



# Corporate Financial Monitoring

June 2010 | Quarter 1

Report of the Head of Financial Services  
Corporate PRT meeting | 17 August 2010  
Cabinet Meeting | 31 August 2010

## HEADLINE INFORMATION

REVENUE	Current (Underspend) / + Overspend	Projected (Underspend) / + Overspend
General Fund	(160,000)	(404,000)
Housing Revenue Account (HRA)	+50,400	+372,600

# CORPORATE FINANCIAL MONITORING

June 2010 | Quarter 1

## 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 30 June 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.

## 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 **£160K** against the budget. This is currently forecast to increase to **£404K** by the end of the year; the forecast underspending would be higher still if some significant shortfalls in income could be avoided. From the information available to date, future years' projections show a potential net underspending of **£153K** – see later sections for details.

VARIANCES	Current £000's	Current Year Projection £000's	Future Years Projection £000's
Major Variances (see section 2.2)	+21	+122	+82
Salaries (see section 2.3)	(181)	(450)	--
<b>Sub Total</b>	<b>(160)</b>	<b>(328)</b>	<b>+82</b>
Restructure Savings (see section 6.1)	--	(76)	(235)
<b>ESTIMATED OUTTURN (NET UNDERSPEND)</b>	<b>--</b>	<b>(404)</b>	<b>(153)</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 June this has been achieved. That said, actions could be taken to improve the Council's position still further.

	£000's
<b>Net Controllable Budget</b>	<b>23,633</b>
2% Target	+/( ) 473
<b>Provisional Controllable Net Underspend</b>	<b>(254)</b>
Percentage of Net Controllable Budget	1%

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. Recommendations regarding the most significant General Fund overspendings are set out below. Members are asked to consider these, as well as considering whether they wish any further actions to be taken on any other areas of overspending identified within the report. It should be noted that actions relating to the HRA are already underway, as outlined later.

**Legal & HR Service : Search Fees** – A proposed change in regulations would no longer allow the Council to charge a fee for providing personal searches, and there is a risk that this change may be applied retrospectively, meaning that Council may have to refund fee income received in recent years. This years' indicative income shortfall is £160K, rising to £194K in future years. It is also anticipated, however, that further legislative changes may well be proposed in due course.

**Recommendation:**

***That for now, it be assumed that the income shortfalls associated with the above be offset by other general underspendings but that a separate report be presented to Cabinet once the future legislative position is clear, setting out the impact the proposed legislative changes will have on the Council, what action has been taken and whether there are any options for the future.***

**Regeneration & Policy Service : Regeneration Team** – the gross shortfall in income is projected to be £83K for this and future years. The team was established on a permanent basis by Cabinet on 01 September 2009, on the proviso that external funds are sought on an ongoing basis to offset the Council's associated costs. In addition, the project implementation reserve would also be used to underwrite costs in the interim, for times when external monies were not secured. However, there is now insufficient monies in the reserve to cover the current shortfall in income, which has resulted from the NWDA withdrawing operational funding for partner organisations in this and future years.

**Community Engagement : Projects Team** – the same report referred to above also established the projects team under the same funding proviso. At present the shortfall in funding for this team will be £165K rising to £172K in future years. Again, the NWDA was the main source of assumed funding for the team. Whilst it is anticipated that funding will be provided to the emerging Lancashire Enterprise Partnership, of which the Council will be a partner, this is unlikely to be in place until April 2011 and there are no guarantees in terms of successful funding bids.

**Recommendation:**

***That a report be presented to Cabinet setting out how the current shortfall in funding can be addressed and what assurances can be provided in respect of future funding, or what action will be taken if either cannot be achieved.***

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## 2.2 Major Budget Variances

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**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
<b>REPORTED VARIANCES :</b>	<b>( ) Favourable / + Adverse</b>		
Democratic Services	+4	(1)	0
Legal & Human Resources	+7	+155	+189
Financial Services	(39)	(96)	(65)
Information Services	(10)	(20)	(10)
Environmental Services	(6)	(50)	(88)
Property Services	+46	+9	(63)
Health & Strategic Housing	+5	+39	+39
Community Engagement	+46	+34	+23
Regeneration and Policy	+21	+99	+85
	<b>+74</b>	<b>+169</b>	<b>+110</b>
<b>VARIANCES NOT REPORTED TO PRT MEETINGS :</b>			
Property Services	(53)	(212)	(200)
Community Engagement	0	+165	+172
<b>TOTAL VARIANCES</b>	<b>+21</b>	<b>+122</b>	<b>+82</b>

### Variations not reported to PRT meeting

The first item (relating to Property Services) is in respect of the latest forecast for Concessionary Travel costs, which was only received from Lancashire County Council at the end of July. The forecast shows that there could be an underspend of approximately £212K by the end of the year.

