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<b>REPORT TO:</b>	<b>FINANCE AND MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM: 8</b>
<b>DATE OF MEETING:</b>	<b>9th SEPTEMBER 2010</b>	<b>CATEGORY: DELEGATED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF CORPORATE SERVICES</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>KEVIN STACKHOUSE (595811)</b>	<b>DOC:</b> u/ks/financial monitoring reports/2010 – 3 September
<b>SUBJECT:</b>	<b>BUDGET and FINANCIAL MONITORING 2010/11</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 2010/11 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 undertaken generally on a monthly basis, and weekly on some of the more volatile and higher risk budgets such as housing repairs.
- 2.2 An important 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. 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 senior finance officers. Again, overall performance is reported to this Committee throughout the year.
- 2.5 This is the first monitoring report for the financial year 2010/11. It details performance up to 30<sup>th</sup> June 2010, i.e. the first quarter of the financial year.

### 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 being financed from the Council's Reserves.
- 3.2 The Budget (approved in February 2010) was set against the economic downturn, with the Council relying on general reserves to achieve a balanced budget for the year. This included a council tax increase of 1.5% for 2010/11.
- 3.3 The Deficit for the year was estimated at £472,192, summarised as follows:

**Table 1 – General Fund: Estimated Budget Deficit 2010/11**

Net Expenditure on Services	12,054,046
Capital Charging Adjustments	-10,723
Provisions	607,984
<b>Overall Net Revenue Expenditure</b>	<b>12,651,307</b>
<b>Financing</b>	
General Government Grant	-7,342,703
Council Tax	-4,754,337
Earmarked Reserves	-82,075
<b>Total Financing</b>	<b>-12,179,115</b>
<b>Budget Deficit</b>	<b>472,192</b>

- 3.4 The Budget Deficit was to be financed by drawing down general reserves, which amounted to approximately £2.8m when the Budget was set.
- 3.5 Table 1 shows that the overall budget allowed for some provisional expenditure of £607,984. In accordance with the Council's Financial Strategy, this is held outside the Base Budget until the actual expenditure (if any) is known.
- 3.6 The provisional amount mainly relates to inflation (in particular pay awards), natural growth of the District, together with a sum to meet interim costs associated with the pay and grading review.
- 3.7 Since the Budget was set out in February, several adjustments have been made which are shown in **Table 2**, below.

**Table 2: Adjustments to the Budget as at June 2010**

Approved Inflation Allowance on Grants to Voluntary Bodies	3,531
Approved inflation and increased budget for Concurrent Functions	21,888
Savings on Energy costs due to Efficiency Measures (Salix Finance)	-7,539
Approved restructure in Community Services	-104,396
Amounts B/fwd from 2009/10 (Financed from Earmarked Reserve)	62,000

- 3.8 The inflation allowances and increased budget for Concurrent Functions (or parish expenses) have been financed out of the appropriate provision. Overall, the above adjustments equate to a reduction in the estimated budget deficit for 2010/11 of approximately £112,000.
- 3.9 This is mainly due to the cashable savings made from the restructure of Community Services, which formed part of the Council's efficiency programme to alleviate the overall budget deficit in the longer-term.
- 3.10 The revised budget position on the General Fund for 2010/11 is now as follows:

**Table 3 – General Fund: Revised Budget Deficit 2010/11**

Net Expenditure on Services	12,376,232
Capital Charging Adjustments	-357,425
Provisions	582,565
<b>Overall Net Revenue Expenditure</b>	<b>12,601,372</b>
<b>Financing</b>	
General Government Grant	-7,342,703
Council Tax	-4,754,337
Earmarked Reserves	-144,075
<b>Total Financing</b>	<b>-12,241,115</b>
<b>Budget Deficit</b>	<b>360,257</b>

NOTE: Additional capital accounting charges of £346,000 have been added into Net Expenditure, but have been reversed out in Capital Charging Adjustments which has a neutral effect on the "bottom line."

