
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	10th SEPTEMBER 2009	CATEGORY: DELEGATED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/financial monitoring reports/2009 – 4 September
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.

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.

3.0 Detail

GENERAL FUND REVENUE ACCOUNT

- 3.1 This is the first monitoring report for the financial year 2009/10. It details performance up to 30th June 2009, i.e. the first quarter of the financial year. The budget (approved in February 2009) was set against a downturn in the global economy. As regularly reported over the last year, this had an adverse impact in particular, on income streams such as planning and short-term investments.
- 3.2 This approved budget showed an overall deficit of just under £5,000 on the general fund for 2009/10. This was due to the one-off benefit arising from concessionary travel, which helped to offset the loss of income elsewhere.
- 3.3 However, it was noted that the budget was set against the continuing uncertainties in the economy and the effect that this could still have on the level of inflation, pay levels, interest rates and income streams that had been assumed in the Budget.
- 3.4 In line with normal monitoring arrangements, the position on the General Fund has been monitored and reviewed. The budget, together with variances identified as at June 2009 are summarised in **Table 1**, below.

Table 1

ANALYSIS OF EXPENDITURE (BY MAIN SERVICE AREA)	APPROVED BUDGET 2009/10 £	PROJECTED VARIANCE (@ JUNE 09) £
Environmental Services	4,273,760	9,000
Management, Finance and Property	2,626,732	101,000
Private Sector Housing and Public Buildings	976,352	2,000
Organisational Development	900,501	0
IT and Business Improvement	1,275,649	0
Legal and Democratic Services	1,201,990	0
Leisure and Community Services	3,326,777	(20,000)
Planning Services	1,065,976	66,000
Customer Services (including Revs & Bens)	1,956,214	0
Minimum Revenue Provision	312,000	(15,000)
Other Pension Costs	212,569	10,000
Revenue Contributions to Capital	120,000	0
Inflation and Other Amounts set-aside	620,410	0
Internal Recharges	(5,548,318)	0
Reversal of FRS 17 & Depreciation Charges	(1,148,460)	0
OVERALL NET REVENUE EXPENDITURE	12,172,152	153,000

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

- 3.5 The approved budget includes the supplementary estimate approved for works at Midway Fishponds of £100,000.
- 3.6 Generally, within day-to-day service expenditure, there are no major variances anticipated at this stage. This is historically the case for the first quarter.
- 3.7 However, more significant variances are already being anticipated from a continuing loss of income (compared to budget) from short-term investments, building regulations and also from licensing (to a lesser extent).
- 3.8 The table highlights a projected (adverse) variance at this stage of £153,000 for 2009/10. The major variances are highlighted below.

Environmental Services (+£9,000)

- 3.9 This relates to a projected reduction in income compared to budget from licensing and pest control. The amount represents approximately 5% of the total budget (£180,000).

Management, Finance and Property (+£101,000)

- 3.10 The variance is due to a further projected decrease in interest on short-term investments. The detailed commentary on this issue is provided later in the report.

Leisure and Community Services (-£20,000)

- 3.11 The projected decrease is due to savings on energy costs at Green Bank Leisure Centre. This has arisen due to capital works undertaken in 2008/09.
- 3.12 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.

Planning Services (+£66,000)

- 3.13 Based on income and activity over the first quarter, income from Building Regulations is projected to be under budget by approximately £90,000. The budget has been reduced over the last 2 annual budget rounds in recognition of the slowdown in the economy and its impact upon the local housing market.
- 3.14 Income is projected to be £165,000 compared to a budget of £255,000 and an actual of £236,000 in 2008/09. Clearly, the trend is still very much downwards with no sign that things are changing in this area.
- 3.15 The reduction will be partly offset by staff vacancies in the service area with one senior post in particular being vacant for 6 months. This is being covered, but with vacancies elsewhere, salaries are projected to be around £24,000 below budget for the year.
- 3.16 Income from Development Control (planning fees) is still projected to be on budget, mainly due to a major application being received in April. 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.

