

Cabinet

28th August 2008

Quarter 1 Finance Report – June 2008



Report of Stuart Crowe, County Treasurer [Cabinet Portfolio Member for Resources, Councillor Michele Hodgson]

Purpose of the Report

- 1 The purpose of this report is to review the Council's current financial position and to provide a forecast of the position at the year-end.

Background

- 2 The quarterly finance reports have two purposes:
 - i. To provide information that will provide the link to external reporting requirements at the year-end.
 - ii. To provide a forecast of the likely outturn and therefore provide an opportunity to take appropriate action to deal with under and over spendings in services.

Executive Summary

- 3 The County Council's budgetary statements as at 30th June 2008 forecast that by the year end:
 - i. Services will be over spent by £3.243m, although this is more than covered by the planned use of reserves and contingencies
 - ii. Investment income will be over budget by £3.158m
 - iii. There will be an underlying under spend of £3.505m

Forecast Position

- 4 At this stage of the financial year the outturn forecast for services is an over spend of £3.24m against original budget. Under Non-service specific items it is forecast that the return on short-term investments will exceed the original budget by £3.16m, leading to an overall net outturn position of £0.09m over spend on original budget.
- 5 This is information that will be available in year-end financial reports.

Planned use of Earmarked Reserves

- 6 During the budget setting process, some expenditure was planned to be met from Earmarked Reserves. This was, in the main, to meet the estimated cost of settling equal pay claims.
- 7 During the Final Accounts process, a number of earmarked reserves were created to fund expenditure to be incurred in 2008/09.
- 8 When expenditure is incurred for which a specific reserve exists, services over spend their original budget, but this will be met from the earmarked reserve.

Pressures

- 9 Adult and Community Services (ACS) pressures relate to energy costs (£0.30m) although a contribution to be made to Durham Police Authority as agreed by Cabinet (£0.50m) is included in this total. The contribution is to be met from Reserves.
- 10 Across Children and Young Peoples' Service (CYPS) the most significant issues are BSF Development and Planning Costs (£0.75m), where additional spend in 2008/09 will initially be funded from general reserves and recovered from future year's budgets, and agency placements, Direct payments and transport costs (£0.375m).
- 11 The Budget Plan for DSG in 2008/09 assumed an over spend from the previous financial year of £0.495m would need to be recovered. This is the starting point in the budget book. The actual over spend was only £6,000 and so, in presentational terms, the expenditure against original budget will therefore show as £0.49m over spent during the year.
- 12 Within Environment there are pressures around street lighting energy costs (£0.60m) and fuel costs for public transport (£0.30m).

Savings

- 13 In Adult and Community Services there are a number of areas of under spend, the majority of which are non-recurrent and cannot be considered for future years efficiency savings. The key areas are:
 - Investment from the PCT of £0.85m, the majority of which will be used in 2009/10 and 2010/11.
 - Staff turnover and vacancies resulting in an under spend of £0.67m.
 - Area based grant allocations, which will not be fully expended in 2008/09 resulting in an under spend of £0.55m.
 - Grants have been received in-year that were not in the original budget. This will result in an under spend of £0.40m.
 - Income levels linked to shared packages of care with health partners running approximately £0.30m higher than estimates.

- 14 In CYPS under spends on staffing budgets and maximising of grant income are likely to be around £0.37m.
- 15 Within Environment a number of unfilled vacancies across several areas of the Service are contributing to a likely year-end under spend of £0.50m.
- 16 The forecast return from short-term investments is set to exceed original budget by £3.16m due, in the main, to the relatively high cash balance held by the Council at present. This is due to slower than anticipated spend on areas of the capital programme and equal pay reserves as claims are not yet settled.

Planned remedial actions / Proposals for additional spend

- 17 Within ACS the key issues detailed are mainly fortuitous and cannot be maintained in the long term. Expenditure in relation to care purchase budgets is broadly on target at this stage although the position will be closely monitored throughout the year.
- 18 In CYPS, slippage on employee budgets and maximising of sources of grant funding will be used to offset potential over spending. The combined effect of these issues is expected to allow the overall service budget to be broadly in balance at the year-end (if the BSF development costs are discounted as they are utilising general reserves and being recovered from future year budgets).
- 19 In Environment there are already signs of pressures building in relation to energy costs and other costs affected by fuel and oil based products. These are being partially offset by savings in salaries.

Savings and Efficiencies

- 20 The County Council's priorities are under constant review, and the additional investment commitments and savings are considered as part of the authority's budget setting process. In addition as part of the Comprehensive Spending Review (CSR07) the government is expecting councils to achieve cash-releasing efficiency gains.
- 21 The current forecast is that £5.67m of the total £6.14m service savings identified as part of the budget process will be realised this year.

Capital Budget

- 22 The forecast outturn at this stage projects an under spend of £14.11m against original budget, much of this rolling forward into the budget for 2009/10.

Aged Debt Analysis

- 23 The total outstanding debt figure has decreased in the first quarter of the year, both in value and number of invoices outstanding. This has to

be taken in the context that much of the county council debt is cyclical. A big improvement came in the debt 'over 1 year old' where one invoice of £1.6m was paid.

- 24 The Corporate Income and Debt Management Policy has now been operating for just over a year and it is only now that we are seeing the full benefits, with all debt being fully managed.

Treasury Management and Prudential Indicators

- 25 Since mid 2007 the global credit crisis has led to unusually high interest rates being paid compared to the Bank of England base rate, resulting in increasing returns. However, the rates have now eased back and begun to level off.
- 26 Actual external debt in 2008/09 to 30th June 2008 is within the limits set by the Council.

