
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 8
DATE OF MEETING:	17th FEBRUARY 2009	CATEGORY: DELEGATED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/financial monitoring reports/2009 – 1 February
SUBJECT:	BUDGET and FINANCIAL MONITORING 2008/09	REF
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the latest budget and financial monitoring figures for 2008/09 are considered and approved.
- 1.2 That the on-going remedial actions to contain the projected overspend within the base budget continue and that this is reported back in the next monitoring report.

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.
- 2.4 In accordance with its Treasury Management Strategy, the Council monitors its lending and borrowing on a regular basis.

- 2.5 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.
- 2.6 The report also details the latest position on the value for money efficiency gains being pursued by the Council with an overall update on the various projects and activities included.

3.0 Detail

GENERAL FUND REVENUE ACCOUNT

Summary from Previous Monitoring Reports

- 3.1 On 5th December, the Committee considered a report that detailed a projected over spend on the General Fund for the year of approximately £400,000. This overspend had been getting progressively worse throughout the year as previous reports had highlighted. The report set out the main reason for this as being external factors - in particular the economic downturn.
- 3.2 The Council was faced with projected reductions in income from building regulations and land charges, investment income, together with additional fuel costs, the cost associated with planning inquiries and potential costs arising from the concessionary travel and national bus pass scheme.
- 3.3 On concessionary travel, it was reported in December that the costs of the new scheme could have a significant and positive effect on the projected budget deficit, although at that stage, the final share of costs was not certain.
- 3.4 In view of this situation, besides a general acceptance that caution needed to be observed and all expenditure scrutinised, certain actions were agreed earlier in the financial year to help mitigate the effects. An update on these actions is given in the following table.

Action Agreed	Update
Head of Environmental Services to review fuel charges	Fuel is bought through a purchasing contract. It is still considered that the current Consortium arrangements for the purchase of fuel offer the best price for the Council at this time. In addition, fuel prices continue to fall and this is reflected in the latest spending projections, i.e. overall costs may now fall enough so that the budget is not exceeded.
Head of Legal and Democratic Services to review the land charges function in the light of reducing income	A review of service provision has been completed and the Senior Management Team is currently considering recommendations. This report highlights income is projected to fall further compared to that estimated. The Environmental and Development Services Committee approved an increased fee for commercial searches on 6 th January 2009.

Head of Leisure and Community Development to review the events budget in line with corporate priorities and available budgets to identify any areas for potential savings	This will take place later in the year in accordance with a business improvement programme in that area.
Head of Planning Services to recruit the approved additional staffing on a phased basis	This is being undertaken and kept under review. The new monitoring and planning policy posts have been recruited and some staff changes in respect of working hours have been made to help maintain the current position in development control (with filling of the two new posts for that section being held in abeyance).
Head of Housing Services to review the projected overspend on Sheltered and Other Housing Services	This was completed earlier in the year and additional staffing costs from the development of the Careline Service are being offset by additional income generated from increased take-up (as reported to Committee in October).

Latest Position

- 3.5 In line with normal monitoring arrangements, the position on the General Fund has been updated as at 31st December 2008, and the latest variances are summarised in Table 1, below.
- 3.6 This shows a projected overspend of £346,765 for the current year 2008/09, compared to £408,760 as at September 2008, i.e. a reduction of £61,995.

Table 1

ANALYSIS OF EXPENDITURE (BY MAIN SERVICE AREA)	APPROVED BUDGET 2008/09 £	PROJECTED VARIANCE (@ SEPT 08) £	PROJECTED VARIANCE (@ DEC 08) £
Environmental Services	3,156,398	29,800	(48,000)
Management, Finance and Property	1,077,485	54,000	88,765
Housing and Public Buildings	1,501,809	13,000	13,000
Organisational Development	482,184	0	0
IT and Business Improvement	863,588	0	3,000
Legal and Democratic Services	924,952	86,800	27,000
Leisure and Community Services	2,176,725	11,400	5,000
Planning Services	255,170	163,000	242,000
Customer Services (including Revs & Bens)	1,634,800	62,760	28,000
Minimum Revenue Provision	306,000	0	0
Pensions	1,639,257	0	0
Provisions	192,500	0	0
Internal Recharges (income to the G Fund)	(1,966,032)	0	0
**Financing from Earmarked Reserves	0	(12,000)	(12,000)
OVERALL NET REVENUE EXPENDITURE	12,244,836	408,760	346,765

Note – variance figures in brackets denote less expenditure or more income

- 3.7 The approved budget includes all supplementary estimates previously reported since February 2008 and amounts brought forward from 2007/08 as approved by the Committee on 26th June 2008.
- 3.8 The main reasons for the projected variances in the Table 1 are detailed in the following sections.

