

Report to: **Executive Committee**  
Date: **8 April 2008**  
Report of: **Executive Member for Resources**  
Subject: **General Fund/Housing Revenue - 2007/2008 Monitoring Statement**  
Ward: **All**

## **1.0 Purpose of Report**

1.1 To advise members on the financial position for the period ending 29<sup>th</sup> February 2008.

## **2.0 Consultation**

2.1 Consultation has taken place with the Director of Finance and Corporate Services, the Financial Management Unit and through the process, budget holders. The Management Team has considered the key issues within the report.

## **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 2008.

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

4.1 There are no material changes to the overall surplus reported at the end of the 3<sup>rd</sup> quarter. Appendix 1 shows the projected position on a directorate basis with the variations outlined in the footnotes.

4.2 Members are referred to appendix 1/2, which shows a general fund surplus of £1.434m for the period, there is very little change since the last monitor. (Item B). The analysis below that figure indicates that: -

- £447,200 (Item C) was due to re-profiling 'use of reserves' initiatives with some elements of the programme being advanced and others delayed.
- A further £281,450 (Item D) of the under-spend refers to revenue support to the Capital Programme.
- £706,286 (Item E) is attributable to the 2007/8 base budget the main reasons being explained below.

*It is worth mentioning at this point that even though a significant element of expenditure is financed from specific reserves the costs must be included in the overall budget requirement. In monitoring the overall position we need to keep this in mind differentiating between the base budget and use of reserves.*

### **Use of Reserves Initiatives - £1.5m (Item C)**

4.3 This element of the under-spend refers to the programme of projects where approval was given to use £1.5m of reserves in November 2005. The initiatives were profiled over 3 years 2008/9 being the final year. The under-spend is due to schemes being re-profiled or carried forward to 2008/9 and these are included in the 2008/9 budget.

# Item no.

Appendix 5 summarises the position financially as well as giving a commentary on progress.

## **Revenue Support to the Capital Programme (Item D)**

- 4.4 When the capital programme is considered each year a number of initiatives are identified to support the programme where expenditure is of a revenue nature. An example could be the cost relating to a study to determine whether it is feasible to develop and progress a capital scheme. Revenue expenditures of this nature are therefore included in the annual budget and medium term plan.
- 4.5 However members will be aware, particularly where activity is linked to regeneration schemes which lever in external funding, that timescales have to be flexible to ensure resources are in place before expenditure is incurred. Item D in the report refers to budgets of the nature described above which are likely to be incurred in future years. It is important to note that the finance is secured.

## **Base Budget 2007/8**

- 4.6 In terms of the current base budget the material under-spends at this stage are as follows:

Under-spends/savings: -

- Economic development (savings on vacant posts) £81,910
- Increase in investment income £405,000=
- Democratic Services – Savings on vacant posts and election costs £115,360

- 4.7 The increase in interest rates and the improved position on balances at the end of March has seen forecasted investment income increasing by £405,000. It is important to note that this return is heavily influenced by market rates of interest and we have seen the base rate, which currently stands at 5.25%, fluctuate over the last 12 months or so.

- 4.8 The directorate budgets, which exclude items such as investment income, show an under-spend of £306,786 after adjusting for re-profiling the reserve initiatives.

Item A	£1,035,436
Less: Item C	£447,200
Less: Item D	<u>£281,450</u>
	<u><b>£306,786</b></u>

This compares to just over £264,000 at the end of the first quarter.

## **Variance against budget**

- 4.9 In summary the overall base budget for the period is showing a net surplus of £706,286 equating to a variance of just over 3.8% of the agreed budget. This will be slightly reduced in future as costs of the local government review feed in. The variance on directorate budgets equates to around 1.7%.

## **Support Services**

- 4.10 The support service information set out in Appendix 2 is presented slightly differently this year. The statement is split into 2 parts under headings 'use of specific reserves' and

'rechargeable to services.' The reason for the change is that where specific reserves are used to fund support services there will be no re-charge to front line services and therefore these service need to be shown separately.

- 4.11 The lower part of the statement is now showing a potential under-spend of £17,800 compared to an overspend of £40k last month. This was primarily due to an increase general budget savings and increased income in the Democratic Services Unit. To some degree this partly offsets the potential overspend in Personnel Services. (£26,000). Although this position could be mitigated by the end of the financial year should the position remain unchanged then the shortfall of around £9k will be met from the support service reserve.

## **5.0 General Fund Balance/Reserve**

- 5.1 Appendix 3 illustrates the effects of the above on the reserve position. In considering the statement members are reminded that the revised forecast reflects the out-turn position for 2006/7 which also took account of the review of reserves. Within the statement members will see the transfer of earmarked reserves (Use of Reserves), which refers to programmes from the first release of reserves in November 2005.
- 5.2 The revised forecasted balance to the 31<sup>st</sup> March 2008 is £3.96m and reflects the review of reserves reported to Council in December 2007.
- 5.3 This monitor will be the last for 2007/8, the final results will be reported in June.
- 5.4 Over the year we track the monitoring returns in terms of timeliness and we achieved a return rate of 77%, which was just under the target of 80%.

