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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM:</b> 12
<b>DATE OF MEETING:</b>	<b>1st DECEMBER 2011</b>	<b>CATEGORY:</b> <b>DELEGATED</b>
<b>REPORT FROM:</b>	<b>CHIEF EXECUTIVE OFFICER</b>	<b>OPEN</b>
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<b>SUBJECT:</b>	<b>BUDGET and FINANCIAL MONITORING 2011/12</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 2011/12 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 generally undertaken on a monthly basis, although more regular monitoring takes place on the more volatile and higher risk budgets such as housing repairs.
- 2.2 Financial information is available on-line to enable day-to-day monitoring within services. This formal monitoring involves budget managers together with their service accountant, meeting and reviewing performance against their particular budgets. This 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 Chief Finance Officer. Again, overall performance is reported to this Committee throughout the year.
- 2.5 This is the second monitoring report for the financial year 2011/12. It details performance up to 30th September 2011 – effectively a half-yearly review.

### 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 (effectively a budget deficit) being financed from the Council's Reserves.
- 3.2 The original budget, which was approved in February 2011, estimated a budget deficit of £357,898 in 2011/12 to be financed from general reserves. This was revised following the review of the Medium-Term Financial Plan (MTFP) approved by the Committee in October.
- 3.3 The deficit is now estimated at £515,443 for 2011/12, an increase due to one-off costs of approved restructures previously reported, together with unused resources brought forward from 2010/11 (to fund pay and grading) being built into the budget for this year.
- 3.4 A summary is provided in the following table.

##### General Fund: Revised Budget Deficit 2011/12

	Original (£)	Revised (£)
Net Expenditure on Services	11,556,638	11,447,025
Capital Charging Adjustments	-369,425	-369,425
Provisions and Adjustments	615,058	882,216
Overall Net Revenue Expenditure	11,802,271	11,959,816
<b>Less - Financing</b>		
General Government Grant	-5,960,805	-5,960,805
New Homes Bonus	-382,710	-382,710
Council Tax Freeze Grant	-119,456	-119,456
Council Tax Payers	-4,888,102	-4,888,102
Earmarked Reserves	-93,300	-93,300
Total Financing	-11,444,373	-11,444,373
<b>Estimated Budget Deficit 2011/12</b>	<b>357,898</b>	<b>515,443</b>

- 3.5 In line with normal monitoring arrangements, the position on the Revised Net Expenditure on Services (i.e. £11,447,025 in the above table continues to be reviewed.
- 3.6 This is the amount that is directly managed and controlled by the various budget holders across the Council. The Budget, together with major variances identified as at September 2011 is summarised in the tables, below. A full analysis of each service area at cost centre level with variances across each policy committee is detailed in **Appendix 1**.

- 3.7 The variances reflect issues that although projected to out-turn at this level, could change during the remainder of the year.

**Performance against Budget 2011/12 as at September 2011 (by Committee)**

Summary by Policy Committee	Approved Budget	Projected Actual	Projected Variance
Environmental and Development Services	3,820,754	3,831,304	10,550
Housing and Community Services	2,108,231	2,125,778	17,547
Finance and Management	5,518,040	5,465,315	(52,726)
<b>TOTAL</b>	<b>11,447,025</b>	<b>11,422,397</b>	<b>(24,629)</b>

**Performance against Budget 2011/12 as at September 2011 (by Service)**

Summary by Main Service Area	Approved Budget	Projected Actual	Projected Variance
Economic Regeneration	335,389	335,389	-
Environmental Services	612,180	598,230	(13,950)
Highways	10,354	17,354	7,000
Licensing and Land Charges	(73,208)	(70,208)	3,000
Planning	409,744	387,744	(22,000)
Town Centre	58,336	58,336	-
Waste Collection and Street Cleansing	1,592,744	1,606,244	13,500
Environmental Education	71,260	71,260	-
Transport Account	803,955	826,955	23,000
Leisure and Recreational Activities	111,562	111,562	-
Leisure Centres and Community Facilities	518,180	518,180	-
Parks and Open Spaces	678,693	673,693	(5,000)
Private Sector Housing	451,814	455,114	3,300
Community and Development Support	282,243	299,890	17,647
Central and Departmental Accounts	3,163,360	3,119,494	(43,866)
Concessionary Travel	6,000	1,333	(4,667)
Corporate and Democratic Costs	935,314	932,715	(2,599)
Electoral Registration	208,330	208,330	-
Interest Payments and Receipts	656,196	652,194	(4,002)
Internal Trading Accounts	65,738	67,338	1,600
Payments to Parish Councils	299,643	299,643	-
Property and Estates	26,720	32,665	5,945
Revenues and Benefits	222,477	218,940	(3,537)
<b>TOTAL</b>	<b>11,447,025</b>	<b>11,422,397</b>	<b>(24,629)</b>

- 3.8 The tables show that based on current income and spending, there will be an overall **decrease** in net expenditure on services of £24,629 compared to the Budget for the year. This compares with a projected increase of £50,190 as at August 2011 and £54,253 as at the end of the previous quarter.

