



Corporate Financial Monitoring

June 2009 | Quarter 1

Report of the Head of Financial Services
Corporate PRT meeting | 17 August 2009

HEADLINE INFORMATION

REVENUE	Current (Underspend) / + Overspend	Projected (Underspend) / + Overspend	Projected (Underspend) / + Overspend After Exceptional Items**
General Fund	+£3K	(488K)	+£113K
Housing Revenue Account	+9K	(£12K)	(£12K)

**Exceptional items include two major potential variances whose values are uncertain – namely VAT refunds, and provisions for non-recovery of Icelandic investments.

CORPORATE FINANCIAL MONITORING

June 2009 | Quarter 1

1. INTRODUCTION

This monitoring report of expenditure and income for 2009/10 sets out an indicative corporate picture of the Council's financial performance relating to the period ending 30 June 2009.

The report summarises the variances reported through Services' quarterly PRT meetings, and also identifies any omissions, updates and/or actions required where possible. In addition there are specific sections for salary monitoring, capital expenditure and financing, Housing Revenue Account, 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 overspend of **£3K** against the budget. This is forecast to increase to an overspend of **£113K** by the end of the year. However, this does include two exceptional items relating to a £600K VAT recovery claim (favourable) and £1.201M provision to be made for Icelandic investment losses (adverse). It is important to stress that these are provisional figures based on assumptions made at the start of the financial year and will inevitably change. Further details are provided in Section 2.3.

VARIANCES	Current £000	Projected £000
Major Variances (see section 2.3)	+112	(93)
Salaries (see section 2.4)	(109)	(395)
Sub Total	+3	(488)
Exceptional Items	--	+601
ESTIMATED OUTTURN		+113

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.

	£000
Net Controllable Budget	23,792
2% Target	+/() 475
Provisional Controllable Net Underspend	(139)
Percentage of Net Controllable Budget	0.58%

2.2 Actions Arising from Previous Quarter

An update on progress against the Quarter 4 actions is shown in the following table.

NO	AGREED ACTION	RESPONSIBILITY	PROGRESS
1	Actions Brought forward from Quarter 4		
1a	<p>£56k of external funding has been secured to develop a dance strategy for the district but further funding is required. Information is requested as to the potential impacts upon the council's budget (and other resources) for 2009/10 and future years</p> <p>No information on the outcome of discussions referred to in quarter 3 with external funders as to whether LUDUS can host and be the accountable body.</p>	Head of Cultural Services	Draft Service Level Agreement with Ludus Dance has been issued. Comments have been received from Sports England in favour of the agreed approach; we currently await comments from the Arts Council. The intention is still for Ludus Dance to be the employing body for the Dance Officer Post.
1b	<p>Development Control – the continuing decline in fee income is noted. Information is requested as to how the situation is being managed and what level of resource is being transferred from Development Control work to Local Development Framework activity and for what period</p> <p>Noted that staffing had been reduced by 1.5 FTEs but no information in relation to the resources being moved from Development Control into the Local Development Framework activity or for what period of time.</p>	Head of Planning	Income continues to decline, along with that in Building Control. The only option is a significant re-structuring in Planning Services which will inevitably involve redundancies. A report is now being prepared for Cabinet with re-structuring proposals.
2	<p>Performance Indicator still shows an average increase in void lettings of 10 days over last year. In addition, the financial monitoring information shows that responsive maintenance spending on voids has overspent its budget by £345k (Qtr4 2008/09 – last year).</p> <p>Both the performance indicators and financial monitoring information highlight significant concerns in respect of void management. Whilst it is acknowledged that voids have increased (additional 50 properties on last year) indications are that the action plan to correct the increased timescales in void lettings (10 days longer than last year) has not been effective in addressing the voids letting performance.</p>	Head of Council Housing	<p>Good progress is now being made in reducing average re-let times and the actions arising from the agreed improvement plan are taking effect.</p> <p>The average time taken to re-let properties in 2008/2009 was 41.9 days. Whilst the residual effects of poor performance was still evident in April and May of 2009, the average re-let times for June and July are significantly improved (36.9 and 36.2 days respectively). Officers are confident that the 2009/2010 target of 38 days will be achieved.</p>
3	<p>Other failing performance Indicators</p> <p>Noted that these are being addressed as part of the 2009/10 business planning process</p>	Corporate Management Team	Covered elsewhere on agenda.
4	<p>Financial Monitoring variances</p> <p>Noted that these are being considered as part of the 2008/9 closure of accounts process and any ongoing budget implications reported back to Cabinet</p>	Corporate Management Team	Covered elsewhere on the agenda.

