

# Corporate Financial Monitoring

## September 2011 | Quarter 2

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

HEADLINE INFORMATION			
REVENUE	Current (Underspend) / + Overspend £'000	Projected (Underspend) / + Overspend £'000	Future Years Projection (Underspend) / + Overspend £'000
<b>General Fund</b> (as at Sept 2011)	<b>(416)</b>	<b>(235)</b>	<b>+325</b>
Further Anticipated Changes : <i>Icelandic Investments</i>	-	(1,000)	-
<b>General Fund</b> (Updated Position)	<b>(416)</b>	<b>(1,235)</b>	<b>+325</b>
<b>Housing Revenue Account (HRA)</b>	<b>(166)</b>	<b>(226)</b>	<b>(10)</b>

Note that regarding the General Fund current year projection, this includes items that have come to light after the 30 September but have a significant impact on the projection. It should also be noted that this position will inevitably change again as a result of the detailed revised budget review process.

# CORPORATE FINANCIAL MONITORING

September 2011 | Quarter 2

## 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 September 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 September there is a net underspend of **£416K** (-£65K *Qtr1*) against the budget. This is currently forecast to reduce to **£235K** (-£437K *Qtr1*) by the end of the year. Conversely, from the information available to date future years' projections show a potential net overspending of **£325K** (+£137K *Qtr1*) – see later sections for details. This is not yet based on complete information, however, and a more accurate position will be produced as part of the current budget process.

It should also be noted that the outcome of the Supreme Court appeal on Icelandic investments creditor status is now known. The positive outcome effectively means that losses will be significantly lower than budgeted, resulting in an estimated credit of £1M to the revenue budget in the current year (as well as the savings of around £100K in future years).

There will inevitably be more changes to come through as part of the budget process and a full revised estimate and projection for 2012/13 and future years will be reported to Cabinet in December.

<b>VARIANCES</b>	<b>Current £000's</b>	<b>Current Year Projection £000's</b>	<b>Future Years Projection £000's</b>
Major Variances (see section 2.2)	(5)	+440	+625
Salaries (see sections 2.3 & 2.4)	(411)	(675)	(300)
<b>Sub Total</b>	<b>(416)</b>	<b>(235)</b>	<b>+325</b>
<b>Further Anticipated Budget Changes:</b>			
Icelandic Investments – reversal of previous transactions		(1,000)	
<b>ESTIMATED OUTTURN / IMPACT ON FUTURE YEARS</b>	<b>--</b>	<b>(1,235)</b>	<b>+325</b>

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 September this has actually been exceeded. That being said, actions have already been taken to reduce controllable staffing budgets by deleting vacant posts that are no longer required (see section 2.3) which will reduce the position in future.

<b>Net Controllable Budget</b>	£000's <b>22,608</b>
2% Target	+/( ) 452
<b>Provisional Controllable Net Underspend</b>	<b>(503)</b>
Percentage of Net Controllable Budget	2.2%

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
<b>REPORTED VARIANCES :</b>	<b>( ) Favourable / + Adverse</b>		
Community Engagement	+17	+17	+17
Environmental Services	+157	+186	+186
Financial Services	(21)	(155)	(45)
Governance Services	(82)	(94)	(44)
Health & Housing	(5)	(65)	(60)
Property Services	(115)	+326	+341
Regeneration and Policy	+44	+225	+230
	<b>(5)</b>	<b>+440</b>	<b>+625</b>
<b>VARIANCES NOT REPORTED TO PRT MEETINGS :</b>			
None	0	0	0
<b>TOTAL VARIANCES</b>	<b>(5)</b>	<b>+440</b>	<b>+625</b>

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	(115)	(155)	(19)
Demand led variances	+93	+789	+621
Efficiency savings	(41)	(109)	(55)
Other service driven variances (incl delays)	+128	+130	+130
Budget setting issues / errors	(78)	(99)	+4
Other variances	+8	(116)	(56)
<b>TOTAL</b>	<b>(5)</b>	<b>+440</b>	<b>+625</b>

