
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	3rd DECEMBER 2009	CATEGORY: DELEGATED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/financial monitoring reports/2009 – 5 December
SUBJECT:	BUDGET and FINANCIAL MONITORING 2009/10	REF
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the latest budget and financial monitoring figures for 2009/10 are considered and approved.
- 1.2 That the actions in **Table 3** concerning Transport Costs and Etwall Leisure Centre are approved.

2.0 Purpose of Report

- 2.1 The Council is expected, in demonstrating a proper use of its resources, to monitor income and expenditure against its base budget on a regular basis throughout the year. This is undertaken generally on a monthly basis, and weekly on some of the more volatile and higher risk budgets such as housing repairs.
- 2.2 A fundamental part of the process involves budget managers together with their service accountant, meeting and reviewing performance against their particular budgets. Monitoring 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 addition (effective from April 2009) progress is also reported as part of the quarterly performance management reports to all Policy Committees.
- 2.4 In accordance with its Treasury Management Strategy, the Council monitors its lending and borrowing on a regular basis. The Council's cash flow is monitored on a daily basis and reported monthly to the Council's senior

finance officers. Again, overall performance is reported to this Committee throughout the year.

3.0 Detail

GENERAL FUND REVENUE ACCOUNT

- 3.1 This is the second substantive monitoring report for the financial year 2009/10. It details performance up to 30th September 2009, i.e. the first half of the financial year. The budget (approved in February 2009) was set against a downturn in the global economy
- 3.2 The updated Medium-Term Financial Plan (MTFP) reported to the Committee on 10th September 2009, highlighted a worsening financial position due to the economic situation and in particular, the effects of reducing income from building regulation fees and short-term investments.
- 3.3 The original budget for 2009/10 approved in February 2009, showed an overall deficit of just under £5,000 on the General Fund. The MTFP showed this deficit increasing to approximately £453,000, although this included £100,000 for one-off works at Midway Fishponds.
- 3.4 Subsequently, the budget has been updated to reflect the latest MTFP, including a reduction in interest from short-term investments of £100,000 as reported to the Committee in September. <http://cmis.south-derbys.gov.uk/CmisWebPublic/Meeting.aspx?meetingID=1210>
- 3.5 Consequently and in accordance with normal monitoring arrangements, the position on the General Fund has been reviewed against this.
- 3.6 Given the worsening position in 2009/10 and its potential longer-term impact, all services have been asked to look closely at spending and in particular to contain any additional expenditure within overall base budgets.
- 3.7 This has resulted in some savings and reductions being identified, in particular in the Waste and Cleansing Service. However, additional expenditure is forecast on the new Etwall Leisure Centre and this is detailed later in the report.
- 3.8 The Budget, together with projected variances for the year based on income and expenditure as at September 2009, is summarised in **Table 1**, below.

Table 1 – General Fund

NET EXPENDITURE BY SERVICE AREA 2009/10	Approved Budget	Projected variance for the Year
Environmental Services	4,298,644	-47,000
Management, Finance and Property	2,382,401	1,000
Private Sector Housing and Public Buildings	936,728	-12,000
Organisational Development	910,501	4,000
IT and Business Improvement	1,255,639	-16,000
Legal and Democratic Services	1,206,170	-15,000
Leisure and Community Services	2,837,585	110,000
Planning Services	1,065,526	-12,000
Customer Services (including Revs & Bens)	2,111,478	19,000
Minimum Revenue Provision	297,000	0
Other Pension Costs	217,857	0
Revenue Contributions to Capital	120,000	0
Inflation and Other Amounts set-aside	320,240	0
Internal Recharges	-5,548,318	0
OVERALL NET REVENUE EXPENDITURE	12,411,451	32,000
Less FINANCING (RSG & Council Tax)	-11,958,188	0
DEFICIT for the Year	453,263	32,000

3.9 The table highlights a projected (adverse) variance of £32,000 for 2009/10. This will increase the projected deficit further and put additional pressure on General Reserves.

