



Corporate Financial Monitoring

December 2010 | Quarter 3

Report of the Head of Financial Services
Corporate PRT meeting | 17 February 2011

HEADLINE INFORMATION

| REVENUE | Current (Underspend) / + Overspend | Projected (Underspend) / + Overspend |
|-------------------------------|--|--|
| General Fund | (86,000) | (126,000) |
| Housing Revenue Account (HRA) | (7,000) | (19,000) |

CORPORATE FINANCIAL MONITORING

December 2010 | Quarter 3

1. INTRODUCTION

This monitoring report of expenditure and income for 2010/11 sets out an indicative corporate picture of the Council's financial performance relating to the period ending 31 December 2010.

The report summarises the variances reported through Services quarterly PRT meetings, and also identifies any omissions, updates and/or actions required. In addition there are specific sections for salary monitoring, capital expenditure and financing, Housing Revenue Account (HRA), revenue collection performance and Insurance and Risk Management.

It should be noted that this quarter's monitoring is based on the Revised Budget.

2. GENERAL FUND REVENUE MONITORING

2.1 General Fund Summary Position

The current overall General Fund summary position shows that at the end of December there is a net underspend of **£82K** against the revised budget. This is currently forecast to increase to **£126K** by the end of the year.

It should be noted that £1.124M has already been budgeted to be transferred into unallocated balances at the end of this financial year.

| VARIANCES | Current £000's | Current Year Projection £000's | Future Years Projection £000's |
|---|-------------------|---|---|
| Major Variances (see section 2.2) | +4 | +24 | -- |
| Salaries (see section 2.3) | (86) | (150) | -- |
| Sub Total | (82) | (126) | 0 |
| ESTIMATED OUTTURN (NET UNDERSPEND) | -- | (126) | 0 |

One of the key financial indicators is to keep any under or overspends within 2% of the overall net controllable revenue budget, and the following table shows that at the end of December this has been achieved.

| | |
|--|-------------------------|
| Net Controllable Budget | £000's 23,633 |
| 2% Target | +/() 473 |
| Provisional Controllable Net Underspend | (175) |
| Percentage of Net Controllable Budget | 0.74% |

As set out in the Medium Term Financial Strategy, Cabinet has no authority to increase net spending above the net revenue budget. Whilst the overall position may not be projected to breach this position, this does not remove the need to consider specifically whether any actions can or should be taken to address particular areas of overspending.

2.2 Major Budget Variances

Appendix A details the major true variances that have been included within individual Services' PRT reports. The variances reported are either +/- £5K in value and cover premises, transport, supplies and services and general income. A summary is provided in the following table.

| SUMMARY BY SERVICE | Current £000's | Current Year Projection £000's | Future Years Projection £000's |
|---|----------------------------|--------------------------------------|--------------------------------------|
| REPORTED VARIANCES : | () Favourable / + Adverse | | |
| Community Engagement | (10) | (10) | 0 |
| Environmental Services | +22 | +25 | 0 |
| Financial Services | (5) | 0 | 0 |
| Health & Housing | (6) | (7) | 0 |
| Governance Services | (6) | (6) | 0 |
| Property Services | (13) | (35) | 0 |
| Regeneration & Policy | +22 | +57 | 0 |
| | +4 | +24 | 0 |
| VARIANCES NOT REPORTED TO PRT MEETINGS : | | | |
| None | -- | -- | -- |
| TOTAL VARIANCES | +4 | +24 | 0 |

Factors influencing variances

As part of the 2009/10 outturn process Services were asked to identify the key factors influencing variances and this has now been continued into the PRT financial monitoring process. The following table provides an analysis of these variances and Appendix A shows how each variance has been initially categorised; this will be refined as the year progresses.

| FACTORS INFLUENCING VARIANCES | Variances to Date £000's | Current Year Projection £000's | Future Years Projection £000's |
|---|--------------------------------|---|---|
| One-off windfalls & unforeseeable savings | +33 | +13 | 0 |
| Demand led variances | (53) | +4 | +27 |
| Efficiency savings | (27) | (27) | (27) |
| Service changes & reductions | (12) | (35) | 0 |
| Budget setting issues / errors | (10) | (10) | 0 |
| Other variances | +73 | +79 | 0 |
| TOTAL | +4 | +24 | 0 |

In terms of future years, the variances shown above are when compared to the latest draft revenue budgets for future years.

