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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE - SPECIAL</b>	<b>AGENDA ITEM: 6</b>
<b>DATE OF MEETING:</b>	<b>22<sup>ND</sup> MAY 2012</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>CHIEF EXECUTIVE OFFICER</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (01283 595811)</b> <b>CHIEF FINANCE OFFICER</b> <a href="mailto:Kevin.stackhouse@south-derbys.gov.uk">Kevin.stackhouse@south-derbys.gov.uk</a>	<b>DOC:</b> u/ks/financial monitoring reports/2012 2 April
<b>SUBJECT:</b>	<b>BUDGET and FINANCIAL MONITORING: PROVISIONAL OUT-TURN 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 provisional out-turn figures for 2011/12 are approved.
- 1.2 That the following appropriations are made from the General Fund Reserve into Earmarked Reserves as detailed in Section 6:
- Transfer to the IT Reserve – £60,000
  - Transfer to the Innovation Fund - £24,525
  - Increase in Housing Benefits Provision - £45,600
  - Carry Forwards to supplement 2012/13 budgets - £145,000
- 1.3 That the current budgets for areas of underspend and additional income identified in the report, are examined by the Senior Management Team ahead of the Annual Financial Settlement in the autumn, to determine whether any further efficiency/budget savings can be generated.

## **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. 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 fourth monitoring report for the financial year 2011/12. It details performance up to 31st March 2012 and is a provisional out-turn position.
- 2.6 Final figures will be reported at the Final Accounts meeting on 28th June 2012. However, other than any outstanding matters highlighted in the report, this is effectively a strong indication of the final position for the year regarding income and expenditure on the Council's main revenue and capital accounts.
- 2.7 The Council's draft statement of accounts, i.e. the formal document to comply with statutory and accounting requirements, will be presented to the Committee on 28<sup>th</sup> June 2012.
- 2.8 The report is analysed over the following sections:
- Section 3 – General Fund Revenue Account
  - Section 4 – Housing Revenue Account
  - Section 5 – Capital Expenditure and Financing
  - Section 6 – Reserves, Balances and Provisions
  - Section 7 – Treasury Management
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- Appendix 1 - Environmental and Development Services Committee
  - Appendix 2 – Housing and Community Services Committee
  - Appendix 3 – Finance and Management Committee
  - Appendix 4 – Capital Expenditure and Financing – all committees

### 3.0 **GENERAL FUND REVENUE ACCOUNT**

- 3.1 Apart from Council Housing, day to day income and expenditure is accounted for through a 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 and totalled £515,443.
- 3.3 Following the 2012/13 budget round, the deficit for the year was revised down to a surplus of £3,557. This was due to provisions, mainly for pay and grading, together with land charges refunds, being deferred to future years. In addition, the inflation provision was also reduced following the budget review.
- 3.4 As reported to Committee in February 2012, the revised position is summarised below.

<b><u>Revised General Fund 2011/12</u></b>	<b>Original (£)</b>	<b>MTFP (£)</b>	<b>Revised (£)</b>
<b>Net Expenditure on Services</b>	11,556,638	11,447,025	<b>11,515,019</b>
Capital Charging Adjustments	-369,425	-369,425	-369,425
Contributions and Contingent Sums	615,058	882,216	295,222
Overall Net Revenue Expenditure	11,802,271	11,959,816	11,440,816
<b>Less - Financing</b>			
General Government Grant	-5,960,805	-5,960,805	-5,960,805
New Homes Bonus	-382,710	-382,710	-382,710
Council Tax Freeze Grant	-119,456	-119,456	-119,456
Council Tax Payers	-4,888,102	-4,888,102	-4,888,102
Earmarked Reserves	-93,300	-93,300	-93,300
Total Financing	-11,444,373	-11,444,373	-11,444,373
<b>Estimated Deficit /Surplus (-)</b>	<b>357,898</b>	<b>515,443</b>	<b>-3,557</b>

#### **Net Expenditure on Services**

- 3.5 As highlighted in the above table, net expenditure for the year was revised to £11,515,019. This is the amount that is directly managed and controlled by the various budget managers across the Council.

#### **Position Following the 3<sup>rd</sup> Quarter**

- 3.6 As reported to the Committee on 14<sup>th</sup> February 2012, the General Fund was showing a projected out-turn of £11,397,012, i.e. an overall under spend of £118,000 compared to the revised budget of £11.515m above. The main reasons for this were highlighted as shown in the following table.

**Summary of Major Variances (as at December 2012)**

£'000

**Positive Variances**

Reduction in Central, Corporate & Overhead Costs	-133
Additional Income in Environmental Health and Licensing Services	-51
Reduction in Democratic (Members) Costs	-35
Lower sub contracting costs and landfill charges on Waste Collection	-25
Additional Income in Building Regulations	-12

**Adverse Variances**

Cost of covering sickness absence in Environmental Services	42
Data Scanning Project in Planning b/fwd	25
Higher transport costs, in particular fuel	23
Housing Benefit Administration Costs (External Audit Fees)	20
Reduction in Land Charges Income	13
Repair of wall at Melbourne Leisure Centre	10
Other Variances	5
<b>TOTAL PROJECTED VARIANCE</b>	<b>-118</b>

- 3.7 In addition, it was also reported that savings on insurance premiums and banking services following tendering exercises, would reduce costs further in 2011/12 by £25,000 making a total reduction of £143,000.