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

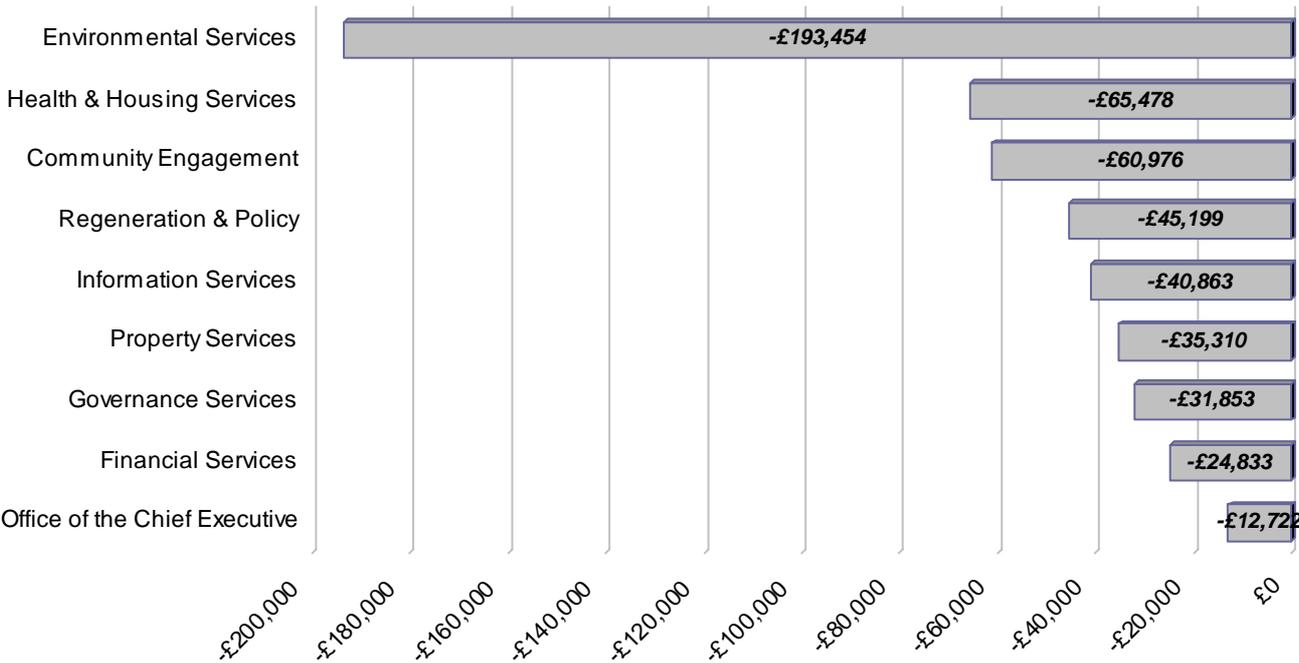
“red book” employees and the further review of the current pay and grading structure, as well as developments in the Shared Services agenda.

### 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 £510K have been achieved, which is some **£411K** above the £99K profiled turnover target, and £312K above the full year target of £198K. It should be noted that the current savings include £48K 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** – vacant posts in grounds maintenance and street cleansing plus the deletion of a number of vacant posts following an efficiency review on the waste collection services.

**Community Engagement** – Small savings spread across a number of areas due to vacant posts and changes to the way casual staff are being utilised.

**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. A full staffing review is currently underway as part of the budget exercise and early indications are that full year savings will be in the region of £675K (after allowing for the turnover target). Included within this figure are savings of £300K which have been achieved from deleting vacant posts that are no longer required.

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## 2.4 Budgeted Savings Targets

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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

All savings have now been achieved either through vacant posts and/or specific service restructures.

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## 3 GENERAL FUND CAPITAL PROGRAMME

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### 3.1 Capital Expenditure

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At the end of September there was spend and commitments of £3.381M against the programme of £7.275M, which has been updated for slippage from 2010/11 (approved in July) and a number of new schemes – see below.

	£000's
<b>Approved Programme (Council 02 March 2011)</b>	<b>5,765</b>
Slippage from 2010/11 (Cabinet 26 July 2011)	899
<b>New Schemes approved under S151 Officer delegation:</b>	
Heysham Village Phase 2 Play Area – externally funded (April 2011)	46
White Lund transport link works – s106 payment to County Council (May 2011)	76
Clay Pitts Recreation / Play Facilities Development – s106 funded (July 2011)	140
Recycling at Mainway Estate (Sept 2011; following carry forward approval)	34
<b>Cabinet Approvals</b>	
Morecambe FC Footpath Works - s106 funded (26 July 2011)	69
Links to Schools - Sustrans Grant (26 July 2011)	146
Warm Homes Scheme – PRG (26 July 2011)	100
<b>Updated Programme</b>	<b>7,275</b>

The other main issues to note are as follows; more information on capital has also been included within the Medium Term Financial Strategy (MTFS) update report to Cabinet in November:

- Vehicle renewals of £746K 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 still a contractual dispute relating to previous Public Realm works in the West End which has been refuted but as yet not resolved.

