

## **INTRODUCTION**

This latest briefing provides Members with an update on the latest financial news affecting the Council. In addition, it provides an overview of the Council's current budgetary position up to the end of August 2004, and provides a broad indication of issues that are likely to effect the Council as it prepares for the budget round 2005/06.

Furthermore, it provides details of current performance against financial indicators concerning outstanding debt and council tax collection, etc.

The following information is included.

- **Pages 2 and 3** - an update on financial news, in particular on the Government's spending plans for the next 3-years and the Gershon Review.
- **Pages 4 and 5** - a broad update of the General Fund's 3-year financial projection to consolidate approved changes in the year to-date, together with an indication of potential pressures on this projection.
- **Pages 6 and 7** - budget monitoring figures for 2004/05, including analysis of spending across the Council's services to-date.
- **Page 8** - the Council's capital spending for 2004/05 to-date.
- **Pages 9 to 11** - updates the Council's cash flow position, including loans and bank deposits outstanding, together with council tax collection, performance in processing benefit claims and payments electronically.

Please contact Terry Neaves or Kevin Stackhouse with any further queries or questions. Any feedback on the briefing's content or format would be appreciated.

### FINANCE NEWS

**The Government's Spending Review** - the July briefing gave some initial details of the Government's public expenditure plans for the next 3 years (to 2007/2008). Many commentators believed that this would not provide sufficient resources for local government and in particular for District services, over this period.

Closer scrutiny of the figures indicates that the service block that contains the majority of general resources earmarked for District Councils, is set to rise by **only 0.6%** for 2005/06. This is effectively a real term's decrease, as the Government has assumed inflation of 2.5% in their overall plans.

The actual amount provided for each local authority out of this pot will depend as usual on the interplay of the various formulae that forms the basis of distribution. It will also depend on assumptions regarding the level of Council tax and business rates. In addition, the Council will continue to lobby the Government to implement its own changes to our grant settlement.

However, the small increase on the main spending block, seems to give some credence that the settlement for Districts may be a poorer one. The detailed settlement for the Council will be known towards the end of November.

Planned settlements for 2006/07 and 2007/08 appear better - the main spending block for District Services is set to rise by around **3.5% and 3.75%** respectively. However, the Government is intending to introduce 3-year budgets for local authorities from 2006-07.

**Indicative effect on 3-year financial projection** - the Council's 3-year projection assumes a modest increase in overall Government support of 2% per year. A 0.6% increase would result in a **£70,000 shortfall in resources for 2005/06**. However, increases of 3.5% and 3.75% in the following 2-years as indicated above, would generate additional resources of around £100,000 by 2007/08 compared to that contained in the current projection.

**The Gershon Report** - furthermore, the issues raised in the Gershon report reviewing efficiency savings in local government, seems to put further pressure on local authorities. This has recommended that around **2.5% per year** can be saved in councils, which could be diverted to front line services.

The review identifies that resources can be freed up from efficiencies made in support/corporate services (the "back office"), in transactional services, from the use of I.T. and through improved procurement. A further complication is that not all of the efficiencies are expected to be achieved in cash terms.

The details of how the Government will drive this through, how councils will demonstrate that they have achieved their targets, together with timescales is still to be publicised. No date has been set. However, it appears that this could place

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additional pressure upon the Council and we may need to start planning how this is addressed as we approach the next budget round.

**Council Tax rises** - clearly, the spending review and the possible impact of Gershon has already stimulated debate on likely council tax increases next year. A recent statement from the local government minister indicated that although last year's (2004/05) average increase of 5.9% was much lower than 2003/04, it was still above "low single figures." The expectation is that councils will budget for lower than this.

**The Balance of Funding Review** - completed earlier in the summer, considered how local spending should be financed in the future. Its main recommendation was that the current imbalance of 75/25 between central and local funding needs to be rectified.

The way forward on this is considered to be re-localising the business rate, a local income tax, or through a combination. In addition, it concluded that the council tax must be reformed to make it fairer. This has now led to an independent inquiry to review how these options could work in practice. This will report at the end of 2005.

**Supporting People - National Budget Announcement** - has also been released recently. Again, the news is a concern - the national funding level will reduce by approximately 5% in 2005/06. Individual allocations to Administering Authorities (Derbyshire County Council on behalf of this Council) will be announced later in the autumn.