**Provisional Out-turn 2011/12**

- 3.8 The Budget, together with major variances identified as the year closed 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 Appendices 1 to 3.

**Performance against Budget 2011/12 as at 30<sup>th</sup> April 2012 (by Committee)**

<b>Summary by Policy Committee</b>	<b>Budget £</b>	<b>Actual £</b>	<b>Variance £</b>
Environmental and Development Services	3,813,821	3,554,633	(259,187)
Housing and Community Services	2,134,698	2,075,792	(58,906)
Finance and Management	5,566,497	5,115,435	(451,062)
<b>TOTAL</b>	<b>11,515,015</b>	<b>10,745,860</b>	<b>(769,155)</b>

**Performance against Budget 2011/12 as at 30<sup>th</sup> April 2012 (by Service)**

<b>Summary by Main Service Area</b>	<b>Budget £</b>	<b>Actual £</b>	<b>Variance £</b>
Economic Regeneration	256,160	235,100	(21,060)
Environmental Health	630,712	498,466	(132,246)
Highways	10,354	6,037	(4,317)
Licensing and Land Charges	(54,780)	(28,289)	26,491
Planning	424,527	373,895	(50,632)
Town Centre	58,336	64,198	5,862
Waste Collection and Street Cleansing	1,615,149	1,525,697	(89,452)
Environmental Education	71,896	71,896	0
Transport Account	801,467	807,633	6,166
Leisure and Recreational Activities	148,385	147,199	(1,186)
Leisure Centres and Community Facilities	548,960	551,399	2,439
Parks and Open Spaces	655,289	600,805	(54,484)
Private Sector Housing	422,759	421,473	(1,286)
Community and Development Support	293,553	296,331	2,778
Central and Departmental Accounts	3,332,009	3,199,344	(132,665)
Concessionary Travel	6,000	(2,183)	(8,183)
Corporate and Democratic Costs	939,323	881,010	(58,312)
Electoral Registration	189,771	156,611	(33,160)
Pensions, Interest Payments and Receipts	661,434	496,801	(164,633)
Caretaking and Office Cleaning	65,751	58,585	(7,166)
Payments to Parish Councils (Concurrent Functions)	299,643	295,090	(4,553)
Property and Estate Management	1,647	(11,276)	(12,923)
Revenues and Benefits	136,670	100,037	(36,633)
<b>TOTAL - Net Expenditure (after fees / charges)</b>	<b>11,515,015</b>	<b>10,745,860</b>	<b>(769,155)</b>

3.9 The tables show that there is an overall decrease in net expenditure on services of £769,155 compared to earlier estimates for the year of £118,000. This is approximately £650,000 greater than previously projected. The main reasons for this are summarised in the following table.

<b>Reasons for Additional Underspend</b>	<b>£</b>
Pension Fund - Reduction in Past Service Deficit	-141,835
Specific Government Grants	-64,966
Additional Income	-228,346
Lower Costs	-191,506
Vacant Posts	-23,732
<b>TOTAL</b>	<b>-650,385</b>

### **Pension Fund – Reduction in Past Service Deficit (£141,835)**

- 3.10 Under the contract with Northgate for the transfer of Corporate Services, the Council became liable for the past service deficit of the staff transferred. This was known and budgeted for in the cost model that formed part of the Council's Business Case.
- 3.11 At the date of transfer, the actual deficit was not fully known, being subject to an actuarial valuation. Based on an estimated calculation, the Council budgeted for an annual cost of £140,000 from 2011/12, with £96,000 provided for in 2010/11, a part year as the Contract commenced in August 2010; this amount was accrued in the Council's Accounts for 2010/11).
- 3.12 During March 2012, the Council's on-going liability was confirmed. The actual annual liability is £100,000 (subject to the usual triennial valuations of the Pension Fund), a saving of £40,000 compared to that estimated. This is an on-going saving in the Budget.
- 3.13 In addition, the actuarial valuation confirmed that there was no liability for 2010/11 as the Council's overall contribution rate applying at that time had been sufficient to cover any initial deficit. Therefore, a one-off saving of £96,000 has also been made in 2011/12.

### **Specific Government Grants (£64,966)**

- 3.14 The Council received a small grant to meet the cost of software changes required to meet new requirements for transferring data between Government Departments. However, the largest grant (£60,000) was to meet the costs of the National Referendum on proposed changes to the voting system, which was held alongside the District Election in May 2011.
- 3.15 Although it was anticipated that some contributions would be received, the amount was uncertain and not built into the Budget; this is one-off income in 2011/12 only.
- 3.16 The Budget Holder for Elections as requested that an amount of up to £10,000 from this additional income is added to their Budget for 2012/13. This is to upgrade software and local printing facilities for future elections.

