
REPORT TO: FINANCE & MANAGEMENT

AGENDA ITEM: 11

DATE OF MEETING: 30th August 2001

CATEGORY: DELEGATED/

REPORT FROM: CHIEF FINANCE OFFICER

MEMBERS' CONTACT POINT: TERRY NEAVES (5800)

DOC:

SUBJECT: BUDGET OUT-TURN 2000/1

REF:

WARD(S) AFFECTED: ALL

TERMS OF REFERENCE:

1. Recommendations

Members are asked to note

- (i) The out-turn position for the General Fund
- (ii) The out-turn position for the Housing Revenue Account

Members are asked to approve

- (iii) The financial projection for 2002/5 (para 3.17)

2. Purpose of Report

- 2.1 To inform members of the budget out-turn for 2000/2001 and identify implications for the Council's Financial Strategy for 2002/5

3. Supporting Information

Context

- 3.1 The Council's Statement of Accounts will be submitted to Council on 20th September 2001 within the statutory guideline.
- 3.2 In advance of submitting the statement of accounts, all the work necessary to close the Council's accounts is now complete.
- 3.3 This report therefore sets out the final out-turn position for 2000/2001 for both the General Fund and Housing Revenue Account. Clearly this has implications for next years budget and the overall financial strategy for the Council. This is also covered within this report.

Financial Background

- 3.4 Members do not need to be reminded that 2000/1 was a very difficult year financially for South Derbyshire.

- 3.5 During the year the Council took action to address a significant financial shortfall that arose during 1999/2000. A key part of this work involved making reductions in the Council's overall staffing establishment, although the Council was able to keep compulsory redundancies to a minimum.
- 3.6 The final out-turn shows that this exercise has been successful in stabilising the Council's financial position.

Budget Out-turn 2000/1

- 3.7 Actual net spending for 2000/1 was £6,593,865 compared to the probable estimate of £7,370,260. This is equivalent to savings of £776,395. This is set out in Appendix A.
- 3.8 Predominantly these savings arose from the following sources
- ❖ **Staff Savings** - Higher than expected savings generated from the restructuring exercise, with staff leaving sooner than anticipated, coupled with a turnover of staff, who chose to leave the organisation after the restructuring
 - ❖ **Rent Allowances** – the level of DSS subsidy to cover the cost of providing Housing Benefit is always difficult to predict. During 2000/1 this was made even more difficult by the backlog in processing claims. The out-turn indicated that now we have made advances in dealing with this, the level of subsidy was greater than anticipated. This has also been helped by the success the Council has had in uncovering fraudulent benefit claims.
 - ❖ **Telecoms** – the Council has had an ongoing dispute over charges from its Telecoms supplier. This has now been partially resolved. The outcome is that a considerable level of budgeted charges have been written off.
 - ❖ **D.S.O.** – during 2000/1 officers took a prudent view on the level of D.S.O. savings that could be achieved. Actual savings have exceeded these expectations and again contributed to the underspending.
- 3.9 As can be appreciated many of the savings identified above, while very fortuitous are not lasting on-going savings that will carry forward into next year. This is reflected in the revised forecast set out in paragraph 3.17 below.

Earmarked Reserves

- 3.10 During the closedown process it has been evident that some of the savings will need to be set aside to meet future known commitments. Earmarked reserves have therefore been increased by £235,000 to provide resources for future spending commitments including:-
- ❖ **Pay Award for 2001/2** – which was higher than anticipated within the original budget
 - ❖ **Bellwin Scheme** – reserves now include a reserve to cover the initial contribution towards emergency costs that are covered by the Council before the Government provides assistance
 - ❖ **Pension Fund Costs** – stemming from a higher than anticipated level of ill-health retirements.

- ❖ **IT costs** – prompted by the need to provide for replacing computers in accordance with the IT Strategy and preparing for E-Government.

General Reserves

- 3.11 After taking into account transfers to earmarked reserves, general reserves then increase by £546,797 to £1,135,897, compared to the anticipated level of reserves of £589,000.
- 3.12 In accordance with the agreed budget for 2001/2, the Council has agreed to reduce general reserves by £122,000 to address the commutation adjustment..

Looking forward to 2002/3 and beyond

- 3.13 The original 3 year forecast is summarised in the table below.

	2001/2 £'000	2002/3 £'000	2003/4 £'000
Projected Spending	8,055	8289	8,365
Commutation Adjustment	-483	-444	-266
Net Spending	7,572	7,845	8,099
Projected Income	7,687	7,849	8,075
Deficit	-115	-4	24
Addition to commutation reserve	237	321	266
Reduction in Reserves	-122	-317	-290

Projected Balances at year end	467	150	-140
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N.b. – these projected balances were before any savings stemming from the refocusing and reprioritising exercise were taken into account. Indeed this projection prompted the need for this exercise.