The second item relates to external funding for the Projects Team in the Community Engagement Service, and is covered in the recommendations set out in section 2.1 above.

### 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	Variations to Date £000's	Current Year Projection £000's	Future Years Projection £000's
One-off windfalls & unforeseeable savings	(42)	(157)	(50)
Demand led variances	+37	+220	+172
Efficiency savings	(56)	(94)	(98)
Service changes & reductions	+15	+94	+77
Budget setting issues / errors	(27)	(53)	(101)
Other variances	+94	+112	+82
<b>TOTAL</b>	<b>+21</b>	<b>+122</b>	<b>+82</b>

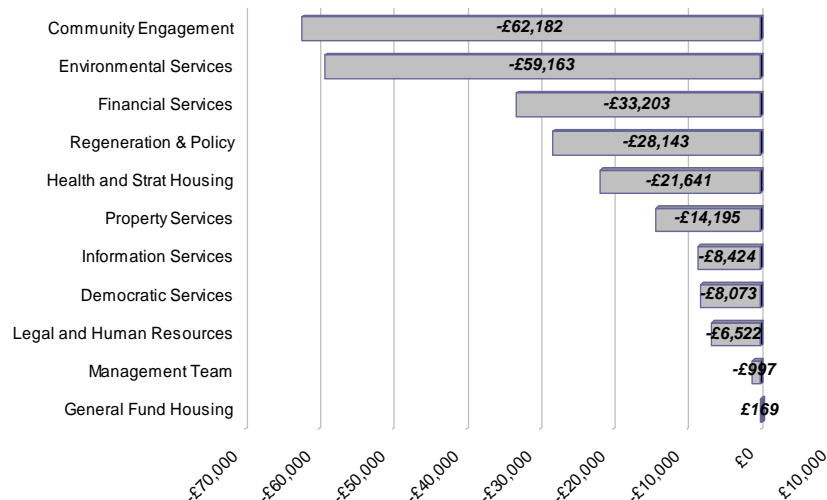
In terms of future years, the above analysis does not include any projection as yet in respect of on-going salary savings as consideration will need to be given to the impact of the current Fair Pay review for "red book" employees and the further review of the current pay and grading structure, as well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

To date total savings of £254K have been achieved, which is some **£181K** above the £73K profiled turnover target, and only £38K below the full year target of £292K. The savings to date do include £25K in respect of the estimated pay award that was budgeted at 0.5%. At present, the local government employers' position is that any increase in pay for 2010/11 is unaffordable and as such they are not prepared to enter into negotiations.

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



Significant savings have been achieved in Community Engagement (15 vacancies) and in Environmental Services in Grounds Maintenance (8 vacancies) and Street Cleansing (3 vacancies). Whilst it is anticipated that the current level of vacancies will reduce it is safe to say the turnover target will be exceeded by some margin. Even if the savings reduced back to the level experienced in 2009/10 then total savings for the year would exceed the target by approximately £350K, plus a further £100K for the pay award savings, based on the current employers' position regarding the 2010/11 pay award. On this basis, £450K additional savings are assumed in the current year's forecast.

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## 2.4 Budgeted Savings Targets

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There are four main savings targets included in the 2010/11 budget:

- Salt Ayre Sports Centre £22.7K – This relates to the savings not achieved in 2009/10 which have been carried forward into 2010/11, and are in addition to the £120.8K already required for this financial year. At present, there is considerable uncertainty as to whether the targets will be met based on current performance, and officers are now meeting to determine what measures need to be put in place to ensure they are.
- Revenues staffing £21.6K – current staff savings will ensure the target is met.
- Public Conveniences £45K – current staff savings will ensure the target is met.
- Marketing and Communications review £61K – the process to consolidate budgets has started and a review of service requirements is currently underway with a view to rationalising spend and identifying sufficient savings by the end of September.

All other savings proposals, approved as part of the 2010/11 budget setting process, have already been clearly identified within the budget.