## **Additional Income (£228,346)**

- 3.17 As highlighted earlier, previous monitoring reports had projected additional income being generated in the year of approximately £51,000. This mainly related to Environmental Services associated with the issue of export certificates and licenses. The final out-turn is slightly more at £62,000.
- 3.18 Income from Building Regulations was projected to be around £12,000 greater than estimated. Again this was slightly higher at £15,000. Conversely, income from Land Charges was projected to be £13,000 less than estimated and this had reduced further by the year-end to approximately £23,000.

## **Income Budgets**

- 3.19 The additional income of £228,346 is over and above the amounts above. A prudent view is taken on setting the level of income to be generated in the Council's budget.
- 3.20 Many fees and charges are statutory such as for Planning and Licensing, although the Council does have some discretion over the level of charges depending on local circumstances.
- 3.21 The Council has full discretion to charge for other services such as the use of leisure and recreational facilities. The general principle contained in legislation and regulations is that charges should not be set so as to make a "profit" but to cover or make a contribution to the costs of providing the service, including central overheads.
- 3.22 The level of income received each year can fluctuate depending on demand for services and the state of the local economy, for example. Over the last 3 to 4 years, the Council's income has generally reduced (quite significantly in some cases) mainly due to the overall economic situation. The Council's budgets have been set to reflect this.
- 3.23 Clearly from the figures highlighted earlier, income in several areas was above that budgeted in 2011/12. An analysis is shown in the following table.

<b>Additional Income in 2011/12</b>		<b>£</b>
Planning Fees	-65,368	Major applications received later in the financial year.
Court and other Costs reimbursed for Council Tax Collection	-59,277	Approximately £170,000 reclaimed against a budget of £110,000.
Rosliston Forestry Centre	-22,178	Income from events and visitors greater than anticipated as facility continues to expand.
Leisure and Recreational Facilities	-19,435	Community Centres and Parks.
Additional Interest Earned on short-term investments	-17,869	As detailed in Section 7 - Treasury Management
Trade Waste	-16,466	Income from commercial organisations.
Rents and Rechargeable Works	-13,234	Rents from commercial and industrial properties increased in 2011/12 following falls in previous years.
Bed and Breakfast Costs	-11,567	Costs reclaimed for housing homelessness persons.
Other Income	-2,953	Additional licensing and building regulations income (less Land Charges) as detailed earlier in the report
<b>TOTAL</b>	<b>-228,346</b>	

## Costs

3.24 At the end of the 3<sup>rd</sup> quarter, significant variances projected in spending budgets were as follows:

<b><u>Major Projected Spending Variances as at December 2011</u></b>		<b>£'000</b>
<b>Positive Variances</b>		
Reduction in Central, Corporate & Overhead Costs		-133
Reduction in Democratic (Members) Costs		-35
Lower sub contracting costs and landfill charges		-25
<b>Adverse Variances</b>		
Cost of covering sickness absence in Environmental Services		42
Data Scanning Project in Planning b/fwd		25
Higher transport costs, in particular fuel		23
Housing Benefit Administration Costs (External Audit Fees)		20
Repair of wall at Melbourne Leisure Centre		10
Other Variances		5
<b>TOTAL PROJECTED VARIANCE</b>		<b>-63</b>

3.25 The greatest variances were projected reductions in central, corporate, overhead and democratic costs. This included savings in Internal Audit, on Corporate Training and lower costs of public buildings. There was also a projected saving on overall IT costs for the year of around £25,000.

3.26 Conversely, additional costs were being incurred on cover for sickness absence in Environmental Services, together with higher fuel costs. Additional



housing benefit costs (audit / testing fees, together with software support) were being incurred in connection with the outstanding 2009/10 Benefit Subsidy Claim.

### Lower Costs (£191,506)

3.27 Generally, the variances in the previous table can be confirmed. In addition, further reductions of £191,000 arose by the year end. These are detailed in the table, below.

Lower Costs in 2011/12 (compared to Budget)	£	
Waste Collection and Recycling	-76,486	This represents an underspend of around 4.5% on expenditure. Compared to the Budget, there were reductions on vehicle hire, bin replacements, allowances and landfill charges.
Additional Democratic and Corporate Costs	-36,475	Over and above that previously reported. This includes Member's allowances, expenses and training. Also includes external audit fees following lower costs being passed on from the Audit Commission.
Strategic and Departmental Housing Costs	-30,236	Lower training costs, subscriptions, consultant fees and office expenses.
Vehicle Costs	-16,834	Overall, lower servicing and maintenance costs, parts and materials, etc. and insurance.
Tourism, Promotion and Marketing	-16,524	Less expenditure on promotional literature and materials in the year.
Parks and Grounds Maintenance	-12,584	Lower material and equipment costs.
Other Variances (net)	-2,367	
<b>TOTAL</b>	<b>-191,506</b>	

### Potential Implications

3.28 Clearly, the overall underspend is fairly significant and will be beneficial against the current pressure on budgets. Given the current uncertainty regarding future grant settlements, it is considered that these underspendings (and indeed the additional income detailed earlier) should be examined further ahead of the Autumn Financial Settlement.

