
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	4th DECEMBER 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 half-year's budget and financial monitoring figures for 2014/15 are considered and approved.

2.0 Purpose of the 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 second monitoring report for the financial year 2014/15. It details performance up to 30th September 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	£10,701,043
Depreciation and Capital Charges (in above)	-£515,370
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 (£10,701,043) 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 September 2014 (by Committee)

Summary by Policy Committee	Budget £	Projected Actual £	Projected Variance £	Earmarked Reserves £	General Reserve £
Environmental and Development Services	3,591,463	3,169,932	-421,531	-24,304	-397,226
Housing and Community Services	2,229,667	2,272,899	43,232	9,863	33,369
Finance and Management	4,879,913	4,767,669	-112,244	0	-112,244
TOTAL	10,701,043	10,210,501	-490,542	-14,441	-476,101

Performance against Budget 2014/15 as at September 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	762,298	60,000	0	60,000
Economic Development	233,829	212,931	-20,897	0	-20,897
Environmental Education	69,104	44,800	-24,304	-24,304	0
Environmental Health Services	533,252	470,333	-62,919	0	-62,919
Highways	18,651	13,652	-4,999	0	-4,999
Licensing and Land Charges	-46,162	-122,447	-76,284	0	-76,284
Planning	542,352	159,724	-382,628	0	-382,628
Town Centre	69,463	66,940	-2,523	0	-2,523
Waste Collection & Street Cleansing	1,468,677	1,561,701	93,024	0	93,024
Community Development and Support	536,930	498,619	-38,310	-37,581	-730
Leisure and Recreational Activities	128,326	122,280	-6,046	-193	-5,853
Leisure Centres and Community Facilities	470,479	563,128	92,650	54,141	38,508
Parks and Open Spaces	693,733	645,735	-47,998	-6,504	-41,494
Private Sector Housing	400,200	443,137	42,937	0	42,937
Central and Departmental Accounts	3,297,130	3,296,428	-702	0	-702
Concessionary Travel	0	-1,251	-1,251	0	-1,251
Corporate and Democratic Costs	734,864	700,833	-34,032	0	-34,032
Electoral Registration	143,336	141,563	-1,773	0	-1,773
Payments to Parish Councils	318,108	325,077	6,969	0	6,969
Pensions, Interest Payments and Receipts	204,620	140,739	-63,881	0	-63,881
Property and Estates	-167,696	-185,269	-17,572	0	-17,572
Revenues and Benefits	349,550	349,550	-0	0	-0
TOTAL	10,701,043	10,210,501	-490,542	-14,441	-476,101

- 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 approximately £476,000 compared to the Budget for the year (*the amount was £87,000 reported at the end of the first quarter*).

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 expenditure.

Main Variances

- 3.10 The main reasons that account for the projected variance of approximately £476,000 are summarised in the following table. They show services where current spending/income are expected to vary compared to the Budget as at September 2014. This could change over the remainder of the year and all areas are kept under review.
- 3.11 The table also shows the change in the variance between Quarter 1 and Quarter 2.

	Qtr 2 £'000	Qtr 1 £'000	Change £'000
Additional Income on Planning fees	-399	-75	-324
Reserves funding for Green Bank Leisure Centre	-99	0	-99
Pensions - Lower Past Service Deficit Costs	-78	-49	-29
Restructure Savings	-73	-73	0
Waste & Cleansing Savings on Agency costs to fund new posts	-49	-49	0
Salary savings (vacancies, maternity, etc.) - E&D	-33	-20	-13
Additional Trade Waste Income	-23	0	-23
Salary savings (vacancies, maternity, etc.) - H&C	-31	-31	0
Additional Environmental Services Income (Food Export Certificates)	-24	-24	0
Salary savings (vacancies, maternity, etc.) - F&M	-18	0	-18
Elected Members Costs	-13	-15	2
Additional Land Charges fee income	-10	-10	0
Purchase of new waste bins - some replacements now in next year	0	20	-20
Additional Contractor Payments – Green Bank Leisure Centre	38	0	38
Waste & Cleansing Overtime - staff cover for holidays - likely to reduce	63	25	38
Waste & Cleansing - 3 x Permanent Operative Staff	60	60	0
Vehicle Hire - breakdown of freighters and sweepers causing higher spend	50	0	50
Spare parts over spend on older vehicles	80	99	-19
Repairs to roof and replacement air conditioning units – Green Bank	85	65	20
Other Variances (net)	-2	-10	8
TOTAL - OVERALL PROJECTED VARIANCE	-476	-87	-389

