

**Subject:** Financial Monitoring 2009/10:  
Month 6 – end September 2009

**Status:** For Publication

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**Report to:** Cabinet

**Date:** 25<sup>th</sup> November 2009

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**Report of:** Finance Manager

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**Portfolio**

**Holder:** Finance and Resources

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**Key Decision:** NO

Forward Plan  General Exception  Special Urgency  "X" In  
*Relevant Box*

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**1. PURPOSE OF REPORT**

1.1 The purpose of the report is to update Members on the General Fund budget monitoring for 2009/10, the Capital Programme and Treasury matters.

**2. CORPORATE PRIORITIES**

2.1 The matters discussed in this report are linked to and support each of the Council's priority areas however in particular they impact on following:

- *Providing value for money services* - strong financial control ensures the effective management of the Council's resources, which then enables the provision and delivery of value for money services.

**3. RISK ASSESSMENT IMPLICATIONS**

3.1 All the issues raised and the recommendations in this report have involved risk considerations as set out below:

3.1.1 Financial monitoring focuses on the key risk areas of: employee costs, income, agreed budget savings, emerging issues and opportunities and in particular service department net costs.

3.1.2 The delivery of capital receipts continues to be a prime area of focus for the Council in supporting its corporate priorities.

## 4. BACKGROUND AND OPTIONS

### 4.1 Capital

4.1.1 Capital Receipts as at 30<sup>th</sup> September compared to full year expectations were as follows:

Major Receipts:	Original Expectations £000	Received £000	Surplus / (Deficit) £000
<b>Capital Receipts</b>			
Land & Property Sales	100	275	175
Equity Release & Elevate	0	0	0
GVH - RTB	200	0	(200)
<b>Revenue Receipts</b>			
GVH - Vat Shelter	560	100	(460)
	860	375	(485)

4.1.2 Capital receipts from the sale of land so far are £275k, including one large sale in August. Staff are proactively pursuing, amongst other things: outline planning permission on a number of small scale development sites, processing covenant change requests and negotiating "ransom" strip values. Therefore, receipts have been forecast prudently at c. £300k for the full year (see 4.1.7 below).

4.1.3 The budgeted right-to-buy (RTB) receipts for 2009/10 are £200k, though to the end of quarter 2 only one house has been sold (no figures as yet). Green Vale Homes (GVH) are forecasting no improvement for the rest of the financial year. This area of the budget continues to pose a significant risk in supporting Council's capital programme, hence a revised forecast in the table at 4.1.7 below of £nil receipts from RTBs in 2009/10.

4.1.4 Actual Capital Expenditure to 31<sup>st</sup> August 2009 compared to budget is as follows:

SERVICE AREA	2009/10 Budget including slippage	Period 6 MONITORING		Full YR Forecast	% spend to date	Funding Arrangements				
		Total £000	Spend £			Committ £	Forecast £	Grants/ Insurance	RBC Cap Receipts	RBC RCCO
<b>Place Directorate</b>										
Place Operations	737	474	1	950	64%	47	692	211	0	0
Customer Services and e Governme	0	3	0	3	0%	0	0	3	0	0
Communities	336	88	34	336	26%	284	0	37	15	0
Regeneration	2,788	24	0	2,788	1%	2,758	0	0	30	1
<b>Corporate Support Services</b>										
Finance & Property Services	341	60	15	393	18%	52	5	30	305	10
<b>Housing</b>										
	2,871	899	0	2,919	31%	2,916	3	0	0	0
	<b>7,073</b>	<b>1,548</b>	<b>50</b>	<b>7,389</b>	<b>22%</b>	<b>6,057</b>	<b>700</b>	<b>281</b>	<b>350</b>	<b>12</b>

4.1.5 Of the annual capital programme 22% was completed by the 30<sup>th</sup> September, which compared to almost 26% by the same time in 2008/09. The full year forecast above exceeds the original programme for the following reasons.

- Insurance works £52k, for which reimbursement has been received
- Playgrounds for which an extra grant of £47k has been received
- Disabled Facilities Grants £347k more than originally planned, for which Green Vale Homes have made a contribution of £200k and the Council is applying £147k of housing capital pot grant.

4.1.6 Where the Council does not have sufficient capital receipts or grants to fund all of its capital programme it can use external or internal borrowing, which is then paid back through the Revenue account over the life of the asset (hence this method is better used to fund long-life assets). The revenue payment is known as the Minimum Revenue Provision (MRP) and the original budget for this in 2009/10 was £82.5k. In September there has been no change in the anticipated use of MRP which leaves £12.2k of this budget still available to support costs should capital receipts fall short of expectations.