This grant which goes towards paying for the cost of wardens/sheltered accommodation, is a sizeable amount in the Council's HRA at over £300,000 per year. Future allocations are to be based on a new distribution formula and will take into account Government evidence that there "are opportunities to make efficiency savings."

The Government have indicated that any savings would need to be phased and will stem from individual service reviews rather than through across the board reductions. These proposals were subject to a consultation period that ended on 30<sup>th</sup> September. The County Council responded and raised concerns around the accuracy of information sources being proposed for the new distribution formula.

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### GENERAL FUND - UPDATED 3-YEAR FINANCIAL PROJECTION

At the Finance and Management Committee in July, members considered the budget out-turn report for 2003/04 and the revised 3-year financial projection to 2006/07. This took into account the out-turn, together with the on-going savings resulting from the repayment of the Council's long-term debt in March.

3-year reserves on the general fund were projected to be healthy at £1,424,434 (as at 31<sup>st</sup> March 2007). Various developments have since been approved over the year and these are summarised in the table below.

Additional Spending Approved	Estimated 3-year Cost (£)
Members Allowances - increased from 1 <sup>st</sup> May in line with the Independent Remuneration Panel	80,000
Senior Management Review and Restructure	70,000
Kerbside Collection Scheme	70,000
Customer First Project (alterations to central reception)	50,000
Insurance Premiums 2004/05	4,400
Sewerage Connection - waiving of charge to Surestart	1,100
Restructuring of Building Maintenance	2,900
<b>Total Estimated 3-year Costs of Developments 04/05</b>	<b>278,400</b>

This reduces projected reserves to £1,146,034 as at 31<sup>st</sup> March 2007.

In addition, it should be noted that there are likely to be additional on-going costs arising out IEG from 2005/06. These have been considered by Finance Committee and are summarised in the table below.

Estimated on-going Costs of IEG Projects	Cost to 06/07 (£)
Customer Relationship Management (maintenance and support)	10,000
E-Forms and E-Tendering (maintenance and support)	4,700
East Midlands Interoperability Project (maintenance and support)	3,500
Kiosks (Maintenance)	1,000
Content Management System (staffing resources)	20,000
I.T. Resources (maintaining systems and infrastructure)	20,000
<b>Total Estimated on-going costs to 06/07</b>	<b>59,200</b>

Currently, no provision has been included in the 3-year projection for any of the above. The total would reduce projected reserves to £1,086,834 as at 31<sup>st</sup> March

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2007. It should be noted that provision had already been included for on-going costs of laptop computers.

**Opening of new Tipping Facility** - continues to give cause for concern. Latest indications suggest that the new facility will not be available until April 2006, a further year's delay. In addition, there is no confirmation that any of the additional costs the Council is currently incurring by using an alternative site will be reimbursed.

It is estimated that the additional costs that are currently being incurred would total around £3/4m by April 2006. Except for a contingency amount of £120,000 earmarked from the overall under spending on the General Fund last year, no other provision has been made in the Council's financial projections. It has been assumed, as originally indicated to the Council, that a substantial amount of the additional costs would be reimbursed.

Clearly, with the amounts involved and the potential impact on the Council's financial strategy, this gives cause for concern.

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### REVENUE BUDGET MONITORING 2004/05 (as at 31<sup>st</sup> August 2004, i.e. week 22)

**General Fund** - The Council's General Fund Budgets are currently projected to show an overall reduction compared to the approved estimate for 2004/05 of £154,880. This is broken down as follows.

Analysis of Net Expenditure by Main Service Area (excluding Internal Recharges)	Approved Estimate £	Projected £	Variance £
Environmental Services	7,375,120	7,379,960	4,840
Financial and Property Services	3,372,600	3,336,740	-35,860
Housing and Maintenance	1,749,030	1,767,930	+18,900
Legal and Democratic Services	1,471,250	1,498,560	+27,310
Leisure and Community Services	2,148,390	2,156,900	+8,510
Planning Services	1,804,610	1,734,320	-70,290
Policy and Economic Regeneration	419,150	420,110	+960
Human Resources	609,410	614,030	+4,620
IT and Customer Services	1,512,370	1,516,650	+4,280
Revenues and Benefit Services	2,062,130	1,943,980	-118,150
<b>TOTAL NET EXPENDITURE</b>	<b>22,524,060</b>	<b>22,369,180</b>	<b>-154,880</b>

