

Report to: **Executive**  
Date: **4<sup>th</sup> April 2006**  
Report of: **Director of Finance and Corporate Services**  
Subject: **General Fund/Housing Revenue - 2005/2006 Monitoring Statement**  
Ward: **All**

## **1.0 Purpose of Report**

1.1 To advise members on the financial position for the period 1<sup>st</sup> April 2005 to 28<sup>th</sup> February 2006.

## **2.0 Consultation**

2.1 Consultation has taken place with senior staff in the Financial Management Unit and through the process budget holders.

## **3.0 Process**

3.1 Budget holders are required to carry out a monthly exercise of examining their spending and the attached appendices/statements reflect the forecasted position to the 31<sup>st</sup> March 2006.

## **4.0 Revised Forecast Position - General Fund**

4.1 Members are asked to note that whilst the last monitoring report was presented to Executive last December, in the budget setting process for 2006/7 we revised the 2005/6 position using monitoring data from last December.

4.2 Appendices 1/1 and 1/2 show the projected position on a directorate basis. Reasons for the larger variations are contained in the table below.

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4.3 At the end of February the summary is showing a net under-spend/efficiencies of £822,780 an increase of just under £120,000 since December.

4.4 The overall Directorate position outlined in Appendix 1/2 which is showing an under-spend position of around £379,000 which has steadily increased over the last 4 months.

4.5 In addition to the above miscellaneous items (appendix 1/2) shown under the Directorate total indicates under-spends/efficiencies of around £440,000 an increase of £70,000 mainly attributable to further investment income and reduced borrowing costs.

4.6 The material savings are set out in the table below but the graph shows they have risen sharply since October and a detailed analysis of the position will be carried out at accounts closure.

4.7 A more satisfactory position would be budget coming in on target but in saying that around £500k is attributed to in year opportunities rather than poor estimating. Additional savings in loan charges are as a result of my treasury management officer recognising and taking advantage of an opportunity within the capital regulations to secure further savings of £328,000. A further £80,000 in investment income was achieved due to an improved year-end position and due to a delay in East Durham

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Homes moving off this site additional rental income of £80,000 has been secured. This amounts to just under £490k. If the above opportunities had not materialised the under-spend would equate to around 2.2% of net budget, which is more reasonable.

Table of material savings

Description	Amount £000's	Comments
Investment Income	87	See para. 4.7
Savings in loan charges	357	As above
Planned move off site delayed - EDH	80	Additional rental income
Regeneration and development	204	Salary savings
Finance and Corporate Services - Revenues	23	General savings
- Benefits	91	Improved subsidy position
- Dem. Services	56	Mainly delay in software implementation (£30k) + salary savings.
Offset by compensation from contract buy out	(100)	
<b>Total (Net)</b>	<b>798</b>	

- 4.8 At this stage the support services under-spend has increased by around £20,000 to just under £150,000. (Appendix 2).

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- 4.9 I'm pleased to report that the Council received around £408,000 in respect of the above scheme. Due to the uncertainty around payment and the amount I did not budget for this in the 2006/7 budget but members will recall a briefing note I distributed. The grant is calculated from increased growth in our business rates base. The Government and the Districts and County councils share the incentive to some degree.

- 4.10 LABGI recognises that council's if successful in attracting inward investment there can be an effect on general council services as well as economic development and planning.

- 4.11 The grant is not specific and therefore the council can use it as it wishes. For the time being I propose to earmark it until the Council decides a use.

#### 4.12 General Fund Balance

- 4.12.1 Appendix 3 illustrates the effects of the above on the reserve position, which has been revised to reflect the improved 2004/5 out-turn position.

- 4.12.2 The revised forecast reflects the savings identified above and the starting position for 2005/6 following closure of the accounts for 2004/5. Currently the forecast is showing an uncommitted balance of just over £3.4m estimated to 31/3/2006. This compares to an estimated balance of, £3.4m. at the time the budget was agreed. The latest position reflects use of reserves to the value of £1.5m, which was recently approved by Council.

#### 5.0 **Housing Revenue Account (HRA)**

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- 5.1 When the 2005/6 budget was agreed members will recall that we set a surplus budget to take account of some potential un-quantified risks facing the Council. The surplus was to be reviewed during the year. I'm pleased to report that the improved subsidy out-turn will mitigate an element of the risk leaving some of that surplus in tact for the time

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being. However difficulties have emerged during the year, which are being finalised and I expect to have to finance an additional £548k of revenue spend from reserves.