Recommendations

- 27 It is recommended that:
- i. Members note the financial position of the County Council as at 30th June 2008

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p/reports/ha11-08

Quarter 1 Finance Report

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REVENUE BUDGET SUMMARY

Year to Date Budget	Year to Date Actual	Variance		Original Budget	Projected Outturn	Projected Variance against Original	% Variance Against Original	Revisions to Original Budget
£'000	£'000	£'000		£'000	£'000	£'000		£'000
27,727	33,718	-5,991	Adult and Community Services	161,355	159,926	1,429	0.9%	0
1,022	849	173	Chief Executive	2,080	2,080	0	0.0%	0
133,153	102,699	30,454	Children and Young People's Service	102,214	104,508	-2,294	-2.2%	0
2,618	2,826	-208	Corporate Services	7,164	8,354	-1,190	-16.6%	0
4,467	5,391	-924	County Treasurer and Other Services	-70	442	-512	731.4%	0
9,376	10,078	-702	Environment	63,016	63,692	-676	-1.1%	0
178,363	155,562	22,802	TOTAL	335,759	339,002	-3,243	-1.0%	0
0	0	0	Contingencies	32,509	32,509	0	0.0%	0
0	0	0	Transfer payments (ABG)	3,506	3,506	0	0.0%	0
178,363	155,562	22,802	NET COST OF SERVICES	371,774	375,017	-3,243	-0.9%	0
0	0	0	Capital charges	-17,241	-17,241	0	0.0%	0
0	0	0	Capital financing	21,269	21,269	0	0.0%	0
-961	-1,228	268	Interest and Investment income	-3,842	-7,000	3,158	-82.2%	0
-446	-446	0	Other budgets	-1,783	-1,783	0	0.0%	0
-6,845	-6,845	0	Area Based Grant	-27,380	-27,380	0	0.0%	0
170,112	153,888	23,069	Net Budget	342,797	342,882	-85	0.0%	0
0	0	0	Movement on General Reserves	496	4,001	-3,505	-706.7%	0
0	0	0	Movement on Earmarked Reserves	-22,715	-26,305	3,590	-15.8%	0
170,112	153,888	23,069	Net Budget Requirement	320,578	320,578	0	0.0%	0

Revenue Budget Summary

- 28 Services are currently projecting an over spend on their budgets of £3.24m at year-end.
- 29 Outside of service budgets the current assumption is that we will spend sums held in contingencies for equal pay claims this year, however if this does not happen then there is potential for a large under spend against original budget.
- 30 Interest and investment income are running ahead of projections due to the high value of cash balances held. The current forecast is to bring in additional income of £3.16m over and above that which was budgeted for.
- 31 The net forecast position is therefore an overall contribution to the general reserve of £0.41m, a reduction of £0.09m on original budget.
- 32 However, part of the spending will be financed from earmarked reserves. There is therefore an underlying under spend of £3.505m across service and non-service specific areas.

ADULT AND COMMUNITY SERVICES

Year to Date Budget	Year to Date Actual	Variance		Original Budget	Projected Outturn Position	Variance	% Variance	Revisions to Original Budget
£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
			Employees					
14,870	13,368	1,502	- Direct	62,483	59,740	2,743	4%	0
55	456	-401	- Other	651	2,051	-1,400	-215%	0
14,925	13,824	1,101	Total Employees	63,134	61,791	1,343	2%	0
1,049	871	178	Premises	4,867	5,740	-873	-18%	0
784	561	223	Transport	4,507	4,402	105	2%	0
1,710	1,099	611	Supplies & Services	10,040	10,359	-319	-3%	0
30,638	29,305	1,333	Agency & Contracted	144,034	144,317	-283	0%	0
0	0	0	Transfer Payments	0	0	0	0%	0
0	0	0	Central Support	7,067	7,067	0	0%	0
0	50	-50	Other	0	203	-203	0%	0
54	0	54	Capital Charges	1,178	1,178	0	0%	0
49,160	45,710	3,450	GROSS EXPENDITURE	234,827	235,057	-230	0%	0
			Income					
4,505	1,779	-2,726	- Specific Grants	15,958	16,625	667	4%	0
9,287	3,758	-5,529	- Other Grants & conts	20,670	21,275	605	3%	0
90	104	14	- Sales	367	412	45	12%	0
6,923	5,515	-1,408	- Fees & charges	32,540	32,470	-70	0%	0
612	629	17	- Recharges	3,867	4,098	231	6%	0
16	207	191	- Other	71	251	180	254%	0
21,433	11,992	-9,441	Total Income	73,472	75,131	1,659	2%	0
27,727	33,718	-5,991	NET EXPENDITURE	161,355	159,926	1,429	1%	0

Adult and Community Services

- 33 Adult and Community Services continue to operate in a dynamic environment yet at the same time the Service is becoming more sophisticated in monitoring and forecasting both commissioning activity and financial outturn.
- 34 A detailed base budget building process ensures that there is confidence in understanding the current financial position. At this stage of the year however a range of assumptions have had to be made to estimate a forecast of outturn. These assumptions will be monitored on a monthly basis to ensure that forecasts continue to be as accurate as possible.
- 35 At this stage of the financial year the service is forecasting an under spend of £1.9million (1.2%) against a revenue budget of £161.4m. The majority of this under spend relates to a range of one off issues which are non recurrent and cannot be considered for future years efficiency savings. The key issues are as follows:
- During the restructure process with CYPS a number of posts were left vacant to safeguard staff. The majority of posts are now filled but are often being filled internally. This is resulting in higher than expected levels of staff turnover. A number of posts in some services are also being left vacant linked to LGR. In total the forecast under spend in £320,000.
 - The Service received confirmation in March that increases in Area Based Grant allocations could be expended within the Service. Investment plans are now in place and being actioned for this funding. Naturally all of the funding will not be expended in 2008/09. There is also some slippage in relation to growth linked to the Day Service Improvement Programme. In total the under spend for these areas will be £550,000.
 - General vacancy levels in social work teams (especially in Mental Health) and in day centres are running at higher than estimated levels. Under spends in this area are estimated to be £350,000.
 - Income levels linked to shared packages of care with health partners are running higher than original estimates. An over recovery of income is estimated of £300,000.
 - A one off investment of £850,000 has been received from the PCT for Health Improvement in the County. Investments against this sum will be decided in partnership, although the majority of investment is expected in 2009/10 and 2010/11, resulting in a significant under spend in 2008/09.
 - The key issues detailed above are mainly are fortuitous and cannot be maintained in the long term. Expenditure in relation to care purchase budgets is broadly on target at this stage although the position will be closely monitored throughout the year.
 - The capital budget is forecast to under spend by £5.4million. This under spend results from delays in formulating the plans for investing in our in house residential homes (£4million) and delays in taking forward a range of smaller schemes.