3.29 The aim should be to determine whether there is scope for on-going budget/efficiency savings in these areas in the light of the expected reduction in the Council's overall grant level.

### Financing and Use of Reserves

3.30 After bringing into account financing from government grant and earmarked reserves, together with the impact of contingency and provisional sums, the overall position is summarised in the following table.

<b>SUMMARY GENERAL FUND 2011 /12</b>	<b>Budget £</b>	<b>Actual £</b>	<b>Variance £</b>
Net Expenditure on Services	11,515,019	10,745,860	-769,159
Capital Charging Adjustments	-369,425	-369,425	0
Contributions to Reserves and Provisions	50,000	50,000	0
Contingent Sums	245,222	0	-245,222
<b>Overall Net Revenue Expenditure</b>	<b>11,440,816</b>	<b>10,426,435</b>	<b>-1,014,381</b>
<b>Less - Financing</b>			
General Government Grant	-5,960,805	-5,960,805	0
New Homes Bonus	-382,710	-382,769	-59
Council Tax Freeze Grant	-119,456	-119,655	-199
Council Tax Payers	-4,786,102	-4,786,102	0
Collection Fund Surplus	-102,000	-102,000	0
Earmarked Reserves	-93,300	-60,993	32,307
<b>Total Financing</b>	<b>-11,444,373</b>	<b>-11,412,324</b>	<b>32,049</b>
<b>Revenue Surplus for the Year</b>	<b>-3,557</b>	<b>-985,889</b>	<b>-982,332</b>

3.31 The above summary shows that the overall surplus for the year on the General Fund for 2011/12 is £985,889. In addition to the underspend on service expenditure of £769,000, there was no requirement to use any of the contingent sums which totalled £245,222.

3.32 The reduction in the use of earmarked reserves to fund parks and grounds maintenance expenditure is lower than estimated. This matches the overall underspend in this service area, i.e. a consequential reduction in the need to use this reserve.

### Contingent Sums

3.33 These were set-aside for the following items:

- Pay and Grading                      £130,000
- Growth and Inflation              £61,474
- Waste Collection Growth          £53,748

3.34 These are on-going sums included in the base budget and are set-aside each year.

### Pay and Grading (£130,000)

3.35 This relates to an additional sum in order to implement a new pay structure at the Council in accordance with statutory requirements. It was envisaged that this would be implemented during 2011/12.

3.36 Implementation has been delayed with a consequential saving of £130,000 in 2011/12. However, this amount continues to be maintained on an on-going basis for future years in the Council's Budget pending implementation.

### **Inflation (£61,474)**

- 3.37 This amount was originally set at £180,000 in February 2011. Following the half-yearly review of expenditure in October 2011, it was reduced when it became clear that there would be no local government pay award and other inflationary pressures were being contained within the Budget.
- 3.38 During the year, a sum to meet increasing fuel costs of £30,000 was transferred from this budget. No other calls have since been made on the remaining sum. In accordance with financial policy, a provision for inflation continues to be held for future years in the Council's Budget.

### **Waste Collection Growth (£53,748)**

- 3.39 This is a sum which increases on an annual basis and is set-aside to meet potential costs associated with the growth of the district, in particular waste collection (i.e. a greater number of households). To-date, there has been no call on this contingency but a provision in future years continues to be made in the Council's Budget.

### **Outstanding items**

- 3.40 There are still some year-end charges to be fully confirmed. These relate to:
- Final (interim) Claim for Housing Benefit Subsidy (prior to Audit)
  - Bad Debts Provision
  - Capital Charging Adjustments
  - Allocation of Central Costs
  - Recharges to/from the County Council and John Port School
- 3.41 Latest estimates have been included in the provisional figures and these will be confirmed and reported in the final out-turn report in June. The capital charging adjustments, together with the allocation of central costs will not change the overall total.
- 3.42 The effect of the out-turn figures on General Reserves is detailed in Section 6.

## 4.0 HOUSING REVENUE ACCOUNT

- 4.1 The Council is required to account separately for income and expenditure in providing Council Housing. 2011/12 was the last financial year under the national subsidy system.
- 4.2 The approved HRA Budget included drawing down HRA Reserves of £605,196 to finance an estimated budget deficit. The updated position at the 3<sup>rd</sup> quarter was that the deficit was projected to be lower by approximately £140,000 at £465,000.
- 4.3 This was due to additional rent, lower management costs and that the contingent sum for inflation (similar to the General Fund) was unlikely to be called upon. In addition, expenditure on housing repairs was lower than estimated, although this was subject to the level of spending over the winter period.

### Provisional Out-turn 2011/12

- 4.4 Final (provisional) performance on the HRA is detailed in the following table.