4.1.7 The useable capital receipts reserve brought forward into 2009/10 to fund the remaining capital projects was £1,138k. With the in-year receipts predicted above and the spending programme requirements, the expected balance of Useable Capital Receipts at 31<sup>st</sup> March 2010 is £706k as shown below. This calculation includes a prediction of no RTB receipts, but any potential reduction in VAT Share income has not been included. Should VAT receipts not exceed the base £350k then this could reduce RCCO and the balances carried forward by up to £210k.

<b>Useable Capital Receipts Forecast</b>	<b>£ 000</b>
Useable Capital Receipts B'fwd 01/04/09	1,138
Capital Receipts expected in 2009/10	
Land & Property Sales	300
RTB Capital Receipt	0
VAT Shelter	210
Revenue Contributions from Operations	39
<b>Capital Resources Available</b>	<b>1,687</b>
Requirements of Capital Programme 2009/10	
Capital Receipts applied	700
Revenue Receipts applied (RCCO)	281
<b>Capital Resources at 31st March 2010</b>	<b>706</b>
Receipts earmarked for Housing capital wks	371

*RCCO is Revenue Contribution to Capital Outlay*

## 4.2 **S.106 (Town & Planning Act 1990) Agreements**

4.2.1 As the table overleaf shows, the Council was holding £449k at the beginning of 2009/10 in relation to Section 106 agreements, of which £115k is due for Lancashire County Council projects.

<b><u>Section 106 Agreements</u></b>	<b>Third Party Projects</b>	<b>RBC Revenue Projects</b>	<b>RBC Capital projects</b>	<b>Total Held</b>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Balance bfwd at 1st April 2009	115	237	126	<b>478</b>
w/offers - approved at July Cabinet			-20	<b>-20</b>
Deposits received in 2009/10			20	<b>20</b>
Deposits applied in 2009/10			-46	<b>-46</b>
Current Balance	115	237	80	<b>432</b>

4.2.2 No further agreements have been concluded since the last report.

4.2.3 Following discussions within the Operations team a further £17k has been applied to capital projects in 2009/10. Revenue funds may be allocated during 2009/10 and future years to schemes such as the Irwell Valley Sculpture Trail and maintenance of landscaped areas.

4.2.4 There remain several agreements for which the trigger point for payment of a deposit has not yet been reached and so no funds have been received. The planning and building control teams are monitoring progress on these developments closely to ensure these agreements are invoiced to developers as soon as the trigger points occur.

### 4.3 Net Revenue Expenditure Forecast

4.3.1 Based upon experience to the 30<sup>th</sup> September 2009, the estimated revenue spend for the full year, compared to the original budget, is £300k favourable. As previously stated we must add a note of caution in that we have some way to go over the rest of the year and we continue to closely monitor volatile areas of income and expenditure.

4.3.2 The following table shows the main forecast variances to date, compared to the previous month's forecast:

## General Fund Summary - Sept 2009 (Period 6)

Service Area	2009/10 Org Budget £000	2009/10 Forecast £000	2009/10 Variance (Adv)/Fav £000	Variance last reported £000	Change in September (Adv)/Fav £000
<b>Place Directorate</b>					
Communities	1,266.6	1,238.9	27.7	30.8	(3.2)
Customer Services and e Government	2,848.0	2,699.7	148.4	164.1	(15.7)
Regeneration	585.5	535.9	49.6	42.8	6.8
Place Operations	3,750.5	3,717.6	32.9	20.5	12.4
<b>Business Directorate</b>					
Building Control Services	154.8	169.4	(14.7)	(11.4)	(3.3)
Environmental Services	840.8	827.9	12.8	6.7	6.1
Legal & Democratic Services	1,121.7	1,100.5	21.2	29.8	(8.6)
Planning Services	487.9	563.9	(76.1)	(55.5)	(20.6)
Local Land Charges	72.8	56.2	16.6	13.7	2.9
<b>Corporate Support Services</b>					
Corporate Management	540.5	509.0	31.5	25.2	6.3
Finance & Property Services	246.8	354.8	(108.0)	(104.1)	(3.9)
People and Policy	253.6	240.9	12.7	20.9	(8.2)
Non Distributed Costs	466.7	349.0	117.7	120.9	(3.2)
Capital Financing and Interest	(809.0)	(837.3)	28.3	12.3	16.0
<b>Favourable impact on General Fund</b>	<b>11,827.1</b>	<b>11,526.5</b>	<b>300.7</b>	<b>316.8</b>	<b>(16.1)</b>

4.3.3 The full year variances and explanations are detailed as follows:

4.3.4 Place Directorate - Total forecast gain of £258.5k.

4.3.4.1 *Communities* - forecast gain of £27.7k (£30.8k favourable in August). Changes mainly on costs of refurbishing Christmas lights.