Environmental Services

- 3.9 The overall positive variance of £48,000 is much improved compared to the previous quarter. The recent reductions in the price of fuel are now likely to bring the overall cost to within the base budget of £220,000 for the year. Previous reports were highlighting a potential overspend of £30,000 before the price reduction.
- 3.10 The variance of £48,000 is summarised as follows:
- Increase in Kennel Fees - £8,000
 - Increase in Leasing Costs - £12,000
 - Increase in Licensing Income - (£42,000)
 - Costs of Waste Collection – (£26,000)

- 3.11 Although as previously reported, there are additional costs of dealing with stray dogs “out of hours, this continues to be offset by additional income for taxi licensing and inspections. This is now estimated to generate £100,000 compared to the budget of £60,000 for the year, i.e. £40,000 more.
- 3.12 The costs of Leasing will be met from an earmarked reserve set-aside for this purpose and the overall reduction in the costs of waste collection and street cleansing is mainly due to lower agency and operational costs.

Management, Finance and Property

- 3.13 The overall variance of £88,765 is mainly due to a reduction in interest on short-term investments compared to the base budget. This is detailed later in the report within the commentary on Treasury Management.
- 3.14 The other major variance continues to be a projected reduction in income from industrial and commercial property holdings (£18,000 on a total budget of approximately £320,000 per year).
- 3.15 Although a certain level of void properties and turnover are assumed in the budget, reletting of empty units has become more difficult in the current economic climate.

Housing and Public Buildings

- 3.16 As previously reported, the variance of £13,000 is due to larger increases in the cost of electricity and gas on the Civic Offices and Darklands Road Depot on the renewal of fixed contracts.

3.17 The total utilities budget for these facilities is £70,000 in 2008/09. The additional £13,000 is due to increases of over 30% in the cost of gas and electricity, more than double on what was assumed in the budget.

Legal and Democratic Services

3.18 The overall variance has improved over the last quarter. Within this, there is still a projected shortfall in net income compared to budget of £80,000 from Land Charges.

3.19 However, temporary reductions in salaries and other departmental costs within the service area reduce this down to £27,000 overall. The Service Manager concerned has requested that £25,000 once again be carried forward to meet any future costs of the Local Assessment Regime.

3.20 It is likely that the current budget carried forward from 2007/08 of £25,000 will be spent or committed by the year-end and there is no on-going provision for this function.

Leisure and Community Services

3.21 The projected overspend is £5,000, summarised as follows:

- Additional staffing costs on the Tourism service due to cover for staff absences (£12,000).
- Reduction in income from Burial Fees (£15,000).
- Offset by savings (compared to budget) at Etwall Leisure Centre (£22,000)

3.22 As regards the savings at Etwall Leisure Centre, the Service Manager concerned may request that this money is carried forward to 2009/10, to cover transitional costs of moving to the new Centre.

3.23 On this point, it should be noted that £25,000 has already been set-aside for this purpose.

Planning Services

3.24 Since the last quarter, there has been an increase in the overall estimated variance from £163,000 to £242,000. This is mainly due to a reduction of £70,000 in development control fees now being estimated for the year

3.25 The overall variance of £242,000 is summarised as follows:

- Reduction in income from Building Regulations - £100,000
- Reduction in income from Development Control (Planning Fees) - £70,000
- Legal and Professional Costs associated with Inquiries - £143,000
- Additional staffing-part year (as approved) - £44,000
- Offset by additional Housing and Planning Delivery Grant – (£115,000)

- 3.26 A major planning application is anticipated, but this is by no means guaranteed. This would offset the reduction of £70,000 in planning fees highlighted above.
- 3.27 In addition, some further income may be generated from contributions to the Planning Inquiries. This is estimated at £25,000, but again, this is by no means certain.
- 3.28 Furthermore, the Environmental and Development Services Committee (6th January) reviewed current charges for the Building Control Service and subsequently approved an increase in rates. (Details can be found at <http://cmis.south-derbys.gov.uk/CMISWebPublic/Binary.ashx?Document=3763>)
- 3.29 This may also help to generate some additional income.

Customer Services

- 3.30 The previous variance related to the potential increase in costs of concessionary travel. However, as already reported to the Committee, this is likely to change fairly significantly as the distribution of costs for the new scheme are now almost finalised, based on data covering actual usage in each District area.
- 3.31 These figures show that the Council will be in a much better position and this is subject to more detailed analysis in the Consolidated Budget Report (found elsewhere on this agenda).
- 3.32 As that report highlights, the revised costs have a significant and positive effect on the Council's budget deficit for 2008/09.