Housing Revenue Account - Provisional Out-turn 2011 / 12	Approved Budget £	Actual £	Variance £
Rent from Dwellings and Garages	10,245,001	10,279,633	-34,632
Rechargeable Repairs	15,600	15,206	394
Supporting People Grant	371,696	414,037	-42,341
<b>Total Income</b>	<b>10,632,297</b>	<b>10,708,876</b>	<b>-76,579</b>
Housing Repairs and Planned Maintenance	2,963,553	2,750,821	-212,732
General Management	1,294,540	1,203,951	-90,589
Managing Tenancies	19,286	10,275	-9,011
Sheltered and Other Services	827,484	743,675	-83,809
Provision for Bad Debts	20,000	44,695	24,695
Interest Recharged from the General Fund	37,365	48,973	11,608
Negative Subsidy Payment	4,011,683	4,072,036	60,353
Major Repairs Allowance (Depreciation)	1,925,343	1,925,343	0
Professional Fees - PWLB Arrangement Fee	20,300	21,098	798
Professional Fees - Treasury Management	8,000	12,700	4,700
Provision for Pensions / Pay & Grading	22,390	0	-22,390
Provision for inflation	87,549	0	-87,549
<b>Total Expenditure</b>	<b>11,237,493</b>	<b>10,833,567</b>	<b>-403,926</b>
<b>Net Deficit</b>	<b>605,196</b>	<b>124,691</b>	<b>-480,505</b>

- 4.5 The table shows that the net deficit has out-turned much lower compared to the Budget, with additional income of approximately £76,000, lower housing repairs equating to £212,000, contingent sums not required of £110,000, together with a net reduction in other costs of around £81,000.

### **Additional Income (£76,579)**

- 4.6 The additional rent was projected earlier in the year due to lower voids, together with “re-lets” being increased to Formula Rent level in accordance with approved policy. It was anticipated that there would be a reduction in Supporting People Grant in 2011/12 and the Budget was set to reflect this. Although this was the case, the amount reduced by approximately £60,000 compared to an estimate of £100,000.

### **Lower Spending on Housing Repairs (£212,732)**

- 4.7 A lower level of repairs was required during the year. However, around £100,000 of this underspend relates to the fitting of carbon monoxide protectors in sheltered accommodation. This was approved by the Committee in February 2012; the cost of these works will now fall into 2012/13.

### **Reduction in Service and Management Costs (£183,409)**

- 4.8 The main variances (compared to Budget) are as follows:

Support Service Recharges	£84,000	HRA's share of reduction in central and overhead costs as detailed in the General Fund.
Employee Costs	£47,000	As projected, final savings, mainly on wardens, arising from an approved restructure of the Sheltered Housing Service in 2011.
Utility Costs	£29,000	Savings in sheltered accommodation. This level of saving was also achieved in 2010/11 and suggests that the Budget should be reviewed.
Council Tax Refunds	£23,000	As projected; properties demolished in 2010/11 as part of the Extra Care Project/Village in Swadlincote.

### **Bad Debts Provision**

- 4.9 An additional contribution was required to the Provision for Bad Debts. This was due to an increase in arrears during 2011/12 from £136,000 to £157,000. This was after writing off bad debts in the year amounting to £23,000

### **Interest Recharged and Negative Subsidy Payment**

- 4.10 Overall, the payment to the Government Pool (negative Subsidy) will increase compared to that estimated. This is due to the interest rate on assumed debt in the subsidy system being slightly lower than estimated, i.e. 1.12% compared to 1.2%. It also includes an adjustment relating to 2010/11 of £56,000.
- 4.11 The interest recharged from the General Fund includes 3 days interest on the loan taken on under self-financing. This transaction took place before 1<sup>st</sup> April 2012 as planned. However, this has been reimbursed through subsidy.

## Contingent Sums for Inflation and Pay/Grading (£110,000)

- 4.12 Similar to the General Fund, no call was made against these sums. As regards pay and grading, implementation has been delayed with a consequential saving of £22,000 in 2011/12. However, this amount continues to be maintained on an on-going basis for future years in the HRA's Budget, pending implementation.

## Potential Implications

- 4.13 Clearly, the overall underspend is fairly significant and will be beneficial against the current pressure on budgets. Under self-financing, the Council now has greater flexibility, but with added responsibility, to manage the HRA independently.
- 4.14 With a debt to service of £57.423m, together with expectations to invest in the current stock and to provide new accommodation under national incentives, it is considered that HRA's budget should be examined further following this year's out-turn.

## Self-Financing

- 4.15 On 28<sup>th</sup> March 2012, the Council borrowed £57,423,000 as planned. The overall interest rate was slightly better than expected and will realise a relatively small saving over the life of the 30 year Business Plan of £104,000 as shown below.

Principal (£)	Period (Years)	Estimated Rate (%)	Actual Rate (%)	Estimated Interest	Actual Interest	Variance
10,000,000	10	0.70%	0.70%	700,000	700,000	0
10,000,000	12	2.88%	2.70%	3,456,000	3,240,000	-216,000
10,000,000	15	3.09%	3.01%	4,635,000	4,515,000	-120,000
10,000,000	20	3.29%	3.30%	6,580,000	6,600,000	20,000
10,000,000	25	3.40%	3.44%	8,500,000	8,600,000	100,000
7,423,000	30	3.45%	3.50%	7,682,805	7,794,150	111,345
<b>57,423,000</b>		<b>2.80%</b>	<b>2.78%</b>	31,553,805	31,449,150	-104,655

## 5.0 **CAPITAL EXPENDITURE and FINANCING 2011/12**

- 5.1 The provisional out-turn is detailed in Appendix 4 with a summary in the table, below.