2.3 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.

SUMMARY BY SERVICE	Current £000	Projected £000
REPORTED VARIANCES :	() Favourable / + Adverse	
Legal & Human Resources	+9	+43
Financial Services	(52)	(286)
CC(D)S	+27	+15
Property Services	+19	+28
Econ Development & Tourism	+3	+7
Cultural Services	+6	+6
Health & Strategic Housing	(7)	(14)
Planning Services	+119	+120
Revenue Services	(12)	(12)
	+112	(93)
EXCEPTIONAL ITEMS :		
VAT Recovery Claim	--	(600)
Provision for Icelandic investment losses	--	+1,201
	--	+601

The variances listed in **Appendix A** include one major income variance of £271K relating to investment income. This is based on interest assumptions used for outturn as reported to Cabinet, in line with accounting guidance for Icelandic investments. The main overspends relate to shortfalls in income on Planning Applications and Building Control Applications.

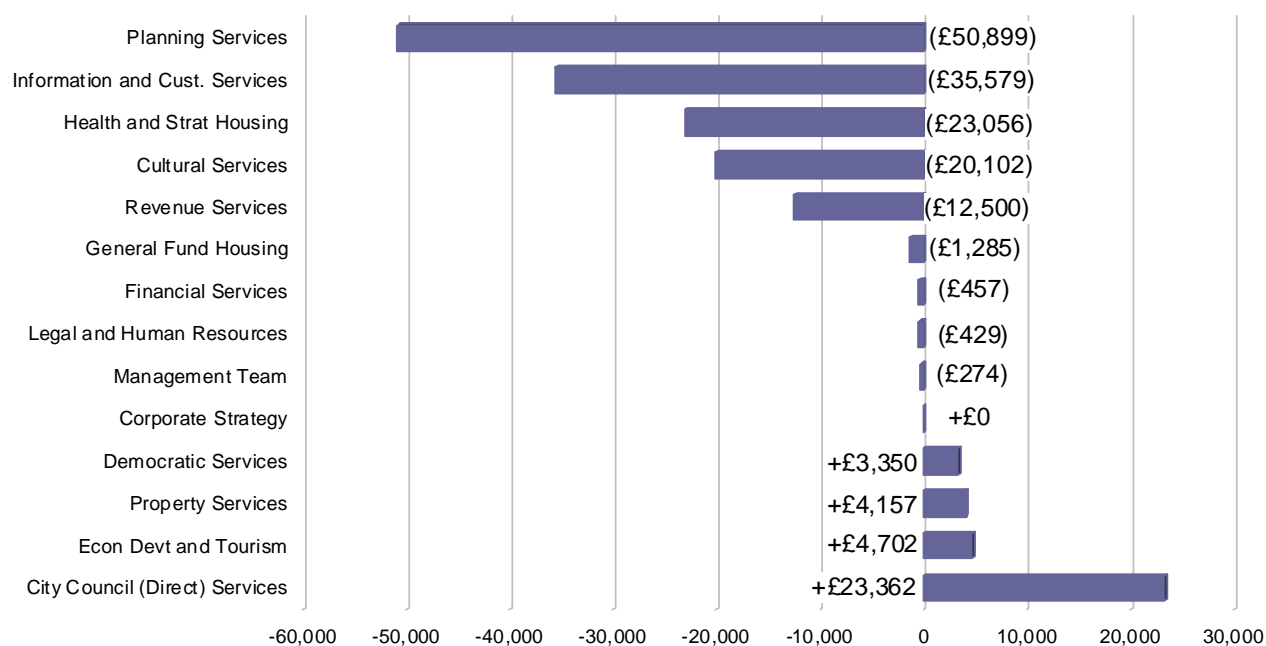
There are two exceptional items, the first relating to the VAT recovery claim of £600K for which the Council is awaiting information from HMRC. This relates to net recovery on VAT on Cultural / Leisure activities. The second item relates to the provision for estimated losses on Icelandic investments. Based on outturn assumptions this is anticipated to be £1.201M, however estimates will change as the process continues. The biggest risk at present is the loss of preferential creditor status. (See quarterly treasury management report for more information.)

