
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 9
DATE OF MEETING:	4th DECEMBER 2008	CATEGORY: DELEGATED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/financial monitoring reports/2008 – 5 December
SUBJECT:	BUDGET and FINANCIAL MONITORING 2008/09	REF
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendation

- 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 in fact 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 4th September, the Committee considered a report that detailed a projected overspend on the General Fund for the year of approximately £250,000. The report set out the main reason for this as being external factors - in particular the economic downturn.
- 3.2 There were projected reductions in income from building regulations and land charges, additional fuel costs, together with the additional cost of planning inquiries and potential costs arising from the concessionary travel and national bus pass scheme.
- 3.3 In view of this situation, besides a general acceptance that caution needed to be observed and all expenditure scrutinised, certain actions were agreed 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 are currently falling and this is reflected in the latest spending projections.
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. Options on pricing will be reported to Committee in January 2009 in accordance with the Council's new Charging Policy.
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. Resources to meet a projected overspend previously reported on the Christmas lights budget were identified (as reported to Committee in October).

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 has now been completed and the additional staffing costs from the development of the Careline Service are being offset by additional income generated from charges (as reported to Committee in October).

3.4 Although mitigating actions (as highlighted above) are containing the projected deficit for the year, the overall position on the General Fund was slightly worse when reported to Committee in October. This was due to a projected reduction in interest from money held on deposit, due to the tightening of financial markets.

Latest Position

3.5 In line with normal monitoring arrangements, the position on the General Fund has been updated as at 30th September 2008, and the latest variances are summarised in the following table.

3.6 This shows a projected **overspend** of £408,760 for the current year 2008/09, compared to £313,460 as at August 2008.

ANALYSIS OF EXPENDITURE (BY MAIN SERVICE AREA)	APPROVED BUDGET 2008/09 £	PROJECTED VARIANCE (@ AUG 08) £	PROJECTED VARIANCE (@ SEPT 08) £
Environmental Services (earmarked reserves)**	3,156,398	27,000	29,800
Management, Finance and Property	1,077,485	(17,800)	54,000
Housing and Public Buildings	1,501,809	0	13,000
Organisational Development	482,184	0	0
IT and Business Improvement	863,588	0	0
Legal and Democratic Services	924,952	86,800	86,800
Leisure and Community Services	2,176,725	3,700	11,400
Planning Services	255,170	163,000	163,000
Customer Services (including Revs & Bens)	1,634,800	62,760	62,760
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	313,460	408,760

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 above table are detailed in the following sections.

Environmental Services

- 3.9 The overall variance of £29,800 is mainly due to the higher costs of fuel of £30,000 (although the price continues to fall from that earlier in the year) and £12,000 on the termination of contracts for 3 vehicles. However, the £12,000 can be financed from an earmarked reserve set-aside for this purpose.
- 3.10 In addition, the cost of dealing with stray dogs “out of hours,” is also costing more than estimated. This was a new duty transferred to the Council in April 2008. Consequently, the budget for kennel fees was increased during the last budget round by £4,000 to £12,200.
- 3.11 It is estimated that this cost will be nearer £20,000 for the year, an increase of approximately £8,000. The Environmental and Development Services Committee considered this on 20th November 2008.
- 3.12 To some extent, these costs are being offset by additional income for taxi licensing and inspections. This is projected to generate approximately £20,000 more compared to the budget for the year.

Management, Finance and Property

- 3.13 The overall variance of £54,000 is mainly due to a reduction in interest on short-term investments compared to the base budget. This figure is the latest estimate up to mid-November 2008 to take account of the current state of the economy. As reported at the previous Committee, the current volatility of the financial markets is having an adverse affect on the Council.
- 3.14 Firstly, it is becoming 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.
- 3.15 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 has no money on deposit here).
- 3.16 This in itself would not have lowered interest received below the base budget, although as highlighted in October’s monitoring report, the previous projection of an additional £70,000 (above budget) was diminishing.
- 3.17 The main effect is stemming from the recent reduction in the main base interest rate to 3%. With a further reduction imminent (some predictions suggest down to 2%), it is estimated that this will lower the average rate to

below 4% in total for the year 2008/09. The base budget assumes 5% - the average rate being earned until around October was slightly in excess of this.

Housing and Public Buildings

- 3.18 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.
- 3.19 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

- 3.20 The overall variance remains unchanged at this stage. The projected deficit of £86,800 is due to a reduction in income from land charges, reflecting the current downturn in the housing market.
- 3.21 An increase in personal searches has also had an effect, albeit to a lesser extent - these generate less income compared to the full search. A review of current charges will be subject to a report at the next Committee.