Revenues and Benefits

- 3.33 At the end of the previous quarter, it was reported that whilst costs were being maintained within budget, there was increasing pressure in the service due to a significant increase in the number of benefit applications in recent months. Subsequently, temporary resources have been employed to maintain performance in processing claims.
- 3.34 On this point, the Council has recently been awarded additional Government grant of £38,392 for 2009/10 to deal with pressures in this area. Although this will not help to offset costs in 2008/09, it will be used to meet any on-going costs next year.
- 3.35 The updated medium-term financial plan reported to Committee in January, assumed additional benefit subsidy of £50,000 for 2008/09 based on the latest calculations, although this has not been built into the budget at this stage.
- 3.36 In addition, due to extra work undertaken by the Council's External Auditor's on the Benefit Subsidy return for 2007/08, additional fees may be due. This is still to be fully agreed.

Update on Housing Benefit Subsidy

- 3.37 On this point, the Council had set-aside in its accounts a sum of £482,000 for suspended benefit cases. This is in response to the DWP notifying the Council that it intends to review, with an intention to reclaim, any ineligible subsidy it has paid to the Council in previous years (dating back to 2005/06) in respect of certain housing benefit cases.
- 3.38 The current provision in the Council's accounts as at 31st March 2008 is estimated to cover a reclaim of subsidy for 2005/06, 2006/07 and 2007/08. It was previously reported that no amounts were due for 2005/06 with £7,000 owing for 2006/07.
- 3.39 Consequently, the provision was reduced to £382,000 in October 2008. Current estimates suggest (subject to the outcome in paragraph 3.37, above) that a liability of up to £115,000 could be due for the final year under review, i.e. 2007/08. This would make a maximum liability of £122,000.

Projected Overall Variance on the General Fund

- 3.40 Table 1 shows a projected "overspend" of £346,765. Overall, this is an improved position compared to the previous report in December.
- 3.41 Clearly, the revised costs of concessionary travel will make a difference and alleviate this overall budget deficit, with net revenue expenditure likely to be within budget for 2008/09.
- 3.42 However, it should be noted that there are still underlying reductions in interest from short-term investments, together with reducing income from planning fees and land charges. The economic recession is still having a material and negative impact on the Council's financial position.
- 3.43 Finally, the national pay award for staff is still to be agreed for 2008/09 and is currently subject to an arbitration hearing. If the estimated award is 2.75% (as projected in the MTFP) compared to the current budget of 3%, this will produce a saving of approximately £25,000.

HOUSING REVENUE ACCOUNT (HRA)

- 3.44 The Council is required to account separately for income and expenditure in providing Council Housing. The financial position as at December 2008 is summarised in table 2, below.

Table 2

ANALYSIS OF EXPENDITURE (BY MAIN SERVICE AREA)	APPROVED BUDGET 2008/09 £	PROJECTED VARIANCE (@ SEPT 08) £	PROJECTED VARIANCE (@ DEC 08) £
Housing Repairs	3,150,530	(68,000)	(30,000)
General Management	937,228	8,990	0
Sheltered and Other Services	879,672	0	0
Council Tax on Void Properties	1,856	0	0
Provision for Bad Debts	7,500	0	0
Capital Charges	1,967,547	0	0
Payment to Government Pool	2,825,212	0	0
Rent and Other Income	(9,819,024)	(56,000)	(50,000)
Net SURPLUS	(49,479)	(115,010)	(80,000)

Note – variance figures in brackets denote less expenditure or more income

- 3.45 The above table shows that the net surplus on the HRA is now projected to be approximately £80,000 higher than estimated. However, it should be noted that at the Committee in October 2008, approval was given to spend an additional £85,000 on a Stock Condition Survey, together with £35,000 (£120,000 in total) on a Stock Options Review.
- 3.46 The additional income in the above table of £50,000 is mainly due to additional rent of £26,000 (lower “right to buys” than estimated) together with additional Supporting People Grant of £24,000.
- 3.47 The other major variance at this stage continues to be on the Repairs budget. However, the usual cautionary note is relevant in that the budget and spending pattern can be volatile and subject to change during the year depending on demand and weather conditions, etc.

VALUE FOR MONEY EFFICIENCY SAVINGS

- 3.48 **Appendix 1** details the Council’s central monitoring record for its efficiencies. Projects 25 to 30 are those that are currently being implemented and the full effects are still to be ascertained. Therefore, these have yet to be included in the Medium term Financial Plan.
- 3.49 Cumulatively, these new gains should generate a further £635,000 in cashable savings by 2013.
- 3.50 In view of the longer-term budget position, it is important that the Council brings about the planned efficiency savings in accordance with the Business Improvement and Procurement programmes.