- 3.11 In line with normal monitoring arrangements, the position on the Net Expenditure on Services has been monitored and reviewed. This is the amount that is directly managed and controlled by the various budget holders across the Council. The revised budget, together with variances identified as at June 2010 are summarised in **Table 4**, below.

**Table 4: Performance against Budget 2010/11 as at June 2010**

<b>Main Service Head</b>	<b>Budget</b>	<b>Projected Variance</b>
Environmental Services	4,197,148	7,237
Corporate Management, Finance and Property	1,662,489	13,646
Private Sector Housing and Public Buildings	612,593	-9,760
Organisational Development	594,166	0
ICT and Central Procurement	1,074,822	0
Legal and Democratic Services	889,315	0
Leisure and Community Development	2,102,935	-16,700
Planning Services	603,947	0
Customer Services (including Revenues & Benefits)	638,817	-40,000
<b>Total - Net Expenditure on Services</b>	<b>12,376,232</b>	<b>-45,577</b>

3.12 Table 4 shows that based on current income and spending, there will be an **overall reduction** in net expenditure on services of approximately £45,000 compared to the Budget for the year. As this is the first quarter of the financial year, variances are typically fewer in number and significance.

3.13 The more significant variances are a continuing reduction in interest on bank deposits but with a projected reduction in the costs of concessionary travel. The main variances identified to-date are summarised in the sections that follow.

#### **Environmental Services (+ £7,237)**

3.14 This mainly relates to a projected reduction in income compared to budget from licensing and pest control. This continues the trend from 2009/10, although income from licensing can vary between years depending on when and for how long licenses are renewed.

#### **Management, Finance and Property (+ £13,646)**

3.15 This relates to a reduction in income from interest on short-term investments and bank deposits. Again, this continues the trend from 2009/10 with interest rates remaining unchanged at 0.5%, as measured by the Bank of England's Base Rate.

3.16 Further analysis of treasury management activity during the first quarter is provided later in the report.

#### **Private Sector Housing and Public Buildings (- £9,760)**

3.17 The main variances are cleaner's wages for the Civic Offices due to unfilled vacancies, together with lower repair and maintenance costs.

## **Leisure and Community Development (- £16,700)**

- 3.18 The projected decrease is due to savings on business rates at Green Bank Leisure Centre stemming from a revaluation of the premises. A one-off backdated refund of approximately £22,000 has been received.
- 3.19 The Head of Leisure and Community Development has requested that this is set-aside to supplement any costs or loss of income associated with the temporary closure of the Centre to undertake the planned refurbishment. This would be in addition to £32,000 set-aside from 2009/10 for the same purpose.
- 3.20 The status of the available funding for the refurbishment project is detailed later in the report.

## **Planning Services**

- 3.21 Overall, no variances are estimated at this stage, with income from planning fees and building regulations holding up to Budget.

## **Housing and Planning Delivery Grant (HPDG)**

- 3.22 The Coalition Government has also announced that there will be no national allocation of HPDG in 2010/11. This grant has been awarded in the past to support local authorities in their strategic housing and planning roles.
- 3.23 The Council has an earmarked reserve set-aside from which it draws down financing to meet expenditure each year, including staffing costs. The reserve is topped up each year from Government allocations. As at 31<sup>st</sup> March 2010, the HPDG Reserve amounted to £511,000.
- 3.24 It is not clear whether HPDG or a replacement will be awarded in future years. The Government has announced that it is its intention to provide resources based on the number of new properties built in the area.
- 3.25 Clearly, as a growth area, this would benefit the Council. However, it is not clear whether this will be new money or form part of the General Revenue Support Grant. It is likely that this will be determined in the current Comprehensive Spending Review of Public Services, due on 20 October, 2010.
- 3.26 Based on committed and planned spending, the current HPDG reserve of £511,000 will run out in 2012/13. This will cause an issue for the Council's Budget in that approximately £180,000 (per year) of staffing and other costs are funded from this Reserve. This is in addition to any other spending pressures (including planning inquiries) that HPDG has helped fund in previous years.
- 3.27 It should be noted that the staff costs are mainstreamed posts and are included in the 5-year financial plan. The issue is that the Reserve has been used to fund costs apart from Revenue Support Grant and the Council Tax.