3.10 The overall amount is distorted by the projected variance on Leisure and Community Services of £110,000, relating to Etwall Leisure Centre. A brief analysis of each service explaining the variances is provided in the sections that follow.

Environmental Services (- £47,000)

3.11 As previously reported, income from liquor licensing is below budget although this is being offset by additional income (compared to budget) on private hire licences. The overall effect is projected to be neutral by the year-end. The favorable variance of £47,000 is attributable to transport costs as explained below.

Transport Costs

3.12 These costs are mainly (but not entirely) associated with the Refuse Collection and Street Cleansing Service. Due to the replacement of 3 new refuse freighters (as planned) in May 2009, spending on repairs and maintenance is now projected to be lower compared to budget by £27,000 in 2009/10. This represents about 1/3rd of the total budget.

3.13 In addition, costs of fuel are projected to be lower by £20,000 (9%) due to the average price being less than estimated. However, this will be monitored

during the remainder of the year due to a sharper increase in average prices during recent weeks.

Private Sector Housing and Public Buildings (- £12,000)

- 3.14 This reduction is due to the cost of electricity supplies to the Civic Offices being lowered from a procurement exercise through a local authority consortium. This involves expert buyers acting on behalf of a range of councils, purchasing “advance blocks” of supplies when the best market conditions become available.
- 3.15 A new contract was effective from 1st October 2009 and although only for 1 year, the price per unit used has almost been halved compared to the previous rate. This will result in a projected saving compared to budget of £12,000 in 2009/10 with on-going effects in 2010/11.
- 3.16 It should be noted that the work to achieve this was undertaken by the Procurement and Business Improvement Unit in accordance with their service plan.

Organisational Development (+ £4,000)

- 3.17 A small projected overspend on the corporate training and development budget, although it is anticipated that this will be absorbed by the year-end.

I.T. and Business Improvement (- £16,000)

- 3.18 This represents savings now anticipated from the centralisation of protective clothing and stationery spending. As part of the Council's efficiency programme, these savings are in addition to those made in 2008/09 and stem from a review of procurement of these particular supplies.
- 3.19 As highlighted in the MTFP, the on-going savings were not built into the General Fund 5-year projection beyond 2008/09, pending a review of the on-going impact. Clearly, it is likely that these savings will be on-going and therefore, can now be built into the MTFP.

Legal and Democratic Services (- £15,000)

- 3.20 Further savings are being made on printing agendas and minutes following the implementation of the electronic system (£4,000). In addition, overall expenditure on Members' Allowances is expected to be lower compared to the Budget (£6,000).
- 3.21 Furthermore, income from land/highway searches is expected to be slightly higher than the Budget by £5,000. Income from this service has dropped sharply over the last 2 years due to the impact of the economic recession, with the Budget and future year projections being revised down accordingly.
- 3.22 The small increase of £5,000 shows that to-date income is now starting to hold up compared to the revised budget, albeit at a much lower level than previous years.

- 3.23 However, as previously reported, there may be an issue for the Council stemming from a decision taken by the Government's Information Commissioner Office.
- 3.24 The issue is around whether authorities are able to charge for providing data on environmental information as part of a land/property search. The Commissioner has ruled that they should not although this is being challenged by the Local Government Association.
- 3.25 If ultimately the ruling is implemented, then this would cost the Council approximately **£40,000 per year** in loss of income.
- 3.26 In addition, under the Land Charges Act of 1975, the Ministry of Justice has revised the statutory charge for a personal search of the local land charges register. This will increase from the current rate of £11 to £22 on 1st January 2010. The effect of this change on the Council's estimated income level is being assessed in readiness for the 2010/11 Budget.

Leisure and Community Services (+ £110,000)

- 3.27 There are four main variances that make up this amount. Firstly, income from cemeteries continues to fall, following the pattern of 2008/09. This is projected to be £10,000 (20%) lower compared to the budget.
- 3.28 Secondly, the budget for the provision of the Christmas Lights and associated events is again, similar to 2008/09, projected to be £9,000 above budget.
- 3.29 However, this expenditure, together with reduced income from cemeteries, will be offset by savings on energy costs at Green Bank Leisure Centre. This has arisen due to capital works undertaken in 2008/09.
- 3.30 These included the implementation of energy efficiency measures and improved monitoring to better control usage. This has reduced the Council's liability for costs under the terms of the contract by £22,000.