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### 3.2 Capital Financing

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#### Capital Receipts

A total of £8.869M is required to finance the 2011/12 capital programme. The Head of Property Services has reviewed the proposed receipts for the current year and after allowing for slippage it is anticipated there will be a shortfall of £757K in funding. However, the full impact of this will not be known until the whole programme has been reviewed as part of the current budget process.

## 4 HOUSING REVENUE ACCOUNT (HRA) MONITORING

### 4.1 HRA Revenue Position

At the end of September the position for the Housing Revenue Account shows an underspend of **£166K** against the profiled budget, which is currently projected to increase to **£226K** by the end of the year.

VARIANCES	Factor Influencing Variance (see next table below)	Variations to Date £000's	Current Year Projection £000's	Future Years Projection £000's
Choice Based Letting – salary savings	4	(5)	(5)	0
Repair & Maintenance – salary savings	4	(83)	(143)	?
Insurance – reduced premium	1	(10)	(10)	(10)
Planned Maintenance – lower tenders	1	(60)	(60)	?
DWP Grant – Access to Work claim	1	(8)	(8)	0
<b>ESTIMATED OUTTURN (NET OVERSPEND)</b>		<b>(166)</b>	<b>(226)</b>	<b>(10)</b>

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, and the following table provides an analysis of these variances have been categorised.

FACTORS INFLUENCING VARIANCES	Variations to Date £000's	Current Year Projection £000's	Future Years Projection £000's
1 Unforeseeable windfalls or costs	(78)	(78)	(10)
2 Demand led variances	0	0	0
3 Efficiency savings	0	0	0
4 Other service driven variances (incl delays)	(88)	(148)	0
5 Budget setting issues / errors	0	0	0
6 Other variances	0	0	0
<b>TOTAL</b>	<b>(166)</b>	<b>(226)</b>	<b>(10)</b>

### 4.2 Council Housing Rent Collection

At the end of September rent income is on target with the profiled estimate.

<b>Total Estimate for Year</b>	<b>£12,527,200</b>
Profiled Budget	£6,252,500
Actual to Date	£6,252,850
<b>Difference</b>	<b>(£350)</b>

### 4.3 Council Housing Capital Programme

This section analyses actual spend against the Council Housing Capital Programme at the end of September. To date spend and commitments total £1.484M against a budget of £3.760M (including 2010/11 slippage approved in July and a £20K increase to Boiler Replacement Scheme approved under S151 Officer delegation) leaving a balance of £2.276M.

	Current Approved Programme £000's	Spend & Commitments to Date £000's	Budget Remaining £000's
Adaptations	250	128	122
Energy Efficiency / Boiler Replacement	565	239	326
Bathroom / Kitchen Refurbishment	1,034	241	793
External Refurbishments	1,331	615	716
Environmental Improvements	421	213	208
Rewiring	85	39	46
Fire Precaution Works	7	7	0
Choice Based Lettings	67	2	65
<b>TOTAL</b>	<b>3,760</b>	<b>1,484</b>	<b>2,276</b>

## 5 REVENUE COLLECTION PERFORMANCE

### 5.1 Council Tax & Business Rates

In year collection performance for both Council Tax and NNDR compares favourably with the same period 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
	<b>All Years</b>		<b>In Year</b>		
Council Tax	53.97	53.68	97.2	48.57	On Target
Business Rates	61.42	60.24	98.7	60.52	On Target

