

Corporate Financial Monitoring

June 2011 | Quarter 1

Report of the Head of Financial Services

HEADLINE INFORMATION			
REVENUE	Current (Underspend) / + Overspend £	Projected (Underspend) / + Overspend £	Future Years Projection (Underspend) / + Overspend £
General Fund	(65)	(437)	+137
Housing Revenue Account (HRA)	(28)	(124)	(56)

Note that regarding General Fund future years' projections, this currently excludes any assumptions on likely staffing savings. Based on monitoring and trends to date however, it seems reasonable to assume that savings of at least £500K could be achieved. This would easily offset the apparent future years' overspending shown above.

CORPORATE FINANCIAL MONITORING

June 2011 | Quarter 1

1. INTRODUCTION

This monitoring report of expenditure and income for 2011/12 sets out an indicative corporate picture of the Council's financial performance relating to the period ending 30 June 2011.

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.

2. GENERAL FUND REVENUE MONITORING

2.1 General Fund Summary Position

The current overall General Fund summary position shows that at the end of June there is a net underspend of **£65K** against the budget. This is currently forecast to increase to **£437K** by the end of the year. Conversely, from the information available to date future years' projections show a potential net overspending of **£137K** – see later sections for details. This is not yet based on complete information, however. In particular, no assumptions have been made regarding future years' salary savings.

VARIANCES	Current £000's	Current Year Projection £000's	Future Years Projection £000's
Major Variances (see section 2.2)	+196	+63	+137
Salaries (see sections 2.3 & 2.4)	(261)	(500)	--
Sub Total	(65)	(437)	+137
ESTIMATED OUTTURN / IMPACT ON FUTURE YEARS	--	(437)	+137

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 June this has been achieved. That said, actions could be taken to improve the Council's position still further.

	£000's
Net Controllable Budget	22,608
2% Target	+/() 452
Provisional Controllable Net Underspend	(284)
Percentage of Net Controllable Budget	1.26%

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 outlined in this report.

2.2 Major Budget Variances

Appendix A details the major true variances identified to date 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	+22	+75	+79
Environmental Services	+76	+141	+201
Financial Services	(19)	(65)	(65)
Governance Services	(58)	(69)	(15)
Health & Housing	+14	(86)	(70)
Property Services	+102	+67	+7
Regeneration and Policy	+59	0	0
	+196	+63	+137
VARIANCES NOT REPORTED TO PRT MEETINGS :			
None	0	0	0
TOTAL VARIANCES	+196	+63	+137

As part of the 2010/11 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
Unforeseeable windfalls or costs	(95)	(92)	+30
Demand led variances	+197	+147	+103
Efficiency savings	0	(5)	(5)
Other service driven variances (incl delays)	+48	+110	+110
Budget setting issues / errors	+26	(45)	(23)
Other variances	+20	(52)	(78)
TOTAL	+196	+63	+137

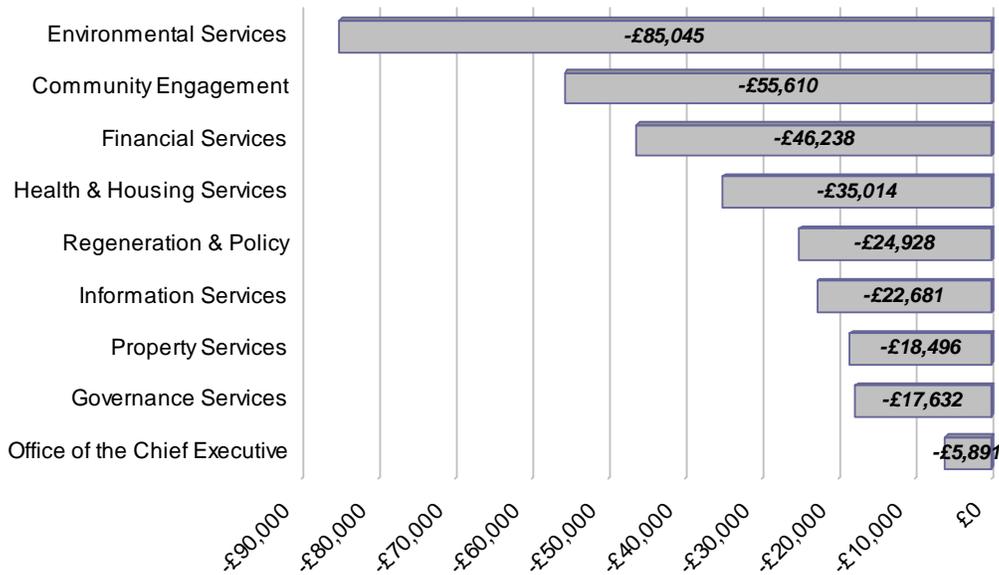
In terms of future years, the above analysis does not include any projection as yet in respect of on-going salary savings. Consideration will also need to be given to the impact of the current Fair Pay review for "red book" employees and the further review of the current pay and grading structure, as well as developments in the Shared Services agenda.