4.3.4.2 *Customer Services & e-Government* forecast gain of £148.4k (£164.1k favourable in August). The significant changes being software savings of £19k; and increases of £28k and £5k on disaster recovery and Government Connect respectively.

4.3.4.3 *Regeneration* - forecast gain of £49.6k (£42.9k favourable in August). Changes in September include further savings of £9k related to the end of the off-street parking enforcement arrangements with the County Council.

4.3.4.4 *Place Operations* - forecast gain of £32.9k (£20.5k favourable in August). Increased costs of operational fuel, cemeteries reduced income and refuse collection costs are more than matched by £36k favourable change to the expected costs of recycle onwards transportation.

4.3.5 Business Directorate - Total forecast adverse £40.1k (£16.6k adverse in August).

4.3.5.1 *Building Control* - forecast adverse variance of £14.7k (£11.4k adverse in August). Income levels have dropped by a further £2.7k to £10.7k adverse for the year.

4.3.5.2 *Environmental Services* - forecast gain of £12.8k (£6.7k favourable in August). Vacancy savings expected to increase by a further £3k to £11k for the year.

- 4.3.5.3 *Legal & Democratic Services* - forecast gain of £21.2k (£29.8k favourable in August). Minor adverse variances in September plus further £5k costs for legal reference materials.
- 4.3.5.4 *Planning Services* - adverse forecast to £76.1k for the year (£55.5k adverse in August). Planning income remains erratic. Despite improvements in August, September has worsened again by £18.5k to £125.5k adverse for the year.
- 4.3.5.5 *Land charges* - forecast favourable of £16.6k (£13.7k favourable in August). Land Charges income remains fragile and therefore improvements in quarter 2 continue to be monitored closely.
- 4.3.6 Corporate Support Services - Total forecast favourable variance of £82.2k (£75.2k favourable in August).
- 4.3.6.1 *Corporate Management* - forecast favourable £31.5k variance (£25.2k favourable in August). Further savings expected on staffing costs arising from the expected date of filling the vacant post.
- 4.3.6.2 *Finance & Property* - forecast adverse of £108k (£104k adverse in August). Savings predicted on East Lancashire e-Partnership (ELeP) support of £5.4k have now been transferred to Customer Services to fund increases in IT costs of transferring financial services to the Storage Area Network (SAN). Very minor changes only in September.
- 4.3.6.3 *People & Policy* - forecast favourable £12.7k variance (£20.9k favourable in August). The September movement relates mainly to £8k further anticipated costs in relation to professional charges in conjunction with equal pay claims.
- 4.3.6.4 *Non Distributed Costs* - forecast gain of £117.7k (£120.9k favourable in August). Very minor changes only in September.
- 4.3.6.5 *Capital Financing* - forecast gain of £28.3k (£12.3k favourable in August). Interest income has improved again at the end of quarter 2.
- 4.3.7 **Under spend carry forward rules** – Members will recall that service areas are allowed to carry forward under spends for use on non recurrent budgets. At 1<sup>st</sup> April 2009 £63k in the General Fund Reserve was brought forward under this principle to fund one-off projects in 2009/10 for the Place Directorate. The projected surplus above would result in a Reserve of £1.18m at 31<sup>st</sup> March 2010, with a budget carry forward of £129k for the Place Directorate, though this is subject to an adjustment to refund resources used from the IT provision during 2008/09, and £41k for the Corporate Services Directorate. This would result in a net General Fund Reserve in 2010/11 of £1.01m against a recommended maximum in the Medium Term Financial Strategy of £1m.