### 5.2 Collection Fund Monitoring

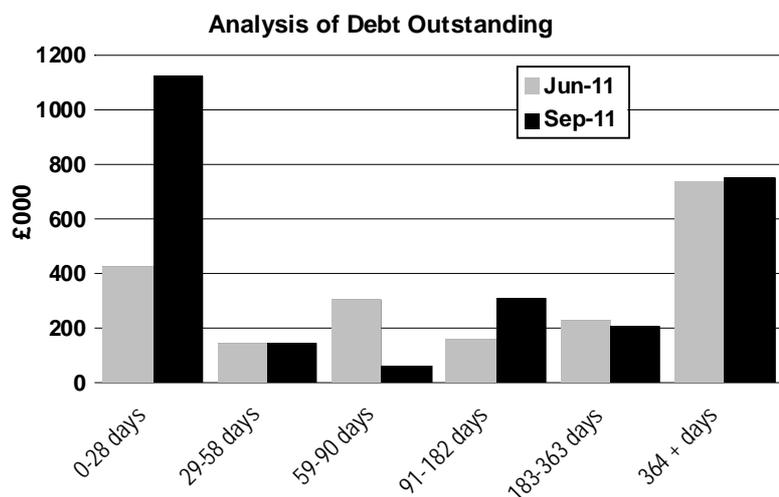
This section sets out the latest position on the Collection Fund, in particular in relation to Council Tax. Whilst the above section looks at collection performance, this section shows the current surplus or deficit on the Fund. It basically compares the amounts collectable with the Precepts levied by 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 September the Fund was in surplus by £381K, but it should be noted that the surplus can fluctuate significantly month by month. For information, the equivalent value for September 2010 was a surplus of £396K 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 £50K. 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.

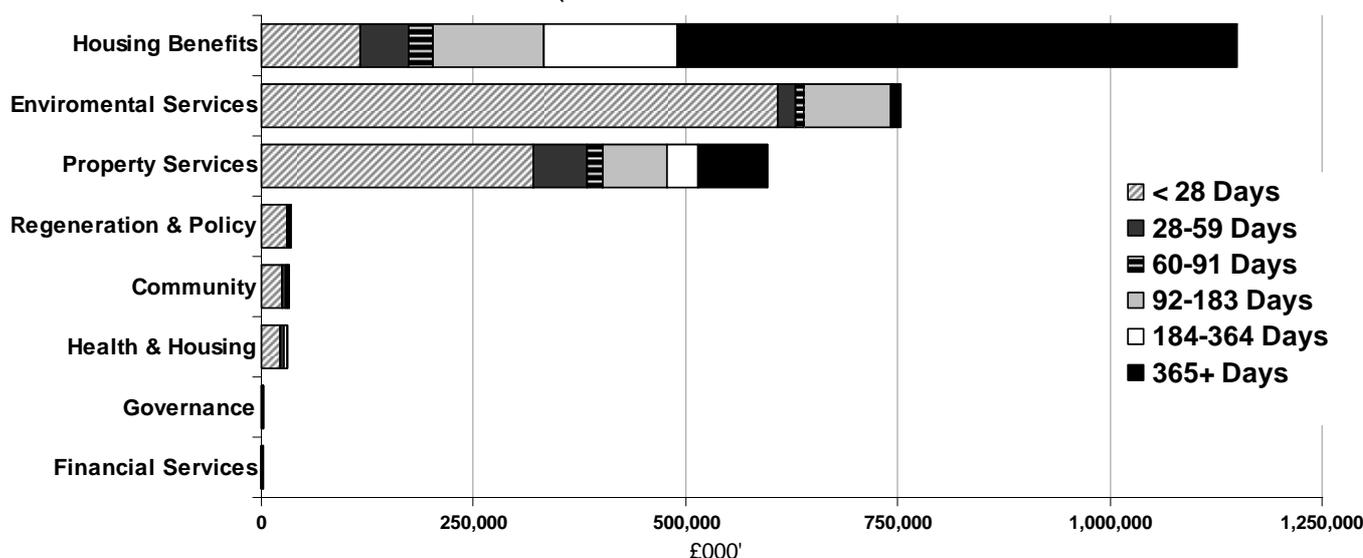
### 5.3 Sundry Debts

This section sets out the latest position on the level of outstanding sundry debts (excluding Council Housing). At the end of September the total debt outstanding was just over £2.6M, which is £600K more than the previous quarter. However, this is due to the raising of half yearly invoices in Environmental Services and Property Services. The actual level of debt over 1 month old has reduced by £94K.

The level of debt over 1 year old has increased in the last quarter to 29% (37% last quarter) of the total outstanding debt.