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.

To date total savings of £311K have been achieved, which is some **£261K** above the £50K profiled turnover target, and £113K above the full year target of £198K. It should be noted that the current savings include £24K in respect of an anticipated pay award of £250 for each employee earning less than £21K, as this award has not materialised.

The following graph shows the savings on a Service by Service basis.



Main Reasons for the variances are as follows:

Environmental Services – 1.5 vacant posts on street cleansing and 5 posts on Three Stream Waste, in addition to efficiency savings from a review of overtime.

Community Engagement – Partnerships Team 3 vacant posts, plus other vacancies at Salt Ayre, the Platform and Parks Patrol.

Financial Services (Revenues) – A number of vacant posts, maternity leave and reduced hours.

Health & Housing – A number of vacant posts different sections and reduced hours in Housing Advice.

Regeneration & Policy – A number of vacant posts in different sections.

Information Services – A number of vacant posts plus reduced hours.

Property Services – A number of vacant posts.

Governance Services – Vacant posts and restructuring.

Office of the Chief Executive – one vacant post.

Whilst it is anticipated that the current level of vacancies will reduce it is clear that the turnover target has already been exceeded by some margin. It is difficult to accurately predict the full year savings at this point in time, although a full staffing review will take place during the forthcoming budget exercise. That being said, even if the savings were to at least double then savings in the region of £500K (after allowing for the turnover target) could be achieved. It should be noted however that Revenue and Benefits is now operating as a shared service with Preston City Council (from 01 July 2011) and any future savings on the combined establishment will be split on a 50/50 basis.

Recommendation

To make progress now, it is recommended that in conjunction with services, Finance and HR undertake a review of the establishment and report back on what reductions can be actioned at this time.

2.4 Budgeted Savings Targets

There are four main savings targets included in the 2011/12 budget:

- Wellbeing function restructure - £38,700
- Partnerships function restructure - £26,600
- Regeneration efficiency savings - £24,700
- Revenues and Benefits Shared Service - £23,000

The first two items are being covered by current vacancies, and the third item is due to be implemented in the last half of the year but again will require current vacancy savings to be used to achieve the full saving. The fourth item is anticipated to be achieved following the implementation of the shared service

with Preston City Council. The outcome of achieving these savings may ultimately impact on the ability to achieve the indicative £500K salary savings.

All other savings proposals, approved as part of the 2011/12 budget setting process, have already been clearly identified within the budget. For Quarter 2 monitoring, an update on 2011/12 approved growth will also be provided.

3 GENERAL FUND CAPITAL PROGRAMME

3.1 Capital Expenditure

At the end of June there was spend and commitments of £1.5M against the programme of £6.756M, which has been updated for slippage from 2010/11 (approved in July) and 2 new externally funded schemes – see below.

	£000's
Approved Programme (Council 02 March 2011)	5,765
Slippage from 2010/11 (Cabinet 26 July 2011)	899
New Schemes approved under S151 Officer delegation:	
Heysham Village Phase 2 Play Area – externally funded (April 2011)	46
White Lund transport link works – S106 payment to County Council (May 2011)	76
Updated Programme	6,756

The other main issues to note are as follows; more information on capital is scheduled to be included within the Medium Term Financial Strategy (MTFS) update report:

- Vehicle renewals of £469K are committed or have been procured and arrangements are currently underway to determine the most cost effective financing (re either leasing or outright purchase).
- There is a contractual dispute relating to previous Public Realm works in the West End which has been refuted but as yet not resolved.