- 3.28 Without HPDG it will mean that all other things being equal, the Council's projected budget deficit in the future will increase and as such, is a wider issue for the Council. The situation will be reviewed as part of the Medium Term Financial Plan (MTFP) later in the year following CSR10.

### **Customer Services (- £40,000)**

- 3.29 Housing benefit claims and payments appear to have levelled off following the increase in 2009/10, with costs and subsidy reimbursement in line with the Budget.
- 3.30 Based on usage in the first quarter, it is projected that bus pass costs will be under Budget by approximately £40,000. This is in line with 2009/10 which was the first full year of the "free travel for over 60s" under the national travel concessionary scheme.

### **Inflation Provision**

- 3.31 A sum of approximately £130,000 has been set-aside in this provision to meet the costs of a national pay award for employees at an estimated increase of 1.25% across all categories.
- 3.32 Although the Coalition Government has indicated that there will be a pay freeze across the Public Sector for 2011/12 and 2012/13 (except for the lowest paid), no formal decision has been made concerning the current financial year, 2010/11. The national employers have offered a nil percent increase, but no agreement has so far been reached between the parties.
- 3.33 In all cases, the pay award for each year will need to be negotiated and determined through the National Joint Council for local government employees.

### **Income from Land Charges (Search Fees)**

- 3.34 The issue around whether authorities are able to charge for providing data on environmental information as part of a land/property has been made clearer in recent weeks. The Government has with effect from 17<sup>th</sup> August, revoked the current £22 fee by amending the appropriate legislation.
- 3.35 This will mean that the charges and income received for personal searches dating back to 2005 will be recoverable. In the period covering April 2005 to 30<sup>th</sup> July 2010, the Council has received total income of approximately £97,000. For most of this period, the charge (which is set nationally) was £11, only being increased to £22 in January 2010.
- 3.36 On an on-going basis, the Council's Budget includes an amount of approximately £25,000 per year for income from personal searches. Clearly, this will be an issue for the Council's Budget in not only having to identify a provision to cover a refund of previous income in its MTFP, but also a further loss of on-going income.

## Area Based Grant (ABG)

- 3.37 The Council's allocation from the national pot was initially set at £38,599. The Council's Budget estimated £28,819 based on a provisional allocation during the 2010/11 budget round.
- 3.38 On 29<sup>th</sup> July, the Government announced that as part of its immediate £1.166bn reduction in grant to local government in 2010/11, the Council's revised allocation would be £25,733. This is slightly lower than the estimate of £28,819 (above).
- 3.39 ABG has now been abolished from 2011/12 and the Council's current MTFP has taken this into account.

## Car Parking Enforcement

- 3.40 From 2009/10, the Council entered into an agreement with the County Council to enforce parking regulations in the District. As part of this agreement, the District Council was liable to pick up any deficit, or gain the benefit of any surplus arising from costs compared to charges.
- 3.41 This surplus/deficit applies to off street parking only, with the County Council being responsible for any surplus/deficit for on street parking.
- 3.42 The County Council has now issued final accounts for 2009/10, which show a surplus due to the Council of approximately £2,500. The Council's Budget had estimated a deficit of £2,000. A summary of the accounts is shown in **Table 5**, below.

<b>Table 5 – Analysis of Parking Enforcement 2009/10</b>	Off Street	On Street
Income	£12,145	£20,565
Expenditure	£9,575	£23,187
Net Surplus ( - ) / Deficit	- £2,570	£2,622
Number of Tickets issued in the Year	573	667

## HOUSING REVENUE ACCOUNT (HRA)

- 3.43 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. The HRA Budget set in February 2010 included drawing down HRA Reserves of approximately £439,000 to finance an estimated budget deficit for 2010/11.
- 3.44 The position as at June 2010 is summarised in **Table 6**, below.