36 The estimate of outturn is based upon the Original Budget. At this stage of the year the service is forecasting an underspend of £1.9 million (1.2%) against an original budget of £161.4 million. Progress against achieving the savings target of £2.6 million is strong with £180,000 at risk of not being achieved.

37 Further detail in relation to the forecast of outturn is provided below:

Employees

38 During the restructure process with CYPS a number of posts were left vacant to safeguard staff. The majority of posts are now filled but are often filled internally. This is resulting in higher than expected levels of staff turnover. A number of posts in some services are also being left vacant linked to LGR. In total the forecast under spend is £320,000.

39 The service received confirmation in March that increases in Area Based Grant allocations could be expended within service. Investment plans are now in place and being actioned for this funding. Naturally all of the funding will not be expended in 2008/09. There is also some slippage in relation to growth linked to the Day Service Improvement Programme. In total the under spend for these areas will be £550,000.

40 There is a £500,000 forecast under spend in the home care provider linked to current activity levels. A corresponding overspend is occurring in the external home care purchase budgets where activity levels are higher than forecast.

Premises

41 A reserve was created in 2007/08 of £648,000 to enable investment in the internal environment of in house residential homes. The expenditure of this reserve will show as an over spend in 2008/09.

42 The cost of energy has increased significantly since the original budget was set. The over spend in this area is expected to be £125,000.

Transport

43 The key under spend relates to car allowances especially in home care where activity is below estimated levels due to lower numbers of staff.

Supplies and Services

44 There are no significant ongoing pressures in this budget. The overspend relates to activity funded by grants which were not included in the original budget and imbalances in relation to where growth was placed in the budget and where it is actually being expended.

Agency and Contracted Services

45 At this stage of the year care purchase, especially in Learning Disability and Older Persons' services is close to budgeted levels. This will be monitored closely however, as small increases in percentage activity can have a significant impact upon the overall position.

- 46 In addition a £0.50m contribution was agreed by Cabinet to be made to Durham Police Authority.

Income

- 47 Income levels linked to shared packages of care with health partners are running higher than original estimates. An over recovery of income is estimated of £300,000.
- 48 A one off investment of £850,000 has been received from the PCT for Health Improvement in the County. Investments against this sum will be decided in partnership, although the majority of investment is expected in 2009/10 and 2010/11, resulting in a significant under spend in 2008/09.
- 49 Grants have been received in-year that were not in the original budget. This will result in an under spend of £400,000.

CHIEF EXECUTIVE

Year to Date Budget	Year to Date Actual	Variance		Original Budget	Projected Outturn Position	Variance	% Variance	Revisions to Original Budget
£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
927	820	107	Employees					
19	15	4	- Direct	3,610	3,610	0	0%	
			- Other	157	157	0	0%	
946	835	111	Total Employees	3,767	3,767	0	0%	0
5	-3	8	Premises	26	26	0	0%	
6	2	4	Transport	30	30	0	0%	
201	111	90	Supplies & Services	882	882	0	0%	
0	0	0	Agency & Contracted	0	0	0	0%	
0	0	0	Transfer Payments	0	0	0	0%	
0	0	0	Central Support	888	888	0	0%	
0	0	0	Other	0	0	0	0%	
0	0	0	Capital Charges	0	0	0	0%	
1,158	945	213	GROSS EXPENDITURE	5,593	5,593	0	0%	0
			Income					
11	8	-3	- Specific Grants	231	231	0	0%	
485	462	-23	- Other Grants & conts	646	646	0	0%	
0	0	0	- Sales	0	0	0	0%	
0	0	0	- Fees & charges	0	0	0	0%	
0	0	0	- Recharges	2,579	2,579	0	0%	
14	1	-13	- Other	57	57	0	0%	
510	471	-39	Total Income	3,513	3,513	0	0%	0
648	474	174	NET EXPENDITURE	2,080	2,080	0	0%	0

Chief Executive

Executive Summary

50 To date the CEO has under-spent by £0.17m compared to the profiled budget, which is mainly due to under spends on staffing and supplies and services. Actual expenditure is forecast to be in line with budget at the year end.

Employees

51 The under-spend of £0.11m to date is mainly due to vacant posts and non-payment of the pay award, an allowance for which has been made in the budget.

Supplies and Services

52 The under-spend of £0.09m to date is mainly due to the timing of payments. It is anticipated that actual expenditure will be in line with budget at the year end.

CHILDREN AND YOUNG PEOPLE'S SERVICE (DSG)

Year to Date Budget	Year to Date Actual	Variance		Original Budget	Projected Outturn Position	Variance	% Variance	Revisions to Original Budget
£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
			Employees					
71,173	66,730	4,443	- Direct	259,694	259,894	-200	0%	
6,727	1,951	4,776	- Other	10,798	10,798	0	0%	
77,900	68,681	9,219	Total Employees	270,492	270,692	-200	0%	0
9,308	4,020	5,288	Premises	21,127	21,327	-200	-1%	
1,135	365	770	Transport	1,749	1,749	-0	0%	
43,885	21,080	22,806	Supplies & Services	48,967	49,057	-90	0%	
827	97	730	Agency & Contracted	3,309	3,309	-0	0%	
2,608	1,222	1,386	Transfer Payments	2,608	2,608	0	0%	
0	0	0	Central Support	4,030	4,030	-0	0%	
9,353	1	9,352	Other	0	0	0	0%	
0	0	0	Capital Charges	0	0	0	0%	
145,017	95,466	49,551	GROSS EXPENDITURE	352,282	352,773	-490	0%	0
			Income					
281	244	-37	- Specific Grants	308,932	308,932	0	0%	
48,023	46,776	-1,247	- Other Grants & conts	563	563	0	0%	
2,432	883	-1,549	- Sales	0	0	0	0%	
1,398	2,355	957	- Fees & charges	2,559	2,559	0	0%	
169	58	-111	- Recharges	33,541	33,541	0	0%	
5,060	2,665	-2,395	- Other	7,183	7,183	0	0%	
57,363	52,981	-4,382	Total Income	352,778	352,778	0	0%	0
87,654	42,485	45,169	NET EXPENDITURE	-496	-6	-490	99%	0

