
REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 12
DATE OF MEETING:	14th FEBRUARY 2012	CATEGORY: DELEGATED
REPORT FROM:	CHIEF EXECUTIVE OFFICER	OPEN
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SUBJECT:	BUDGET and FINANCIAL MONITORING 2011/12	REF
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

- 1.1 That the latest budget and financial monitoring figures for 2011/12 are considered and approved.

2.0 Purpose of Report

- 2.1 As part of proper financial management, the Council monitors income and expenditure against its budgets on a regular basis throughout the year. This is generally undertaken on a monthly basis, although more regular monitoring takes place on the more volatile and higher risk budgets such as housing repairs.
- 2.2 Financial information is available on-line to enable day-to-day monitoring within services. 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 third monitoring report for the financial year 2011/12. It details performance up to 31st December 2011.

3.0 Detail

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 totaled £515,443.
- 3.3 Following the 2012/13 budget round, the deficit for the year was revised down to a small surplus of £3,557. This was mainly 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 on 12th January, the revised position is summarised below.

<u>Revised General Fund 2011/12</u>	Original (£)	MTFP (£)	Revised (£)
Net Expenditure on Services	11,556,638	11,447,025	11,515,019
Capital Charging Adjustments	-369,425	-369,425	-369,425
Provisions and Adjustments	615,058	882,216	295,222
Overall Net Revenue Expenditure	11,802,271	11,959,816	11,440,816
Less - Financing			
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
Estimated Deficit /Surplus (-)	357,898	515,443	-3,557

- 3.5 In line with normal monitoring arrangements, the position on the Revised Net Expenditure on Services (i.e. £11,515,019 in the above table) continues to be reviewed.
- 3.6 This is the amount that is directly managed and controlled by the various budget holders across the Council. The Budget, together with major variances identified as at December 2011 is summarised in the tables, below. A full analysis of each service area at cost centre level with variances across each policy committee is detailed in **Appendices 1 to 3**.

- 3.7 The variances reflect the latest situation and although projected to out-turn at this level, could change during the remainder of the year. In particular, areas of projected overspend are kept under review in order to mitigate the effects on the overall budget.

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

Summary by Policy Committee	Approved Budget	Projected Actual	Projected Variance
Environmental and Development Services	£3,813,338	£3,832,888	£19,550
Housing and Community Services	£2,134,484	£2,148,434	£13,950
Finance and Management	£5,567,197	£5,415,691	-£151,506
TOTAL	£11,515,018	£11,397,012	-£118,006

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

Summary by Main Service Area	Approved Budget	Projected Actual	Projected Variance
Economic Regeneration	£256,160	£256,160	£0
Environmental Services	£633,113	£587,463	-£45,650
Highways	£10,354	£10,354	-£0
Licensing and Land Charges	-£57,180	-£44,180	£13,000
Planning	£424,745	£432,745	£8,000
Town Centre	£58,336	£61,536	£3,200
Waste Collection and Street Cleansing	£1,615,149	£1,633,149	£18,000
Environmental Education	£71,194	£71,194	£0
Transport Account	£801,467	£824,467	£23,000
Leisure and Recreational Activities	£148,170	£148,170	£0
Leisure Centres and Community Facilities	£548,960	£552,963	£4,003
Parks and Open Spaces	£655,289	£650,289	-£5,000
Private Sector Housing	£422,760	£428,060	£5,300
Community and Development Support	£293,553	£303,200	£9,647
Central and Departmental Accounts	£3,346,842	£3,213,799	-£133,043
Concessionary Travel	£6,000	-£1,459	-£7,459
Corporate and Democratic Costs	£924,488	£897,187	-£27,301
Electoral Registration	£189,771	£187,030	-£2,741
Interest Payments and Receipts	£662,136	£662,785	£649
Internal Trading Accounts (Caretaking / Cleaning)	£65,751	£65,751	£0
Payments to Parish Councils	£299,643	£299,643	£0
Property and Estates	£1,647	-£5,381	-£7,028
Revenues and Benefits	£136,670	£162,087	£25,417
TOTAL	£11,515,018	£11,397,012	-£118,006

- 3.8 The tables show that based on current income and spending, there will be an overall **decrease** in net expenditure on services of £118,000 compared to the Budget for the year.