New Etwall Leisure Centre

- 3.31 This leaves the largest projected variance in this Division, namely increased costs of £113,000 at the new Etwall Leisure Centre. During the 2009/10 budget round, an additional £32,600 was added to the base budget for 2009/10 to accommodate increased expenditure overall, based on initial costing.
- 3.32 However, net expenditure is now projected to be much higher and the total additional amount of £113,000 (compared to budget) can be analysed as follows:
- Redundancy payment - £8,000
 - Increased staffing costs (mostly associated with reception cover) - £24,000

- Reduced income from membership/classes (£57,000) – take-up proving slower than anticipated.
- Reduced income in lessons/private hire (£24,000) – pool closed for 6 weeks and fewer students taking lessons.

3.33 Although the other partners may share in the additional costs, this is still likely to leave the Council facing additional expenditure in the region of £70,000 to £80,000. However, all partner contributions are still to be determined. In addition, costs of electricity, business rates and other utilities are still to be fully determined.

3.34 The draft budget for 2010/11 is currently being drawn up. Initial estimates suggest that the ongoing effects of the current situation are £60,000 per year, a substantial part of which will fall on the Council. A sum of only £20,000 per year has been included in the Medium-Term Financial Plan.

Planning Services (- £12,000)

3.35 Based on income and activity to-date, income from Building Regulations is projected to be under budget by approximately £45,000. However, this is much improved compared to earlier in the year, where projections indicated £90,000.

3.36 This reduction is being offset by staff vacancies in the service area with one senior post in particular remaining vacant. These vacancies are now anticipated at £57,000 in total, £12,000 above the income reduction.

3.37 Income from Development Control (planning fees) is still projected to be on budget, mainly due to a major application being received in April. In addition, the costs of a recent planning inquiry are currently being contained within budget.

3.38 However, a public inquiry may take place in connection with another major site if called in by the Secretary of State or if the application is refused. This could culminate in additional costs for the Council.

Customer Services (+£19,000)

3.39 This projected overspend is on printing. This is due to the new recovery unit sending out reminder notices for outstanding debt and for anticipated costs of a new council tax leaflet being produced later in the year.

3.40 However, it is anticipated that these costs will be contained by a reduction in the provision that will need to be made for bad and doubtful debts at the year-end.

National Pay Award for Employees

3.41 The Budget for 2009/10 was updated following the review of the MTFP to reflect an increase in pay of 1%. This is included in the revised deficit for the year as set out in Table 1, apportioned over the various cost centres.

3.42 During the last quarter, the final pay award has been agreed nationally at 1% for most employees and is therefore, in line with the Council's revised provision for the year. No increase has been approved for those on Chief Officer Grade.

3.43 The increase for Craft Workers is still to be agreed, although it is not considered that this will have any further impact on the Budget.

Insurance Renewal

3.44 During the last quarter, the Council renewed its insurance premiums for the period October 2009 to September 2010. This is the last year of the current 5-year contract with the existing insurers and is due to be re-tendered in the coming year.

3.45 The current contract is based on a "discounted long-term agreement" which guarantees premiums for its length, only being adjusted for changes in cover and inflation each year. The insurers can break this agreement if the Council's claims experience substantially worsens in any year, but the Council does then have the option of re-tendering at that time.

3.46 During the last 5-years, the agreement has not been broken due to the Council's claims record improving on its main casualty policies. This has continued over the past year and the bottom-line premium cost has been renewed at £337,966, an increase of £4,122 (1.2%) over that in 2008.

3.47 The Budget for 2009/10 provided for an overall increase of 1.5%. Therefore, there is a small saving of approximately £900 compared to the Budget.