3.2 Capital Financing

Capital Receipts

A total of £8.989M is required to finance the 2011/12 capital programme. The Head of Property Services has reviewed the proposed receipts for the current year and has recommended that the forecast remains unchanged.

4 HOUSING REVENUE ACCOUNT (HRA) MONITORING

4.1 HRA Revenue Position

At the end of June the position for the Housing Revenue Account shows an underspend of **£28K** against the profiled budget, which is currently projected to increase to **£124K** by the end of the year. A full list of the variances is shown in **Appendix B**.

VARIANCES	Variiances to Date £000's	Current Year Projection £000's	Future Years Projection £000's
Major Variiances	(28)	(124)	(56)
ESTIMATED OUTTURN (NET OVERSPEND)	(28)	(124)	(56)

The main variance relates to the Responsive Maintenance account where there are currently a number of vacant posts.

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
Unforeseeable windfalls or costs	0	(6)	(6)
Demand led variances	0	0	0
Efficiency savings	0	(50)	(50)
Other service driven variances (incl delays)	(28)	(68)	0
Budget setting issues / errors	0	0	0
Other variances	0	0	0
TOTAL	(28)	(124)	(56)

4.2 Council Housing Rent Collection

At the end of June rent income is slightly higher than estimated.

Total Estimate for Year	£12,527,200
Profiled Budget	£2,869,767
Actual to Date	£2,866,500
Difference	(£3,267)

4.3 Council Housing Capital Programme

This section analyses actual spend against the Council Housing Capital Programme at the end of June. To date spend and commitments total £897M against a budget of £3.740M (including 2010/11 slippage approved in July) leaving a balance of £2.843M.

	Current Approved Programme £000's	Spend & Commitments to Date £000's	Budget Remaining £000's
Adaptations	250	42	208
Energy Efficiency / Boiler Replacement	545	92	453
Bathroom / Kitchen Refurbishment	1,034	157	877
External Refurbishments	1,331	424	907
Environmental Improvements	421	164	257
Rewiring	85	17	68
Fire Precaution Works	7	1	6
Choice Based Lettings	67	0	67
TOTAL	3,740	897	2,843

5 REVENUE COLLECTION PERFORMANCE

5.1 Council Tax & Business Rates

In year collection performance for Council Tax compares favourably with the same period last year. The position for NNDR is slightly different as payments for Council owned properties have been credited in the June this year as compared with July last year. It is still pleasing to report that overall performance is still being maintained, given the level of financial savings achieved in service delivery.

Percentage Collected	2010/11 %	2011/12 %	2011/12 Target %	2011/12 Actual %	Status
	All Years		In Year		
Council Tax	27.23	27.17	97.2	29.97	On Target
Business Rates	25.65	30.99	98.7	30.92	On Target