Main Variances

- 3.9 The main projected variances are summarised in the following table. Several of these have previously been reported as part of monitoring reports and through the 2012/13 Budget Round.

Summary of Major Variances to-date

£'000

Positive Variances

Reduction in Central, Corporate & Overhead Costs	-133
Additional Income in Environmental Health Services	-51
Reduction in Democratic (Members) Costs	-35
Lower sub contracting costs and landfill charges	-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	20
Reduction in Land Charges Income	13
Repair of wall at Melbourne Leisure Centre	10
Other Variances	5
TOTAL PROJECTED VARIANCE	-118

- 3.10 The greatest variance, i.e. a reduction in central, corporate and overhead costs is shown in more detail in **Appendix 3**. This includes savings in Internal Audit, on Corporate Training and lower costs of public buildings. There is also a projected saving on overall IT costs for the year of around £35,000. In accordance with Council Policy, this will be transferred to the IT Reserve at the year end.
- 3.11 Previously reported variances continue. In particular, cover for sickness absence in Environmental Services, together with fuel costs.
- 3.12 The additional housing benefit costs (audit / testing fees, together with software support) have been incurred in connection with the outstanding 2009/10 Benefit Subsidy Claim.
- 3.13 The Council has made a provision of £159,000 in its Accounts to cover a potential claw back of subsidy due to a system error. Following a protracted review, the Council has been able to demonstrate that the original claim was substantially correct and the final liability will only be around £7,500.

Insurance

- 3.14 As previously reported, the annual review of the Council's insurance premiums was undertaken on 30th September. Due to an improved claims record, this has reduced the overall premium by approximately £20,000 per year from October 2011.
- 3.15 A revised insurance schedule and agreement has now been finalised and the costs will be allocated in the Council's Accounts during the final quarter.

Banking Services

- 3.16 In addition, the Council's banking services have been subject to a competitive retendering exercise during this financial quarter. This included the main bank

processing charges plus bill payment services at post offices and other pay points.

- 3.17 The Council awarded a new contract to its current bankers following the tendering exercise. This will generate a saving of approximately £5,000 per year, reducing current costs from £60,000 to £55,000 per year.

Car Parks

- 3.18 It is likely that additional costs of £7,000 will be incurred during the final quarter of the financial year to repair car park areas at recycling centres in Willington and Repton.

HOUSING REVENUE ACCOUNT (HRA)

- 3.19 The Council is required to account separately for income and expenditure in providing Council Housing, although the HRA is a subsidiary account of the General Fund.
- 3.20 The approved HRA Budget includes drawing down HRA Reserves of £605,196 to finance an estimated budget deficit for 2011/12. This budget was updated as part of the review of the HRA under self-financing.
- 3.21 The overall deficit for the year is slightly better than originally estimated in February 2011, i.e. £656,000.
- 3.22 Performance on the HRA is summarised in the table below.

Housing Revenue Account	Approved Budget	Projected Actual	Projected Variance
Rent from Dwellings	£10,145,893	£10,185,609	-£39,716
Other Rents	£99,081	£99,081	£0
Interest - Sale of Council Houses	£27	£27	£0
Other Fees & Charges	£206,812	£206,812	£0
Other Recharges	£15,600	£15,600	£0
Interest Received from General Fund	£18,875	£18,875	£0
Supporting People Grant	£371,696	£371,696	£0
Total Income	£10,857,984	£10,897,700	-£39,716
Expenditure			
Housing Repairs	£2,963,553	£2,963,553	£0
General Management	£1,294,540	£1,294,540	£0
Managing Tenancies	£19,286	£4,586	-£14,700
Sheltered and Other Services	£1,034,296	£1,034,296	£0
Provision for Bad Debts	£20,000	£20,000	£0
Capital Charges (LOBO & Erewash Debt)	£56,240	£56,240	£0
Net Payment to Government Pool	£4,011,683	£4,011,683	£0
Depreciation - Dwellings	£1,925,343	£1,925,343	£0
Professional Fees - PWLB Fee	£20,300	£20,300	£0
Professional Fees - Treasury Management	£8,000	£8,000	£0
Provision for Pensions / Pay & Grading	£22,390	£22,390	£0
Provision for inflation	£87,549	£87,549	£0
Total Expenditure	£11,463,180	£11,448,480	-£14,700
Net Deficit	605,196	550,780	-54,416