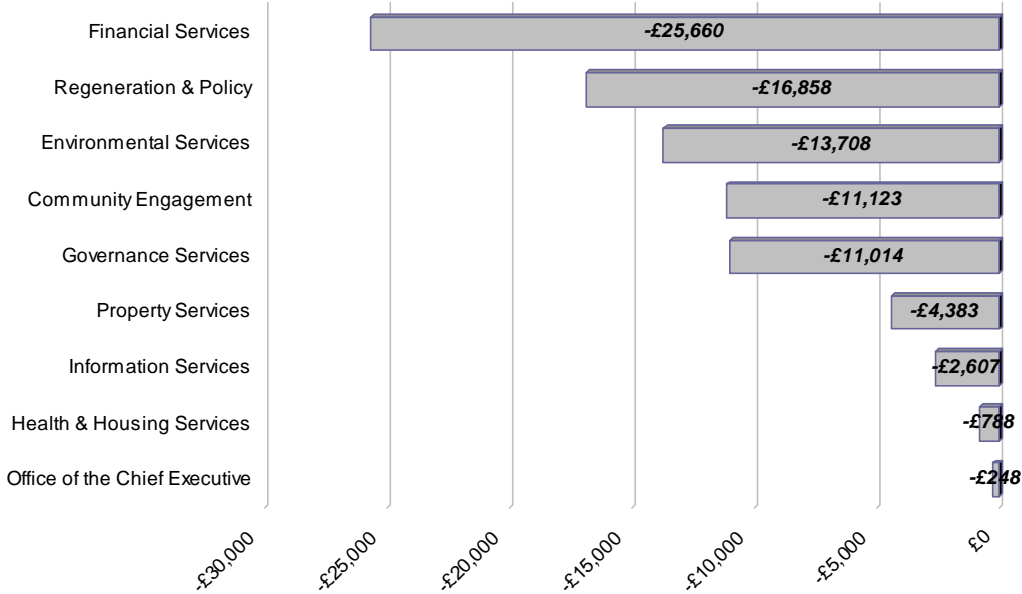
It should also be noted that the above analysis does not include any projection as yet in respect of on-going salary savings as consideration will need to be given to the impact of the current Fair Pay review for "red book" employees and the further review of the current pay and grading structure, as well as prospects for future pay awards.

2.3 General Fund Salary Monitoring

Salary monitoring has been reported separately as there are a number of small variances that fall below the threshold for major items, however their aggregate effect is fairly significant.

At the end of December there are savings of £86K against the revised salary budgets. This could increase to £150K by the end of the financial year, however it is difficult to accurately predict the exact figure. The following graph shows the savings on a Service by Service basis. The largest savings currently being generated are within the Revenues and Benefits sections in Financial Services. This is mainly as a result of posts becoming vacant sooner than anticipated plus a number of savings resulting from maternity leave.

In future reports the number of vacancies in each section will also be reported.



3 GENERAL FUND CAPITAL PROGRAMME

3.1 Capital Expenditure

At the end of December there was spend and commitments of £3.5M against the approved gross programme of £9.945M. A further £1.6M expenditure has been incurred in respect of vehicle purchases and food waste equipment however it is yet to be determined whether these are to remain in council ownership or if they are to be sold and leased back. A revised gross capital programme totaling £6.183M was presented to Cabinet on 18 January 2011.

3.2 Capital Financing

Capital Receipts

A total of £612K of capital receipts is required to finance the revised capital programme, of which £150K was received in 2009/10. In 2010/11 a deposit of £10K has been received with the balance of £322K expected by the end of March 2011 together with repayments of housing grants/loans of around £20K. This still leaves a balance of £110K to be achieved from two identified sales.

4 HOUSING REVENUE ACCOUNT (HRA) MONITORING

4.1 HRA Revenue Position

At the end of December the position for the Housing Revenue Account shows an underspend of **£7K** against the revised budget, which is currently projected to become an underspend of **£19K** by the end of the year. A full list of the variances is shown in **Appendix B**.

| VARIANCES | Variances to Date £000's | Current Year Projection £000's | Future Years Projection £000's |
|--|-----------------------------|--------------------------------------|--------------------------------------|
| Major Variances | (7) | (19) | 0 |
| ESTIMATED OUTTURN (NET OVERSPEND) | -- | (19) | 0 |

Factors influencing variances

As mentioned in section 2.2, Services are now required to identify the key factors influencing variances as part of the PRT financial monitoring process. The following table provides an analysis of these variances and Appendix B shows how each variance has been categorised.