Additional Income – Planning Fees

- 3.12 Clearly, the main reason for the increased variance is the significant planning income received during the second quarter. At its meeting in October, the Committee agreed to reinvest a proportion of this increase back into the service through the appointment of a Graduate Planner on a fixed term contract. This is estimated to cost approximately £92,000 over the next 3 years.

Green Bank Leisure Centre

- 3.13 As reported to the Committee in September, parts of the roof, together with air conditioning units have replaced following the recent capital refurbishment and upgrade. These were unforeseen and a separate procurement exercise has been undertaken. Works are due to be completed shortly.
- 3.14 In addition, some additional contractor payments have been made. These were for agreed compensation for loss of income and additional utility costs, following the previous refurbishment.
- 3.15 The total cost of the additional capital and contractor payments is estimated at £123,000. Of this, £99,000 was previously set-aside in an earmarked reserve in 2013/14 in anticipation of these costs. Therefore, this leaves £24,000 to be financed from General Reserves.

Waste and Cleansing Services

- 3.16 This service continues to provide the greatest cost pressures. Currently, the net increase over the base budget for the year is approximately £200,000. Of this, around £130,000 is due to additional vehicle costs – maintenance and breakdown replacements.
- 3.17 Additional labour costs are currently running £70,000 above budget. This is expected to reduce over the remainder of the year as less reliance is required on agency staff and overtime working.

Contingent Sums

- 3.18 The Budget includes the following contingent sums totaling £386,901.

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>

3.19 As at 30th September, no call had been made against these amounts.

Provisions

3.20 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

*** Although this appeal was lost, no costs were awarded against the Council. Therefore, the final cost should be lower than £70,000.*

Insurance Renewal 2014

3.21 During September 2014, the Council's insurance premiums were renewed. The effect on the main casualty policies are summarised in the following table.

Insurance Premiums 2013 to 2014	Premium 2013 £	Premium 2014 £	Change £	
Council Houses	58,944	60,712	1,768	3.0%
General Properties	37,618	38,835	1,217	3.2%
Public Liability	80,339	83,944	3,605	4.5%
Employers Liability	31,548	31,469	-79	-0.3%
Motor Vehicles	61,224	66,166	4,942	8.1%
Mechanical Engineering	1,715	1,715	0	0.0%
Data and ICT	15,590	15,590	0	0.0%
Terrorism	7,693	6,867	-826	-10.7%
Highways and Inspection	8,737	8,737	0	0.0%
Property Owners (rechargeable)	18,203	18,010	-193	-1.1%
Sub Total	321,611	332,046	10,434	3.2%
Insurance Premium Tax	19,297	19,923	626	3.2%
TOTAL PREMIUM	340,908	351,968	11,060	3.2%

- 3.22 Although there were no major increases, there were 2 larger premium increases regarding Motor Vehicles and Public Liability.
- 3.23 The Renewal Report provided by the Council's insurers is detailed in **Appendix 7**. Whilst this report highlights that the Council's claims experience is generally good across most of its main policies as measured by a 5-year loss ratio, it is much weaker on motor vehicles in particular.
- 3.24 As part of each year's renewal, the Council can utilise up to an equivalent of £5,000 of consultancy time with the Insurer's expert risk management team.
- 3.25 Following last year's renewal, which also identified motor vehicle claims as a weaker area, this funding was utilised to provide an assessment of how the fleet is utilised, driver awareness, together with processes and procedures, etc.
- 3.26 The review was completed in November 2013. As the Renewal report states, the review highlighted a range of areas for improvement and provided an appropriate action plan to improve the position in order to reduce future claims.
- 3.27 The Council's Insurance Contract is due for renewal in September 2015. In early 2015, the Council's requirements will be re-examined, followed by a procurement exercise to re-tender the premiums.
- 3.28 The premium for 2014/15 will be contained in the overall Base Budget.