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

### ***Overall Position***

- 6.1 The position on the HRA is very positive but has to be considered in the context of a report to Council last September, which highlighted the need to address a deficit of £1.9m in respect of East Durham Homes together with the fact that we are approaching the end of the financial year and need to clarify outstanding commitments.
- 6.2 Members will recall that in that report a support package was approved to right-size the company and provide further support to achieve a 2 star rating from the Audit (Housing) Inspection service. Linked to that the Council agreed that it was essential to address the deficit in the current year and ensure the Company was financially viable from 2008/9.

### ***Use of Reserves***

- 6.3. In terms of the commitments to date in this financial year the Council agreed to:
- Provide support to East Durham Homes to ensure they achieved the necessary progress to achieve 2 stars in the next inspection. The package consisted of:
    - Audit Commission Support valued at £90k
    - Technical and Legal advice to develop the outsourcing specification, valued at around £150k.
    - Introduction of Choice based lettings – around £30k
    - Tenant involvement support/change management programmes – around £20k.
  - The overall cost of £310k was to be met from the general fund (£235k) and the HRA (£75k).

- 6.3.1 Although very little has been drawn down to date at this stage the amount is ring fenced for use as described above.
- 6.4 In addition to the above £2m was set aside to fund the 'rightsizing of the business. To date £1.4m has been utilised to fund the redundancy and pension costs of phase 1 of the exercise. As there are still outstanding issues the remaining £600k is ring fenced for future reviews.
- 6.5 Whilst not all of the original approval has been fully utilised it is important for commitments to be carried forward into next financial year and this was assumed in the 2008/9 revenue budget where members may recall that we estimated the reserve on the basis that those commitments would be met.

### ***Support - Capital Funding***

- 6.6 It was also agreed to bring forward capital financing from future years in support of the company. Following discussion a sum of £1m was brought forward to increase support on Aids and Adaptations and carry out further work at Deneside. This commitment is being managed and monitored through the capital programme working party.

### ***Budget issues for 2007/8 and 2008/9***

- 6.7 In terms of 2007/8 members may recall that in the last report it was agreed to use the HRA surplus in the current year to meet the remaining funding gap in the Company's finances, which currently stands at £715k. In addition a further £100k was advanced to fund works to void properties to reduce numbers of empty properties and improve turnaround.
- 6.8 The financial sustainability of East Durham Homes was considered as part of the 2008/9 budget where the council was able to increase the management fee by £1.5m. This was considered a significant step towards giving the Company financial stability in the medium term.

### ***Local Government Review***

- 6.9 In view of the local government review it is important to clarify the position and the issues outlined above are contained in the 2008/9 budget plans and our transitional plan in terms of supporting East Durham Homes in their pursuit of a 2 star rating in the next inspection of the housing service.

### ***Current Year Position- 2007/8***

- 6.10 At the end of December the HRA is forecasted to return a surplus of just over £939k for the reasons set out below: -
- Windfall rent income relating to an extra collection week in this financial year. (Reported in the budget report in February 2007). Around £400k.
  - Additional in year rental income due to the estimates reflecting a higher stock disposal rate. Right to buy applications are slowing down with more houses and therefore rent being retained. In addition there have been improvements in void turnaround and rent recovery. The increase in rent income amounts to over £450k.
  - Increased income from Care Services - £32k.
  - Housing subsidy and interest receipts - £57k.

## *Position on reserves*

- 6.11 Referring to appendix 4 the projected reserve position at year end is estimated to be around £1.296m if the proposals outlined above are reflected. However in addition to that outlined above we have claimed additional subsidy of £400k in respect of rental constraint allowance, which is awarded to Council's whose rent increases are constrained by the subsidy system. Unfortunately this will not be confirmed until the Audit Commission has certified the final subsidy claim later this year.

## **7.0 Implications**

- 7.1 **Policy**  
None

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

- 7.3 **Legal**  
None

- 7.4 **Local Government Review**  
The budget monitor in effect related to the 2007/8 budgets and approvals in year. Where it is necessary to carry commitments forward into next financial year they have been reflected in the 2008/9 budget framework and as such are covered by the general consent approved by the Implementation Executive on the 7<sup>th</sup> March 2008.

- 7.5 **Risk**  
The risks are included in the overall financial issues facing the Council and will be mitigated through regular monitoring of the position.

- 7.6 **Communications**  
None

## **8.0 Corporate Implications**

- 8.1 **Corporate Plan and Priorities**  
The proposals are aligned to the Council's objectives and agreed priorities.

- 8.2 **Performance Management and Scrutiny**  
The outcomes are reflected in service plans and will be monitored through the Council's performance management process.

- 8.3 **E Government**  
None

- 8.4 **Procurement**  
None.

- 8.5 **Equality and Diversity**  
None

## **9.0 Recommendations**

- 9.1 The Committee is requested to agree the following recommendations:-

- 8.1.1 To note the contents of the overall monitoring position.  
8.1.2 To confirm agreement to the commitments outlined in the report.

## **Background Papers**

Budget/Cost tabulations - Financial Management System – 2007/8.

Statements from Budget Holders

Final Accounts Information 2006/7 - Working Papers

Budget Report - Council Extraordinary Meeting 25/02/2006 & 21/02/2007.

Report to District Council - Use of General Fund Reserves – 5/11/2005

Review of the Medium Term Financial Plan – Report to Executive December 2007.

THBbudmonoct2007/8