<b>General Fund Reserves</b>	<b>£000</b>
<b>Total Balance at 1st April 2009</b>	942.0
Less 50% service allowance	
Communities	(45.0)
Member Training	(5.0)
Regeneration	(13.0)
Plus expected contribution from 2009/20 operations	300.7
<b>Total Balance expected at 31st March 2010</b>	1,179.7
Less 50% service carry forward allowance to 2010/11	
Place Directorate	(129.0)
Business Directorate	-
Corporate Directorate (operational services only)	(41.0)
<b>Net Balance available in 2010/11</b>	1,009.7

*Place Directorate carry forward is subject to an adjustment to refund resources used from the IT provision in 2008/09.*

#### 4.4 Employment Costs

4.4.1 The above outturn includes, amongst other things, some saving on salary costs.

Employment Costs Period 6 - September 2009	2009/10 YTD Budget £000	2009/10 YTD Actual £000	2009/10 Variance (Adv)/Fav £000	Period 6 Movement (Adv)/Fav £000	Budgeted Staff FTEs	Current Vacant Posts
<b>Place Directorate</b>						
Communities Service	271	267	4	(2)	16.5	0.0
Customer Services	266	265	1	1	14.2	0.0
Regeneration Service	248	245	3	2	13.0	0.0
Operations Service	1,168	1,126	42	8	87.5	4.0
<b>Business Directorate</b>						
Building Control Services	98	98	0	1	5.0	0.0
Environmental Services	285	298	(13)	2	16.8	0.0
Legal & Democratic Services	214	189	25	6	13.8	1.5
Planning Services	249	243	6	(1)	17.7	0.0
<b>Corporate Services</b>						
Corporate Management	216	218	(2)	(4)	7.0	1.0
Finance & Property Services	337	326	11	4	21.3	0.0
People & Organisational Performance	171	155	16	2	9.5	0.0
<b>Total</b>	3,523	3,431	92	18	222.3	6.5

4.4.2 The 09/10 pay settlement has now been settled at a 1% increase. This compares to our budget provision of 2.5%, generating a further saving of c. £90k which will be brought into the above forecasts in October when the back-pay has been settled.

#### 4.5 Reserves, Provisions & Grants

4.5.1 Appendix 1 illustrates the most significant Reserves, Provisions & Grants available to the Council, as brought forward on the Balance Sheet at 31<sup>st</sup> March 2009, less amounts already committed. There has been no significant movement in September.

## 4.6 Treasury Management

4.6.1 Forecasts for interest received less capital financing costs compared to budget are as follows:

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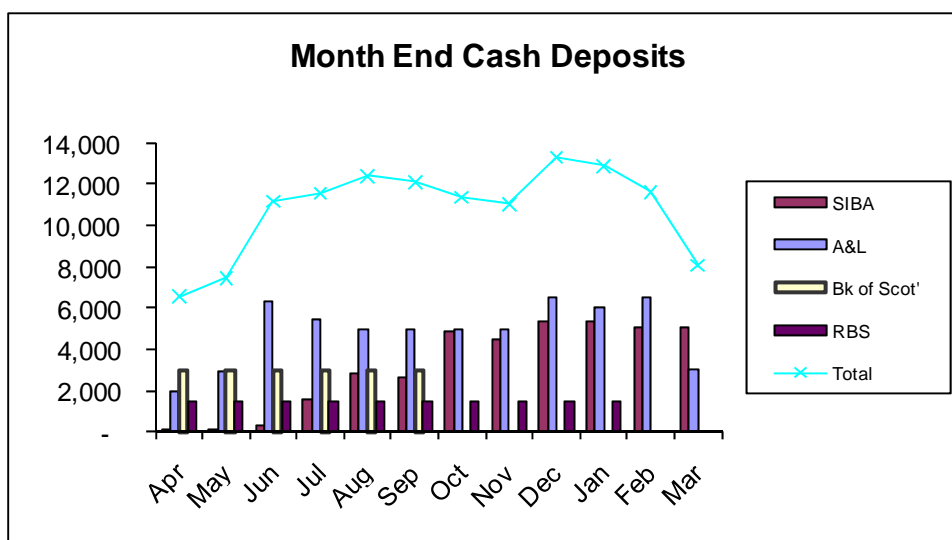
4.6.2 The above table shows the year-end interest income predicted as £177k, a favourable variance of £23k in the year. This is outperforming the Sector short-term model portfolio as at the end of September by 1.54%, due to the comparatively high interest earned on the £4.5m deposits. The Council is set to achieve an annual rate of 1.9%.

4.6.3 In mid October a £3m deposit matured and was rolled forward for a further 12 months at 1.8% with the same Bank of Scotland arrangements. This will provide further interest income improvements to be reported at the end of October.

4.6.4 The available Minimum Revenue Provision is explained above in paragraph 4.1.6. This budget monitoring exercise has assumed that the full amount will be required to support the 2009/10 capital programme as ex-Housing stock "Right to Buy" capital receipts continue to be depressed.