Minimum Revenue Provision and Pension Costs (£15,000 less £10,000)

- 3.17 A net reduction of £5,000 overall. This is bringing the projection into line with the actual out-turn for 2008/09 and reflects the profile of remaining payments.

Inflation and Other Amounts Set-aside

- 3.18 As part of the £620,000, a provision of approximately £400,000 has been set-aside in the Budget to meet the estimated effects of inflation on certain costs such as pay, fuel, energy and maintenance. This has not been allocated to service budgets pending the actual impact during the year.
- 3.19 To-date, approximately £25,000 has been released from the provision to meet the inflationary increases provided for grants to voluntary bodies and concurrent expenses to parish councils. This reflects what was approved in the Budget.
- 3.20 The largest provision is for pay, with an increase of 2.75% for the national pay award for employees being estimated. Current indications suggest that this will be much lower with an offer of 1% having been made by the employers association. This is still to be agreed.
- 3.21 If 1% is subsequently agreed, this will save approximately £170,000 in the General Fund compared to the Budget for 2009/10.

Projected Overall Variance on the General Fund

- 3.22 **Table 1** shows a projected overspend of £153,000 for the year at this stage although this is entirely down to a shortfall in income compared to budget. Clearly, the economic situation is still having a far greater impact on the Council than anticipated.
- 3.23 However, the reduced pay award would have a significant beneficial impact on this position and help to neutralise the projected loss of income.
- 3.24 The main variances, in particular that arising from income on short-term investments and the pay award has been considered as part of the review of the Council's medium-term financial plan. This was subject to the earlier report on this Committee's Agenda (Item 8).

Income from Land Charges (Search Fees)

- 3.25 To-date, income in this area is holding up to that budgeted. However, there may be an issue for the Council stemming from a decision taken by the Government's Information Commissioner Office.
- 3.26 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.

3.27 If ultimately the ruling is implemented, then this would cost the Council approximately £20,000 per year in loss of income.

HOUSING REVENUE ACCOUNT (HRA)

3.28 The Council is required to account separately for income and expenditure in providing Council Housing. The financial position as at June 2009 is summarised in **Table 2**, below.

Table 2

ANALYSIS OF EXPENDITURE (BY MAIN SERVICE AREA)	APPROVED BUDGET 2009/10 £	PROJECTED VARIANCE (@ JUNE 09) £
Housing Repairs	3,032,399	0
General Management	1,341,360	0
Sheltered and Other Services	971,701	3,000
Council Tax on Void Properties	1,800	0
Provision for Bad Debts	7,500	0
Capital Charges	220,364	0
Depreciation	1,895,827	0
Payment to Government Pool	2,984,858	0
Rent and Other Income	(10,427,310)	(14,000)
Net Deficit	28,499	(11,000)

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

3.29 As the above table shows, there are no major variances projected for the year at this stage. The anticipated increase in income is due to Telecare installations and service charges being greater than budget.

3.30 Similar to the General Fund, a pay award of 1% would have a beneficial impact, saving approximately £30,000 compared to Budget.

3.31 Following the out-turn for 2008/09, a review of the budget has been undertaken as part of the medium-term financial plan. Similar to the General Fund, this was subject to the earlier report on this Committee's Agenda (Item 8).

3.32 One change that is required is to draw from HRA Reserves a sum of £40,000 required for disabled adaptations. This was funding received in March 2009 through Supporting People and represents a contribution from the administering body for works undertaken. The funding has remained in reserve pending works being completed.

CAPITAL EXPENDITURE and FINANCING

3.33 The overall position on gross expenditure (before external financing) as at June 2009 is summarised in table 3, below.

Table 3

ANALYSIS OF SPENDING BY MAIN SERVICE/PROJECT AREA	APPROVED ESTIMATE £	SPENT AT JUNE 09 £
Council House Improvements**	2,202,089	314,438
Disabled Facility Grants	354,000	102,354
Other Housing Investment	795,470	240,383
Leisure and Community Schemes	1,601,617	99,081
Environmental and Development	238,491	0
Property and Other Assets**	683,897	28,280
Total Expenditure	5,875,564	784,536

**** Note – these include repayment of Covenants (£530,000) and contributions to the Renewals Fund (£225,000) for which expenditure is not incurred until the year-end.**

3.34 The approved programme has been updated for schemes and amounts brought forward from 2008/09. No major variances are anticipated at this stage. The total expenditure is being financed as shown in **Table 4**.