**Table 6: HRA - Performance against Budget 2010/11 as at June 2010**

<b>ANALYSIS OF EXPENDITURE (BY MAIN SERVICE AREA)</b>	<b>APPROVED BUDGET 2010/11 £</b>	<b>PROJECTED VARIANCE (@ JUNE 10) £</b>
Housing Repairs	3,041,776	0
General Management	1,066,879	0
Choice Based Lettings	30,024	0
Share of Corporate and Democratic Costs	173,750	0
Sheltered and Other Services	1,000,415	0
Council Tax on Void Properties	4,518	0
Provision for Bad Debts	7,500	0
Capital Charges	110,390	(31,000)
Depreciation	1,914,907	0
Net Payment to Government Pool	3,305,079	40,500
Provision for Inflation and Pay and Grading	148,014	0
Less : Rent and Other Income	(10,363,588)	19,000
<b>Net Deficit</b>	<b>439,664</b>	<b>28,500</b>

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

- 3.45 The above table shows that the overall HRA deficit for the year is projected to be £28,500 higher compared to the Budget. This is mainly due to the effect of the final subsidy settlement for 2010/11.
- 3.46 This changed the interest rate (from 2% down to 1.5%) on which capital charges are switched between the General Fund and the HRA, and then adjusted in the subsidy settlement. The net effect on the HRA is a loss of £9,500 (£40,500 - £31,000 in Table 6 above).
- 3.47 The other major variance in the HRA is a projected loss of rent compared to the Budget of £19,000. This is due to the final rent restructuring period arising out of the subsidy settlement being adjusted from 3 years to 3.07 years, a technical adjustment to ensure that the local average rent matched the national guideline rent.
- 3.48 In addition, 2 right to buys were completed towards the end of 2009/10, together with a further 2 properties being removed from the stock.
- 3.49 On other operational budgets, there have been a couple of staff vacancies in the Housing Division; depending on costs associated with cover, and when these posts are filled, there could be an overall saving on the staffing budget.



## CAPITAL EXPENDITURE and FINANCING 2010/11

3.50 The overall position on gross expenditure (before external financing) as at June 2010 is summarised in **Table 7**, below.

**Table 7 – Analysis of Capital Expenditure as at June 2010**

<b>ANALYSIS OF SPENDING BY MAIN SERVICE/PROJECT AREA</b>	<b>APPROVED ESTIMATE £</b>	<b>SPENT AT JUNE 10 £</b>
Council House Improvements**	2,410,731	113,665
Disabled Facility Grants	282,473	76,219
Other Housing Investment	408,736	57,258
Leisure and Community Schemes	1,170,424	212,420
Environmental and Development	716,007	78,850
Property and Other Assets	483,074	164,549
<b>Total Expenditure</b>	<b>5,471,445</b>	<b>702,961</b>

\*\* Note – this includes repayment of Covenants of £331,000 for which expenditure is not incurred until the year-end.

3.51 The approved programme has been updated for schemes and amounts brought forward from 2009/10 as approved by the Committee in June. No major variances are anticipated at this stage.

3.52 The budget has also been updated for Government Grant allocations for Disabled Facility Grants and Private Sector Housing of £269,000 and £370,000 respectively.

### **Growth Point and External Funding**

3.53 The Council's indicative allocation for 2010/11 of approximately £600,000 from Growth Point has been confirmed following a review of the national pot by the Coalition Government. This mainly relates to funding for the Public Realm Improvements and Regeneration of Swadlincote Town Centre, which was a committed scheme last year with some works already completed.

3.54 However, the grant application which would have provided a significant part of the overall funding to refurbish Green Bank Leisure Centre has been lost. This was a consequence of the Coalition Government's termination of the Free Swimming Programme. Alternative sources of funding are being pursued.

### **Local Authority Business Growth Incentive (LABGI) Grant Allocation**

3.55 The Council has received an allocation from this pot of £33,470 for 2010/11. This is an additional resource and it is recommended that this is set-aside to help finance the shortfall in projected capital resources (identified in the MTFP) from 2011/12.