3.48 A summary of the individual policies is provided in Table 2, below.

Table 2 – Analysis of Insurance Premiums

Policy	2008 £	2009 £	Change £
Property (Public Buildings and Council Houses)	68,830	69,180	+350
Employers and Public Liability	155,188	155,200	+12
Motor	56,481	61,409	+4,928
Engineering (Lifts, Boilers)	2,740	3,156	+416
Fidelity Guarantee and Accident	18,977	17,191	-1,785
Other Property (Commercial and Industrial)	31,629	31,830	+201
TOTAL COST	333,845	337,966	4,121

3.49 The above table shows that the only major increase is on the Motor Policy which covers all the Council's vehicles, plant and equipment. The increase is due to the level of cover being reviewed and adjusted.

3.50 It should be noted that inflation has been applied and in particular on the property policies of nearly 5%. However, the continuing improvement in claims

experience and a reduction in perceived risk have offset this increase to the levels shown in Table 2.

Summary and Effect of Variances on the 5-year MTFP

3.51 Besides the effect of the variances in 2009/10, there could be on-going effects on the longer-term financial plan to 2014/15.

3.52 **Table 3** below, provides an indication of what this could mean if the MTFP was updated now. It also provides some proposed actions, in particular to help mitigate the effects of additional expenditure.

Table 3 – Indicative Effect of Variances

Variance	Estimated 5-year Effect (£)	Comment & Proposed Actions
Transport Costs	- 47,000	Although this may only be a one-off in 09/10, future maintenance budgets should be reviewed and aligned to the vehicle replacement schedule. This may identify savings in some years.
Civic Offices – Electricity	-£120,000	This will be on-going as the current base budget has been reduced. Clearly, future usage and prices could affect this, but there is likely to be a large reduction compared to current projections.
Training Budget	0	Small overspend to-date which will be met with no on-going implications.
Protective Clothing and Stationery	-£96,000	Now confirmed as an on-going efficiency saving.
Printing of Agendas and Minutes	-£24,000	As above.
Members Allowances	-£6,000	One-off, although this will depend on the occupation of special responsibility positions from year to year.
Income from Land Charges	0	At this stage, it is considered too early to judge whether future income forecasts can be increased. In addition, statutory rulings could still force income levels down further.
Income from Cemeteries	+£60,000	Current trends point to a reduction in income year on year.
Christmas Lights	+£9,000	Future spend is being reviewed and it is anticipated that this will be an on-going cost in future years.
Utility Costs at Green Bank Leisure Centre	0	Reduction already included in the MTFP.
Etwall Leisure Centre	+£273,000	Service budgets will need to be reviewed as this is a fairly significant additional cost on the General Fund.
Planning Services	0	Similar to land Charges, it is considered too early to judge whether future income forecasts can be increased, how this will affect staffing levels and the incidence of any further Inquiries.
Recovery of Bad debts	0	Additional costs in 09/10 are mainly one-off and will be compensated by a reduction in the provision for unpaid debt. Future provisions in the MTFP assume a gradual reduction to 2014/15.
Total Estimated Effect on Reserves by 2014/15	£49,000 (Decrease)	

3.53 The latest MTFP to 2014/15 highlights a **negative** reserve balance by this date of £970,000. Clearly, the net effect of the total in **Table 3** would worsen that projected position by a further £49,000. However, it should be noted that the critical year is 2011/12, as this is the year that general reserves fall below the safe minimum level.

3.54 In addition, it would increase the forecasted budget deficit in 2014/15 from £317,000 to approximately £330,000. Clearly, the effect of increased costs at Etwall Leisure Centre is the main cause of this revised position.

HOUSING REVENUE ACCOUNT (HRA)

3.55 The Council is required to account separately for income and expenditure in providing Council Housing. The HRA Budget, together with projected variances for the year based on income and expenditure as at September 2009, is summarised in **Table 4**, below.

3.56 Similar to the General Fund, the approved budget reflects the latest position as reported to the Committee in September 2009 as part of the review of the MTFP. In particular, the rent income includes the effect of the 3% rent increase for 2009/10 and changes to the rent restructuring convergence date, following revised national guidelines earlier in the year.