- 3.14 The Council is committed to phasing out its reliance on the commutation adjustment over the next 2 financial years. Essentially the Council has agreed to make contributions of £321,000 and £266,000 in each of the next two financial years to the commutation reserve.
- 3.15 This policy will contribute to a reduction in reserves of £729,000 over the 3 year period. This is regardless of any new spending pressures that the Council seeks to address.
- 3.16 Accordingly the Council is now embarking on an exercise to refocus and reprioritise its spending as a means of identifying savings to contribute to longer term stability and also to identify resources to be redirected to new spending priorities.

3.17 This projection has been revised to take account some of the known changes stemming from the out-turn. The opportunity has also been taken to extend the projection for a further year. This is summarised in the table below with more detail provided in Appendix B.

	2001/2 £'000	2002/3 £'000	2003/4 £'000	2004/5 £'000
Projected Spending	7,974	8,207	8,182	8,314
Commutation Adjustment	-483	-444	-266	-176
Net Spending	7,491	7,763	7,916	8,138
Projected Income	7,687	7,849	8,075	8,237
Surplus	-196	-86	-159	-99
Addition to commutation reserve	237	321	266	176
Reduction in Reserves	-41	-235	-107	-77

Projected Balances at year end	1,094	859	752	675
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3.18 The above projection shows that the Council will need to withdraw a total of £460,000 during the current and following 3 years. This takes balances from their current level of £1,135,000 down to £675,000 by the end of 2004/5. This is above the minimum level (£500,000) recommended by the Council's external auditors.

3.19 Any projection should be viewed with caution and there are a number of factors, which will affect this current projection. These are listed below:-

- (i) This ignores all of the new spending pressures and priorities that the council may wish to focus on over the next few years – if the Council wishes to find money for these new priorities it can only come by achieving savings elsewhere.
- (ii) The projection assumes inflation of 1.9% - again increases above this level will have an impact on costs.
- (iii) The projection also assumes that the current level of central government support continues to rise by approximately 2%

3.20 Nevertheless the three year forecast provides considerable reassurance that the Council's finances are being stabilised.

Refocusing and Reprioritising

3.21 From the above comments it is clear that the Council still needs to proceed with the refocusing and reprioritising exercise. The projection shows that Council balances at the end of 2004/5 are projected to fall below £500,000. This can only be addressed by identifying ongoing spending savings.

3.22 In any event as part of the Corporate Planning exercise it is essential to review spending priorities and check what areas the Council wishes to continue to fund.

Housing Revenue Account

3.23 Members will also remember that the Council's Housing Revenue Account began the Financial Year 2000/1 with a working balance of £204,540.

3.24 The Council's External Auditors expressed concern over the level of these balances in relation to the number of Council properties, within their Management Letter.

3.25 This position has now improved considerably. Overall the Housing Revenue Account achieved a surplus of £724,000, which was some £568,000 above the level anticipated to begin to rebuild reserves. Further detail is provided at Appendix C.

3.26 Essentially this improved position is the result of the following factors:-

❖ **Housing Repairs** – this was a combination of tighter control over spending on Housing Repairs and the capitalisation of a considerable amount of Housing Repair work because the Council was unable to spend its full allocation for Private Sector Housing Grants.

❖ **Rent Rebates** – this mirrored the position for the General Fund Rent Allowances

❖ **DSO Surplus** – the Housing Revenue Account also benefited from the surplus achieved by the Housing DSO in the year 1999/2000.

3.27 The overall position is that working balances now stand at £929,000, with a further £97,000 earmarked within the covenant repayment reserve.

3.28 This places the Council in a much better position to face the challenges that lie ahead, including the implementation of the Housing Business Plan. As an initial measure it is proposed that a sum of money is set aside within these reserves to help progress issues stemming from the Housing Business Plan submitted recently to the Government Office for the East Midlands.

4. Financial Implications

4.1 These are set out within the body of this report.

5. Conclusions

5.1 The budget out-turn for 2000/1 confirms that South Derbyshire District Council has stabilised its financial position and has begun the process of putting itself on the road to financial recovery.

5.2 The future still holds many financial challenges for the Council, which still need to be addressed if it is to develop sustainable council finances and services into the future.

5.3 The Council will continue to face difficult decisions as it seeks to respond to the changing needs of both local residents and central government, which influence the services it provides.

5.4 This means that the Council must continue with its Refocusing and Reprioritising exercise to identify the savings that it needs to achieve to make its finances sustainable in the long term and provide money for new spending initiatives.

6. Background Papers

6.1 Closure of Accounts working papers.