| FACTORS INFLUENCING VARIANCES | Variances to Date £000's | Current Year Projection £000's | Future Years Projection £000's |
|---|-----------------------------|--------------------------------------|--------------------------------------|
| One-off windfalls & unforeseeable savings | 0 | 0 | 0 |
| Demand led variances | 0 | 0 | 0 |
| Efficiency savings | 0 | 0 | 0 |
| Service changes & reductions | (7) | (19) | 0 |
| Budget setting issues / errors | 0 | 0 | 0 |
| Other variances | 0 | 0 | 0 |
| TOTAL | (7) | (19) | 0 |

4.2 Council Housing Rent Collection

At the end of December rent income is £20K higher than estimated, which is mainly due to profiling. As a result it is anticipated that the outturn will be in line with the revised budget.

| | |
|--------------------------------|--------------------|
| Total Estimate for Year | £11,720,600 |
| Profiled Budget | £8,795,912 |
| Actual to Date | £8,816,021 |
| Difference | £20,109 |

4.3 Council Housing Capital Programme

This section analyses actual spend against the Council Housing Capital Programme at the end of December. To date there has been spend and commitments totaling £2.970M against a revised budget of £4.274M, leaving a balance of £1.304M.

| | Current Approved Programme £000's | Spend & Commitments to Date £000's | Budget Remaining £000's |
|--|--------------------------------------|---------------------------------------|----------------------------|
| Adaptations | 250 | 203 | 47 |
| Energy Efficiency / Boiler Replacement | 585 | 446 | 139 |
| Bathroom / Kitchen Refurbishment | 1,086 | 472 | 614 |
| External Refurbishments | 1,352 | 1,157 | 195 |
| Environmental Improvements | 433 | 463 | (30) |
| Window Replacement | 171 | 166 | 5 |
| Rewiring | 62 | 33 | 29 |
| Fire Precaution Works | 240 | 1 | 239 |
| Renewal of Heaters | 5 | 5 | 0 |
| Central Control | 90 | 24 | 66 |
| TOTAL | 4,274 | 2,970 | 1,304 |

5 REVENUE COLLECTION PERFORMANCE

5.1 Council Tax & Business Rates

This section analyses the Council Tax and Business Rate collection performance.

In year collection performance for Council Tax compares favourably with the same period last year (80.22%). NNDR collection is just over 3% down on the same period as last year mainly as a result of a large refund in the current year, and could also be attributable to the impact of Small Business Rate Relief and deferred payments. This is a temporary situation and will soon be back in line with the previous year.

| Percentage Collected | 2009/10 | 2010/11 | 2010/11 | 2010/11 | Status |
|----------------------|-----------|---------|---------|---------|-----------|
| | % | % | Target | Actual | |
| | | | % | % | |
| | All Years | | In Year | | |
| Council Tax | 80.22 | 80.30 | 97.0 | 91.3 | On Target |
| Business Rates | 88.42 | 85.38 | 98.2 | 86.9 | On Target |

5.2 Collection Fund Monitoring

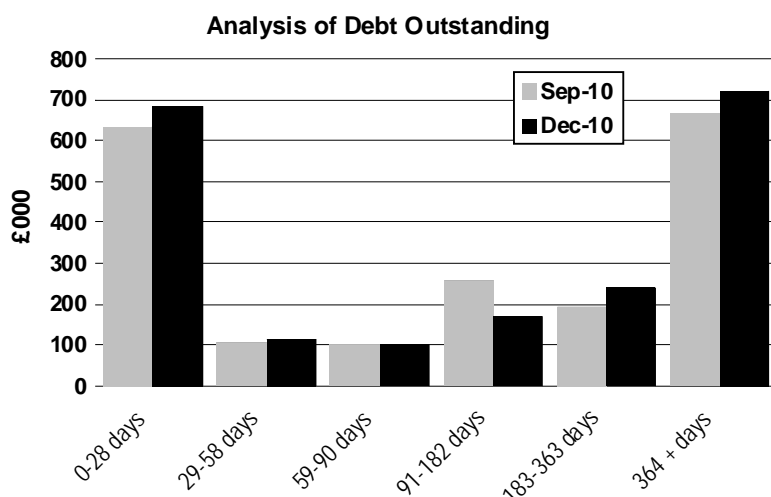
This section sets out the latest position on the Collection Fund, in particular in relation to Council Tax. Whilst the above section looks at collection performance, this section shows the current surplus or deficit on the Fund. It basically compares the amounts collectable with the Precepts levied by the relevant authorities after allowing for refunds, bad debt provisions, income collected and Council Tax benefits. The monitoring shows that at the end of December the Fund was in surplus by £167K, but it should be noted that the surplus can fluctuate significantly month by month. For information, the equivalent value for December 2009 was a surplus of £262K reducing to £240K at the year end.