**Main Variances**

- 3.9 An analysis of the variances to-date is detailed in **Appendix 1**. In summary, besides an increase in fuel costs for which additional budget was approved by

the Committee in October, the main variance continues to be additional costs of employing temporary cover in waste, cleansing and transport services (£44,000). This is to cover sickness absence.

3.10 These costs are offset by additional income in licensing and also in planning and building regulation fees – the current trend is slightly upwards following several financial periods of reducing income.

3.11 In addition, there are currently lower costs in central departments and the full corporate training budget is unlikely to be fully utilised in the year. This has been fully spent in recent years, in particular on supporting management and development training across the Council. This is currently being reviewed.

### Other Cost Reductions Income

3.12 The annual review of the Council's insurance premiums was undertaken on 30<sup>th</sup> September. Due to an improved claims record, this has reduced the overall premium by approximately £20,000 per year from October 2011. This is still to be reflected in the budget.

3.13 In addition, the County Council has made a contribution towards the running costs of Etwall Leisure Centre of £34,000 for 2011/12. This was not budgeted for.

### HOUSING REVENUE ACCOUNT (HRA)

3.14 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.

3.15 The HRA Budget set in February 2011 included drawing down HRA Reserves of £656,895 to finance an estimated budget deficit for 2011/12. This included a provision of approximately £109,000, mainly to cover inflation.

3.16 Performance on the HRA is summarised in the table below. No major variances are anticipated to-date with the repairs budget on track. The main variance is additional rent due to lower voids, together with the new policy of reletting voids at formula rent.

Housing Revenue Account	Approved Budget	Projected Actual	Projected Variance
Departmental Support Staff and Costs	1,294,540	1,294,540	-
Repairs and Planned Maintenance	3,043,553	3,043,553	-
Rechargeable Works	-15,600	-15,600	-
Managing Tenancies (HRA)	129,225	129,225	-
Rent Collection	-10,244,974	-10,296,531	-51,557
Right to Buy Interest (HRA)	-27	-27	-
Wardens and Sheltered Services	455,788	455,788	-
Negative Subsidy Payment to CLG	4,011,683	4,011,683	-
Provision for Bad or Doubtful Debts	20,000	20,000	-
Depreciation and Impairment	1,925,343	1,925,343	-
Debt Management Costs	37,365	37,365	-
<b>TOTAL</b>	<b>656,896</b>	<b>605,339</b>	<b>-51,557</b>

## CAPITAL EXPENDITURE and FINANCING 2011/12

3.17 The updated Capital Programme following the budget out-turn for 2010/11, together with confirmation of grant funding for 2011/12, is shown in **Appendix 2**. This was approved by the Committee in October.

3.18 It has been updated to reflect the full costs of the wet side refurbishment together with the upgrade of plant and equipment at Green Bank Leisure Centre. The overall cost is £282,000, funded as follows:

- Growth Point - £194,000
- Government Grant - £45,000
- Revenue Contribution - £43,000 (money carried forward from 2010/11)

3.19 The overall position on gross expenditure (before external financing) as at October 2011 is summarised in the following table.

**Analysis of Capital Expenditure as at October 2011**

<b>ANALYSIS OF SPENDING BY MAIN SERVICE/PROJECT AREA</b>	<b>APPROVED ESTIMATE £</b>	<b>SPENT AT JULY 2011 £</b>	<b>SPENT AT OCTOBER 2011 £</b>
Council House Improvements	2,817,429	413,464	1,147,275
Private Sector Housing Renewal	386,810	114,382	245,953
Leisure and Community Schemes	854,537	110,026	186,849
Environmental and Development Schemes	30,000	0	0
Property and Other Assets ( <b>note</b> )	413,139	0	82,831
<b>Total Expenditure</b>	<b>4,501,915</b>	<b>637,872</b>	<b>1,162,908</b>

**Note:** This includes a contribution of £225,000 to the Vehicle Replacement Fund which is accounted for at the year-end.