### **Capital Expenditure by Service** **Provisional Out-turn 2011/12**

	BUDGET £	ACTUAL £	Variance £
Council House Improvements	2,992,429	2,500,454	-491,975
Private Sector Housing Renewal	448,698	407,680	-41,018
Leisure and Community Schemes	877,537	421,729	-455,808
Environmental and Development Schemes	670,000	627,583	-42,417
Property and Other Assets	413,139	306,345	-106,794
<b>Total Expenditure</b>	<b>5,401,803</b>	<b>4,263,791</b>	<b>-1,138,012</b>

- 5.2 The table highlights that expenditure on schemes of approximately £1.1m is still to be incurred. Except for one scheme associated with the improvement works to the Delph area in Swadlincote, once all schemes are completed, there will be no major under or over spends; outstanding budgets will be carried forward into 2012/13 to complete schemes.
- 5.3 An analysis of the main variances is detailed in the following sections.

### **Council House Improvements (balance remaining £491,975)**

- 5.4 The main variance (£307,000) relates to the completion of environmental and other works at Sheltered Accommodation. The scheme is currently subject to a competitive tendering exercise and the money will now be spent in 2012/13.
- 5.5 In addition, it was anticipated that some works (although committed in principle) would not be undertaken until 2012/13. This included demolition works associated with a property in Church Gresley.

### **Leisure and Community Schemes (balance remaining £455,808)**

- 5.6 The main scheme still outstanding is the extension to Hilton Village Hall (245,000). This has been subject to detailed review of the specification which has delayed works commencing. It is anticipated that this will now be undertaken in 2012/13.
- 5.7 In addition, an amount of approximately £42,000 remains uncommitted in respect of small capital grants awarded to voluntary and local organisations, i.e. the Community Partnerships Scheme. Proposals to utilise this balance are due to be reported to the Committee later in the year.
- 5.8 The amount outstanding for Youth and Play facilities (£83,000) is dependent upon external finance being generated to fund identified schemes.
- 5.9 The refurbishment works at Green Bank Leisure Centre were completed with a small overspend of around £8,000 on total scheme costs of £320,000. This amount can be funded from capital reserves.

## **Environmental and Development Services (balance remaining £42,417)**

- 5.10 The balance outstanding largely relates to works associated with renovating buildings in conservation areas. Costs are funded through grants from other agencies.

## **Improvements to Swadlincote Town Centre**

- 5.11 The main scheme in 2011/12 was the completion of improvements to Swadlincote Town Centre and in particular the Delph. This scheme was spread over two financial years with total project costs of approximately £2.5m, substantially funded externally through Growth Point and the Derbyshire Economic Partnership.
- 5.12 Although the Council contributed to some of the total cost, this was mainly through use of Section 106 contributions and Housing/Planning Delivery Grant. Final accounts and grant claims have now been completed; an unfinanced shortfall has been identified of approximately £90,000.
- 5.13 A detailed review is currently being undertaken to ensure that all costs have been reclaimed from funding bodies and that all expenditure charged was relevant to the project. In the meantime, the shortfall has been earmarked against the Capital Receipts Reserve. The status of this Reserve is detailed in Section 6.

## **Property and Other Assets (balance outstanding £106,794)**

- 5.14 As approved, the remaining Planned Maintenance Budget (£58,000) for capital works to Council owned buildings continues to be held as a contingency pending any major risks or equipment failures, etc. Revenue budgets continue to fund day to day maintenance requirements.
- 5.15 The balance remaining for improvements to village halls and community buildings (£48,000) will be subject to a separate report later in the year. This will update and consider alternative proposals for utilisation of this funding.

## **Financing Capital Expenditure**

- 5.16 Apart from the Delph improvements identified above, all expenditure was financed as planned. This is summarised in the following table.

<b>Capital Financing 2011/12</b>	<b>Budget £</b>	<b>Actual £</b>	<b>Variance £</b>
Government Grants	2,309,991	2,175,725	-134,266
External Contributions	1,710,155	1,114,872	-595,283
SDDC- Revenue / Earmarked Reserves	188,929	139,580	-49,349
SDDC - Capital Reserve	307,709	0	-307,709
SDDC - Capital Receipts	885,019	833,614	-51,405
<b>TOTAL - FINANCING</b>	<b>5,401,803</b>	<b>4,263,791</b>	<b>-1,138,012</b>



- 5.17 The variance reflects expenditure outstanding and this will be drawn down as schemes are completed in 2012/13. Government Grants and External Contributions (which mainly relate to Growth Point funding) remain secured. The SDDC Capital Reserve relates to the money set-aside for Sheltered Accommodation.