4.6.5 The Council is able not only to earn interest on its book figures but on funds committed but not yet paid out. The total balances on which the Council earns interest were predicted to rise over the coming months up until December/January 2010 at a peak of c. £12m. Thereafter, the rate of Collection Fund receipts slow, whilst capital spending rises in the latter months of the year and the Council repay's £1.5m to the Public Works Loans Board in January 2010. The banks refer to these cash balances as available cleared balances.

4.6.6 As at the end of September these cleared balances totalled £12.1m. The following graph shows our month-end cleared balances to date and forecast over the remaining months:





4.6.7 The interest terms at the end of August for the Council's accounts were as follows:

As at 5th October 2009		%	Interest
		Gross Rate	Paid
<b>SIBA</b>	£1M +	0.80	Quarterly
<b>Alliance &amp; Leicester</b>	£500 +	0.80	Monthly
<b>Bank of Scotland</b>	364 days fixed	6.78	Maturity - Oct 2009
<b>Royal Bank of Scotland</b>	364 days fixed	2.70	Maturity - Jan 2010

4.6.8 The Bank of England's Monetary Policy Committee determined on the 8<sup>th</sup> October to continue to hold the base rate at 0.5%.

4.6.9 The national inflation figures for September saw negative changes again compared to August. The Consumer Price Index fell by the largest amount since April to 1.1% from 1.6%. The Retail Price Index was -1.4% compared to the previous month of -1.3%. The current UK economic outlook remains challenging.

4.6.10 Treasury advisors, Sector, have revised their forecast of future base rates, now anticipating that the recovery will be at least one quarter later and more gradual than previously expected. The PWLB 25-year loan rate is also expected to rise more slowly.

	Q/E4	Q/E1	Q/E2	Q/E3	Q/E4	Q/E1
	2009	2010	2010	2010	2010	2011
<b>Base Rate</b>	0.50%	0.50%	0.50%	0.75%	1.25%	1.75%
<b>25yr PWLB</b>	4.35%	4.45%	4.55%	4.60%	4.70%	4.90%

*as at end Sept 09*

4.6.11 In contrast Capital Economics are still forecasting 0.5% base rate continuing throughout the whole of 2010 and that PWLB rates will fall in early 2010.

4.6.12 The value of sundry debts outstanding at the end of September 2009 was £418k, an increase of £143k during September but over £192k lower than September 2008 (though this was due to the large value of S106 invoices issued in August 2008). The average debtor days at 30<sup>th</sup> September was 79, compared to 71 days in September 2008 and 55 days at the end of August 2009. The target by the year end is 80days.

4.6.13 Conversely the debt recovery performance in 2009/10 is better than that in 2008/09. Many of the debts raised at the beginning of the financial year are paid in instalments - of debts raised in Q1 2009/10, around 10.4% are still outstanding compared to 12.6% of Q1 debt still outstanding at the end of September last year, which is testament to the improving collection rates for new debts.

4.6.14 The value of the Bad Debt Provision at the end of August was almost £148k. The current forecast for the year end minimum provision requirement is £119k, more

than £29k below the current balance, which is a further potential gain for the year end.

## **COMMENTS FROM STATUTORY OFFICERS:**

### **5. SECTION 151 OFFICER**

5.1 Financial matters are dealt with within the report.

### **6. MONITORING OFFICER**

6.1 Unless specifically commented upon within the report, there are no specific implications for consideration.

### **7. HEAD OF PEOPLE AND POLICY (ON BEHALF OF THE HEAD OF PAID SERVICE**

7.1 Unless specifically commented upon within the report, there are no implications for consideration.

### **8. CONCLUSION**

8.1 The General Fund continues to be monitored closely by finance staff and managed professionally by all departments throughout the Council. Despite the effects of the economic downturn, the 2009/10 forecast still looks favourable.

### **9. RECOMMENDATIONS**

9.1 The Members note and consider the contents of the report.

### **10. CONSULTATION CARRIED OUT**

10.1 Directors, Heads of Services and Budget Holders.

### **11. COMMUNITY IMPACT ASSESSMENT**

Is an Equality Impact Assessment required ~~Yes~~ / No  
Is an Equality Impact Assessment attached ~~Yes~~ / No

### **12. BIODIVERSITY IMPACT ASSESSMENT**

Is a Biodiversity Impact Assessment required ~~Yes~~ / No  
Is a Biodiversity Impact Assessment attached ~~Yes~~ / No

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<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>
2009/10 Budget (revenue and capital)	Full Council papers – Feb 09
Monthly detailed financial monitoring statements for each service area	Financial Services