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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM: 11</b>
<b>DATE OF MEETING:</b>	<b>23rd OCTOBER 2008</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (595811)</b>	<b>DOC:</b> u/ks/financial monitoring reports/2008 – 4 October
<b>SUBJECT:</b>	<b>BUDGET and FINANCIAL MONITORING 2008/09</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 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 the Previous Monitoring Report**

- 3.1 On 4<sup>th</sup> September, the Committee received a report which 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.

<b>Action Agreed</b>	<b>Update</b>
Head of Environmental Services to review fuel charges	Compared to alternatives, 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 have lowered over the last quarter 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	This is ongoing and options for pricing and service provision are being considered. It is anticipated that conclusions will be reported later in the next monitoring report (December 08).
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. The proposal to meet the projected overspend on the Christmas lights budget (reported previously) is detailed later in the report.

Head of Planning Services to recruit the approved additional staffing on a phased basis	This is being undertaken and kept under review. Two new posts have so far been recruited (although only one filled) and some staff changes in respect of working hours have been made to help maintain the current position.
Head of Housing Services to review the projected overspend on Sheltered and Other Housing Services	This is occurring on staffing budgets. Still subject to a final review, but should be reported in the next monitoring report (December 08).

3.4 In line with normal monitoring arrangements, the position on the General Fund has been updated as at 31<sup>st</sup> August 2008, and the latest variances are summarised in the following table.

3.5 This shows a projected **overspend** of £313,460 for the current year 2008/09, compared to £281,260 as at June 2008.

ANALYSIS OF EXPENDITURE (BY MAIN SERVICE AREA)	APPROVED BUDGET 2008/09 £	PROJECTED VARIANCE (@ JUNE 08) £	PROJECTED VARIANCE (@ AUG 08) £
Environmental Services (earmarked reserves)**	3,156,398	46,500	27,000
Management, Finance and Property	1,077,485	(77,500)	(17,800)
Housing and Public Building Maintenance	1,509,809	0	0
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	2,168,725	11,700	3,700
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)
<b>OVERALL NET REVENUE EXPENDITURE</b>	<b>12,244,836</b>	<b>281,260</b>	<b>313,460</b>

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

3.6 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 26<sup>th</sup> June 2008.

3.7 The main reasons for the projected variances in the above table are detailed in the following sections.

### Environmental Services

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3.8 The overall variance is now projected to be lower at £27,000.

- 3.9 This is still due to the higher costs of fuel of £30,000 (but compared to £50,000 last quarter) and additional leasing charges of £12,000 on the termination of contracts for 3 vehicles.
- 3.10 To some extent, these costs are being offset by additional income for taxi licensing and inspections. This is projected to generate approximately £15,000 more compared to the budget for the year.
- 3.11 In addition, the leasing costs (£12,000) can be financed from an earmarked reserve set-aside for this purpose. This leaves a net overspend of £15,000.

### **Management, Finance and Property**

- 3.12 Although the projected interest on short-term investments and bank deposits is still positive, the projection has been reduced from £70,000 down to £30,000.
- 3.13 The prediction has to be prudent owing to the current volatility of financial markets and the fact that we do not account for receipts from the sale of assets until received. These are much slower in any case at this stage due to the current economic downturn.
- 3.14 In addition, there is now a projected reduction in income from industrial and commercial property holdings (£12,000 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 is becoming more difficult. This is perhaps another sign of the effects of the economic downturn.

### **Legal and Democratic Services**

- 3.16 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.
- 3.17 An increase in personal searches has also had an effect, albeit to a lesser extent - these generate less income compared to the full search.

### **Leisure and Community Services**

- 3.18 The projected overspend has been reduced due to the identification of resources to supplement the budget for Christmas lights and associated town centre events.
- 3.19 It is proposed to transfer unused money (£8,000) from the provision set aside for the Strategic Housing Service Inspection earlier in the year. This should now balance the Christmas Lights budget for 2008/09.
- 3.20 As highlighted elsewhere in the report, the overall Events budget is to be reviewed later in the year.

## **Planning Services**

3.21 There is effectively no change from the last quarter. 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.

3.22 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)

3.23 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 3<sup>rd</sup> July), this was dependent upon generating income over and above £590,000 to cover the additional costs.

3.24 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.

3.25 Again, 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)**

3.26 The variance of £62,760 is due to the additional expenditure of concessionary travel following the successful appeal by the bus operators over the reimbursement of scheme costs for 2006/07.

3.27 The bus operators are seeking leave to undertake a Judicial Review of this decision. This is still being considered, but if leave to appeal is granted, a decision on the final settlement for 2007/08 could take upto 2 years.

## **2008/09**

3.28 One bus operator is in addition, seeking to appeal against the reimbursement of costs for the new national scheme that commenced in April 2008. However, the main issue for this year is the distribution of costs between the authorities across the County.

3.29 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 cost allocation based on eligible population. It is hoped that this can be reported at the next Committee.

## Projected Overall Variance on the General Fund

- 3.30 The table in 3.4 shows a projected “overspend” of £313,460. This is a slightly worse position overall compared to the previous report in September.
- 3.31 This is due to the projected reduction in income from money held on deposit, the details of which are set out later in the report.
- 3.32 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. This would reduce the projected “overspend” to approximately £288,000.
- 3.33 However, this “overspend” is largely due to reductions in income from building regulations and land charges arising from external factors, together with the additional cost of planning inquiries.
- 3.34 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.
- 3.35 Besides the actions being undertaken as highlighted in the table in 3.3, the Council is continuing to progress its longer-term value for money efficiency savings as detailed later in the report.