5.2 Collection Fund Monitoring

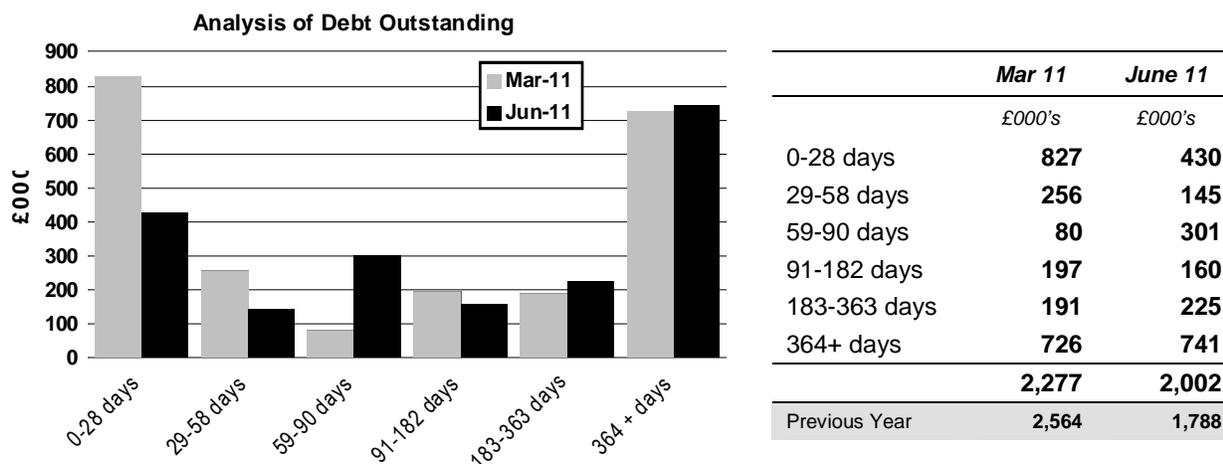
This section sets out the latest position on the Collection Fund, in particular in relation to Council Tax. Whilst the above section looks at collection performance, this section shows the current surplus or deficit on the Fund. It basically compares the amounts collectable with the Precepts levied by the relevant authorities after allowing for refunds, bad debt provisions, income collected and Council Tax benefits. The monitoring shows that as at the end of June the Fund was in surplus by £423K, but it should be noted that the surplus can fluctuate significantly month by month. For information, the equivalent value for June 2010 was a surplus of £553K reducing to £299K at the year end.

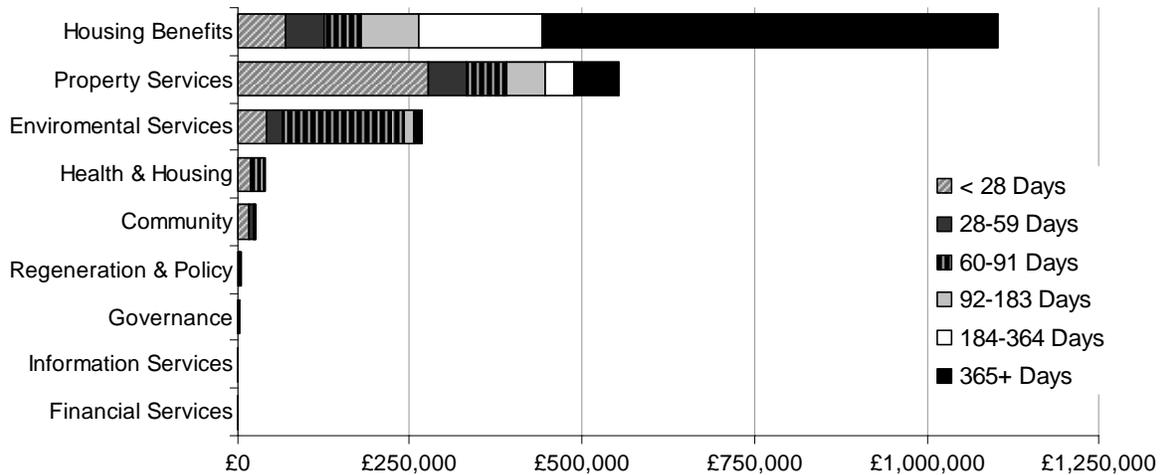
Any surplus or deficit is shared between the relevant precepting bodies and the City Council's element equates to 13% and would therefore be £55K. The position will formally be assessed in January when the Council Tax base for 2012/13 is set. At that point in time any surplus or deficit will be notified to the relevant precepting bodies for inclusion in their 2012/13 budget.

5.3 Sundry Debts

This section sets out the latest position on the level of outstanding sundry debts (excluding Council Housing; these are to be incorporated in due course). At the end of June the total debt outstanding was just over £2M, which is £275K less than the previous quarter.

The level of debt over 1 year old has increased in the last quarter to 37% (32% *last quarter*) of the total outstanding debt. In addition, the total value of all debt over 3 months old has increased by £233K from the previous quarter. For information, attached at **Appendix C** is an analysis of the action being taken on debt over 90 days old.





6 PROVISIONS AND RESERVES

This section provides an update on key provisions and reserves.

