17	1,296,447

- 3.50 The targets represent the value or cost of New Build required on a cumulative basis by the above dates. This can include direct building costs, purchase of land or contributions to other housing providers/developers to deliver new council owned properties.
- 3.51 The Committee has previously approved the transfer of land in Coton Park from the General Fund to the HRA at a value of £200,000. This is for a site that has been set-aside for new Council Housing.
- 3.52 Currently, there are potential commitments (including fees) of approximately £4m, including schemes following a procurement exercise to develop 3 council owned sites.

TREASURY MANAGEMENT

- 3.53 An analysis of the Council's borrowing and bank deposits is summarised in the tables, below. These show the position at 30th June 2014.
- 3.54 Debt outstanding is split between the HRA and the General Fund and this represents the "two pool" approach adopted for debt management.

	01/04/14 £'000	30/06/14 £'000	Change £'000
Debt Outstanding - HRA			
Self-financing Debt (Average rate 2.7%)	57,423	57,423	0
Market Loan (4.875% fixed)	1,000	1,000	0
Total Debt Outstanding - HRA	58,423	58,423	0
Capital Financing Requirement - HRA			
Capital Financing Requirement - HRA	62,583	62,583	0
Debt Cap (Fixed on Self-Financing)	66,853	66,853	0
Borrowing Capacity (Cap Less Debt o/s)	8,430	8,430	0

Debt Outstanding - General Fund

Actual Loans o/s	0	0	0
Capital Financing Requirement (CFR)	6,892	6,892	0
Borrowing Capacity (CFR Less Debt o/s)	6,892	6,892	0

Temporary Deposits and Borrowings

Temporary Bank and other Deposits	7,029	13,108	6,079
Less Parish Council Deposits	-28	-28	0
Less Fixed Interest Free Debt	-7	-7	0
Total - Short-term Cash Position	6,994	13,073	6,079

Average Interest Rate Earned (Cumulative)	0.33%	0.45%	0.12%
Target - Average 7-Day Local Authority Rate	0.51%	0.47%	-0.04%

Short-term Deposits

3.55 The funds of £13.1m are currently on deposit as follows:

Debt Management Office	£2m
Other Local Authorities	£8m
UK Banks	£3.1m

3.56 Total interest receivable to-date totals approximately £14,000. The total budget for the year is £48,750, based on an average balance of £7.5m at an average rate of 0.65%.

3.57 Actual interest, due to a greater average balance, is on target to exceed the budget; the projected actual is £56,000 for the year.

3.58 The average interest rate earned, at 0.45%, has increased nearer to the average market rate due to short-term deposits being made for longer periods. This reflects the positive cash flow and reserves position.

OTHER FINANCIAL INDICATORS

3.59 These are reported to monitor the efficiency of financial services. In addition, the collection rates are targets that form part of the Income Guarantee arrangement under the Corporate Services Contract. The processing of benefit claims are also key performance indicators which are subject to potential default conditions if they are not achieved.

3.60 The indicators are detailed in the following table.

	Annual Volumes	Actual 2013/14	Target 2014/15	Projection 2014/15	
Collection Rates					
Council Tax in-year Collection	£45.6m	97.80%	97.40%	97.80%	GREEN
Council Tax Arrears Collection	£4.1m	22.10%	26.70%	21.00%	RED
Business Rates Collection	£23.4m	98.10%	96.10%	98.00%	GREEN
Recovery of Housing Benefit Overpayments	£0.6m	37.50%	34.20%	36.00%	GREEN
Sundry Debtor Collection (incl. Arrears)	£4.9m	84.20%	82.60%	85.00%	GREEN
Benefits Processing (Average Time)					
New Claims	1,000	17 Days	18 Days	20 Days	RED
Change of Circumstances	14,000	14 Days	8 Days	15 Days	RED
Financial Efficiency					
Percentage of Invoices paid within 30-days	5,300	96.40%	97.50%	97.50%	GREEN
Percentage of Invoices paid within 10-days	5,300	69.10%	65.00%	75.50%	GREEN
Number of Payments made Electronically	49,000	98.30%	90.00%	99.00%	GREEN

3.61 The above table shows three indicators currently at risk of falling below target.

Council Tax Collection

3.62 Firstly, the collection of Council Tax Arrears continues to fall and is currently projected to be below target. In-year collection continues to be above target and could improve further which compensates for the other indicator.

3.63 Although there is still sufficient time for the arrears situation to be improved and this is certainly the intention, the redeployment of resources may need to be considered.

Benefits Processing

3.64 This also continues to slip after increases in performance over the last 2 years. In fact, current performance is worse than projected compared to that projected for the remainder of the year. There is also a knock on effect in Customer Services and the Contact Centre with a greater number of queries.

3.65 The welfare reform changes are still impacting and although the overall number of claimants has plateaued in recent months, claims are taking longer to process. However, there are around 1,000 more claimants now compared to 3 to 4 years ago.

3.66 Last year, the Council provided additional resources to speed up processing and to provide temporary staffing. This was financed from Government Grant provided to all councils to deal with the impact of the Welfare Reform programme.

- 3.67 Further work is still required and additional resources have been provided (from Government Grant) to increase automation and to prevent a significant backlog building up. Although claims may be taking longer, as greater automation is introduced, this reduces the risk of incorrect benefit being paid and the Council consequently being penalised by a reduction in subsidy.
- 3.68 Positively, 60% of all information and referrals from the DWP is now fully automated, with steps in place to increase this to 80%. Therefore, this should improve the situation over the remainder of the year.

Automated Transfers to Local Authority systems (ATLAS)

- 3.69 The Council's External Auditors were requested to undertake work to determine the extent of difficulties in implementing ATLAS in other councils.
- 3.70 As previously reported, the DWP is now providing data to councils electronically to drive changes on benefit claims using ATLAS. In the long term, this is designed to speed up the process and ensure claims are accurate by notifying councils of a change in circumstances.
- 3.71 However, this new approach has required a number of additional checks to be undertaken by claims assessors which has had an impact on service delivery.
- 3.72 The Council's position has been compared with 12 other district councils in the Midlands. The key points found were:
- The increase in changes of circumstances the Council has received is higher than most other councils. The Council was one of only two reporting an increase of over 50%.
 - The response time of the Council is longer than most other councils, being one of only two with a response time of over a week.
 - The Council's turnover rate and response time to deal with changes has increased by over 5 days, more than any of the other councils surveyed.
 - The Council's ratio of caseload to assessors is 1400:1; this is higher than most other councils, with an average of approximately 1000:1.
 - About half of the councils have recruited temporary staff to deal with the increased workload; the Council had recruited the most with an additional 3 staff being employed.
 - Most of the councils have invested in upgrading systems and have changed processes. The Council has only recently started to do this.

Comparison with other Local Authorities

- 3.73 A comparison of collection rates for Council Tax and Business Rates with other Derbyshire Councils, together with those Councils classed as similar to South Derbyshire for comparison purposes, is shown in **Appendices 6 and 7**.

4.0 Financial Implications

4.1 As detailed in the report.

5.0 Corporate Implications

5.1 None directly

6.0 Community Implications

6.1 None directly

7.0 Background Papers

7.1 None