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## 2.5 Government Revenue Funding Cuts

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Recent funding reviews by the Government have seen some significant cuts in funding for Local Government. A total of £6.2BN efficiency savings have been identified of which £1.165BN relates directly to reduced funding for authorities. Whilst this seems significant the actual impact on the council is very minor, as can be seen from the following table.

<b>Grant Name</b>	<b>Original Allocation</b>	<b>Revised Allocation</b>	<b>LCC Budget Estimate</b>	<b>Budget Shortfall</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Housing Planning & Delivery Grant	0	Withdrawn	0	0
Connecting Communities (2 <sup>nd</sup> Yr)	0	Withdrawn	0	0
LABGI	0	0	0	0
ABG Cohesion	114,000	96,000	98,700	2,700
Future Jobs Fund (2 <sup>nd</sup> Yr)	0	Withdrawn	0	0
<b>Total</b>	<b>114,000</b>	<b>96,000</b>	<b>98,700</b>	<b>2,700</b>

It should also be noted that the Government has also withdrawn part of the 2<sup>nd</sup> year free swimming grant for the over 60's, although funding for 1 April to 31 July 2010 scheme running costs will still be honoured. The loss of grant will be cost neutral in terms of the budget position on the assumption that take-up will revert back to pre-grant levels with relevant expenditure budgets reducing and fees and charges income targets increasing back to their original level.

Furthermore the table does not include the Performance Reward Grant, which has been reduced by half with only the first tranche being honoured. A revenue grant allocation of £239K was received during 2009/10 and transferred into an earmarked reserve pending allocation during the current year. Spend has not yet been committed against this funding however, and therefore no budget shortfalls should arise.

### 3 GENERAL FUND CAPITAL PROGRAMME

#### 3.1 Capital Expenditure

At the end of June there was spend and commitments of £1.7M against the programme of £17.781M, which has been updated for slippage from 2009/10 (approved in July). The 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:

- An update of the capital programme is required following purchase of vehicles under delegated authority of the Head of Financial Services.
- A number of schemes are still being worked up in detail and are pending, prior to actual work going ahead (e.g. Salt Ayre, playgrounds, toilet works, Platform improvements, IT applications, Xmas lights, Promenade frontage, and Denny Beck Bridge).
- The municipal building works programme is currently putting some large items out to tender but the major works have yet to begin.

#### 3.2 Capital Financing

##### Capital Receipts

A total of £1.856M is required to finance the 2010/11 capital programme. The Head of Property Services has reviewed the proposed receipts for the current year and has recommended that the forecast remains unchanged.

##### Government Capital Funding Cuts

As mentioned in section 2.5, the Government has halved the Performance Reward Grant allocation with only the first tranche being honoured. A capital grant allocation of £239K was received in 2009/10 and has now been rolled forward into the current year pending allocation. The capital programme will be grossed up for the new schemes and funding when approval has been given.

### 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 **£50K** against the profiled budget, which is currently projected to increase to **£373K** 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	+50	+373	+564
<b>ESTIMATED OUTTURN (NET OVERSPEND)</b>	<b>--</b>	<b>+373</b>	<b>+564</b>

The main variance relates to the Responsive Maintenance account which has seen costs increase by 18% since 2008/09. The current position shows an overspend of £41K, and if this is not addressed then it is projected that there will be a total overspend of £373K by the end of the year, rising to £564K in future years. Clearly this is unsustainable for the HRA, which only maintains a minimum of £350K in unallocated reserves. There was an overspend of £354,500 on the same account in 2009/10 and this has been specifically referred on to Budget and Performance Panel for review as part of their current work programme.

Council Housing has now been merged with Health and Strategic Housing and the new Head of Health and Housing has already drawn up a number of immediate actions to be implemented which include the following. The outcome, together with any Member decisions needed, will be reported to Cabinet in due course:

- Closer working between Financial Service and RMS, including regular monthly monitoring meetings and improved reconciliation arrangements.
- RMS to provide analysis of the reasons for the 2009/10 overspend and identify what can be done to reduce costs.
- Cease the use of external contract staff for void repairs and only use in-house staff.
- Review of partnership arrangements for capital works.
- New operations manager to start in September and will be tasked with reducing spend on repairs.
- Financial management training to be provided to all spending officers.