The Collection Fund

- 3.29 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.
- 3.30 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 October 2014 is detailed in **Appendix 4**.
- 3.31 The projected surplus on the Fund as at 31st March 2015 is currently £841k for Council Tax and £768k for Business Rates. Whilst the surplus on Council Tax has not changed since the 1st Quarter, the Business Rates position has improved by approximately £400k.
- 3.32 Based on these amounts, the Council's share would be £95k Council Tax (11.3%) and £307k Business Rates (40%).
- 3.33 The situation can change over the remainder of the year depending on collection rates and changes to the tax base, etc.
- 3.34 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

- 3.35 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 40,900 properties as at September 2014.
- 3.36 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 £4.4m by March 2015.

Business Rates

- 3.37 There has also been an increase in the Business Tax Base, mainly due to the development of two larger businesses in the District and in the last quarter, several new assessments. In addition, a much lower provision for bad debts will be made in 2014/15 compared to that estimated.
- 3.38 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.
- 3.39 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.
- 3.40 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.
- 3.41 Based on current transactions, this is projected to out-turn at approximately £3m 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.

Business Rates Pooling 2015/16

- 3.42 At its meeting in October, the Committee agreed to join a pooled arrangement, along with all other Derbyshire District/Borough Councils, together with the County and Fire authorities. Following the final agreement being drawn up, the Director of Finance, along with all the other authorities, signed off the application to the DCLG.

Inclusion of Derby City Council

- 3.43 The agreement signed was detailed in the report to the Committee in October, with one change. This was regarding Derby City Council, who also agreed to join the Pool.
- 3.44 In broad terms, this will not affect the viability of the Pool. As a unitary authority and with a negative levy, their business rates will not be included in the pooled figures as they are a net recipient of government funding under the retention system. Their growth, whether positive or negative, will continue to be shared between the Government and the City Council.
- 3.45 However, besides maintaining all Derbyshire authorities together, the main benefit is that Derby City have agreed to be the lead authority and administrators of the Pool; they will act as the Accountable Body.
- 3.46 The cost of this to all other members of the Pool is £150,000 in total, around £15,000 each. The cost of the administration was estimated at £50,000 in the original agreement without the City Council.
- 3.47 The City will be guaranteed the first £150,000 of any growth. However, they also take on a risk in that they make no savings (as they don't pay a levy) and they will also be required to fund the first 10% of any loss up to a maximum of £100,000.

General and Specific Grants Receivable 2014/15

- 3.48 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

3.49 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.

3.50 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."

3.51 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.

3.52 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

3.53 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	-476
Use of Contingent Sums Lower	-387
Reduction in Provisions	-24
Additional Business Rates Income	-659
Funds set-aside for Graduate Planner	92
Lower General Fund Grants	17
Projected Reduction in Net Expenditure	<u>-1,437</u>

HOUSING REVENUE ACCOUNT (HRA)

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

3.55 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.

3.56 Performance on the HRA as at September 2014 is summarised in the following table.

Summary HRA 2014/15	Budget £	Projected Out-turn £	Projected Variance £	Previous Variance £
Supervision and Management Costs	1,467,231	1,491,655	24,424	19,150
Housing Repairs	3,259,924	3,164,541	-95,382	-117,397
Interest on Debt	1,614,555	1,601,555	-13,000	-1,534
Supported Housing	353,244	353,244	0	0
Rent and other Income	-12,376,321	-12,317,556	58,765	-1,110
Contribution to Capital Works	5,500,000	5,500,000	0	0
Contribution to New Build	286,800	286,800	0	0
Contingent Sums	68,380	0	-68,380	-68,380
TOTAL	173,812	80,239	-93,574	-169,271

3.57 The table shows that the deficit is now projected to be lower compared to the Budget, but an increase from the 1st quarter. This is mainly due to the continuing right to buy sales reducing the amount of rental income. This is detailed later in the report.