Any surplus or deficit is shared between the relevant precepting bodies and the City Council's element equates to 13% and would therefore be £22K.

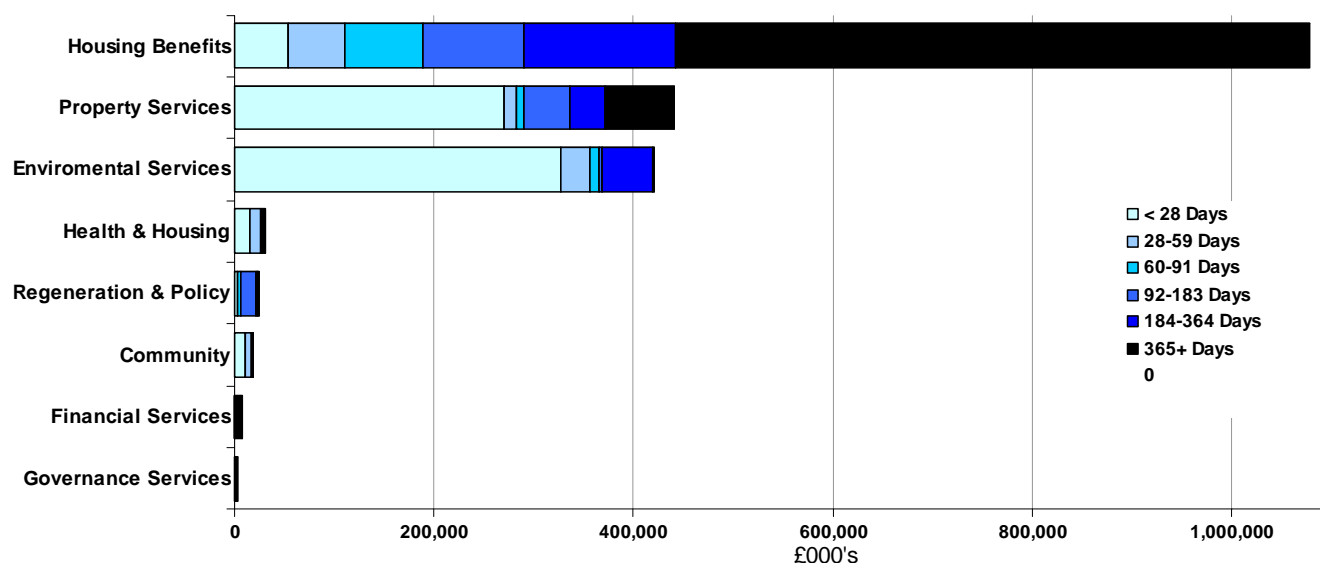
5.3 Sundry Debts

This section sets out the latest position on the level of outstanding sundry debts (excluding Council Housing). At the end of December the total debt outstanding was just over £2M, which is £137K less than the same period last year.

The level of debt over 1 year old has increased in the last quarter to 36% (34% *last quarter*) of the total outstanding debt. In addition, the total value of all debt over 3 months old has increased by £10K from the previous quarter.



| | Sept 10 | Dec 10 |
|---------------|--------------|--------------|
| | £000's | £000's |
| 0-28 days | 634 | 684 |
| 29-58 days | 107 | 116 |
| 59-90 days | 101 | 99 |
| 91-182 days | 260 | 169 |
| 183-363 days | 192 | 240 |
| 364+ days | 667 | 720 |
| | 1,961 | 2,028 |
| Previous Year | 2,014 | 2,165 |



In future it is proposed to include Council Housing debt in the above analysis, and discussions are also ongoing between Financial Services and Property Services to transfer Morecambe Market debtors onto the main Council debtor system.

6 PROVISIONS AND RESERVES

This section provides and update on key provisions and reserves.

6.1 Restructuring Reserve (General Fund)

This reserve was established during 2008/09 to cover the cost of redundancies and early retirements as a result of Service restructures during 2009/10 and 2010/11. It is proposed to merge the Revenue Support reserve with this reserve and provide sufficient funding for all

known liabilities relating to redundancy and retirement costs associated with current budget proposals whilst also providing around £200K of additional funding for future proposals.

The decision to merge the reserves will be considered by Cabinet in February.