#### 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.

<b>FACTORS INFLUENCING VARIANCES</b>	<b>Variances to Date £000's</b>	<b>Current Year Projection £000's</b>	<b>Future Years Projection £000's</b>
One-off windfalls & unforeseeable savings	0	0	0
Demand led variances	+41	+374	+564
Efficiency savings	0	0	0
Service changes & reductions	(18)	(20)	0
Budget setting issues / errors	0	0	0
Other variances	+27	+19	0
<b>TOTAL</b>	<b>+50</b>	<b>+373</b>	<b>+564</b>

#### 4.2 Council Housing Rent Collection

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

<b>Total Estimate for Year</b>	<b>£11,717,900</b>
Profiled Budget	£2,687,054
Actual to Date	£2,688,742
<b>Difference</b>	<b>£1,688</b>

#### 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 £1.272M against a budget of £4.269M (including slippage from 2009/10) leaving a balance of £2.997M.

	<b>Current Approved Programme £000's</b>	<b>Spend &amp; Commitments to Date £000's</b>	<b>Budget Remaining £000's</b>
Adaptations	250	85	<b>165</b>
Energy Efficiency / Boiler Replacement	591	150	<b>441</b>
Kitchen / Bathroom Refurbishment	1,099	139	<b>960</b>
External Refurbishments	1,317	524	<b>793</b>
Environmental Improvements	486	372	<b>114</b>
Window Replacement	224	0	<b>224</b>
Rewiring	83	0	<b>83</b>
Fire Precaution Works	200	1	<b>199</b>
Central Control	19	1	<b>18</b>
<b>TOTAL</b>	<b>4,269</b>	<b>1,272</b>	<b>2,997</b>

## 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 (29.6%). Likewise, the position is similar for NNDR with 31.4% having been collected at the same time last year, although this is partly as a result of Council payments being credited within the June quarter, which boosts performance. It is however pleasing to report that overall performance is still being maintained whilst action is being taken to reduce costs by not filling vacant posts.

Percentage Collected	2009/10	2010/11	2010/11	2010/11	Status
	%	%	Target	Actual	
			%	%	
	All Years		In Year		
Council Tax	27.19	27.23	97.0	29.8	On Target
Business Rates	31.47	25.65	98.2	32.4	On Target

### 5.2 Collection Fund Monitoring

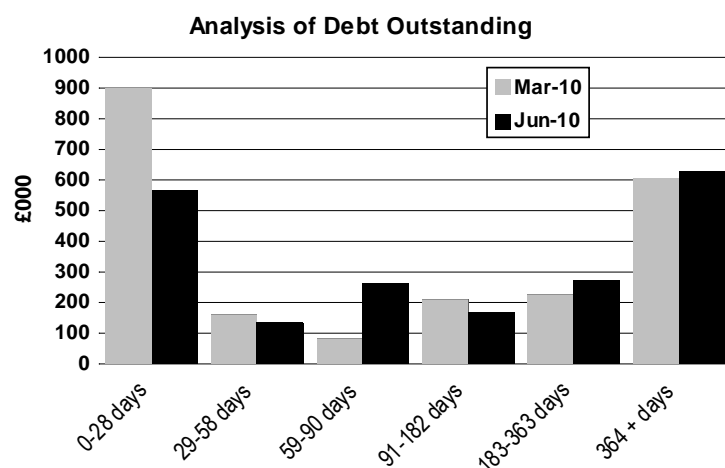
This section sets out the latest position on the Collection Fund, in particular in relation to Council Tax. Whilst the above section looks at collection performance, this section shows the current surplus or deficit on the Fund. It basically compares the amounts collectable with the Precepts levied by the relevant authorities after allowing for refunds, bad debt provisions, income collected and Council Tax benefits. The monitoring shows that at the end of June the Fund was in surplus by £540K, but it should be noted that the surplus can fluctuate significantly month by month. For information, the equivalent value for June 2009 was a surplus of £365K 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 £70K. The position will formally be assessed in January when the Council Tax base for 2011/12 is set. At that point in time any surplus or deficit will be notified to the relevant precepting bodies for inclusion in their 2011/12 budget.