### **Rosliston Forestry Centre**

3.20 Generally, all schemes are running as planned and no major variances are anticipated at this stage. However, there is a potential issue with a contractor's claim associated with the scheme for the Business Units at Rosliston Forestry Centre which was completed in 2010/11. The Council has submitted a counter claim.

3.21 This is under review and an update will be provided when the outcome is known, including any financial implications for the Council.

3.22 Some Green Infrastructure Funding (Growth Point) has been secured for Rosliston. Primarily, this is earmarked for car park improvements at the Forestry Centre and is part of a wider capital proposal which is currently being evaluated.

## Aiming High Grant Funding

3.23 This is grant funding aimed at young people and those with disabilities to provide improved access to leisure and recreational facilities. The Council has been allocated £92,000 from the County Council's grant pot. This will be reflected in the next quarter's figures but will apply to the following projects.

- Courtyard at Sharpe's Pottery
- Soft play refurbishment and Cycle Path at Rosliston Forestry Centre  
(Subject to separate capital proposal)

## Capital Receipts

3.24 Excluding resources received from the sale of the Bretby Crematorium, the original financing programme made no provision for any new capital receipts being generated in 2011/12.

3.25 To-date, there have been 2 council house sales, 2 small land disposals and the granting of an easement to lay services in Swadlincote. After "pooling," fees and support service costs charged to the Capital Account, this currently nets additional resources of £75,000.

## TREASURY MANAGEMENT

3.26 An analysis of the Council's borrowing and short-term investments/bank deposits is summarised in the table, below. This shows the position to 31<sup>st</sup> October 2011.

<b>Borrowing</b>	<b>01/04/11</b>	<b>31/10/11</b>
• Long Term Debt Outstanding	£1,000,000	<b>£1,000,000</b>
• Temporary Borrowings (Parish Council deposits)	£5,133,367	<b>£133,367</b>
<b>Total Debt Outstanding</b>	<b>£6,133,367</b>	<b>£1,133,367</b>
• Interest Rate on Long term - fixed at:	4.875%	4.875%
• Interest Rate Paid on Temporary Borrowings	0.75%	0.00%
• Base Rate (Since 5th March 2009)	0.50%	0.50%
<b>Short-term Investments</b>		
• Bank Deposits and Other Investments	<b>£6,416,500</b>	<b>£6,639,800</b>
Average Interest Rate Earned (on Investments)	0.80%	1.01%
Target – Average 7-Day Rate (for comparison)	0.56%	0.67%
	<b>Estimate for the Year</b>	<b>Projected for the Year</b>
<b>Analysis of Interest (Paid)/Received</b>	<b>£</b>	<b>£</b>
Short term Deposits	52,500	56,500
Less Temporary Loans	(3,150)	(9,450)
<b>Total – Net Interest Receivable</b>	<b>49,350</b>	<b>47,050</b>

- 3.27 The estimate for the year was based on an average cash balance on deposit for the year of £3m, with an average interest rate of 1.75% as set out in the Treasury Management Strategy. The average rate earned to-date is just over 1%. It is still considered that interest rates are unlikely to rise from 0.5% (the Bank of England Base Rate) in the foreseeable future.
- 3.28 Overall interest received however, is holding up due to a higher level of funds on deposit – approximately £7m on average to-date. This has been helped by the money received for the sale of Bretby Crematorium which is currently being held on deposit.
- 3.29 The short-term borrowing (temporary loans) taken out in March 2011 to cover the shortfall in year-end cash flow was repaid in May 2011. This was detailed as part of the Treasury Management Annual Report which was reported to the Committee on 29<sup>th</sup> June 2011.

### **Credit Ratings and Effect on Interest**

- 3.30 Recently, several major banks and financial institutions have had their credit ratings reduced. This included a number of UK high street banks and some of these institutions were on the Council's approved lending list. Very few institutions are now graded at **AA** and above for investments – which is a fundamental principle in the Council's policy.
- 3.31 Consequently, officers have had to recall deposits in reserve accounts and place them in institutions whose credit ratings have not been affected. This has narrowed the Council's lending list quite substantially and besides just one high street bank, under the current policy, the Council has had to place funds with the Government's Debt Management Office and other local authorities.
- 3.32 Although these are the safest form of deposit available and are "guaranteed," interest rates are lower than the market average. The effect on the amount of interest generated will be reported at the next quarter when the effect of the downgrading is fully known.

## **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