3.57 The budget also includes the extra resources secured through Supporting People Grant for disabled adaptations (£40,000) and for transfer and other one-off interim costs of the Extra Care Project in Swadlincote (as approved £67,000).

Table 4 - HRA

NET EXPENDITURE BY SERVICE AREA 2009/10	Approved Budget	Projected variance for the Year
Housing Repairs (£80,000 vired to capital below)	3,005,399	0
General Management	1,105,908	0
Choice-based Lettings	65,952	-29,000
Share of Corporate and Democratic Costs	169,500	0
Sheltered Accommodation and Services	1,038,701	40,000
Council Tax on Void Properties	1,800	0
Provision for Bad Debts	7,500	0
Capital Charges	133,928	0
Payment to Government Pool (negative subsidy)	3,081,265	0
Depreciation	1,895,827	0
Revenue Contribution to Capital (MRA)	80,000	0
Provisions	186,951	0
Capitalisation of Planned Maintenance (contingency)	-300,000	0
OVERALL NET REVENUE EXPENDITURE	10,472,731	11,000
Less Rent and Other Income	-10,203,167	-50,000
DEFICIT for the Year	269,564	-39,000

3.58 **Table 4** shows that overall, the HRA is projected to have a lower deficit (£39,000) compared to that budgeted and included in the 10-year financial forecast.

Housing Repairs

3.59 As the above table shows, there are no major variances projected for the year at this stage. Spending to-date is currently under budget compared to that programmed. However, this is ahead of the winter months where demand can be greater until the year-end.

Other Variances

3.60 The projected variance on Choice Based lettings (- £29,000) is due to a vacant post and it is not anticipated that this will be filled before the year-end. The additional costs in connection with Sheltered Housing continue to be associated with the expansion of the Telecare Service (£30,000) together with greater energy costs (£10,000 on a budget of £60,000) making £40,000 in total.

3.61 However, the additional costs of Telecare will generate additional income of £50,000 as shown in **Table 4**.

CAPITAL EXPENDITURE and FINANCING

3.62 The overall position on gross expenditure (before financing) as at September 2009 is summarised in **Table 5**, below. Again, this represents the updated programme as reported to the Committee in September 2009 as part of the MTFP.

Table 5 – Capital Expenditure

ANALYSIS OF SPENDING BY MAIN SERVICE/PROJECT AREA	APPROVED ESTIMATE £	SPENT AT JUNE 09 £	SPENT AT SEPT 09 £
Council House Improvements**	2,416,573	314,438	925,742
Disabled Facility Grants	459,000	102,354	256,691
Other Housing Investment	755,470	240,383	423,189
Leisure and Community Schemes	2,371,617	99,081	608,542
Environmental and Development	1,368,491	0	77,757
Property and Other Assets**	668,897	28,280	28,957
Total Expenditure	8,040,048	784,536	2,320,878

**** Note – these include repayment of Covenants (£223,750) and contributions to the Renewals Fund (£225,000) for which expenditure is not incurred until the year-end.**

- 3.63 The approved programme has been updated for final Growth Point Funding for 2009/10 of just over £1m. This is mainly for the extension of Hilton Village Hall and for the Swadlincote Town Centre Public Realm Improvements.
- 3.64 As there have been several changes since the original programme was approved back in February 2009, the full scheme and project list is detailed in **Appendix 1** for information.

Summary of Progress to date

- 3.65 Spending on Council House Improvements is as planned. As previously reported, the current spending profile on Housing Investment and in particular Disabled Facility Grants is ahead of that budgeted. This is being reviewed in order that overall spending for the year does not exceed the Budget.
- 3.66 Works on the Swadlincote Town Centre Improvements are set to commence later in the year now that all external funding is in place. This is the reason for the low level of expenditure compared to that budgeted for in Environmental and Development in **Table 5**.
- 3.67 Consequently, there may be some slippage on this scheme into 2010/11.