### 5.3 Sundry Debts

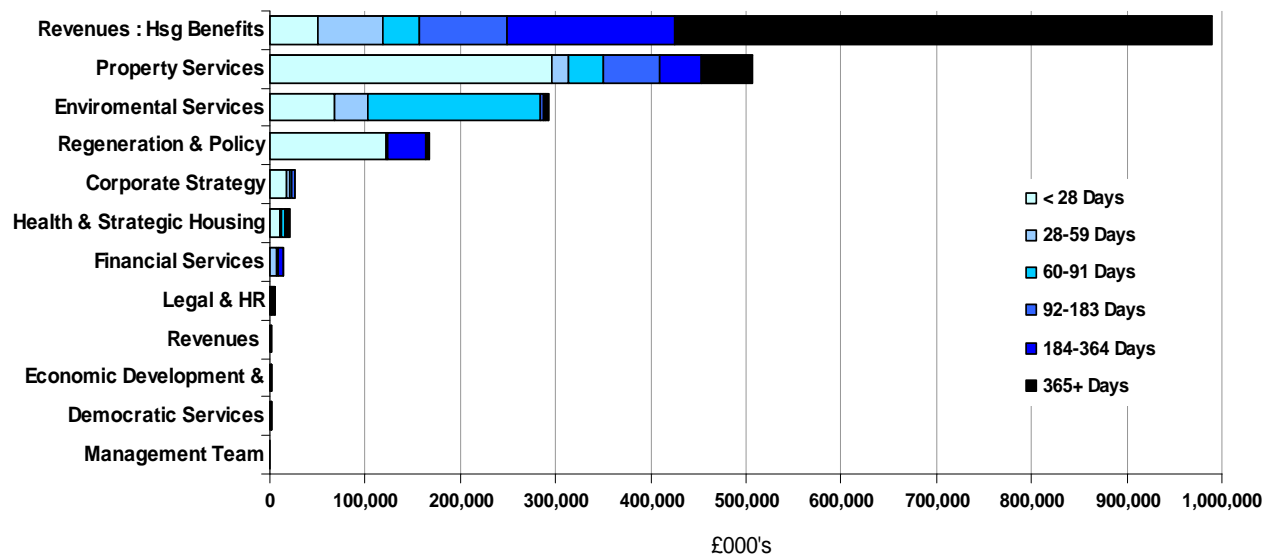
This section sets out the latest position on the level of outstanding sundry debts (excluding Council Housing). At the end of June the total debt outstanding was just over £2M, which is £240K more than the same period last year.

The level of debt over 1 year old has increased in the last quarter to 31% (28% last quarter) of the total outstanding debt. However, the total value of all debt over 3 months old has reduced slightly by £23K from the previous quarter.



	Mar 10	June 10
	£000's	£000's
0-28 days	905	569
29-58 days	157	131
59-90 days	79	261
91-182 days	210	165
183-363 days	226	272
364+ days	608	630
	<b>2,186</b>	<b>2,028</b>
Previous Year	2,564	1,788





For information, a full review of debt over 6 months old will be provided as part of the Qtr 2 financial monitoring report.

## 6 PROVISIONS AND RESERVES

This section provides an 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. The following table shows the approvals to date and any forthcoming recommendations, as they relate to General Fund:

Restructuring Reserve		Annual Savings Generated	Comments
£		£	
<b>Balance as at</b>	<b>31 March 2009</b>		
	<b>(943,100)</b>		
<i>Personnel Cttee 26 March 09</i>	63,600	<b>30,200</b>	
Corporate Strategy Restructure			
<i>Personnel Cttee 30 July 09</i>	56,900	<b>15,500</b>	Annual saving rises to £32K after 2011/12.
Management Team PA Restructure			
<i>Personnel Cttee 30 July 09</i>	13,500		
Senior Management Restructure			
NWEO Fees (referred to Cabinet)			
<i>Personnel Cttee 12 January 2010</i>	353,030	<b>140,000</b>	Rising to £134K from 2011/12 onwards.
Community Engagement			
Regeneration and Policy	217,616	<b>134,700</b>	£171K on-going saving.
<i>Cabinet 19 January 2010</i>	(720,000)		
Additional Contribution			
<i>Personnel Cttee 02 March 2010</i>	122,117	<b>39,900</b>	£41K on-going saving
Revenues Management			
Community Engagement	162,522	<b>70,700</b>	£72K on-going savings
<b>Balance as at</b>	<b>31 March 2010</b>	<b>431,000</b>	<b>Built into 2010/11 Budget</b>
Community Engagement : Payment in lieu adjustment	(7,863)		
<b>Quarter 1 Approvals</b>			
<i>Personnel Cttee 25 May 2010</i>	97,243	<b>19,200</b>	Rising to £25K from 2011/12 onwards.
Revenues Management - w.e.f. 30/06/10			
Management Team - w.e.f. 30/09/10	287,752	<b>99,600</b>	Rising to £206K from 2011/12 onwards
Democratic Services - w.e.f. 30/09/10	85,883	<b>35,100</b>	Rising to £58K from 2011/12 onwards
<b>Balance as at</b>	<b>30 June 2010</b>	<b>153,900</b>	<b>Additional 2010/11 Savings</b>
		<b>584,900</b>	<b>Total Savings</b>