## **6.0 RESERVES, BALANCES AND PROVISIONS**

### **PROVISIONS**

- 6.1 The Council made a provision of £159,000 in the Accounts for 2010/11 to cover a potential claw back of housing benefit subsidy. This followed External Audit's testing of the Council's Subsidy Claim for 2009/10.
- 6.2 As reported in February, the Council has been able to demonstrate that the original claim was substantially correct and the final liability will only be around £7,500. The Council did incur additional costs in providing further evidence to the DWP and this led to some additional testing and audit fees of approximately £33,000.
- 6.3 External Audit has recently completed their testing of the Claim for 2010/11 and this has identified a potential claw back of approximately £205,000. Therefore, the Council will need to make a further provision for this amount, less the amount already provided, i.e. £45,500 (£205,000 less 159,500).
- 6.4 The Council will now be required to undertake further testing to demonstrate the validity of this year's Claim.

### **GENERAL FUND RESERVE**

- 6.5 Following the out-turn figures as detailed in [Section 3](#), the provisional position on the General Fund Reserve Balance is summarised in the following table.

<b>General Fund Reserve as at 31st March 2012</b>	<b>Budget £</b>	<b>Actual £</b>
Balance b/fwd (1st April 2011)	3,008,966	3,008,966
Add: Surplus for the Year	3,557	985,889
Add: Other Earmarked Reserves transferred in	82,414	82,414
<b>Balance before Proposed Appropriations</b>	<b>3,094,937</b>	<b>4,077,269</b>
Less: Contribution to the IT Reserve	0	-60,000
Less: Contribution to the Innovation Fund	0	-24,525
Less: Contribution to Housing Benefits Provision	0	-45,600
Less: Carry Forwards (Earmarked Reserve)	0	-145,000
<b>Closing Balance as at 31st March 2012</b>	<b>3,094,937</b>	<b>3,802,144</b>

- 6.6 The table clearly shows that the level of general reserves (before proposed appropriations) is significantly greater than estimated at March 2012 (around £980,000). This is due to the better out-turn position as detailed in Section 3.

### **Proposed Appropriations**

- 6.7 The contribution to the IT Reserve is in accordance with financial policy. This reserve is maintained to replace and upgrade the IT network. The amount of £60,000 is the overall underspend on IT budgets for 2011/12.
- 6.8 Spending on IT can vary each year depending on the level of PC, server and other infrastructure repairs and replacements required. Spending is undertaken in accordance with the IT Strategy but inevitably there is a variance year to year.
- 6.9 The IT Reserve is held and utilised for major one-off investment, for example, an upgrade of the local area network, upgrade of Microsoft Software, etc. It will be utilised in 2012/13 to fund the server and Microsoft upgrades identified in the IT Strategy.
- 6.10 The balance on the reserve now totals £212,000. It is estimated that over £100,000 (mainly in upgraded licenses and software) will be required to fund the above investment.

### **Innovation Fund**

- 6.11 This represents the amount generated from savings generated in the year from service and transformation reviews. As part of the Partnership agreement with Northgate, 20% of savings in the first year are transferred into an earmarked Fund to provide resources for future reviews and investment.
- 6.12 The amount generated in 2011/12 was £24,525 and represents the first contribution to the Fund.
- 6.13 It arose from the following reviews:
- Environmental Health Restructure (January 2011) - £10,489
  - Operations Directorate (September 2011) - £8,836
  - Private Sector Housing (March 2012) - £5,200
- 6.14 Allocation of the Fund is at the discretion of the Council, although proposals would be initiated and discussed through the Strategic Partnership Board.

### **Proposed Carry Forwards**

- 6.15 Several requests have been received from budget managers to utilise some of the underspend or additional income in 2011/12, to supplement spending in 2012/13 on a one-off basis. These are detailed below and if approved will be held in an earmarked reserve pending actual expenditure.

## **Pollution Control**

- 6.16 As highlighted in Section 3, additional income has been generated in the year from Environmental and Licensing Services. There is a proposal to utilise £20,000 in 2012/13 to fund long-term sickness cover in the Pollution Unit.

## **Planning Service**

- 6.17 As highlighted in Section 3, slightly lower costs and additional fee income of approximately £66,000 was generated in the year. This was after meeting some additional costs in Building Control associated with out of hours cover.
- 6.18 It is requested that this amount is set-aside to cover costs of completing the Local Plan, together with extending the contract of the Design and Excellence Officer in Planning by a further 12 months. This post is considered crucial for the preparation of the Local Plan, together with town centre design and development.
- 6.19 An amount of £10,000 was set-aside in 2010/11, which still remains. This would make a total of £76,000 to cover potential costs of the Local Plan.

## **Leisure Centres**

- 6.20 Although the overall cost of Leisure Centres spent within Budget overall for 2011/12, additional cost pressures were contained. These included energy costs and fees associated with the closure of Green Bank Leisure Centre for refurbishment.
- 6.21 Additional income of £28,000 was received from the County Council towards the cost of Etwall Leisure Centre. The Council's share is £20,000 and it is requested that this is utilised in 2012/13 as match funding for a bid to Sport England to refurbish Green Bank Leisure Centre. This is an approved scheme in the Council's Capital Programme.