Capital Receipts

- 3.68 The revised financing programme approved by the Committee in February, made no provision for any further capital receipts being generated in 2009/10. To date, there have been 2 council house sales. After paying the 75% pooling amount on these proceeds, £27,000 is available to the Council.
- 3.69 In addition, there have been 2 land disposals, £14,000 for the General Fund and £72,000 from Housing Land.
- 3.70 As regards the latter, the use of the proceeds was considered by the Committee in September where it was resolved that 50% was reinvested into Disabled Facility Grants. Consequently, the remaining 50% will be paid over to the Government Pool in accordance with Capital Accounting Regulations.

Local Authority Business Improvement Grant (LABGI)

- 3.71 The Government has recently announced an allocation of funds under this grant scheme for 2009/10. Nationally, it is only a small amount compared to previous years, although initially it was considered that no funding would be available this year pending a review for 2010/11.
- 3.72 The Council has been allocated approximately £37,000 as a one-off amount. Together with the proceeds from council house sales (£27,000) and other land disposals (£14,000) this will provide additional capital resources of £78,000 in 2009/10.
- 3.73 Consequently, capital receipts in reserve will increase. This will help to ease some of the pressure on financing commitments in future years, where there is still a substantial deficit as highlighted in the MTFP.

TREASURY MANAGEMENT

3.74 An analysis of the Council's borrowing and short-term investments/bank deposits is summarised in **Table 6**, below.

Table 6

Borrowing	01/04/09	30/09/09
• Long Term Debt Outstanding	£1,000,00	£1,000,000
• Temporary Borrowings	£223,326	£136,667
Total Debt Outstanding	£1,223,326	£1,136,667
• Interest Rate on Long Term - fixed at:	4.875%	4.875%
• Interest Rate on Temporary –1% below Base	0.00%	0.00%
• Base Rate (Latest change was on 5th March)	0.50%	0.50%
Short-term Investments		
• Bank Deposits and Other Investments	£0	£5,027,500
Average Interest Rate Earned (on Investments)	0.00%	0.75%
Target – Average 7-Day Rate (for comparison)	0.50%	0.50%

Analysis of Interest (Paid)/Received	Revised Estimate for the Year £	Projected for the Year £
Short term Deposits	30,000	30,000
Less Temporary Loans	(1,315)	(1,315)
Total – Net Interest Receivable	28,685	28,685

3.75 As previously highlighted, the net interest receivable was reduced by approximately £100,000 in June 2009 as part of the updated MTFP. The revised amounts remain unchanged at this stage.

3.76 Clearly, as a net lender of funds, the Council would benefit from an increase in interest rates. However, the general view of informed commentators is that the UK Bank Base Rate will remain at ½% for the foreseeable future, and possibly until the middle part of 2010. This will depend on when, and how quickly, economic growth recovers.

3.77 The issue for the Council is that there is still little evidence of banks lending to generate activity in the financial markets. In addition, banks are still demanding large deposits to access rates, although the Council's average rate is still above the market average.

Overall Debt Liability

- 3.78 Besides the debt shown in **Table 6**, the Council also pays interest on Covenants (which is effectively a form of debt financing). It also contributes to historic debt now administered by a neighbouring authority following a transfer of assets some years ago due to local government re-organisation.
- 3.79 In total, the Council's debt liability is summarised in **Table 7**, below. Again, this has been revised following the updated MTFP and shows no further variances since then.

Table 7

Summary of Overall Debt Payments 2009/10	Estimate (£)	Projected (£)	Variance (£)
Money Market Loan	48,750	48,750	0
Temporary Loans and Bonds	1,315	1,315	0
Bank Interest	1,400	1,400	0
Covenants	101,050	101,050	0
Transferred Debt	19,600	19,600	0
Interest Received on Deposits	(30,000)	(30,000)	0
Other Interest Received	(80)	(80)	0
Net Recharge to the HRA	(97,284)	(97,284)	0
Net Interest (Received)/Payable	(44,751)	(44,751)	0

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