The Dedicated Schools Grant (DSG)

- 53 The grant covers all School Delegated Budgets and the costs of certain Support Services for schools and pupils that are managed by the Local Authority e.g. Education Other Than in School; placements at Independent Special Schools; School Admissions, non-Local Authority Early Years provision and Capitalised Repair and Maintenance of school buildings.
- 54 The final DSG for 2008/2009 was confirmed by the Department for Children, Schools and Families (DCSF) on the 19 June 2008 at £274,436,000 which was only £7,666 more than the Local Authority's calculation.
- 55 The Budget Plan for DSG in 2008/2009 assumed an over spend from the previous financial year of £0.495m would need to be recovered. This is the starting point in the original Budget Book. In reality, this was only £6,000 and this meant there was a DSG balance of £0.489m to be considered by DCC Schools Forum when it met on the 10 July. Priorities are:-
- School Kitchen Ventilation;
 - Capitalised Repair and Maintenance – School Electricity Supplies;
 - Administration – School Workforce Census;
 - Arrears Equal Pay;
 - Energy Performance Certificates
- 56 During the financial year, budgetary control will be exercised against the actual DSG available.
- 57 The standard budget group headings covering the likes of Employees, Supplies, Income etc. are only guide figures in the Original Budget as the majority of spending is undertaken by individual schools, thus the table of figures is of limited benefit. Standards Fund and Standards Grant "income" to schools of £47m or thereabouts, has now been finalised.
- 58 In presentational terms, the expenditure against original budget will therefore show as £0.49m over spent during the year.

Pressures

- 59 There is insufficient data available to indicate whether budgets on the Local Authority managed parts of the DSG will be adequate for the full financial year. However, it is worth logging the areas that can be volatile and will be the focus of detailed budget projections in future reports:-
- Independent Special School Fees
 - Redundancy payments for school staff
 - Early Years provision – non Local Authority places
 - Home and Hospital Tuition
 - Capitalised Repair and Maintenance of School Buildings

Savings

- 60 There is nothing to indicate that there will be any under spending against the budgets managed by the Local Authority. The scope for redirection of any savings is limited, as alternative spend can only be on items within the DSG and may be subject to the views of DCC Schools Forum.

CHILDREN AND YOUNG PEOPLE'S SERVICE (LA)

Year to Date Budget	Year to Date Actual	Variance		Original Budget	Projected Outturn Position	Variance	% Variance	Revisions to Original Budget
£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
			Employees					
18,096	16,126	1,970	- Direct	69,893	70,040	-148	0%	
2,056	1,271	785	- Other	6,819	6,745	75	1%	
20,152	17,397	2,755	Total Employees	76,712	76,785	-73	0%	0
959	598	361	Premises	4,085	4,067	18	0%	
3,223	3,012	210	Transport	17,250	17,348	-97	-1%	
33,289	34,967	-1,678	Supplies & Services	60,794	61,668	-875	-1%	
2,296	2,232	64	Agency & Contracted	10,406	10,893	-487	-5%	
193	332	-139	Transfer Payments	2,322	2,447	-125	-5%	
647	199	448	Central Support	19,289	19,453	-164	-1%	
-33	-69	36	Other	0	0	0	0%	
0	0	0	Capital Charges	9,056	9,056	0	0%	
60,725	58,669	2,056	GROSS EXPENDITURE	199,914	201,718	-1,804	-1%	0
			Income					
544	-14,751	-15,295	- Specific Grants	59,269	59,269	0	0%	
1,789	3,755	1,966	- Other Grants & conts	5,133	5,133	0	0%	
962	866	-96	- Sales	4,628	4,628	0	0%	
11,534	8,361	-3,172	- Fees & charges	15,015	15,015	0	0%	
324	154	-170	- Recharges	12,273	12,273	0	0%	
74	70	-4	- Other	886	886	0	0%	
15,226	-1,545	-16,771	Total Income	97,204	97,204	0	0%	0
45,499	60,215	-14,715	NET EXPENDITURE	102,710	104,513	-1,804	-2%	0

CYPS Revenue Budget (LA)

- 61 The total Revenue Budget is £102.7m and of this figure about £83m is actually managed by the Director of Children and Young People's Services.
- 62 Additional Area Based Grant of £200,644 was received in March 2008 for Substance Misuse Preventative Strategies and this will therefore feature in Employees and Supplies Budgets and appear as an over spend. Since that time, additional grants have been released for a variety of purposes and clearly this will effect spend shown in budgetary control reports compared to Original Budgets. The most significant examples are:
- £981,260 National Digital Infrastructure – Broadband in Schools (13.3.08)
 - £220,000 Parenting Support Strategy Grant (7.5.08)
 - £387,111 Standards Fund Flexible Early Years Entitlement (27.6.08)
 - £250,000 Beacon Peer Support Programme – School Improvement(27.6.08)
 - £478,541 Sure Start, Early Years and Child Care Grant (14.7.08)

Planned Use of Reserves

- 63 There are several parts of the service budget where spending will differ from original budget:-
- Investment initiatives – supported by Scrutiny Members (Academic mentoring; priorities for Post 16 Learning; IT/Impact Centres; E-learning pilot £160,000
 - Extra Early Years income to Education Development Service Trading Account £85,733
 - Adoption “Invest to Save Initiative” – operational balance £337,228
 - Building Schools for the Future planning costs £242,726
- 64 (The overall impact of the issues listed above has the potential to result in an apparent overspend of £0.826m, compared to Original Budget).
- 65 Several grants, approx value £0.38m are able to be spread across more than one financial year and hence there is a carry forward of some funds, received in the 2007/2008 financial year, to match with spending plans during 2008/2009. This will produce a variance compared against Original Budget.

