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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>2<sup>nd</sup> DECEMBER 2010</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF CORPORATE SERVICES</b>	<b>OPEN</b>
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<b>SUBJECT:</b>	<b>BUDGET and FINANCIAL MONITORING 2010/11</b>	<b>REF</b>
<b>WARD (S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FM 08</b>

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## **1.0 Recommendations**

- 1.1 That the latest budget and financial monitoring figures for 2010/11 are considered and approved.

## **2.0 Purpose of Report**

- 2.1 As part of proper financial management, the Council monitors income and expenditure against its budgets on a regular basis throughout the year. This is undertaken on a monthly basis, and weekly on some of the more volatile and higher risk budgets such as housing repairs.
- 2.2 An important 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 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 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.
- 2.5 This is the second monitoring report for the financial year 2010/11. It details performance up to 30<sup>th</sup> September 2010, i.e. half year.

### 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 being financed from the Council's Reserves.
- 3.2 The Budget (approved in February 2010) was set against the economic downturn with the Council relying on general reserves to achieve a balanced budget for the year. This included a council tax increase of 1.5% for 2010/11.
- 3.3 The Deficit for the year was estimated at £472,192, summarised as follows:

**Table 1 – General Fund: Estimated Budget Deficit 2010/11 (figures in £'s)**

Net Expenditure on Services	12,054,046
Capital Charging Adjustments	(10,723)
Provisions	607,984
<b>Overall Net Revenue Expenditure</b>	<b>12,651,307</b>
<b>Financing</b>	
General Government Grant	(7,342,703)
Council Tax	(4,754,337)
Earmarked Reserves	(82,075)
<b>Total Financing</b>	<b>(12,179,115)</b>
<b>Budget Deficit</b>	<b>472,192</b>

- 3.4 The Deficit was to be financed by drawing down general reserves, which equated to £3.25m at 1st April 2010 (following the adjustment for the VAT windfall as reported to Committee on 21<sup>st</sup> October).
- 3.5 Table 1 shows that the overall budget allowed for some provisional expenditure. In accordance with the Council's Financial Strategy, this is held outside the Base Budget until the actual expenditure (if any) is known.
- 3.6 The provisional amount mainly relates to inflation (in particular pay awards), natural growth of the District, together with a sum to meet interim costs associated with the pay and grading review.
- 3.7 Since the Budget was set out in February, several adjustments were made which were reported to the Committee in September as part of the first quarter's monitoring report. These are shown in Table 2.

**Table 2: Adjustments to the Budget as reported in September 2010 (figures in £'s)**

Approved Inflation Allowance on Grants to Voluntary Bodies	3,531
Approved inflation and increased budget for Concurrent Functions	21,888
Savings on Energy costs due to Efficiency Measures (Salix Finance)	-7,539
Approved restructure in Community Services	-104,396
Amounts B/fwd from 2009/10 (Financed from Earmarked Reserve)	62,000

3.8 These adjustments reduced the estimated budget deficit for the year at that time to £360,257. Following a review of the Medium-Term Financial Plan (which was reported in October), other adjustments were made to the Budget for 2010/11. These are shown in Table 3.

**Table 3: Adjustments to the Budget as reported in October 2010 (figures in £'s)**

Interim costs of Pay and Grading Review b/fwd 09/10	50,000
Provision for growth in costs of Waste Collection b/fwd 09/10	17,485
Legal Services Restructure	-41,500
Corporate Services Partnership (part year effect)	-48,840
Additional amount added to inflation contingency	17,759
Net reduction in interest receivable	7,987
Reduction in Land Charges income	25,000
Savings on Economic Development costs (to be c/fwd to 2011/12)	-13,163
Retendering of Insurance Premiums	-10,000

3.9 These adjustments overall, slightly increased the estimated deficit for the year to £364,985 as shown in Table 4.

**Table 4 – General Fund: Revised Budget Deficit 2010/11 (figures in £'s)**

Net Expenditure on Services	12,354,556
Capital Charging Adjustments	(357,425)
Provisions	608,969
<b>Overall Net Revenue Expenditure</b>	<b>12,606,100</b>
<b>Financing</b>	
General Government Grant	(7,313,884)
Area Based Grant	(28,819)
Council Tax	(4,754,337)
Earmarked Reserves	(144,075)
<b>Total Financing</b>	<b>(12,241,115)</b>
<b>Budget Deficit</b>	<b>364,985</b>

3.10 In line with normal monitoring arrangements, the position on the Revised Net Expenditure on Services (i.e. £12,354,556 in Table 4) continues to be reviewed.