The main variances for the year (compared to that estimated) are projected to be as follows:

General Fund - Projected Variances 2004/05	£
<b>Positive Variances</b>	
• Overall savings from vacant posts	45,000
• Lower contributions required for Meals on Wheels Service	9,510
• Increase in Planning and Building Regulations Fees	75,000
• Increase in Housing Benefit Subsidy	95,000
<b>Adverse Variances</b>	
• Reduction in fee income associated with Disabled Facility Grants	13,250
• Decrease in Land Charges income	30,000
• Health and safety works at the Depot (as previously reported)	25,000

**Building Control** - it should be noted a proportion of the additional income (£10,000) relating to building regulations, will be required to fund an additional building control officer (as approved at Finance and Management Committee on 2nd September 2004).

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**Homelessness** - the last briefing indicated a projected increase in the cost of the homelessness service of around £11,000. However, additional Government Grant targeted at homelessness issues, together with other contributions will more than cover this. It is anticipated that the net cost to the Council will be around £40,000, compared to a budget of £45,000.

**Office Alterations** - no resources have been identified for this work, although around £8,000 has been identified from an under spending in the capital programme.

### Housing Revenue Account (HRA) 2004/05

Summary Position as August 2004	Approved Estimate £	Projected £	Variance £
Repairs and Maintenance Costs	2,500,330	2,555,200	+54,870
Supervision/Management/Running Costs	1,813,820	1,760,500	-53,320
Payment to Government Pool/Capital Costs	4,167,530	4,244,600	+77,070
Rent Income	-8,208,300	-7,971,950	-236,350
Fees, Charges and Grant Income	-512,750	-490,900	-21,850
<b>TOTAL DEFICIT / SURPLUS (-)</b>	<b>-239,370</b>	<b>97,450</b>	<b>+336,820</b>

As reported in the last briefing, the main variation compared to the original estimate continues to be the reduction in rental income from council house sales. In addition, Supporting People Grant is projected to be lower (£320,000 compared to £337,000) and the Housing Maintenance DSO is projected to incur a deficit of around £55,000.

The above table indicates that the HRA is now projected to incur a deficit of around £97,000 compared to a surplus of £239,000. The difference of £336,000 will need to be met from HRA reserves.

However, as reported in the last briefing, an additional £200,000 subsidy was received for 2003/04 that will help to mitigate the worsening position in 2004/05. In addition, the overall out-turn for 2003/04 was more favourable compared to that estimated (as previously reported).

**HRA Reserve Balances** - after taking into account these factors, including the worsening position in 2004/05, HRA balances are now projected to be £1,274,164 as at 31<sup>st</sup> March 2005. This is an **additional £160,000** compared to that estimated in setting the budget for 2004/05 and in the projections contained in the Stock Options Review. However, overall, the longer-term position is not materially affected.

## CAPITAL SPENDING 2004/05 (as at 31<sup>st</sup> August 2004, i.e. week 22)

Analysis of Spending by Main Project Area	Approved Estimate £	Spending to-date £	Projected Variance £
Council House Improvements	2,035,000	727,354	0
Other HRA Schemes	380,100	127,014	-50,000
Private Sector Housing	630,100	105,622	0
Property Improvements	241,150	82,090	-21,700
Community Facilities	123,300	109,170	0
Environmental and Recreational	1,069,800	176,979	-365,000
Community Partnership Scheme	267,600	24,273	0
Repayment of Covenants	470,000	0	0
<b>Total Expenditure</b>	<b>5,217,050</b>	<b>1,352,502</b>	<b>-436,700</b>

Although the above table shows a projected variance of £436,700, the following schemes totalling £428,000, are expected to be incomplete/unspent by the end of the financial year:

- Some planned sheltered housing improvements
- Installation of Information Kiosks
- Planned Repairs to Public Buildings and Village Halls
- Provision for Etwall Leisure Centre
- Football Pitch Works - Mount Pleasant

**Get Active in the Forest Project** - the details of which were reported to Housing and Community Services Committee in July 2004. This project is integral to the development of Rosliston Forestry Centre and is set to lever in over £1m of external funding. Consequently, a request is being made (in the report covering this briefing) for a **Council contribution of £30,000** towards the capital costs of the project.