## **Parks and Maintenance of Open Space**

- 6.22 Including additional income and lower costs, Parks and the Grounds Maintenance service generated an underspending of approximately £29,000 in 2011/12. It is also requested that this is utilised in 2012/13 as match funding for a bid to Sport England to refurbish Green Bank Leisure Centre.

## **Elections and Electoral Registration**

- 6.23 As highlighted in Section 3, it is requested that an amount of £10,000 from government funding is added to the Elections budget for 2012/13. This is to upgrade software and local printing facilities for future elections.

## **Overall General Fund Reserve**

- 6.24 After allowing for the proposed transfers to earmarked reserves, this leaves the General Reserve Balance at approximately £3.8m, £700,000 higher than estimated.

## **HOUSING REVENUE ACCOUNT RESERVE**

- 6.25 Section 4 detailed the out-turn on the HRA and this highlighted an overall underspend of approximately £480,000 in 2011/12 compared to the Budget. Provisionally, the HRA reserve balance now totals £2.41m as at 31<sup>st</sup> March 2012, compared to an estimate of £1.93m.

## **CAPITAL RECEIPTS RESERVE**

- 6.26 Appendix 4 highlights that this reserve is £76,555 greater as at 31<sup>st</sup> March 2012 compared to that estimated. This was due to 2 further council house sales in the year (four in total) which netted an additional £25,150 after pooling compared to that estimated.
- 6.27 However, as Section 5 highlighted, amounts for the Community Partnerships Scheme (£42,000) and property maintenance (£106,000) were not utilised and remain, at this stage, a commitment on the Capital Reserve.
- 6.28 After allowing for these, and the future capital programme, there is a potential deficit on this reserve of approximately £73,000 as summarised below.

<b>Reconciliation of Capital Receipts</b>	<b>£</b>
Balance at 31st March 2012	76,555
<u>Less amounts earmarked for exiting schemes</u>	
Community Partnership Scheme	-42,978
Property Maintenance	-106,794
<b>Deficit</b>	<b>-73,217</b>
<u>Represented By:</u>	
Overspend on Green Bank Refurbishment	7,310
Shortfall in funding for the Delph Improvements (to be confirmed)	91,057
Less: Additional Receipts in the Year	-25,150
	<b>73,217</b>

- 6.29 Clearly, the shortfall in funding for the Delph improvements is causing the deficit. As highlighted in Section 5, this is being reviewed.

## 7.0 TREASURY MANAGEMENT

- 7.1 An analysis of the Council's borrowing and short-term investments/bank deposits is summarised in the table, below. This shows the position as at 31<sup>st</sup> March 2012.

<b>Borrowing</b>	<b>01/04/11</b>	<b>31/3/12</b>
• Long Term Debt Outstanding	£1,000,000	<b>£1,000,000</b>
• Temporary Borrowings (Parish Council deposits)	£5,133,367	<b>£78,367</b>
<b>Total Debt Outstanding</b>	<b>£6,133,367</b>	<b>£1,078,367</b>
• Interest Rate on Long term - fixed at:	4.875%	4.875%
• Interest Rate Paid on Temporary Borrowings	0.75%	0.00%
• Base Rate ( <b>Since 5th March 2009</b> )	0.50%	0.50%
<b>Short-term Investments</b>		
• Bank Deposits and Other Investments	<b>£6,416,500</b>	<b>£3,132,548</b>
Average Interest Rate Earned (on Investments)	0.80%	<b>0.25%</b>
Target – Average 7-Day Rate (for comparison)	0.56%	<b>0.62%</b>

  

	<b>Estimate for the Year £</b>	<b>Actual for the Year £</b>
<b>Analysis of Interest (Paid)/Received</b>		
Short term Deposits	52,500	70,397

- 7.2 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 cumulatively over the year was 0.74%, against the market average (for the year) of 0.62%.
- 7.3 However, the average rate actually earned fell over the last 3 months to below the market average, ending the year at 0.25% compared to the target average of 0.62%. As reported at the last quarter, several major banks and financial institutions had their credit ratings reduced.
- 7.4 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.
- 7.5 Consequently, deposits have been placed in reserve accounts with institutions whose credit ratings have not been affected. Under the current Policy, this has narrowed the Council's counterparty list quite substantially.
- 7.6 Currently, the Council has funds placed predominantly with the Government's Debt Management Office and other local authorities. Although these are the safest form of deposit available and are "guaranteed," interest rates are lower than the market average.

- 7.7 Overall interest received however, was above that estimated in total for the year due to a higher level of funds on deposit – approximately £7.7m on average during the year. This ranged from a peak of £11.4m in November and December 2011, to a low £3.1m at the year-end.
- 7.8 This was helped by the money received for the sale of Bretby Crematorium which is currently being held on deposit.
- 7.9 Further details of the Council's borrowing and investment activities for the year will be provided in the Treasury Management Annual Report at the Committee on 28<sup>th</sup> June 2012.

## **8.0 Corporate Implications**

Detailed in the report

## **9.0 Community Implications**

Detailed in the report

## **10.0 Background Papers**

None