Pressures

- 66 There are features of CYPS Revenue Budget that regularly present Budgetary Control challenges. Listed below are a number of areas of potential overspend based on 3 month's experience into this financial year:-
- | | |
|---|---------|
| | £ |
| ▪ BSF Development and Planning Costs | 722,500 |
| ▪ Agency Placements | 150,000 |
| ▪ Direct Payments to Parents of Disabled Children | 125,000 |
| ▪ Transport costs | 100,000 |
| ▪ Redundancy Payments – school staff | 50,000 |

- 67 Most aspects of the budget are in line with available resources. The grant income referred to earlier has a net nil effect as there will be more spend but it is entirely met via grant.

- 68 Transport to Schools and Colleges is probably the most difficult part of the budget to predict as demand changes in September 2008 at the start of a new academic year. Higher than average transport inflation may well be reflected in contract prices and the charge for contract tickets.
- 69 The cost of agency placements for children in care of the Local Authority is closely monitored because of the potential cost of individual placements and this has the potential to overspend by the year end. New arrangements mean that the PCT is more likely to make a financial contribution to this type of placement.
- 70 Falling rolls in Primary and Secondary schools has led to a number of staff redundancies being approved to date, mostly from 31 August 2008.
- 71 The largest budget variation has been put forward by the team responsible for the Building Schools for the Future initiative as it is expected excess costs to do with finalising design, contracts and tenders for the first wave of schools in County Durham will be a feature of the 2008/2009 budget. The Treasurer is aware of this and it has been reflected in the overall project budget which spans several years.

Savings

- 72 CYPS budget for 2008/2009 includes a package of savings measured with a value of £2.2m. Savings associated with School and College Transport will not be confirmed until the beginning of 2009. All other proposals have either been delivered or are on target.
- 73 Slippage on Employee Budgets and maximising of sources of Grant Funding will be used to look to offset potential overspending. The combined effect of these issues is expected to allow the overall service budget to be broadly in balance at the year end (if the BSF development costs are discounted as they are utilising future year budgets).

CORPORATE SERVICES

Year to Date Budget	Year to Date Actual	Variance		Original Budget	Projected Outturn Position	Variance	%Variance	Revisions to Original Budget
£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
			Employees					
2,624	2,318	306	- Direct	10,496	10,496	0	0%	
16	76	-60	- Other	290	290	0	0%	
2,640	2,394	245	Total Employees	10,786	10,786	0	0%	0
			Premises	4,221	4,521	-300	-7%	
905	798	107	Transport	330	330	0	0%	
62	74	-11	Supplies & Services	3,426	4,316	-890	-26%	
831	1,676	-845	Agency & Contracted	0	0	0	0%	
0	-1	1	Transfer Payments	0	0	0	0%	
0	0	0	Central Support	6,428	6,428	0	0%	
0	0	0	Other	0	0	0	0%	
0	0	0	Capital Charges	562	562	0	0%	
4,438	4,941	-503	GROSS EXPENDITURE	25,753	26,943	-1,190	-5%	0
			Income					
0	0	0	- Specific Grants	0	0	0	0%	
0	0	0	- Other Grants & conts	0	0	0	0%	
0	-0	-0	- Sales	3	3	0	0%	
1,366	1,667	300	- Fees & charges	5,465	5,465	0	0%	
191	158	-33	- Recharges	12,370	12,370	0	0%	
262	290	27	- Other	751	751	0	0%	
1,820	2,115	295	Total Income	18,589	18,589	0	0%	0
2,618	2,826	-208	NET EXPENDITURE	7,164	8,354	-1,190	-17%	0

Corporate Services

Executive Summary

- 74 To date Corporate Services has over spent against the profiled budget by £0.21m which is mainly due to the additional cost of member elections, partially offset by an over-recovery of income and an under spend on staffing costs. After allowing for the planned transfers from reserves, actual expenditure is forecast to be in line with budget at the end of the year.

Employees

- 75 The under spend of £0.25m is mainly due to the delay in filling vacant posts in Estates and Design Services, and non-payment of the pay award, an allowance for which has been made in the budget.

Premises

- 76 The under spend of £0.11m is mainly due to the reversal of creditor provisions from 2007/8, against which full payment has yet to be made. Actual expenditure is expected to be in line with budget at the year end.

Supplies and Services

- 77 The over spend of £0.85m is mainly due to additional costs associated with revised member structure for the new authority. Consequently it is anticipated that this budget head will over spend by £0.9m at outturn, however this will be met from reserves.

Income

- 78 The over recovery of £0.30m is mainly due to the timing of receipt of income. Actual income is expected to be in line with budget at the year end.