2.4 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 £109K have been achieved as compared with the turnover target of £241K, leaving a balance of £132K still to achieve. If the current level of savings were to continue then total turnover savings for the year would be £195K above the target. These savings to date exclude the estimated pay award that was budgeted at 2%. The latest offer is around 1% and if accepted, it would generate further savings of circa £200K. In total therefore, salary savings could be in the region of £395K for the year, based on these assumptions. It must be noted however that these figures are expected to reduce. Firstly, a report on External Funding and Programme Management elsewhere on this agenda recommends using £51K of the savings in this year. Furthermore, there are a number of proposed restructurings which are still subject to Member approval - see section 2.5 for more details. These are also likely to reduce apparent turnover savings, either because some may be needed to help meet redundancy costs etc, or some turnover savings may need to be attributed (properly) to the restructuring savings targets.

Overall the position is quite complex at the moment, but work is underway to clarify the position. Nonetheless, the following graph shows the current savings on a Service by Service basis.



2.5 Restructure Savings

A number of savings have been built into the 2009/10 budget, some of which may involve savings to be generated from staffing. The key ones are listed below, with progress to date:

	BUDGETED SAVING	PROGRESS
Corporate Strategy	£30,000	Savings achieved for 2009/10 as reported to Personnel Cttee in March 09. However, there is a shortfall of £8K for future years still to be identified.
Council Tax and Housing Benefit staffing restructures	£104,500	To date savings of £83K have been achieved, leaving a balance of £22K.
Senior Management Restructure	£50,000	As reported to Personnel Cttee in July 09, North West Employers are to provide advice on the two proposed structures. Funding for this advice is subject to Cabinet approval in September.
Communications & Marketing Review	£41,000	Underway.
Salt Ayre: Operational Savings	£119,000	Underway.
Support for Festivals Innovation Fund	£30,000	Underway.
Arts & Leisure Development	£54,000	Underway.
Building Control	£143,400	Underway.
TOTAL	£571,900	

To date only £113K of the £459K required has been formally approved – although a more up to date position may be available by the time of the Cabinet meeting.

3 GENERAL FUND CAPITAL PROGRAMME

3.1 Capital Expenditure & Financing

Capital Expenditure (General Fund)

At the end of June there was spend of £955K against the programme of £16.092M, which has been updated for slippage from 2008/09 (approved in July). A further £400K of essential municipal building works have been authorised to progress to date (August), and work is underway to quantify additional needs in this year.

Capital Receipts (General Fund)

£1.182M receipts were available as at 30 June, of which £373K were received in year (£809K was brought forward from last year). A report on the sale of Land at Scotforth is elsewhere on this agenda and provides an update on expected timescales. This will be a key issue in managing the Capital Programme (and expectations).

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 overspend of **£9K** against the budget, although this is currently projected to change to an underspend of **£12K** by the end of the year.

	Variances to Date	Project to Yr End	Service Comments
	£000	£000	
Council House Rents	?	?	See section 4.2 below.
Estate Support Services – Satellite equipment leases	+6	+6	Budget has been set to cover the costs of 2 leases however 3 leases are actually required.
RMS Operating Account – contracted services	-9	(32)	Internal operational procedures have changed to put less reliance on external contractors.
Telecare – equipment and tools	+6	+7	Budget does not take account of maintenance costs which are paid to Northern housing consortium as part of having a telecare function.
Computer Equipment	+6	+7	Underbudgeted expenditure relating to the Rent Module and HRA Business Plan.
Net Total	+9	(12)	

4.2 Council House Rent Collection

It is not possible to report on the overall rent position at this point in time due to outstanding interface issues between the Housing Rent system and the main accounting system. The main interface problem has been resolved and officers are currently in the process of rerunning the corrected feeders.

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 £972K against a budget of £4.025M leaving a balance of £3.053M. However, it is anticipated that savings of £325K will be made as a result of lower tender figures being achieved.

	Current Approved Programme £000	Spend & Commitments to Date £000	Budget Remaining £000
Adaptations	250	246	4
Bathroom / Kitchen Refurbishment	593	190	403
External Refurbishment	1,280	236	1,044
Rewiring	65	40	25
Renewal of Heaters	60	33	27
Environmental / Crime Prevention	381	68	313
Re-roofing / Window Renewals	774	0	774
Energy Efficiency Works	480	159	321
IT Replacement	42	0	42
Central Control Equipment	100	0	100
TOTAL	4,025	972	3,053

5 REVENUE COLLECTION PERFORMANCE

5.1 Council Tax & Business Rates

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

The Head of Revenue Services reports that for Council Tax, in-year collection was 29.75% at the same time last year. The impact of the recession is being reflected in collection rates in Lancaster and across the country. The overall in year target is still achievable and there is no cause for concern. In terms of NNDR 30.3% had been collected at the same time last year. However, the Council paid its own rates bills before 30 June this year whilst last year the payments were not made until July – this skews the year on year comparison slightly.