- 3.11 This is the amount that is directly managed and controlled by the various budget holders across the Council. The revised budget, together with major variances identified as at September 2010 are summarised in Table 5, below.
- 3.12 The variances reflect additional issues that although projected to out-turn at this level, could change during the remainder of the year. Consequently, they are not reflected directly in the revised budget at this stage.

**Table 5: Performance against Revised Budget 2010/11 as at September 2010 (figures in £'s)**

<b>Main Service Head</b>	<b>Revised Budget</b>	<b>Projected Variance for the Year</b>
Environmental Services	4,197,427	- 30,000
Corporate Services	3,978,661	+ 38,600
Private Sector Housing and Public Buildings	612,619	0
Legal and Democratic Services	872,349	0
Leisure and Community	2,089,495	- 16,700
Planning Services	604,005	+ 58,000
<b>Total - Net Expenditure on Services</b>	<b>12,354,556</b>	<b>+ 49,900</b>

- 3.13 Table 4 shows that based on current income and spending, there will be an overall **increase** in net expenditure on services of approximately £50,000 compared to the Revised Budget for the year.
- 3.14 The main variances identified to-date are summarised in the sections that follow.

#### **Environmental Services (- £30,000)**

- 3.15 This mainly relates to a projected reduction in the cost of collecting recyclable materials. The cost of collection varies depending upon the amount of recyclable waste collected and therefore, future demands may effect the projected year-end position.

#### **Corporate Services (+ £38,600)**

- 3.16 This includes services included as part of the Northgate Partnership. There are several variances within the overall total, as shown in Table 6.

**Table 6: Projected Variances in Corporate Services (figures in £'s)**

Housing Benefits (see below)	+ 100,000
Concessionary Travel (bus pass usage)	- 40,000
Vacant post in Internal Audit – work being covered by a neighbouring authority, but overall net saving	- 24,700
Cash and Debt Collection costs	- 8,000
Projected interest on short term investments less than estimated	+ 6,300
Projected income from commercial and industrial holdings less than estimated	+ 5,000

## **Housing Benefits**

- 3.17 The main issue is the level of housing and council tax benefit payments and the amount of liability that remains with the Council. This increased during 2009/10 and is projected to add a further £100,000 to the Council's liability for 2010/11 compared to that budgeted.
- 3.18 Total benefit claims paid rose to around £19.7m in 2009/10 compared to £14.8m in 2008/09 and are currently projected to total around £21.5m in 2010/11. Actual claims in 08/09 were approximately 7,000, but this is expected to reach 10,000 in 2010/11.
- 3.19 During the first quarter, it was reported that claims and payments appeared to be leveling off following the increase in 2009/10. However, as stated, this has started to increase again more significantly.
- 3.20 The Council does not receive 100% subsidy from the Government on all payments made. Local authorities reclaim the housing benefit that they have paid from the DWP by means of submitting audited subsidy claims.
- 3.21 Some elements of the subsidy claim are subject to penalty, to encourage authorities to control that element of expenditure. This includes high rents for care and support homes and the raising of overpayments. Overpayments of benefit are not fully funded in order to ensure that a local authority takes recovery action where appropriate. In addition, limits are placed on the costs of bed and breakfast accommodation.
- 3.22 In total, it is estimated that the Council will claim 98.96% of payments made in 2011/11 through subsidy. Consequently of the £21.5m projected payments, around £220,000 will fall on the General Fund. A variance of just 0.1% can have a significant impact in monetary terms given the amount of benefits paid
- 3.23 The Council will continue to reclaim overpayments. However, this is often a slow and sometimes difficult process.

## **Leisure and Community (- £16,700)**

- 3.24 The projected decrease is due to savings on business rates at Green Bank Leisure Centre stemming from a revaluation of the premises. A one-off backdated refund of approximately £22,000 has been received.
- 3.25 The Head of Leisure and Community has requested that this is set-aside to supplement any costs or loss of income associated with the temporary closure of the Centre to undertake the planned refurbishment. This would be in addition to £32,000 set-aside from 2009/10 for the same purpose.

## **Planning Services (+ £58,000)**

- 3.26 At this stage income from planning fees is below estimate. However, there are a number of applications due to take place, which may reverse this variance later in the financial year. At present, overall income from building regulations is currently on budget.

## Area Based Grant (ABG)

- 3.27 The Council's allocation from the national pot has been confirmed at £39,706. The Council's Budget estimated £28,819 based on a provisional allocation earlier in the year.
- 3.28 This is a general grant and therefore, the additional allocation represents extra resources for the Council in this year only. ABG has been abolished from 2011/12 and the Council's current MTFP has taken this into account.