COUNTY TREASURER AND OTHER SERVICES

Year to Date Budget	Year to Date Actual	Variance		Original Budget	Projected Outturn Position	Variance	% Variance	Revisions to Original Budget
£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
			Employees					
2,514	2,294	220	- Direct	10,056	10,056	0	0%	
259	242	17	- Other	1,508	1,508	0	0%	
2,773	2,536	237	Total Employees	11,564	11,564	0	0%	0
			Premises	246	246	0	0%	
41	155	-114						
23	14	9	Transport	115	115	0	0%	
1,019	2,252	-1,233	Supplies & Services	5,384	5,896	-512	-10%	
0	0	0	Agency & Contracted	0	0	0	0%	
0	0	0	Transfer Payments	0	0	0	0%	
0	0	0	Central Support	1,997	1,997	0	0%	
0	0	0	Other	0	0	0	0%	
0	21	-21	Capital Charges	81	81	0	0%	
3,856	4,978	-1,122	GROSS EXPENDITURE	19,387	19,899	-512	-3%	0
			Income					
0	0	0	- Specific Grants	0	0	0	0%	
0	0	0	- Other Grants & conts	0	0	0	0%	
0	0	0	- Sales	0	0	0	0%	
629	841	212	- Fees & charges	2,019	2,019	0	0%	
190	129	-61	- Recharges	17,363	17,363	0	0%	
7	4	-3	- Other	75	75	0	0%	
826	974	148	Total Income	19,457	19,457	0	0%	
3,030	4,004	-974	NET EXPENDITURE	-70	442	-512	731%	0

County Treasurer and Other Services

Executive Summary

- 79 There is an over spend of £0.97m against the profiled budget to date which is mainly due to additional expenditure relating to LGR, which will be met from reserves. After allowing for the planned transfers from reserves, actual expenditure is forecast to be in line with budget at the end of the year.

Employees

- 80 The under spend of £0.24m is mainly due to the non-filling of vacant posts and non-payment of the pay award, an allowance for which has been made in the budget.

Premises

- 81 The over spend of £0.11m is due to the timing of the rental payment for Customer Services Data Centre.

Supplies and Services

- 82 The over spend of £1.23m is mainly due to the:
- costs associated with the new structure for the new authority £0.50m
 - timing of expenditure.
- 83 Actual outturn is expected to exceed the budget by £0.51m at the year end which will be funded from reserves.

ENVIRONMENT

Year to Date Budget	Year to Date Actual	Variance		Original Budget	Projected Outturn Position	Variance	% Variance	Revisions to Original Budget
£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
4,781	4,382	399	Employees	19,123	18,623	500	3%	
30	72	-42	- Direct	435	435	0	0%	
			- Other					
4,811	4,454	357	Total Employees	19,558	19,058	500	3%	0
62	162	-100	Premises	684	684	0	0%	
90	208	-118	Transport	997	997	0	0%	
839	713	126	Supplies & Services	6,452	6,452	0	0%	
4,021	5,208	-1,187	Agency & Contracted	44,673	45,503	-830	-2%	
0		0	Transfer Payments	0	0	0	0%	
0		0	Central Support	9,503	9,503	0	0%	
0	15	-15	Other	0	0	0	0%	
0		0	Capital Charges	5,803	5,803	0	0%	
9,822	10,760	-938	GROSS EXPENDITURE	87,670	88,000	-330	0%	0
144	-25	-169	Income	2,051	2,051	0	0%	
27	125	98	- Specific Grants	450	354	-96	-21%	
12	0	-12	- Other Grants & conts	120	120	0	0%	
264	543	280	- Sales	10,540	10,290	-250	-2%	
0	39	39	- Fees & charges	11,493	11,493	0	0%	
0		0	- Recharges			0	0%	
			- Other					
446	682	236	Total Income	24,654	24,308	-346	-1%	
9,376	10,078	-702	NET EXPENDITURE	63,016	63,692	-676	-1%	0

Environment

- 84 The Environment Service has a gross expenditure budget of £87.670m and a projected income budget of £24.654m which results in a net budget of £63.016m.
- 85 Much of the income is generated from external sources and as a consequence can contain elements which are uncertain and potentially volatile. Some areas of spend such as subsidised bus services and Civil Engineering works which cut across several areas of the Service are also subject to higher than normal levels of inflation. The Waste Disposal Service is also subject to unexpected variances caused by changes in tonnages to be disposed of and the method by which disposal takes place.
- 86 As with all Services, the Environment Service has contributed to the savings required for 2008/09 as identified in the Medium Term Financial Plan and achieving these whilst still maintaining a high level of service delivery will be a challenge for all concerned.
- 87 Savings are expected to be made on Salaries but these will be offset by higher energy costs for Street Lighting and the rising cost of fuel and oil based products. The downturn in the housing market is affecting the level of income from the associated highway and footway requirements and some grant income will be less than anticipated. There are some other relatively minor variances but at this stage of the year these are not seen as indicative of any problems and will largely be addressed through a review of profiled spend, and some minor budget revisions during November. Other than the items mentioned above, it is not anticipated at this stage that there will be any other significant variances at final outturn.
- 88 The budget is in any event subject to a continuous review process which should enable any difficulties to be identified and addressed as early as possible.

Employee Costs

- 89 This is currently showing an under-spend against the year to date budget which is mainly due to a high level of staff turnover, and consequently there are a number of unfilled vacancies across several areas of the Service. Although every effort is made to fill posts as they become vacant and avoid any adverse effect Service delivery there is a natural delay in the process. The uncertainty around LGR is likely to add to this turnover and this trend may continue over the remainder of the year. The delay in the completion of the Visitor Centre at Hardwick Park has resulted in a corresponding delay in the appointment of staff. In addition the budget figure includes a provision for a pay award from 1st April which is still subject to on going negotiations but will be backdated once agreed.
- 90 Staff turnover remains a concern and the staffing budget is likely to remain under-spent at the year end.

Premises

- 91 The additional costs associated with Premises are primarily due to advance payments of rents, rates and way-leaves and are not seen as indicative of any problems at this stage.

Agency and Contracted Services

- 92 There are several pressures which have been identified including a sharp rise in Street Lighting Energy costs which is likely to add up to £600,000 to this year's expenditure year and also fuel costs for Public Transport which will increase the cost of subsidised services by £310,000. Fuel and other oil-derived costs are extremely volatile at the moment and will need to be closely monitored as the year progresses.
- 93 Spend against specific projects funded by earmarked reserves and identified through the Scrutiny process will show as an over spend of £170,000.
- 94 A reduction in works (as described below under Income) will reduce the costs under Agency by approximately £300,000.