- 3.23 The approved budget includes provision for the PWLB set-up fee of £20,000 which will be incurred in this financial year for the debt take-on. Rent continues to increase due to lower voids, together with re-lets being increased to Formula Rent Level.
- 3.24 The reduction of £14,700 in the above table relates to council tax refunds for properties demolished in 2010/11 as part of the Extra Care Project/Village in Swadlincote.
- 3.25 It is now anticipated that the remaining provision for inflation of £87,549 will not be required and this will reduce the final deficit further by the year-end.

CAPITAL EXPENDITURE and FINANCING 2011/12

3.26 Progress to-date is summarised in the table below.

ANALYSIS OF SPENDING BY MAIN SERVICE/PROJECT AREA	APPROVED ESTIMATE £	SPENT AT DEC 2011 £
Council House Improvements	2,817,429	1,487,501
Private Sector Housing Renewal	448,698	211,179
Leisure and Community Schemes	877,537	210,785
Environmental and Development Schemes	30,000	0
Property and Other Assets (note)	413,139	95,875
Total Expenditure	4,586,803	2,005,340

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

- 3.27 No overspends are anticipated on schemes and clearly with only 50% of expenditure incurred to-date, it is likely that some expenditure will be carried forward. In particular, the main Leisure scheme for extending Hilton Village Hall is unlikely to be started in this financial year.
- 3.28 Contract payments for housing schemes will be paid during the final quarter as annual expenditure programmes are completed; this is usual practice. In addition, following the completion of the wet side refurbishment at Green Bank Leisure Centre, the Council's contribution will also be paid during the final quarter.
- 3.29 As previously reported, there is still an outstanding claim for Rosliston Forestry Centre and this is expected to be resolved before the year-end.

Capital Receipts

- 3.30 Excluding resources received from the sale of the Bretby Crematorium, the original financing programme made no provision for any new capital receipts being generated in 2011/12.
- 3.31 To-date, there have been 3 council house sales, 4 small land disposals and the granting of an easement to lay services in Swadlincote. After "pooling,"

fees and support service costs charged to the Capital Account, this currently nets additional resources of £85,000.

TREASURY MANAGEMENT

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

Borrowing	01/04/11	31/12/11
• Long Term Debt Outstanding	£1,000,000	£1,000,000
• Temporary Borrowings (Parish Council deposits)	£5,133,367	£133,367
Total Debt Outstanding	£6,133,367	£1,133,367
• Interest Rate on Long term - fixed at:	4.875%	4.875%
• Interest Rate Paid on Temporary Borrowings	0.75%	0.00%
• Base Rate (Since 5th March 2009)	0.50%	0.50%
Short-term Investments		
• Bank Deposits and Other Investments	£6,416,500	£11,392,521
Average Interest Rate Earned (on Investments)	0.80%	0.86%
Target – Average 7-Day Rate (for comparison)	0.56%	0.61%
	Estimate for the Year	Projected for the Year
Analysis of Interest (Paid)/Received	£	£
Short term Deposits	52,500	53,100

3.33 The estimate for the year was based on an average cash balance on deposit for the year of £3m, with an average interest rate of 1.75% as set out in the Treasury Management Strategy. The average rate earned to-date, cumulatively over the year, is 0.86% against the market average of 0.61%.

3.34 However, the rate earned has fallen over the last 2 months to below the market average (i.e. 0.38% compared to 0.66%). As reported at the last quarter, several major banks and financial institutions have recently had their credit ratings reduced.

3.35 This includes a number of UK high street banks and some of these institutions were on the Council's approved lending list. Very few institutions are now graded at **AA** and above for investments – which is a fundamental principle in the Council's policy.

3.36 Consequently, officers have had to recall deposits in reserve accounts and place them in institutions whose credit ratings have not been affected. Under the current Policy, this has narrowed the Council's counterparty list quite substantially.

3.37 Currently, the Council has now placed funds 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.

3.38 Overall interest received however, is holding up due to a higher level of funds on deposit – approximately £7.8m on average to-date. This has been helped by the money received for the sale of Bretby Crematorium which is currently being held on deposit.

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