Table 4

FINANCING OF CAPITAL INVESTMENT 2009/10	£
Government Grant	2,676,680
Growth Point	328,968
External Contributions	789,000
Section 106	140,000
Revenue Contributions	100,000
Capital Receipts	1,840,916
Total Expenditure	5,875,564

Capital Receipts

3.35 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 has been 1 council house sale and a discount repayment. After paying the 75% pooling amount on these proceeds, £27,000 is available to the Council.

3.36 In addition, there have been 2 land disposals, £14,000 for the General Fund and £72,000 from Housing Land. As regards the later, the use of the proceeds is subject to a separate report later on this Committee Agenda.

Local Authority Business Improvement Grant (LABGI)

3.37 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.

3.38 The allocations are currently subject to consultation and should be firmed up shortly. The Council has provisionally been allocated approximately £37,000 as a one-off amount.

3.39 Similar to the capital receipts highlighted above, this will be factored into the medium-term financial plan.

TREASURY MANAGEMENT

3.40 An analysis of the Council's borrowing and short-term investments/bank deposits is summarised in **table 5**, below.

Table 5

Borrowing	01/04/09	30/06/09
• 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	£1,007,800
Average Interest Rate Earned (on Investments)	0.00%	0.75%
Target – Average 7-Day Rate (for comparison)	0.50%	0.30%
	Estimate for the Year	Projected for the Year
Analysis of Interest (Paid)/Received	£	£
Short term Deposits	175,000	30,000
Less Temporary Loans	(12,500)	(1,315)
Total – Net Interest Receivable	162,500	28,685

3.41 As can be seen, the Council is projected to be below its base budget for the year on cash flow income by £133,815 (£162,500 less £28,685). This is based on actual and projected income so far in 2009/10 and clearly is a substantial reduction compared to budget.

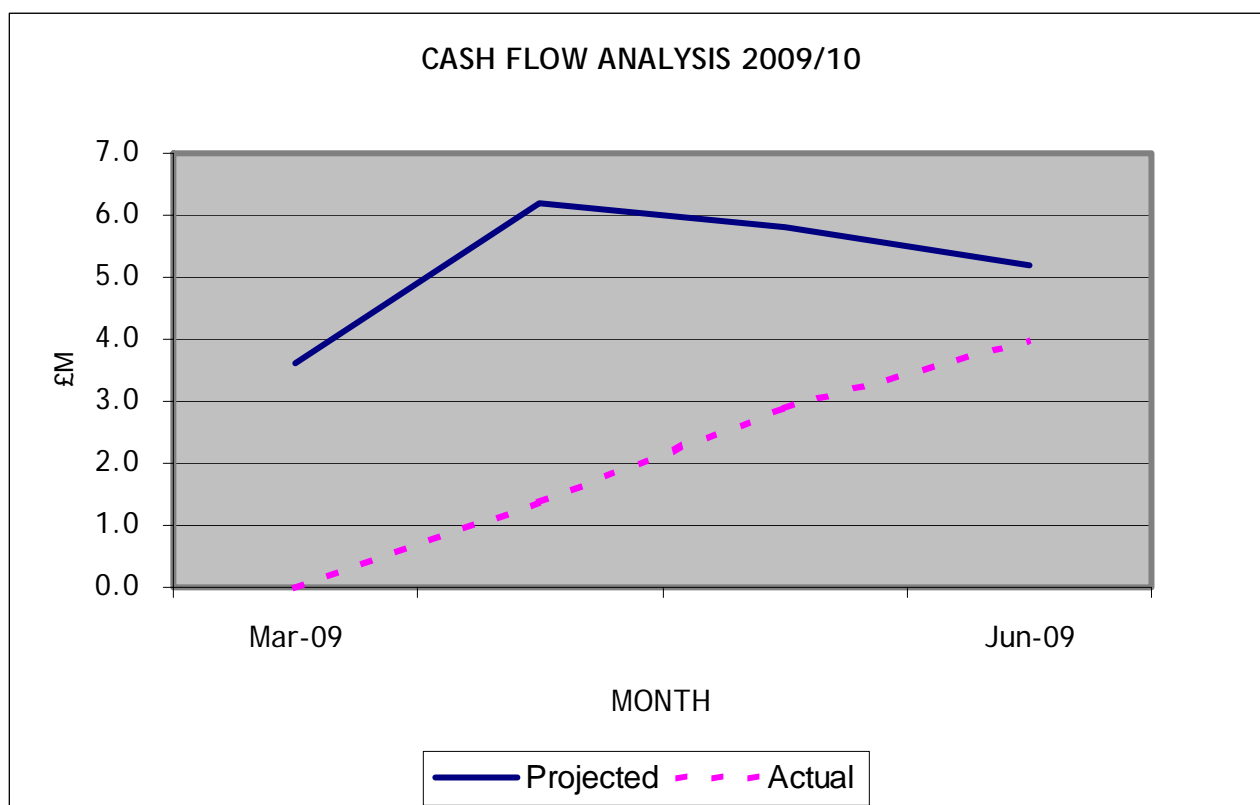
3.42 The assumed average interest rate was 2.75% for 2009/10 in accordance with forecasts for rates at that time. With bank base rates remaining at a historically low level of ½% an average of only ¾% is now being projected.