Leisure and Community Services

- 3.22 The projected overspend of £11,400 is due to additional staffing costs on the Tourism service due to cover for staff absences.
- 3.23 Currently, there are vacancies elsewhere in Leisure Services that amount to approximately £12,000. This underspend has not been taken into account at this stage pending recruitment and replacement costs.

Planning Services

- 3.24 There is effectively no change from the last report. The current downturn in the UK economy and the incidence of major development sites subject to Inquiries is still having an adverse effect on resources.
- 3.25 The overall variance of £163,000 can be analysed as follows:
- Reduction in income from Building Regulations - £100,000
 - Legal and Professional Fees associated with Inquiries - £127,000
 - Additional staffing-part year (as approved) - £51,000
 - Offset by additional Housing and Planning Delivery Grant – (£115,000)
- 3.26 The current base budget for development control fees is £590,000. This is currently on target to be achieved. However, when approving the additional staffing (Council approval 3rd July), this was dependent upon generating income over and above £590,000 to cover the additional costs.
- 3.27 The additional amount required to sustain the full complement of staff approved is approximately £200,000 per year, making a total of £790,000 in

fees. At least one major application is anticipated later in the year, but this is by no means guaranteed.

- 3.28 As highlighted in the action table in 3.3, the appointment of additional staffing is being kept under review and being phased in to help mitigate the situation.

Customer Services (including Revenues and Benefits)

- 3.29 Whilst costs are currently being maintained within budget, there is mounting pressure in this area due to a significant increase in the number of benefit applications over recent weeks. If as expected this trend continues, then temporary staff may be required to maintain performance in processing claims.

Concessionary Travel

- 3.30 The actual variance at this stage of £62,760 is due to additional expenditure following the successful appeal by the bus operators over the reimbursement of scheme costs for 2007/08.
- 3.31 As previously reported, this may not be the final figure. The judicial review brought about by the bus operators is currently being considered. If this is successful, the Council would be liable for further costs for last year of upto £30,000, based on the claim submitted by the operators.
- 3.32 In addition, one bus operator has now lodged an appeal against the reimbursement of costs for the new national scheme that commenced in April 2008. How this would affect the Council is not certain, as the distribution of costs for the new scheme are still to be determined.
- 3.33 Data on actual usage in each area is close to being finalised and this will then give a clearer indication on whether the Council will be better or worse off compared to the current (historic) cost allocation based on eligible population.
- 3.34 Initial indications suggest that the Council could be in a much better position. Meetings to confirm this will be taking place leading upto the Committee meeting and an update will be reported verbally at the Committee.

Update on Housing Benefit Subsidy

- 3.35 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.
- 3.36 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 reported at the last Committee that the DWP had notified the Council that it does not intend to recover any sums for 2005/06.

3.37 Consequently, the provision was reduced to £382,000. Recently, the DWP have informed the Council that it intends to recover just under £7,000 for 2006/07. This just leaves 2007/08 where it is estimated that a liability of upto £115,000 could be due.

3.38 Clearly, together with £7,000, this is now less than the remaining provision. The effect of this will be reviewed as part of the forthcoming budget round for 2009/10.

Projected Overall Variance on the General Fund

3.39 The table in paragraph 3.6 shows a projected “overspend” of £408,760. This is a worsening position compared to the previous report in October, mainly due to the reduction in interest from short-term investments.

3.40 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.

3.41 Overall, the projected “overspend” is largely due to reductions in income from building regulations, land charges investment interest – all arising from external factors, together with the additional cost of planning inquiries.

3.42 Although the Council’s level of reserves can sustain this for a period as detailed in the latest review of the MTFP, the longer-term position could come under severe pressure if this current trend was to continue. However, the revised costs of concessionary travel (if positive) may help to soften the impact of the current economic downturn.

HOUSING REVENUE ACCOUNT (HRA)

3.43 The Council is required to account separately for income and expenditure in providing Council Housing. The financial position as at September 2008 is summarised in the following table.