	June 11	Sept 11
	£000's	£000's
0-28 days	430	1,125
29-58 days	145	147
59-90 days	301	60
91-182 days	160	312
183-363 days	225	204
364+ days	741	755
	<b>2,002</b>	<b>2,603</b>
Previous Year	1,788	1,961



## 6 PROVISIONS AND RESERVES

This section provides an update on key provisions and reserves.

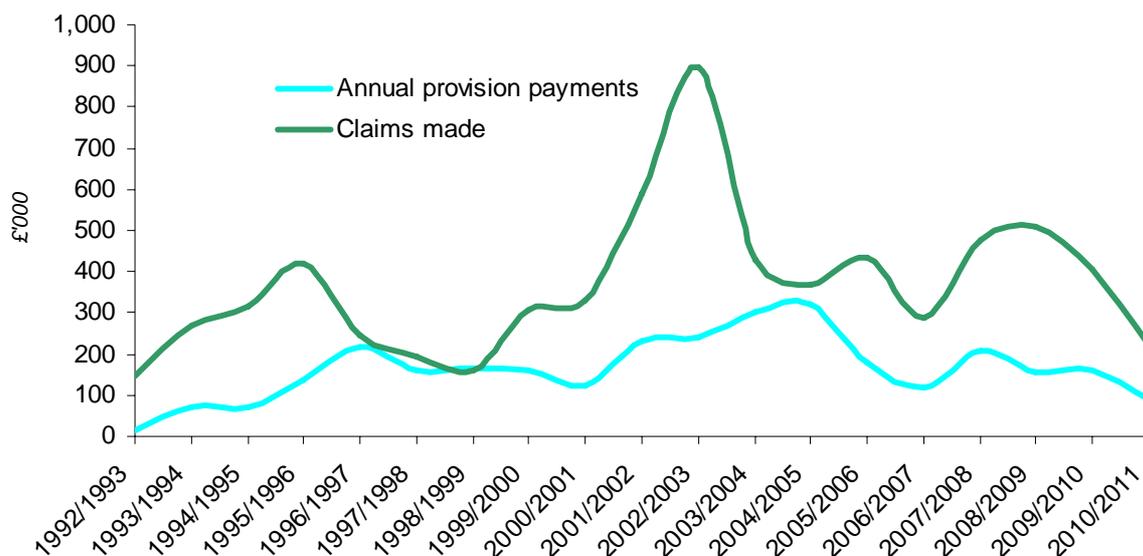
### 6.1 Insurance Provision

The current balance on the insurance provision is £383K, after making net payments of £57K in settlement of claims made.

At present, the Council's insurers estimate that the value of claims outstanding is £356K, which relates to a total of 219 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 58% of the total reserve will be paid. The estimated cost of claims outstanding could therefore reasonably be valued at around £206K, which is £177K less than the current provision. The level of this provision will be assessed as part of the current budget process.

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	1,125	1%	11
1 Month to 3 Months	207	5%	10
3 Months to 365 Days	516	10%	52
Over 365 Days	755	50%	377
<b>TOTAL</b>	<b>2,603</b>		<b>450</b>

The current balance on the General Fund Bad Debt provision is £514K which is £64K above 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.

## Update

A report presented to Cabinet in early October put forward a scheme to spend £750K on photo voltaic panels to be located on several municipal buildings and £1M on installations on council housing communal buildings. The tender have been let and the outcome of that and further financial reviews are imminent.

In addition, it was reported that initial tenders for boiler replacement at the Town Halls came in substantially above the estimates and consideration is now being given to the best method of retendering the work.

The installation of secondary glazing at Lancaster Town Hall has been delayed by a lack of resources within Property Services. This has now been resolved and a proposal is being prepared to ascertain costs for a scheme that would meet Listed Building requirements.

A preliminary feasibility study on the Salt Ayre Pipeline scheme suggests that the scheme would be very costly for the benefit obtained and as such is not being pursued at the moment.

### **Icelandic Impairment Reserve**

As reported at the start of this report, the decision of the Icelandic Court will effectively give the Council preferential creditor status, which now means that there will be a net credit of £1M going back to revenue in the current year. As a result, the reserve will be cleared and closed in this year.

## **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 year settlement there is still much uncertainty for 2013/14 and beyond. Tackling and managing the associated risks are should be Various measures to help the position are underway. This includes the Invest to Save initiatives which were presented to Cabinet in early October.