## Capital Receipts

- 3.56 The revised financing programme approved by the Committee in February, prudently made no provision for any new capital receipts being generated in 2010/11. To-date, there has been 2 council house sales and 2 small land disposals amounting to approximately £37,000 (net, after Government Pooling).
- 3.57 In addition, there has been a further land disposal amounting to £62,500 from housing land in Melbourne. The use of the proceeds from this particular sale is subject to a separate report elsewhere on this Agenda.

## TREASURY MANAGEMENT

- 3.58 An analysis of the Council's borrowing and short-term investments/bank deposits is summarised in **Table 8**, below.

**Table 8**

<b>Borrowing</b>	<b>01/04/10 (Start of Year)</b>	<b>30/06/10</b>
• Long Term Debt Outstanding	£1,000,000	<b>£1,000,000</b>
• Temporary Borrowings	£3,133,367	<b>£133,367</b>
<b>Total Debt Outstanding</b>	<b><u>£4,133,367</u></b>	<b><u>£1,133,367</u></b>
• Interest Rate on Long term - fixed at:	4.875%	4.875%
• Interest Rate Paid on Temporary Borrowings	0.45%	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><u>£4,052,700</u></b>	<b><u>£5,102,120</u></b>
Average Interest Rate Earned (on Investments)	0.75%	0.75%
Target – Average 7-Day Rate (for comparison)	0.50%	0.40%
	<b>Estimate for the Year £</b>	<b>Projected for the Year £</b>
<b>Analysis of Interest (Paid)/Received</b>		
Short term Deposits	60,000	26,000
Less Temporary Loans	(1,930)	(2,575)
<b>Total – Net Interest Receivable</b>	<b>58,070</b>	<b>23,425</b>

- 3.59 As the table shows, the Council is projected to be below its base budget for the year on interest received by £34,645 (£58,070 less £23,425). This is based on actual and projected income so far in 2010/11 and continues to reflect the low level of interest rates.

- 3.60 The Budget assumed interest rates on bank deposits increasing from 0.75% to 1.5% during the year. Clearly, the Bank of England Base Rate has remained unchanged at 0.5% with short term lending and borrowing rates also remaining fairly static.
- 3.61 It is now considered by many economic commentators that the rate will remain unchanged for the remainder of the financial year. However, this will depend on whether the current rates of inflation continue to rise, the effect of the increase in the VAT rate to 20% in January 2011, together with the response in the financial markets to the CSR currently being undertaken by the Coalition Government.
- 3.62 The projected income in Table 8 assumes the interest rate remaining static.
- 3.63 As reported in the Annual Treasury Management Report in June, the Council incurred some interest on temporary borrowings during the first part of the financial year. This was to cover a temporary shortfall in cash flow during the final quarter of that year and into May 2010.
- 3.64 Since then, the Council has maintained a fairly strong and positive cash flow position.

### Overall Debt Liability

- 3.65 Besides the debt shown in Table 8, the Council also pays interest on Covenants (which are effectively a form of debt financing). It also contributes to historic debt now administered by a neighboring authority following a transfer of assets many years ago due to local government re-organisation.
- 3.66 The General Fund also passes across a proportion of interest to the HRA which is calculated under accounting regulations. Interest paid and received in total is shown in **Table 9**, below

**Table 9: Overall Interest 2010/11**

	<b>Estimate (£)</b>	<b>Projected (£)</b>	<b>Variance (£)</b>
Money Market Loan	48,750	48,750	0
Temporary Loans and Bonds	1,930	2,575	645
Bank Interest	1,400	1,050	(350)
Covenants ( <b>Final Year</b> )	55,700	55,700	0
Transferred Debt	19,600	5,000	(14,600)
Interest Received on Deposits	(60,000)	(26,000)	34,000
Other Interest Received	(180)	(300)	(120)
Net Recharge to the HRA	(58,175)	(58,175)	0
<b>Net Interest (Received)/Payable</b>	<b>9,025</b>	<b>28,600</b>	<b>19,575</b>

- 3.67 The reduction in interest on Transferred Debt (as highlighted in 3.65, above) reflects the low level of interest rates. This helps to offset the reduction in interest from investments.

#### **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