3.58 However, spending on Housing Repairs is currently projected to be less than the Budget due to the cost of day to day works being lower than estimated. It is considered that this reflects the on-going capital investment.

3.59 In addition, the cost of the variable rate element of debt (£10m) was lower in the first half of the year at 0.57% compared to 0.7%. However, there are some additional staffing costs being incurred to cover vacant posts.

CAPITAL EXPENDITURE and FINANCING 2014/15

3.60 Following the out-turn for 2013/14 the remaining budgets for work-in-progress on major capital schemes were 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 September 2014)	Approved Budget £	Actual £
Council House Improvements	5,938,932	3,372,289
Private Sector Housing and DFGs	448,693	94,878
Leisure and Community Development	3,156,856	1,193,346
Environmental Schemes	20,000	3,193
Vehicles, Property and Plant	803,749	68,465
Total	10,368,230	4,732,171

Leisure Schemes

- 3.61 The schemes at Green Bank Leisure Centre and Eureka Park have been completed and major contract payments have been made. 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.
- 3.62 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

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

Capital Receipts

- 3.64 The current position on Council House sales as at September 2014 is summarised in the following table.

	Qtr 1	Qtr 2	Total
Number of Sales	7	6	13
Proceeds	£396,910	£296,475	£693,385
Less Pooled Amount	-£87,017	-£69,276	-£156,293
Proceeds Retained	£309,893	£227,199	£537,092
Percentage Retained	78%	77%	77%

- 3.65 A further sale has since been completed, making a total of 14 for the year to-date. The retained amount is set-aside in the New Build Reserve.

Council House New Build

- 3.66 Including the amount brought forward (£1.330m) the accumulated balance on this Reserve is now approximately £1.9m, with a further £1.4m earmarked in the HRA Reserve – approximately £3.3m in total. In addition, there is borrowing capacity against the HRA's debt cap of approximately £9.5m.
- 3.67 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

- 3.68 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 would 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
Sep-17	1,550,961

- 3.69 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.
- 3.70 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.
- 3.71 Currently, there are potential commitments (including fees) of approximately £4m, including schemes following a procurement exercise to develop 3 council owned sites. An updated HRA Business Plan, being reported elsewhere on this Agenda, provides an update on the plans for New Build.

General Fund Receipts

- 3.72 Proceeds of £13,000 from a land sale, previously approved by the Committee, in Barrow on Trent have been received in this quarter.

TREASURY MANAGEMENT

- 3.73 An analysis of the Council's borrowing and bank deposits is summarised in the tables, below. These show the position at 30th September 2014.
- 3.74 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	30/09/14 £'000	Change £'000
Debt Outstanding - HRA			
Self-financing Debt (Average rate 2.7%)	57,423	57,423	0
Market Loan (4.875% fixed) - <i>SEE BELOW</i>	1,000	0	-1,000
Total Debt Outstanding - HRA	58,423	57,423	-1,000

Capital Financing Requirement - HRA	62,583	61,583	-1,000
Debt Cap (Fixed on Self-Financing)	66,853	66,853	0
Borrowing Capacity (Cap Less Debt o/s)	8,430	9,430	+1,000

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

Repayment of the Market loan

- 3.75 This loan was at a fixed rate 4.875%, maturing in 2032 with interest payments of £48,750 per year.
- 3.76 The loan contained a break clause, whereby the lender had the option of reviewing the interest rate at any time and increasing it if they so wished. However, the Council then had the option of rejecting this and instead choosing to repay without incurring any penalty
- 3.77 The Strategy was that should the lender exercise their option to increase the interest rate, the loan should be repaid at that time.
- 3.78 During this quarter, the lender approached the Council to see what price it was willing to pay to repay the loan early. Following recent bank restructurings, the Bank was effectively being directed, under regulation, to clear loan instruments such as these.
- 3.79 Therefore, the Council's treasury advisors negotiated a deal for the Council to buy-out of the loan early. The price negotiated had to be at such a level that savings in interest in later years were greater than the early termination fee.
- 3.80 Agreement was reached and the loan was actually repaid on 2nd October 2014. The termination fee was £242,000 and this will be charged to the HRA in 2014/15 and be financed from HRA reserves.
- 3.81 The saving in interest over the remaining life of the loan is approximately £828,000 (17 years at £48,750) with "pay-back" within 5 years. These transactions have been reflected in the updated HRA Business Plan and have not affected its overall viability.