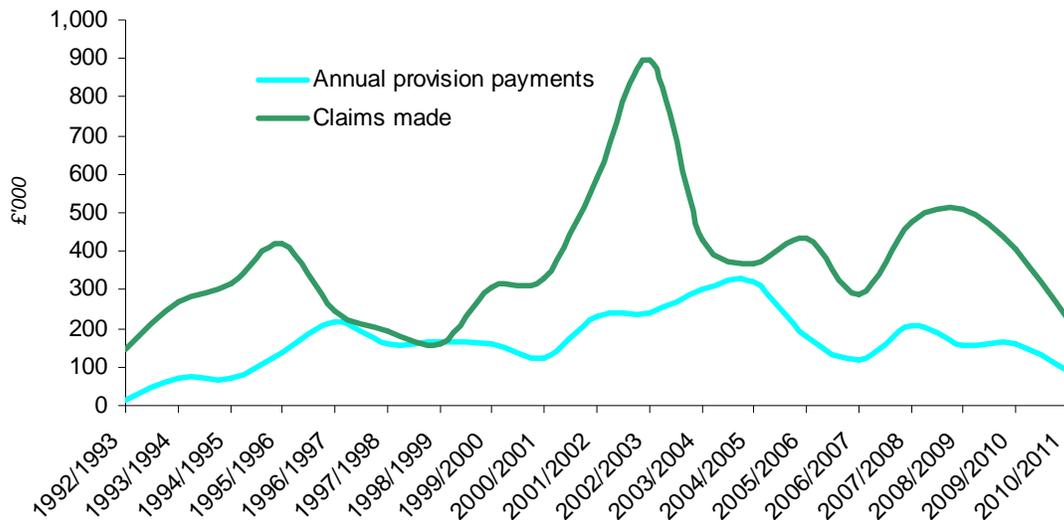
6.1 Insurance Provision

The current balance on the insurance provision is £412K, after making net payments of £29K in settlement of claims made.

At present, the Council's insurers estimate that the value of claims outstanding is £499K, which relates to a total of 269 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 61% of the total reserve will be paid. The estimated cost of claims outstanding could therefore reasonably be valued at around £304K, which is £108K less than the current provision.

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.



6.2 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	430	1%	4
1 Month to 3 Months	446	5%	22
3 Months to 365 Days	385	10%	38
Over 365 Days	741	50%	370
TOTAL	2,002		434

The current balance on the General Fund Bad Debt provision is £425K which is £9K below the requirement indicated, but that is after allowing for this year's contribution of £100K. The position will be reviewed again as part of the forthcoming budget process and any adjustments required will be reported accordingly and built into the revised budget projections. Given that the majority of sundry debts relate to housing benefit overpayments, the planned welfare reforms could well have major bearing in future.

6.3 Other Major Reserves

Invest to Save Reserve

As part of the 2011/12 budget setting process, Members identified four Invest to Save areas to be investigated which were:

- Boiler replacement – Town Halls
- Double Glazing – Town Halls
- Salt Ayre Sports Centre
 - Pipeline from landfill
 - Photovoltaic panels on roof of leisure centre.

In addition, officers have also been asked to:

- Investigate feed-in tariffs on Council buildings (including housing stock) and green deal
- Undertake a "green fleet" review.

Work is on-going in all areas and it is anticipated that a report will be presented to Cabinet in November.

Icelandic Impairment Reserve

Regarding Icelandic impairments, a decision from the Supreme Court is now expected in October.

7 RISK MANAGEMENT

As part of the business planning process, key business risks need to be considered by Service Heads and any significant ongoing or emerging risks should be reported on an exceptions basis through quarterly Performance Review Team reports, together with any actions needed to manage the situation.

The type of risks that should be reported on are major issues that could affect achievement of key objectives, expose the Council to significant financial losses or liabilities, and/or result in serious damage to the Council's reputation.

Various performance related or financial risks are included throughout the various elements of this PRT report. In considering the information, Members are advised to consider:

- whether, from their own perspectives, the key risks are covered; and

- whether the actions put forward are appropriate, and make any further recommendations if required.

The extent of ongoing or potential change within the Council also raises the Council's risk profile more generally. 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.

Similarly, 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. Whilst the Government have provided a 2 years settlement there is still uncertainty for 2013/14 and beyond. Various measures to help 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.