Income

- 95 The downturn in the housing market and in new developments generally is having an effect on income levels and a shortfall of £250,000 is already being forecast. This has been redressed through a reduction in works budgets. In addition the amount of Planning Delivery Grant which was expected to be received has dropped by £96,000.

Savings and Efficiencies

96 The County Council's priorities are under constant review, and the additional investment commitments and savings are considered as part of the authority's budget setting process. In addition as part of the Comprehensive Spending Review (CSR07) the government is expecting councils to achieve cash releasing efficiency gains. The County Council and Districts are also expected to make savings as a result of the LGR agenda.

97 Like the rest of the public sector, local government will be expected to achieve at least 3% per annum net cash-releasing efficiency gains. The expected annual gains will increase in line with inflation. The baseline expenditure for the County Council is currently estimated to be £328.675m. The baseline calculation is voluntary, but is a useful benchmark against which to measure progress. Using this baseline, the recommended saving for the first year is therefore £9.86m.

98 Over the three year period the Authority is recommended to make cashable gains of £36.75m, including estimated efficiency savings from the Unitary authority in years 2 and 3. These gains could be split as follows:

Year	2008/09	2009/10	2010/11
Target (% of 2007/08 baseline)	3%	6.1%	9.3%
Expected gains (£m)	9.86	23.11	36.75

99 The target for efficiency is non mandatory but it is expected that the Audit Commission will be reviewing the overall approach to VFM, and this will impact on the Authority's Use of Resources score.

100 There will be a single figure for NI 179 reported to Government and this will be recorded on the national indicator Data Interchange Hub. The intention is that the figure will be reported twice during the year, the first time in October 2008 as a prediction for the cash releasing efficiency gains to the end of the year, and then in mid July 2009 to record the efficiency gains actually achieved during the preceding year.

101 The current situation regarding the projected savings for 2008/09 included in the Council's original budget projections is as per the following table:

	Budget Savings	Forecast Outturn	Variance
Adults	2,609,000	2,290,000	-319,000
CYPS	2,206,240	2,206,240	0
Environment	512,500	435,100	-77,400
Chief Executive	127,500	127,500	0
Corporate	242,500	242,500	0
Finance and Other	445,000	372,000	-73,000
Total	6,142,740	5,673,340	-469,400

- 102 The CLG are currently finalising guidance on the definitions of eligible cash releasing gains, which, it is anticipated will be very similar to those that operated under Gershon, apart from the fact that non-cash releasing gains will not be allowed. At that point we hope to produce a more fulsome exposition of the breakdown of savings planned and achieved. It is considered that many of the ongoing efficiency savings identified already through the budgetary process will be eligible for this category.
- 103 The current forecast is that £5.67m of the total £6.14m service savings will be realised this year.

CAPITAL BUDGET SUMMARY

	Original Budget 2008/09	Rephasing to/from 2007/08	Original Budget 2008/09 inc Rephasing	2008/09 Q1 Actual	2008/09 Q4 Forecast (= Projected Outturn)	Projected Outturn variance against original budget (inc Rephasing)		Rephasing to 2009/10	Rephasing to 2010/11	Rephasing to 2011/12 & future yrs
	£000	£000	£000	£000	£000	£000	%	£000	£000	£000
Adult and Community Services	7,926,632	2,108,921	10,035,553	162,317	4,610,000	-5,425,553	-54%	5,778,664	0	0
Children and Young People's Services	58,579,221	7,964,425	66,543,646	5,742,539	63,043,646	-3,500,000	-5%	3,500,000	0	0
Environment	29,378,447	9,661,231	39,039,678	3,974,997	39,039,678	0	0%	0	0	0
Chief Executive's Office	0	0	0	0	0	0	#DIV/0!	0	0	0
Corporate Services	5,081,800	2,289,994	7,371,794	192,563	2,191,345	-5,180,449	-70%	5,180,449	0	0
County Treasurer	1,523,043	1,126,286	2,649,329	1,059,180	2,649,330	1	0%	0	0	0
Service Direct	750,000	0	750,000	0	750,000	0	0%	0	0	0
Small projects - to be allocated	351,000	168,500	519,500	0	519,500	0	0%	0	0	0
Other minor works - to be allocated	0	500,000	500,000	0	500,000	0	0%	0	0	0
Total	103,590,143	23,819,357	127,409,500	11,131,596	113,303,499	-14,106,001	-11%	14,459,113	0	0

Capital Budget Position

- 104 In the first quarter of the year the new build project at Durham Johnston incurred expenditure of £3.3m. Information from the project manager suggests that £3.5m of the 2008/09 budget of £18m will need to be re-phased to 2009/10 as it is not likely to be spent in 2008/09. Following this re-phasing the projected outturn for CYPs capital programme for 2008/09 is £63m.
- 105 In Corporate Services, the Avenue project will not be undertaken in its original form and therefore it has been necessary to re-phase funds into 2008/09 to the value of £5.2m.
- 106 The key issues in Adult Services under spend of £5.43m are as follows:
- The final programme for investing in the in-house residential homes is yet to be agreed. It is unlikely that any of the £4million budget will be expended in 2008/09.
 - Progress is being made in investing budgets available to for I.T., Mental Health, Library Modernisation and Day Service Improvement. Activity will continue into 2009/10 resulting in 2008/09 under spends of £920,000.