Percentage Collected	2008/09	2009/10	2009/10	2009/10	Status
	%	%	Target	Actual	
			%	%	
	All Years		In Year		
Council Tax	27.40	27.19	96.60	29.60	Behind Target
Business Rates	28.68	31.47	98.00	31.50	On Target

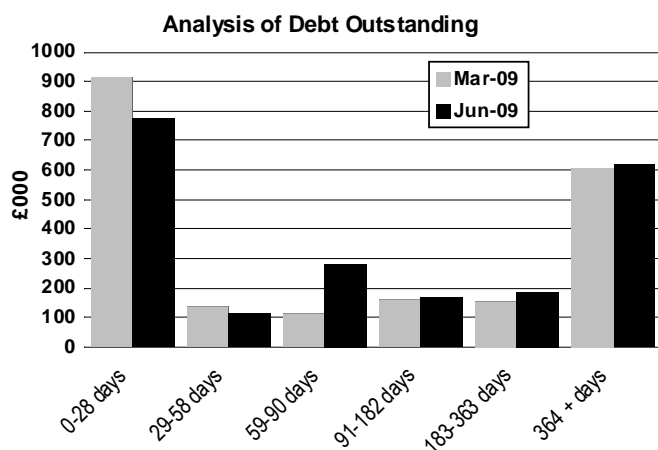
5.2 Collection Fund Monitoring

This section sets out the latest position on the Collection Fund, in particular in relation to Council Tax. Whilst the previous section looks at collection performance, this section shows the current surplus or deficit on the Fund. It basically compares the total 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 June the Fund was in deficit by £151K, but it should be noted that any surplus or deficit is shared between the relevant precepting bodies. The City Council's element equates to 12% and would therefore be £18K. This position will fluctuate throughout the year but will formally be assessed in January when the Council Tax base for 2010/11 is set. At that point in time any surplus or deficit will be notified to the relevant precepting bodies for inclusion in their 2010/11 budget. As context, the total amount of Council Tax income to be collected in this year amounts to around £65M.

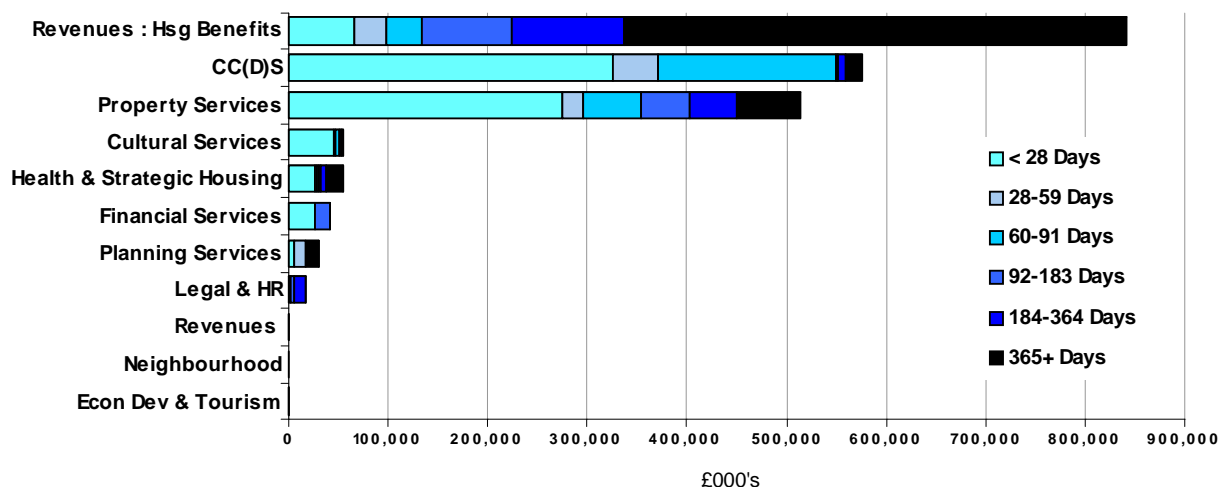
5.3 Sundry Debts

This section sets out the latest position on the level of outstanding sundry debts (excluding Council Housing). At the end of June the total debt outstanding was just under £2.1M, which is almost £350K more than the same period last year.