The second phase of the project (2005/06) will require a further contribution of £80,000. In addition, there will be on going revenue costs associated with the project. These will be relatively minor until 2007/08, when the Council will be expected to contribute around £15,000 per year.

Furthermore, a virement request has been to transfer **£20,000** from the private sector-housing budget to the Heritage and Economic Regeneration Scheme. This is to fund a joint initiative for the historical renovation of commercial properties, together with conversion of empty space within the premises to provide affordable living accommodation for let.



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## CASH FLOW - LOANS and SHORT TERM DEPOSITS

Borrowing	01/04/04 £'000	31/08/04 £'000
• Long Term Debt Outstanding	1,000	1,000
• Temporary Borrowings	3,787	161
<b>Total Debt Outstanding</b>	<b>4,787</b>	<b>1,161</b>
• Average Interest Rate - Long Term	4.88%	4.88%
• Average Interest Rate - Temporary	3.84%	3.75%
<b>Base Rate</b>	<b>4.00%</b>	<b>4.75%</b>

Short Term Deposits	01/04/03 £'000	31/08/04 £'000
Total	283	4,418
Average Interest Rate Earned	3.55%	4.70%
Target - Average 7-Day Rate (for comparison)	3.51%	4.63%

Analysis of Interest Paid/Received	Estimate for the Year £	Profiled Estimate to-date	Actual to-date £	Revised Estimate for Year £
Temporary Borrowings	38,000	37,000	14,704	17,000
Short Term Deposits	-77,000	-2,100	-16,934	-90,000
<b>Total - Net Interest Receivable</b>	<b>-39,000</b>	<b>34,900</b>	<b>-2,230</b>	<b>-73,000</b>

The Council's cash flow traditionally works to a pattern where it tends to be a net borrower during the first part of the year and is a net lender for the remainder of the financial year. To -date, overall cash flow has been more favourable than estimated in particular the temporary borrowing requirement has been lower. This has been due to the transitional arrangements for pooling capital receipts, i.e. a smaller proportion of council house sales are being paid to the Government than originally anticipated.

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Therefore, it is now expected that the overall net interest receivable will increase, although this will depend on the cash flow during the remainder of the year. This increase has not yet been earned.

The Council's temporary debt peaked at just over £3m during the year to-date. Consequently, the Council has operated very comfortably within its operational limit for external debt (£9m) as set out in the Treasury Management Strategy.

### REVENUES & BENEFITS

Council Tax Collection 2004/05 (as at August 04)	Government Target for the Year	Actual Achieved	Compare with 2003/04
Cumulative Collection Percentage	98%	50%	49%

Business Rate Collection 2004/05 (as at August 04)	Government Target for the Year	Actual Achieved	Compare with 2003/04
Cumulative Collection Percentage	99%	47%	47%

Processing New Claims for Benefit 2004/05 (as at August 04)	Government Target for the Year	Actual Achieved	Compare with 2003/04
Average time taken (days)	36 days	16 days	14 days

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## OTHER FINANCIAL INDICATORS

**Proportion of Invoices paid to Suppliers Electronically** - this is a new indicator for 2004/05, with the introduction of the new Financial Management System. The target is that 75% of all payments to suppliers are being made electronically by 31<sup>st</sup> March 2005. The table below shows the progress towards this target as at August.

Performance as at August 2004	Number	Percentage
• Cheque Payments	844	40%
• Payments by BACS (Electronically Transmitted)	1,278	60%
<b>Total Payments</b>	<b>2,122</b>	<b>100%</b>

### Sundry Debtors - Profile of Outstanding Debt as 31<sup>st</sup> August 2004

Age of Debt	Start of Year 1/4/04 £'000	As at 31/08/04 £'000
Less Than 1 Month	289	336
1 to 6 Months	91	132
6 to 12 Months	85	82
1 to 2 Years	59	103
Over 2 Years	248	249
<b>Total Outstanding Debt</b>	<b>772</b>	<b>902</b>

Proportion of new Sundry Debts raised in the year collected (as at August 04)	Local Target for the Year	Actual Achieved (as at August)	Compare with 2003/04
Cumulative Collection Percentage	95%	58%	N/a

This is also a new indicator for 2004/05, with the introduction of the new Financial Management System. The target is that 95% of new debt raised is collected in the year.