Aged Debtor Analysis

30th June 2008

Service	No. of Inv.	Balance Outstanding	Less than 30 days	31-60 Days	61 Days to 3 months	3-6 months	6-9 months	9 -12 months	over 1 year
Children and Young People's Service	669	1,395	1,083	126	45	15	30	11	70
Adult and Community	997	6,000	884	442	272	3,186	29	408	778
Environment	516	982	266	35	127	210	72	43	225
Corporate	74	166	65	75	11	6	0	0	9
Chief Executive	10	43	8	0	0	33	0	1	1
Finance and Other	661	3,458	3,036	49	81	138	39	35	57
Service Direct	1,012	1,498	552	209	80	272	88	42	254
Total	3,939	13,541	5,893	934	616	3,860	259	540	1,393
%		100%	44%	7%	5%	29%	2%	4%	10%

31st March 2008

Service	No. of Inv.	Balance Outstanding	Less than 30 days	31-60 Days	61 Days to 3 months	3-6 months	6-9 months	9 -12 months	over 1 year
Children and Young People's Service	872	1,853	1,430	256	10	37	14	23	82
Adult and Community	1,217	7,905	6,221	236	100	41	419	133	754
Environment	551	4,868	2,333	336	104	130	56	21	1,887
Corporate	82	527	401	53	23	3	37	2	7
Chief Executive	50	306	291	1	7	1	2	0	4
Finance and Other	742	2,953	1,586	116	86	1,035	39	10	81
Service Direct	1,183	1,936	996	198	90	293	49	41	269
Total	4,697	20,347	13,258	1,196	421	1,541	617	230	3,084
%		100%	65%	6%	2%	8%	3%	1%	15%

Debtors

- 107 The total outstanding debt figure has decreased in the first quarter of the year, both in value and number of invoices outstanding. This has to be taken in the context that much of the county council debt is cyclical.
- 108 A big improvement came in the debt 'over 1 year old' where one invoice of £1.6m was paid.
- 109 The Corporate Income and Debt Management Policy has now been operating for just over a year and it is only now that we are seeing the full benefits, with all debt being fully managed.

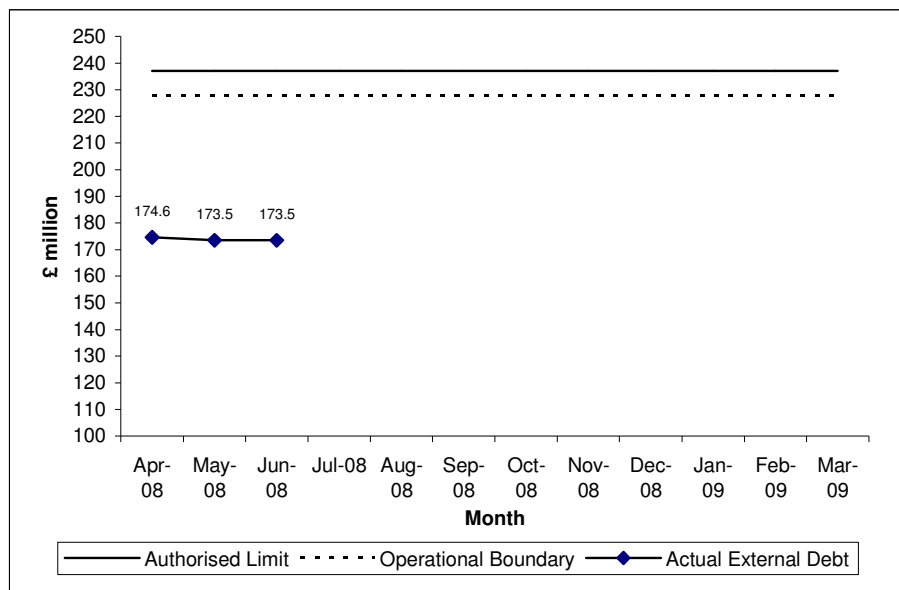
Treasury Management and Prudential Indicators

Prudential Indicators

- 110 The Prudential Code is designed to guide the Council's decision on what it can afford to borrow. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 specifies the Prudential Code for Capital Finance in Local Authorities, issued by CIPFA, as the code of practice to which local authorities must have regard when setting and reviewing their affordable borrowing limit.
- 111 The key objectives of the Prudential Code are to ensure that within a clear framework the capital investment plans of the Council are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
- 112 To demonstrate that the above objectives have been fulfilled, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. The Code does not include limits, these are for the Council to set and monitor. The Prudential Indicators for the current financial year and the two subsequent years are set out annually in the Budget Book.

External Debt

- 113 A key indicator for in-year monitoring is the Operational Boundary (an indicator of affordability). The chart below compares actual external debt in 2008/09 to 30th June 2008 with the Authorised Limit and Operational Boundary and shows that debt is within the limits set by the Council:



- 114 The Authorised Limit represents the maximum limit of total external debt, gross of investments. The Operational Boundary for external debt is based on the same estimates as the Authorised Limit but reflects directly the County Treasurer's estimate of the most likely, prudent but not worst case scenario, without additional headroom included in the Authorised Limit.

115 Public Works Loan Board (PWLB) debt constitutes the majority of external debt. The main PWLB repayment dates are in May and November. Therefore between these months the total level of debt remains relatively stable.

Treasury Management Indicators

116 The Council has an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. Interest rate exposures remain within the limits set out in the 2007/08 Budget Book.

Treasury Management Activities– Short Term Investments

Background

117 Short term investments are made in accordance with the County Council's Treasury Management Policy and Strategy.

	2007/08			2008/09	
	Quarter 2	Quarter 3	Quarter 4	Quarter 1	Cumulative 2008/09
Interest Earned*	£1,946,000	£2,246,000	£2,134,000	£2,228,000	£2,228,000
Average Return Earned	5.896%	6.190%	5.957%	5.750%	5.750%
Average Bank of England base rate	5.739%	5.679%	5.352%	5.025%	5.025%
Balance Invested at Quarter End	£120,026,000	£144,073,000	£140,301,000	£136,662,000	£136,662,000
Average Daily Balance of Investments	£131,826,000	£146,267,000	£143,905,000	£155,748,000	£155,748,000

** Interest earned is before year-end adjustments including payment of interest on school balances. The interest earned figure includes interest relating to maturities due after the quarter end but which relate to the relevant quarter.*

118 Since mid 2007 the global credit crisis has led to unusually high interest rates being paid compared to the Bank of England base rate, resulting in increasing returns. However, the rates have now eased back and begun to level off.