ANALYSIS OF EXPENDITURE (BY MAIN SERVICE AREA)	APPROVED BUDGET 2008/09 £	PROJECTED VARIANCE (@ AUG 08) £	PROJECTED VARIANCE (@ SEPT 08) £
Housing Repairs	3,150,530	(46,249)	(68,000)
General Management	937,228	2,135	8,990
Sheltered and Other Services	879,672	19,013	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)	(10,550)	(56,000)
Net SURPLUS	(49,479)	(35,651)	(115,010)

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

- 3.44 The above table shows that the net surplus on the HRA is now projected to be approximately £115,000 higher than estimated. However, it should be noted that at the last Committee in October, 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.
- 3.45 The additional income in the above table of £56,000 is mainly due to additional rent of £17,000 (lower “right to buys” than estimated) together with additional Supporting People Grant of £33,000.
- 3.46 The other major variance at this stage continues to be on the Repairs budget and especially on lower planned maintenance costs. 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

- 3.47 **Appendix 1** details the Council’s central monitoring record for its efficiencies. Projects 24 to 29 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.
- 3.48 Cumulatively, these new gains should generate a further £310,000 in cashable savings by 2013.
- 3.49 In view of the current budget position it is important that the Council’s brings about the planned sustainable efficiency savings in accordance with the Business Improvement and Procurement programmes.

CAPITAL EXPENDITURE and FINANCING

- 3.50 The overall position on gross expenditure (before external financing) as at October 2008 is summarised in the following table.

ANALYSIS OF SPENDING BY MAIN SERVICE/PROJECT AREA	APPROVED ESTIMATE £	SPENT AT SEPT 08 £	SPENT AT OCT 08 £
Council House Improvements	2,927,500	1,077,628	1,428,938
Disabled Facility Grants	576,920	282,101	327,752
Other Housing Investment	763,100	168,121	221,361
Leisure and Community	1,231,240	818,770	1,038,144
Environmental Projects	173,200	50,958	54,675
Property and Other Assets**	601,900	161,397	159,547
Growth Point Schemes	735,000	0	47,406
Total Expenditure	7,008,860	2,558,975	3,277,823

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

3.51 The programme has recently been updated to reflect additional external contributions for Disabled Facility Grants (£145,000) and the Get Active in the Forest Phase 2 Project at Rosliston (£300,000) that has been externally funded.

Leisure and Community Services

3.52 The latest development project at Rosliston has been substantially completed. There have been one or two issues which may bring about an overspend on the budgeted cost. Some issues have also arisen on the Play Schemes project.

3.53 Although this is not considered significant, it is currently being reviewed to ascertain the extent of additional works and the impact of external funding.

Planned Maintenance Programme

3.54 Within the budget for "Property and Other Assets" there is provision for improvements and maintenance to public buildings - £1/4m over the next 2-years.

3.55 As detailed in the review of the Asset Management Plan (subject to a report elsewhere on this Agenda), the next round of capital works totaling £150,000 is to be commissioned. However, it is likely that most of the expenditure associated with this will now be incurred in 2009/10.

Capital Receipts – Council House Sales

3.56 The amount to be generated in 2008/09 and usable for future capital investment (which includes funding for this year's programme) was originally estimated at £300,000. This was calculated based on the assumed sale of 20 council houses.

3.57 Due to the continuing slowdown in property sales, this was revised down to 10, with estimated income of £165,000 in the year. Compared to this, as at 11th November, 5 completions had taken place, which has generated £83,000 in usable income.

3.58 Based on this and given the continuing slowdown in the economy, it is likely that even 10 completions will not be made in the year.

TREASURY MANAGEMENT

3.59 An analysis of the Council's borrowing and short-term investments/bank deposits is summarised in the following tables.

Borrowing	01/04/08	31/10/08
• Long Term Debt Outstanding	£1,000,00	£1,000,000
• Temporary Borrowings	£223,326	£223,236
Total Debt Outstanding	<u>£1,223,326</u>	<u>£1,223,236</u>
• Average Interest Rate – Long Term	4.875%	4.875%
• Average Interest Rate – Temporary	4.25%	2.00%
• Base Rate (Latest change was on 6 th Nov)	5.25%	3.00%
Short-term Investments		
• Bank Deposits and Other Investments	<u>£3,662,400</u>	<u>£6,620,800</u>
Average Interest Rate Earned (on Deposits)	5.79%	3.78%
Target – Average 7-Day Rate (for comparison)	5.45%	2.75%

	Estimate for the Year £	Projected for the Year £
Analysis of Interest (Paid)/Received		
Short term Deposits	250,000	218,750
Less Temporary Loans	(12,500)	(10,000)
Total – Net Interest Receivable	237,500	£208,750

3.60 As can be seen, the Council continues to benefit from a positive cash flow position. However, this is diminishing compared to earlier in the year as highlighted earlier in the report.

3.61 It should be noted that the current average interest rate being earned (3.78%) is a percentage point above the current market rate of 2.75%. This is due to some deposits having been invested at the prevailing higher rate of interest, for up to 3 months, before the reduction in rates on 6th November.

3.62 This should only be a temporary situation, 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.

3.63 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 As detailed in the report.

6.0 Community Implications

6.1 As detailed in the report.

7.0 Background Papers

7.1 None