- 3.82 The principal repaid has been financed within the HRA's Capital Financing Requirement. This actually increases the difference between HRA debt outstanding and the Debt Cap, which allows for the amount to be re-borrowed in the future if it is affordable to do so.

Temporary Deposits and Short Term Borrowing	01/04/14 £'000	30/09/14 £'000	Change £'000
Temporary Bank and other Deposits	7,029	12,973	5,944
Less Parish Council Deposits	-28	-28	0
Less Interest Free Debt	-7	-7	0
Total - Short-term Cash Position	6,994	12,937	5,944

Average Interest Rate Earned (Cumulative)	0.33%	0.38%	0.05%
Target - Average 7-Day Local Authority Rate	0.51%	0.47%	-0.04%

Short-term Deposits

- 3.83 The funds of £12.973m are currently on deposit as follows:

Debt Management Office	£0m
Other Local Authorities	£11m
UK Banks	£1.973m

- 3.84 Total interest earned to-date of approximately £28,500, is on target to exceed the budget for the year of £48,750.

Lending Policy and Counterparty List

- 3.85 At its meeting on 4th September 2014, the Committee approved a revision to the Lending Policy and Counterparty List. This followed changes regulating the banking sector and the potential impact of depositor bail-ins.
- 3.86 During October, it has been necessary to update the Lending List and this is detailed in **Appendix 6**.

Economic Prospects

- 3.87 This was due to recent analysis, forecasting an unexpected deterioration in the prospects for global economic growth. This reflected a sharp fall in government bond yields, an increased selling of global equities and some increases in bank rates.
- 3.88 Coupled with the impending implementation of the EU Bank Recovery and Resolution Directive (which will strengthen bail-in regulations) it is considered that the credit rating of many institutions will deteriorate.

3.89 In line with Treasury advice, the length of deposits with named counterparties has been reduced to 6 months (from 1 year) and to 100 days for specified and non-specified investments accordingly. In addition, Barclays Bank has slipped to a non-specified investment.

Effect on the Council

3.90 Currently, this will have little effect on the Council's lending position. In accordance with the Policy, the Council's deposits are lent out to other local authorities. Approximately £1.9m is held with banks on the Counterparty List, but these are in instant access reserve accounts as they are used more to balance cash flow on a daily basis.

OTHER FINANCIAL INDICATORS

3.91 These are reported to monitor the efficiency of financial services. In addition, the collection rates and speed of benefit processing are key indicators of performance.

3.92 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%	97.55%	GREEN
Council Tax Arrears Collection	£4.1m	22.10%	26.70%	21.00%	RED
Business Rates Collection	£23.4m	98.10%	96.10%	97.50%	GREEN
Recovery of Housing Benefit Overpayments	£0.6m	37.50%	34.20%	35.00%	GREEN
Sundry Debtor Collection (incl. Arrears)	£4.9m	84.20%	82.60%	87.50%	GREEN
Benefits Processing (Average Time)					
New Claims	1,000	17 Days	18 Days	25 Days	RED
Change of Circumstances	14,000	14 Days	8 Days	20 Days	RED
Financial Efficiency					
Percentage of Invoices paid within 30-days	5,300	96.40%	97.50%	98.00%	GREEN
Percentage of Invoices paid within 10-days	5,300	69.10%	65.00%	75.00%	GREEN
Number of Payments made Electronically	49,000	98.30%	90.00%	99.25%	GREEN

3.93 The above table continues to show, that as previously reported, three indicators are currently at risk of falling below target. As planned, the current performance of benefits processing has improved over the last quarter due to additional resources and process improvements.

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