## HOUSING REVENUE ACCOUNT (HRA)

- 3.29 The Council is required to account separately for income and expenditure in providing Council Housing, although the HRA is a subsidiary account of the General Fund.
- 3.30 The HRA Budget set in February 2010 included drawing down HRA Reserves of £439,664 to finance an estimated budget deficit for 2010/11. Following the review of the MTFP in October, this was reduced slightly overall, to £433,637.
- 3.31 The position as at September 2010 is summarised in Table 7.

**Table 7: HRA - Performance against Revised Budget 2010/11 as at September 2010 (figures in £'s)**

<b>ANALYSIS OF EXPENDITURE (BY MAIN SERVICE AREA)</b>	<b>Revised Budget</b>	<b>Projected Variance for the Year</b>
Housing Repairs	3,258,384	0
General Management	735,521	0
Choice Based Lettings	30,024	0
Share of Corporate and Democratic Costs	173,750	0
Sheltered and Other Services	1,052,015	0
Council Tax on Void Properties	4,518	0
Provision for Bad Debts	7,500	0
Capital Charges	97,340	0
Depreciation	1,914,938	0
Net Payment to Government Pool	3,463,479	0
Provision for Inflation and Pay and Grading	47,940	0
Less : Rent and Other Income	(10,351,772)	48,000
<b>Net Deficit</b>	<b>433,637</b>	<b>48,000</b>

- 3.32 Except for Rent Income, table 7 shows no additional variances to the Revised Budget from the last report. The projected loss of income compared to the Budget of £48,000 is made up of:

- £80,000 reduction in supporting people grant from the administering authority. This grant is demand led and is difficult to estimate the number of tenants who will meet the qualifying criteria. In addition payment is now

based on actual tenants in accommodation as opposed to the maximum number of units available for supported housing.

- £12,000 increased income from rechargeable works.
- £20,000 increased income from additional Telecare customers.

## **CAPITAL EXPENDITURE and FINANCING 2010/11**

3.33 The overall position on gross expenditure (before external financing) as at September 2010 is summarised in Table 8.

**Table 8: Analysis of Capital Expenditure as at September 2010**

<b>ANALYSIS OF SPENDING BY MAIN SERVICE/PROJECT AREA</b>	<b>APPROVED ESTIMATE £</b>	<b>SPENT AT SEPTEMBER 10 £</b>
Council House Improvements**	2,460,731	808,118
Disabled Facility Grants (DFGs)	298,098	165,434
Other Housing Investment	408,736	166,328
Leisure and Community Schemes	1,170,424	428,888
Environmental and Development	746,007	430,973
Property and Other Assets	483,074	213,190
<b>Total Expenditure</b>	<b>5,567,070</b>	<b>2,212,931</b>

\*\* Note – this includes repayment of Covenants of £331,000 for which expenditure is not incurred until the year-end.

3.34 Generally, major schemes are running as planned and no major variances are anticipated at this stage, although the budget for DFGs is spending higher than a straight line profile at this stage.

### **Capital Receipts**

3.35 The Financing Programme made no provision for any new capital receipts being generated in 2010/11. To-date, there has been 2 council house sales and 4 land disposals amounting to approximately £194,000.

3.36 After Government Pooling, this leaves £88,000 available for reinvestment. A sum of £46,875 has previously been approved to supplement the budgets for the Sheltered Housing Vision and Disabled Facility Grants in 2010/11. The remainder will be maintained as a contribution to the amount of capital receipts required to fund commitments in future years.

### **VAT Windfall**

3.37 It was reported to the Committee in October that the Council had been successful in securing a substantial refund of VAT. Based on a European Directive, HM Revenues and Customs (HMRC) were found not to have implemented the VAT treatment of sports facility admissions and sporting tuition correctly into UK law.

- 3.38 On the basis of further case law passed in 2009 which made this incorrect treatment retrospective, the Council made a claim for a refund in VAT dating back to the period **1977 to 1995**.
- 3.39 In accordance with the European Directive, the claim was based on a refund of all VAT charged to users of leisure facilities for sporting services, sports courses and where tuition fees were charged in this period.
- 3.40 These services should not have incurred VAT. However, the Council had charged VAT (in accordance with HMRC's prevailing guidance) and paid it over in its agency capacity to HMRC.
- 3.41 After research and compilation of evidence to meet HMRC requirements, the Council submitted 2 claims, for £143,000 to cover sporting services and a separate claim for £123,000 covering sports courses and tuition fees.
- 3.42 The first claim was settled in August 2010 and totaled £139,844 with interest added of £124,256, making a total of £264,100. This amount was adjusted in the Council's accounts for 2009/10 as a post balance sheet event and reported to the Audit Committee on 29<sup>th</sup> September.
- 3.43 During November, the second claim was settled at £103,116, with interest added of £126,245, making a total of £229,361. In aggregate, the two claims together have netted the Council **£493,461**.
- 3.44 Clearly, this is a substantial amount and there are no restrictions on its use. As it is a one-off resource, it was recommended to the Committee in October that it is used to finance the outstanding capital commitments in 2011/12.
- 3.45 This will ease the pressure on finding money to meet these capital commitments from General Fund Reserves, effectively acting as a contribution to the £1.25m of capital receipts required by 2015/16.