It should be noted that the total savings generated are only in respect of the approvals shown above. These do not include other estimated senior management restructure costs or savings relating to the management development fund, senior officer pay review, appointments at the top of grade or additional recharges to the Housing Revenue Account relating to the new Head of Health and Housing post. When account is taken of these estimated costs and savings the total net savings figure reduces to £507K, which is still £76K more than is currently budgeted for in 2010/11, and £235K more than budgeted for future years.

Overall the senior management restructure itself is estimated to save in the region of £1.9M between 2010/11 and 2012/13, and around £650K annually thereafter.

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## 6.2 Insurance Provision

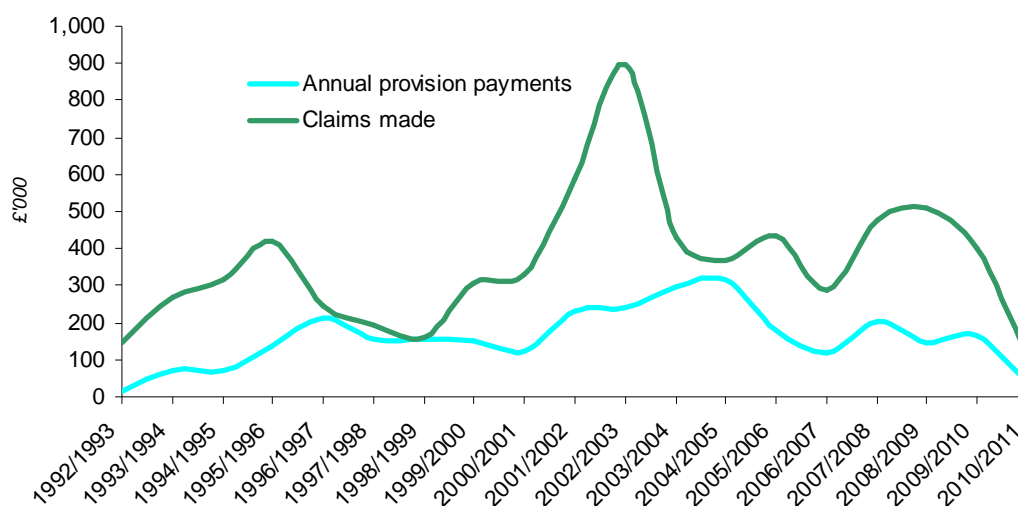
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The current balance on the insurance provision is £373K, after making net payments of £45K in settlement of claims made.

At present, the Council's insurers estimate that the value of claims outstanding is £475K, which relates to a total of 255 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 £275K, which is £98K 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.**




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## 6.3 Bad Debt Provision

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The Bad Debt provision is formally reviewed half yearly at revised estimate time and closedown. However, 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:

<b>Period</b>	<b>Debt £000's</b>	<b>% Cover Required</b>	<b>Value £000's</b>
Up to 1 Month	569	1%	6
1 Month to 3 Months	392	5%	20
3 Months to 365 Days	437	10%	43
Over 365 Days	630	50%	315
<b>TOTAL</b>	<b>2,028</b>		<b>384</b>

The current balance on the Bad Debt provision is £462K which is £78K above the requirement indicated, but that is after allowing for this year's contribution of £100K.

## **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 recently approved 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 is that of funding cuts and the impact these may have on services and the Council's overall direction – whilst this risk is appreciated, there is no way yet of understanding its likely scale. Again though, various measures to help manage the position are underway, such as undertaking the reviews of discretionary and statutory service levels, considering shared service opportunities and completing the senior management review etc. Over the next quarter, such measures need to be consolidated, to ensure they fit well together and provide a clear direction to inform budget and planning processes. This will be covered in future reports.