CAPITAL EXPENDITURE and FINANCING

3.51 The overall position on gross expenditure (before external financing) as at December 2008 is summarised in table 3, below.

Table 3

ANALYSIS OF SPENDING BY MAIN SERVICE/PROJECT AREA	APPROVED ESTIMATE £	SPENT AT OCT 08 £	SPENT AT DEC 08 £
Council House Improvements	2,867,500	1,428,938	1,879,541
Disabled Facility Grants	686,920	327,752	475,327
Other Housing Investment	763,100	221,361	374,809
Leisure and Community	1,285,490	1,038,144	1,086,250
Environmental Projects	185,200	54,675	80,264
Property and Other Assets**	616,050	159,547	195,985
Growth Point Schemes	635,000	47,406	112,673
Total Expenditure	7,008,860	3,277,823	4,204,849

** Note – this includes repayment of Covenants (£200,000) for which expenditure is not incurred until the year-end.

3.52 The Committee approved the updated programme in January. The funding from growth point has recently been reduced by £100,000, following finalised figures from funding partners. The Council's programme has been revised to reflect this.

3.53 The Council has also recently been awarded additional capital grant through the Local Area Agreement of £35,000. This has been allocated to specific schemes, i.e. to purchase Alert Boxes to strengthen the Shop Watch Scheme in Swadlincote Town Centre (£10,000) and to purchase new multi-user games equipment for Newhall MUGA refurbishment (£25,000).

Leisure and Community Services

3.54 The latest development project at Rosliston has been completed. As previously reported, there have been issues which may bring about an overspend on the budgeted cost. Some issues have also arisen on the Play Schemes project.

3.55 These schemes should be externally funded in full. Therefore, issues are now being reviewed further to ascertain the extent of additional works and the impact of external funding. In total, there is currently a shortfall of approximately £70,000 on an overall spend of just over £700,000 in these areas combined.

Capital Receipts

3.56 The revised financing programme approved by the Committee in January, highlighted asset sales for the year of approximately £130,000 (including

council house sales). This was based on actual disposals up to September 2008, with no further sales anticipated for the remainder of the financial year. This situation remains unchanged.

TREASURY MANAGEMENT

3.57 An analysis of the Council's borrowing and short-term investments/bank deposits is summarised in table 4, below.

Table 4

Borrowing	01/04/08	31/12/08
• Long Term Debt Outstanding	£1,000,00	£1,000,000
• Temporary Borrowings	£223,326	£223,236
Total Debt Outstanding	£1,223,326	£1,223,236
• Average Interest Rate – Long Term	4.875%	4.875%
• Average Interest Rate – Temporary	4.25%	1.00%
• Base Rate (Latest change was on 5th Feb)	5.25%	1.00%
Short-term Investments		
• Bank Deposits and Other Investments	£3,662,400	£4,000,000
Average Interest Rate Earned (on Deposits)	5.79%	3.49%
Target – Average 7-Day Rate (for comparison)	5.45%	1.75%
	Estimate for the Year £	Projected for the Year £
Analysis of Interest (Paid)/Received		
Short term Deposits	250,000	195,000
Less Temporary Loans	(12,500)	(7,200)
Total – Net Interest Receivable	237,500	£187,800

3.58 As can be seen, the Council is now projected to be below its base budget for the year on investment income by £49,700 (up from £20,950 in October 2008). As previously reported the volatility of the financial markets is continuing to have an adverse affect on the Council.

3.59 Firstly, it is still more difficult to actually lend money as the amounts the Council has to offer the market are relatively low and this is not proving attractive to financial institutions.

3.60 This is being compounded by the general uncertainty in the markets for local authorities following the collapse of the Icelandic banking system (although it should be emphasised that the Council had no money on deposit here) and issues still being experienced by the banking sector, generally.

3.61 Secondly, the recent reductions in the main base interest rate to 1% (as at 5th February) will lower the average rate on returns to below 3% in total for the

year 2008/09. The base budget assumed 5% - the average rate being earned until around October was in excess of this.

3.62 It should be noted that the current average interest rate being earned (3.49%) is above the current average market rate of 1.75%. This is due to some deposits having been invested at higher rates of interest earlier in the year, before the first reduction in rates back in November.

3.63 This will only be a temporary benefit, as deposits for the remainder of the year will reflect the lower rate, hence the reduction in interest earned as detailed earlier in the report. Clearly, given the current volatility of financial markets, the security and liquidity of funds is paramount.

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