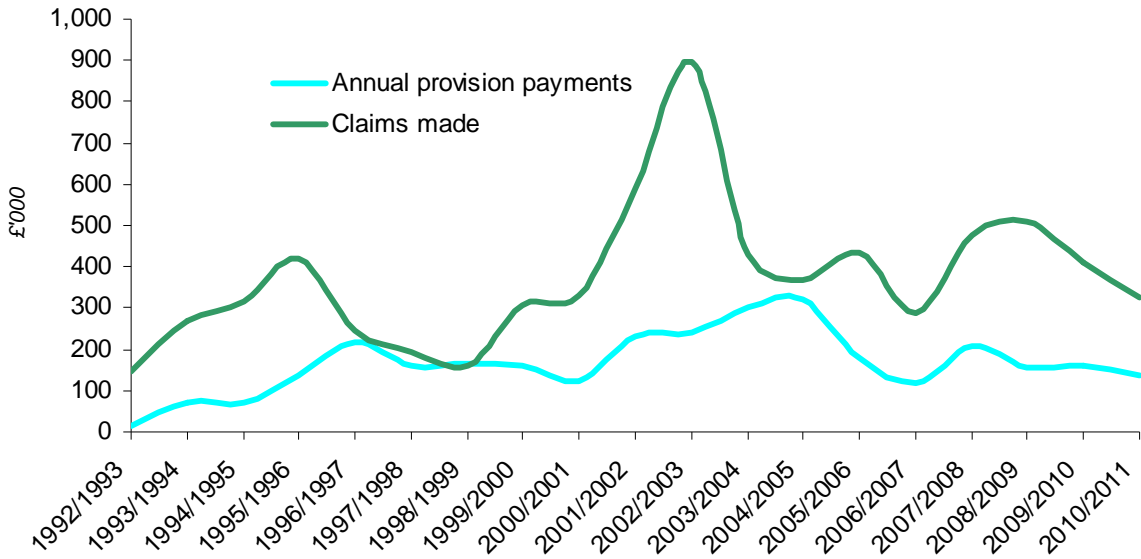
6.2 Insurance Provision

The current balance on the insurance provision is £248K, after making net payments of £135K in settlement of claims made.

At present, the Council’s insurers estimate that the value of claims outstanding is £553K, which relates to a total of 290 claims made over a 13 year period. This estimate assumes that all these claims will be settled at the maximum reserve limit; however, recent statistics show that, on average, only 56% of the total reserve will be paid. The estimated cost of claims outstanding could therefore reasonably be valued at around £310K, which is £62K more than the current provision. The final position will be assessed as part of the closedown process. No further action is currently being proposed as there are sufficient savings being generated elsewhere to cover the position.

It is highly unlikely that all these outstanding claims will fall due for payment in the same financial year, but the uncertain nature of insurance claims payments means that accurate predictions are difficult. Nonetheless, the overriding principle is that the Council must make reasonable provision for all its known liabilities.

Analysis of claims made, paid and outstanding by year.



6.3 Bad Debt Provision

The Bad Debt provision is formally reviewed half yearly at revised estimate time and closedown. In addition, quarterly updates are now provided as part of the Corporate Monitoring process.

The level of the provision has been assessed based on assumed levels of write-off as a proportion of debt outstanding. Based on the figures shown in section 5.3 the level of provision would be as follows:

| Period | Debt £000's | % Cover Required | Value £000's |
|----------------------|------------------------|-----------------------------|-------------------------|
| Up to 1 Month | 684 | 1% | 7 |
| 1 Month to 3 Months | 215 | 5% | 11 |
| 3 Months to 365 Days | 409 | 10% | 41 |
| Over 365 Days | 720 | 50% | 360 |
| TOTAL | 2,028 | | 419 |

The current balance on the Bad Debt provision is £450K which is £31K above the requirement indicated, but that is after allowing for this year's contribution of £100K.

7 RISK MANAGEMENT

The extent of ongoing or potential change within the Council raises it's risk profile. This has been acknowledged and the Council's Internal Audit plans reflect this position, with the aim of providing flexibility to give necessary assurances surrounding change management programmes etc.

In strategic terms one of the biggest risks facing the Council has been the extent of funding cuts and the impact these may have on services and the Council's overall direction. Now that the final settlement has been received the Council can plan with some certainty for the next 2 years, however the position beyond 2012/13 still remains uncertain. Again though, various measures to help manage the position are underway, such as considering further shared service opportunities and completing various service restructures etc. In addition, several options will be taken forward during 2011/12 to provide further savings opportunities in future years. This will include Invest to Save initiatives to be funded from the new reserve established for such schemes.

A full schedule of Risks and Assumptions relating to the latest budget process will be considered by Cabinet in February.