- 5.2 The position seems to have arisen due to repairs being required which were originally in the capital programme however the nature of the repairs could not be classified as capital under the regulations and therefore have to be financed from revenue, which in turn causes a difficulty. In addition to the above additional works have been requested to bring voids back into use, which of course in the longer term increases available stock and indeed rent income. On the flip side the move from capital to revenue has freed up around £400k of capital resources, which is being utilised to provide a planned programme of door replacements.
- 5.3 Whilst we are grappling with the above issue we cannot treat the position in isolation and need to take a longer-term view of the plans in place and those emerging. In addition to the above a 3 star strategy is being pursued by the Company with the use of capital and reserves amounting to £1.6m. Whilst the above position seems disappointing from a control perspective the money needed to be spent on the stock otherwise we may have had to ration repairs. However on a very encouraging note members may recall that we set aside £750k of the £1.6m to deal with change management issues in connection with the workforce. I'm informed by East Durham Homes that this will no longer be needed due to the staff being retained.
- 5.4 In addition to the above I'm conscious that East Durham Homes are in the process of having budgets approved by their Board and are preparing a business case for the next 5 years, which will need additional investment. In the short term the investment will be required to pump prime service improvements until full year efficiencies are secured and also for preventative maintenance work to minimise reactive maintenance spend and secure re-deployment of in-house maintenance operatives following outsourcing 1/3 of the maintenance work in July 2006. Although the detail is not expected until mid April I expect the proposals to amount to around £1.4m the majority of which would be met from reserves if approved by members.
- 5.5 Clearly from the above there are a number of initiatives ongoing which impact on the financial position. In view of this with members permission I'm proposing that the situation is reviewed at year-end to take account of emerging issues and take a view on the overall reserve position. From the above we can see that budget pressures have emerged around repairs but on the other hand elements of the 3\* strategy, are not expected to cost as much as expected. It therefore seems sensible to draw a line at year-end, up date the overall position and establish the next stage.
- 5.6 To allay any fears I can inform members at this stage that after the review I expect our strong position to be maintained.
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- 5.7 The summarised position for the HRA is set out in Appendix 4 and 4/1
- 5.8 Prior to considering the position of the HRA we need to take account of the starting position whereby the year-end position showed an improvement of around £1.4m when compared to the original budget for 2004/5. As reported in the Out-turn report the improved position was due to increased subsidy and revenue receipts from small asset disposals.
- 5.9 Members will also recall that for 2005/6 we budgeted for a surplus of just under £800k because at the time we had to mitigate a number of risks and the East Durham Homes management fee was not finalised.

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- 5.10 At a previous meeting I reported additional income of £180k in respect of interest earned and a reduction in the bad debt provisions. Since that report we are now forecasting a further £25k improvement in the bad debt provision as a result of the improvement in rent recovery. This gain is offset by a fall in rent income of £200k due to higher than anticipated sales.
- 5.11 Taking into account the repairs capitalisation issue the net effect of the monitor is that the surplus has reduced to around £300k, this is still a reasonable position considering the issues we are facing.
- 5.12 In summary the reserve position is estimated to be £2.7m at the year-end although the position will move again taking account of the emerging issues on the account.
- 5.13 Although there are issues to be dealt with the account appears to be stabilising and members will recall that within the Management Fee for 2006/7 we have taken account of what is becoming an annual issue around repairs. In conjunction with this a repairs strategy introduced during the year is expected to stabilise the position from a demand perspective.
- 5.14 In considering the position we also need to ensure the future base budget position is sustainable. Currently consultants are reviewing our stock options again and some of the data will be useful to examine stock reduction trends/rental streams and enable us to project a picture of what the account looks like in the medium term.
- 5.15 Clearly one off subsidy income has been the main factor in strengthening the HRA reserve position but also the year on year position has changed following the subsidy review. The outlook is now much more optimistic in contrast with that over the last few years but clearly the position needs to be monitored closely.

## **6.0 Implications**

6.1 **Policy**  
None

6.2 **Financial**  
Any financial implications are included above but broadly the report is for information.

6.3 **Legal**  
None

6.4 **Risk**  
None, existing systems are controlling the overall budget position.

6.5 **Communications**  
None

6.6 **Corporate Implications**  
None

6.7 **E Government**  
None

6.8 **Procurement**  
None.

6.9 **Equality and Diversity**

None

**7.0 Recommendation**

7.1 The Committee is asked to note the position and await a further report reviewing the situation following closure of the accounts.

**Background Papers**

Budget/Cost tabulations - Financial Management System.

Statements from Budget Holders

Final Accounts Information 2004/5 - Working Papers

Budget Report - Council Extraordinary Meeting 25/02/2005

Out turn Report 5<sup>th</sup> July 2005.

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