## HOUSING REVENUE ACCOUNT (HRA)

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

ANALYSIS OF EXPENDITURE (BY MAIN SERVICE AREA)	APPROVED BUDGET 2008/09 £	PROJECTED VARIANCE (@ JUNE 08) £	PROJECTED VARIANCE (@ AUG 08) £
Housing Repairs	3,150,530	(46,249)	(46,249)
General Management	937,228	2,704	2,135
Sheltered and Other Services	879,672	17,714	19,013
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)	(10,550)
<b>Net SURPLUS</b>	<b>(49,479)</b>	<b>(36,381)</b>	<b>(35,651)</b>

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

- 3.37 The above table shows that the net surplus on the HRA is projected to be approximately £36,000 higher than estimated and will total £85,130 (i.e. £49,479 + £35,651). The additional rent income in the above table has been reflected in the latest review of the MTFP 10 year projection.

- 3.38 The major variance at this stage is on repairs, where it is anticipated that planned maintenance works will be £15,000 less than estimated and other responsive repairs a further £30,000 less.
- 3.39 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.

### **Stock Condition Survey**

- 3.40 In addition, as highlighted in the previous report, the Council's database concerning the condition of its housing stock is to be updated ahead of the 2010 target for meeting the Decent Homes Standard.
- 3.41 This was last completed in 2002/03 and resources (of up to £85,000) will be required later in 2008/09 for a comprehensive survey. The details of this are subject to a separate report elsewhere on the Agenda.

### **VALUE FOR MONEY EFFICIENCY SAVINGS**

- 3.42 **Appendix 1** details the Council's central monitoring record for its efficiencies. Projects 22 to 26 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 MTFP.
- 3.43 Cumulatively, these new gains should generate a further £273,000 in cashable savings by 2013.
- 3.44 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**

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

<b>ANALYSIS OF SPENDING BY MAIN SERVICE/PROJECT AREA</b>	<b>APPROVED ESTIMATE £</b>	<b>SPENT AT JULY 08 £</b>	<b>SPENT AT SEPT 08 £</b>
Council House Improvements	2,912,950	470,909	1,077,628
Disabled Facility Grants	431,920	94,182	282,101
Other Housing Investment	735,100	132,530	168,121
Leisure and Community	900,790	176,991	818,770
Environmental Projects	173,200	30,312	50,958
Property and Other Assets**	601,900	81,853	161,397
Growth Point Schemes	735,000	0	0
<b>Total Expenditure</b>	<b>6,490,860</b>	<b>986,777</b>	<b>2,558,975</b>

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



- 3.46 The overall programme is currently progressing as planned and no variances are anticipated at this stage.

### **Rosliston Forestry Centre**

- 3.47 The latest development project at Rosliston has been substantially completed. There have been one or two issues which may have forced an overspend on the budgeted cost.
- 3.48 Although this is not significant, it is currently being reviewed and a full update will be provided at the next Committee in December.

### **Capital Receipts – Council House Sales**

- 3.49 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.
- 3.50 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 30<sup>th</sup> September, 5 completions had taken place, which has generated £83,000 in usable income.

## **TREASURY MANAGEMENT**

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

<b>Borrowing</b>	<b>01/04/08</b>	<b>30/09/08</b>
• Long Term Debt Outstanding	£1,000,00	<b>£1,000,000</b>
• Temporary Borrowings	£223,326	<b>£223,236</b>
<b>Total Debt Outstanding</b>	<b><u>£1,223,326</u></b>	<b><u>£1,223,236</u></b>
• Average Interest Rate – Long Term	4.875%	4.875%
• Average Interest Rate – Temporary	4.25%	3.50%
• Base Rate (Latest change was on 8 <sup>th</sup> October)	5.25%	4.50%
<b>Short-term Investments</b>		
• Bank Deposits and Other Investments	<b><u>£3,662,400</u></b>	<b><u>£7,262,500</u></b>
Average Interest Rate Earned (on Deposits)	5.79%	5.23%
Target – Average 7-Day Rate (for comparison)	5.45%	5.25%



	Estimate for the Year £	Projected for the Year £
<b>Analysis of Interest (Paid)/Received</b>		
Short term Deposits	250,000	280,000
Less Temporary Loans	(12,500)	(10,000)
<b>Total – Net Interest Receivable</b>	<b>237,500</b>	<b>£270,000</b>

- 3.52 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. Although the Council has resources available for short-term investment, the contraction of the current lending list (to adhere to credit ratings set out in the treasury management strategy) together with the lack of general borrowing in the market, is severely limiting where funds can be placed.
- 3.53 The Council is currently limited to reserve accounts with its own bank the Government's debt management office and other local authorities. These tend to pay interest below the average rate as they effectively act as contingency/short-term facilities for the Council.
- 3.54 Clearly, given the current volatility of financial markets, the security and liquidity of funds is paramount. Although based on current lending, the average interest rate being earned is slightly less than the market average, the total amount of interest earned for the year, is still projected to be above that budgeted.
- 3.55 Clearly however, if the current volatility of the financial markets continues for too long, then it will worsen this projection. The Council will benefit if and when financial institutions again enter the borrowing market and credit ratings are re-established following market intervention by the Government on 8<sup>th</sup> October.

#### **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