The level of debt over 1 year old remains at 29% of the total outstanding debt. However, the total value of all debt over 3 months old has increased by £45K from the previous quarter.



	Mar 09	June 09
	£000	£000
0-28 days	911	774
29-58 days	139	115
59-90 days	111	278
91-182 days	163	168
183-363 days	152	185
364+ days	609	616
Total	2,085	2,136
Previous Year	2,564	1,788



6 PROVISIONS AND RESERVES

This section provides and update on key provisions and reserves.

6.1 Restructuring Reserve

This reserve was established at the end of 2008/09 to cover the cost of redundancies and early retirements as a result of Service restructures during 2009/10 and 2010/11. The following table shows the approvals to date and any forthcoming recommendations.

Restructuring Reserve		Annual Savings Generated	Comments
£		£	
Balance as at	31 March 2009	943,100	
Approvals to Date :			
	Personnel Cttee 26 March 09 Corporate Strategy Restructure	(65,600)	30,200
Balance as at	30 June 2009	877,500	Annual savings reduce by £8K after 2009/10. Additional savings being identified.
Forthcoming Recommendations :			
	Personnel Cttee 30 July 09 Management Team PA Restructure	(16,591)	15,500
	Personnel Cttee 30 July 09 Senior Management Restructure NWE0 Fees (referred to Cabinet)	(13,500)	Annual saving rises to £32K after 2011/12. Awaiting outcome of review.
Balance as at	31 July 2009	847,409	

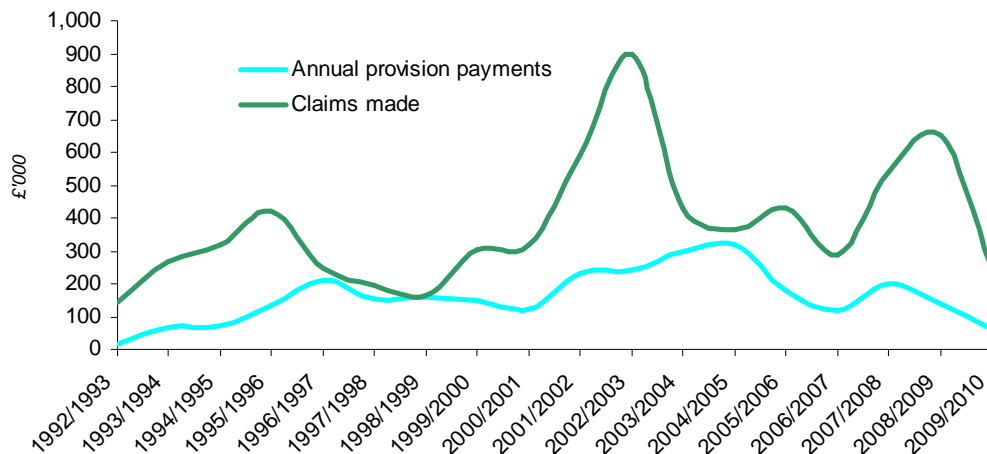
6.2 Insurance Provision

The current balance on the insurance provision is £225K, after making net payments of £64K in settlement of claims made.

At present, the Council's insurers estimate that the value of claims outstanding is £391K, which relates to a total of 175 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 £227K, which is £2K above 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.



7 RISK MANAGEMENT

As a result of the Internal Audit Report on Risk Management (08/0742), the Council's risk management procedures have recently undergone a substantial review.

The most significant agreed action that came out of the audit was the development of the Code of Practice for Managing Risk and Opportunity – 'A Sense of Proportion'. This Code of Practice was formally adopted by Audit Committee at its meeting on 22 April 2009. It replaces the previous Policy and Strategy and explains the framework that will operate to ensure that risks are effectively managed.

It states that, as part of the business planning process, Service Heads should record (and manage) any key business risks and report significant ongoing or emerging risks, on an exception basis, through quarterly Performance Review Team reports to PMG, and in 1:2:1s with their Directors.

The types of risks that should be reported are major issues that could affect achievement of strategic objectives, such as;

- Where action plans have been drawn up but aren't working,
- Where there is a need to do something different in order to achieve objectives,
- Where there is something likely to happen in the future that could affect strategic objectives.

The Risk and Insurance Manager is currently working closely with the Corporate Performance Manager to review the significant risks highlighted in Services' Business Plans and to ensure that they are reported within future quarterly PRTs.