## TREASURY MANAGEMENT

- 3.46 An analysis of the Council's borrowing and short-term investments/bank deposits is summarised in Table 9, below. This shows the position to 31<sup>st</sup> October 2010.

**Table 9: Analysis of Borrowing and Short-term Investments**

<b>Borrowing</b>	<b>01/04/10 (Start of Year)</b>	<b>31/10/10</b>
• Long Term Debt Outstanding	£1,000,000	<b>£1,000,000</b>
• Temporary Borrowings	£3,133,367	<b>£133,367</b>
<b>Total Debt Outstanding</b>	<b><u>£4,133,367</u></b>	<b><u>£1,133,367</u></b>



• Interest Rate on Long term - fixed at:	4.875%	4.875%
• Interest Rate Paid on Temporary Borrowings	0.45%	0.00%
• Base Rate ( <b>Since 5th March 2009</b> )	0.50%	0.50%
<b>Short-term Investments</b>		
• Bank Deposits and Other Investments	<b>£4,052,700</b>	<b>£3,717,170</b>
Average Interest Rate Earned (on Investments)	0.75%	0.75%
Target – Average 7-Day Rate (for comparison)	0.40%	0.54%

<b>Analysis of Interest (Paid)/Received</b>	<b>Revised Estimate for the Year £</b>	<b>Projected for the Year £</b>
Short term Deposits	26,250	32,500
Less Temporary Loans	0	0
<b>Total – Net Interest Receivable</b>	<b>26,250</b>	<b>32,500</b>

3.47 The estimate for the year was revised down from £60,000 (to £26,250) as part of the MTFP review in October. As can be seen, it is now projected to be above this based on interest earned to-date. This is mainly due to the average daily deposit balance being higher than estimated, i.e. £4.4m compared to £3.5m.

### **Overall Debt Liability**

3.48 Besides the debt shown in Table 9, the Council also pays interest on Covenants (which are effectively a form of debt financing). It also contributes to historic debt now administered by a neighboring authority following a transfer of assets many years ago due to local government re-organisation.

3.49 The General Fund also passes across a proportion of interest to the HRA which is calculated under accounting regulations. Interest paid and received in total is shown in Table 9, below.

**Table 10: Overall Interest 2010/11**

	<b>Revised Estimate (£)</b>	<b>Projected (£)</b>	<b>Variance (£)</b>
Money Market Loan	48,750	48,750	0
Temporary Loans and Bonds	615	615	0
Bank Interest	1,400	2,000	600
Covenants ( <b>Final Year</b> )	55,700	55,700	0
Transferred Debt	5,000	5,000	0
Interest Received on Deposits	(26,250)	(32,500)	(6,250)
Other Interest Received	(80)	(188)	(108)
Net Recharge to the HRA	(68,000)	(68,000)	0
<b>Net Interest (Received)/Payable</b>	<b>17,135</b>	<b>11,377</b>	<b>5,758</b>

## **LOCAL AUTHORITY EXPENDITURE OVER £500**

- 3.50 The Secretary of State for Communities and Local Government wrote to local authorities in June 2010 committing them to publishing items of spending over £500 including tenders, contracts and actual payments by January 2011. The Government has also committed to publishing certain information on salaries and contracts by this date.
- 3.51 The Council is currently working on the data that it will have to publish in accordance with accompanying guidance. The guidance defines “Expenditure” as all individual invoices, grant payments, expense payments and other such transactions that are over £500.
- 3.52 Certain payments, for example to private individuals, will be exempt under the Freedom of Information and Data Protection Acts. Payments for goods and services, grants to 3rd party providers, grant in aid, expenses, rent and policy related lending are all included as are transactions with other public bodies.

### **Exclusions**

- 3.53 Transactions relating to income or the financing or underwriting of debt may be excluded, as are financing and investment expenditure, payments made to HMRC for VAT, PAYE and NIC or pensions. Salary payments to staff will not be included, nor should compensation payments made to individuals. Publication of salaries to senior staff is to be dealt with separately.
- 3.54 Individual transactions may also be exempt from publication where personal details or commercial information may be explicit. It is the responsibility of each authority to determine what is published, although some good practice has already been accepted from authorities that have previously published this information.
- 3.55 It is expected that the Council will be in a position to publish its information in accordance with the guidance in advance of January 2011.

### **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