3.43 Widely, it is considered that the bank base rate will not get any lower, although there is no certainty at this stage, when it will again increase. This will depend on the level of inflation and the effects of the quantitative easing strategy currently being used by the Bank of England to help stimulate the banking sector and financial markets.

Cash Flow Analysis

3.44 The other factor, although less significant in this instance, that impacts upon the amount of interest earned is the level of funds on deposit at anyone time. As previously reported, during the last quarter of 2008/09, the average deposit reduced significantly. This was mainly due to an increase in housing benefits paid for which government grant is reimbursed some months later.

3.45 An analysis of actual cash on deposit compared to that estimated in the approved Treasury Management Strategy for the first quarter is shown in the following graph.



3.46 This shows that the Council continued to have less cash to invest compared to that estimated, although the average by the end of the quarter was moving back towards that anticipated.

Overall Debt Liability

- 3.47 Besides the debt shown in **Table 5 on Page 7**, 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.
- 3.48 In total, the Council's debt liability is summarised in **Table 6**, below.

Table 6

Summary of Overall Debt Payments 2009/10	Estimate (£)	Projected (£)	Variance (£)
Money Market Loan	48,750	48,750	0
Temporary Loans and Bonds	12,500	1,315	(11,185)
Bank Interest	1,750	1,400	(350)
Covenants	101,050	101,050	0
Transferred Debt	17,000	19,600	2,600
Interest Received on Deposits	(175,000)	(30,000)	145,000
Other Interest Received	0	(80)	(80)
Net Recharge to the HRA	(54,384)	(97,284)	(42,900)
Net Interest (Received)/Payable	(48,334)	44,751	93,085

Recharges to the HRA

- 3.49 The Council is able to pass on some of the cost of debt on its General Fund to the HRA. This is in recognition that debt historically has been incurred on providing council housing. The HRA also proportionally shares in some of the interest earned on deposits.
- 3.50 The recharge is made through a pre-determined formula. This is also used in calculating the amount of Government Subsidy that contributes to the cost passed over from the General Fund (technically the calculations are known as "Item 8").
- 3.51 Generally, the calculation is fixed at the start of the financial year, but can vary depending on the level of interest rates during the year and also the amount of interest earned on bank deposits.
- 3.52 Due to the significant shortfall in investment income, this will reduce the amount of credit interest passed over to the HRA, i.e. part of the £145,000 adverse variance in interest is passed over to the HRA (as represented by the variance of £42,900 in Table 6).
- 3.53 To a certain extent, the HRA is protected due to the fact that Housing Subsidy will be adjusted to take account of this. As previously highlighted, the longer-term effect of interest rates and its effect on the HRA has been reflected in the review of the MTFP.

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