



Chester-le-Street
District Council

Report to:	Executive
Date of Meeting:	2 March 2009
Report from:	Head of Corporate Finance
Title of Report:	Final Financial Management Report and Monitoring Update
Agenda Item Number:	12

1. PURPOSE AND SUMMARY

- 1.1 The report summarises the Council's General Fund actual financial performance for the first ten months of the year as compared with its estimated position and projects the anticipated General Fund balance as at 31 March 2009. It identifies key issues arising from the financial monitoring processes and advises the Executive of actions taken to address these.
- 1.2 The Executive is recommended to note the financial monitoring information detailed in section 5 of the report and the estimated balance on the General Fund Reserve as at 31 March 2009 as detailed in section 6 of the report.

2. CONSULTATION

- 2.1 Corporate Management Team has been consulted on the report.

The financial monitoring data has been discussed with Heads of Service and the extrapolated full year position has been based on the outcome of these discussions.

3. CORPORATE PLAN AND PRIORITIES

- 3.1 The Council's budget sets out the financial resources which will be used to deliver the Council's corporate priorities.

4. IMPLICATIONS

- 4.1 Financial

The financial implications are detailed throughout the report.

4.2 Local Government Reorganisation Implications

The main implication is to ensure that the Council has adequate financial resources to help establish the new Council while delivering 'Business as Usual'. There is a requirement if any potential resource issues arise that are not included in the Authority's budgets for 2008/09 to consult with the County Treasurer. In addition the financial monitoring process is used also to develop the Council's Medium Term Financial Strategy and clearly affects next year's budget plans. The County Treasurer will be forwarded a copy of this report to inform him of the latest position and the steps we were taking to address the projected overspend.

4.3 Legal

There are no legal implications arising from the report.

4.4 Personnel

There are no personnel implications.

4.5 Other Services

It has been necessary for some service areas to identify savings to help address some of the potential problem areas identified during the financial monitoring process.

4.6 Diversity

There are no diversity implications.

4.7 Risk

The financial monitoring information and, more importantly, the corrective actions taken, help manage the risks associated with potential problem areas in the budget. The risk analysis which supported the 2008/09 budget process identified that income projections were a key area of risk.

The closure of the Housing Revenue Account (HRA) and Local Government Re-organisation (LGR) were identified as significant risks when approving the 2008/2009 General Fund budget, for which plans were in place. Communities and Local Government have confirmed the use of the HRA reserves for General Fund expenditure and this has been subject of discussions and agreement with the County Treasurer regarding the use of this reserve for Disabled Facilities Grants and the costs associated with LGR.

The economic climate has produced a number of additional risks to budget management and these have included interest rates, energy prices, fuel costs, general inflation, income generation and debt recovery.

The action to manage this was to ensure that income levels were carefully monitored and reported and that if income is below budget, action has been taken to identify compensating savings or additional income elsewhere.

4.8 Crime and Disorder

There are no Crime and Disorder implications.

4.9 Data Quality

Every care has been taken in the development of this report to ensure that the information and data used in its preparation and the appendices attached are accurate, timely, consistent and comprehensive. The Council's data quality policy has been complied with in producing this report.

4.10 Other Implications

There are no other implications.

5. **GENERAL FUND REVENUE AND CAPITAL**

5.1 Appendix A shows the general fund revenue position to date for each service area and forecasts this to the end of the year.

5.2 Based on the position to date, the expected end of year position compared with the 2008/09 budget is summarised below:-

Initial General Fund Forecast Outturn

	£'000
Leisure Services	+ 66
Environmental Health and Planning	+ 7
Environmental Services	+ 39
Revenues and Benefits	+ 20
Finance and Accountancy	+29
Human Resources	0
Regeneration	+ 140
Corporate Development Unit	- 39
Legal and Democratic Services	+ 80
Corporate Functions	+ 15
Other Corporate	+ 157
Initial Forecast Overspend	+ 514

5.3 Clearly the initial forecast was not acceptable and Corporate Management Team and Heads of Service have been working together to ensure there is no overspend at the end of the financial year. The following actions have been taken to correct the situation highlighted by the mid year monitoring position:-

- Corporate Management Team met with specific Heads of Service to consider proposals to offset overspends in their service areas.
- All Heads of Service have been notified that there was a freeze on all supplies and services related expenditure. This was managed and controlled with expenditure considered and released as appropriate in

meetings between the Chief Executive and myself.

- All vacant posts that arise are carefully considered by the Chief Executive and myself for approval.

5.4 The following table indicates the impact the above actions have already had on the revised expected end of year position.

	£'000	£'000
Projected Overspend as per Appendix A	514	
<u>Add</u>		
Revenue Underspend on People & Place Priorities	41	
Procurement Savings Shown Throughout Services	35	
Additional Income Shown Throughout Services	45	
Projected Loss in External Interest	45	
Overspend on Members Allowances (Pension Costs)	10	
		690
<u>Less</u>		
Projected Savings on Supplies Expenditure		140
Over Provision of MRP in 2008/2009		114
Projected Salary Savings above Contingency		95
Use of Local Government Reorganisation Contingency		219
Savings from the Corporate Training Programme		70
Use of HRA balance to meet Shortfall in RTB Sales		110
Revised Projected Underspend		58

5.5 Leisure Services

The end of year position for leisure services is expected to show an overall overspend against budget of £66,000. This situation has remained the same and is consistent with the 3rd quarter monitoring report. However, income continues to be a cause of concern and will be closely monitored throughout the remainder of the financial year.

5.6 Environmental Health and Planning

This service area is expected to show an overall overspend against its budget for the year of £7,000. This is mainly due to building control income expected to be £30,000 below budget. However I am pleased to report that Development Control income has significantly improved since the mid year position and is expected to be approximately £32,000 over budget. The only other significant factor is a projected £13,000 shortfall in fees from administering Disabled Facilities Grants due to a reduced capital programme. This situation has improved as a result of additional works being released with the agreement of the County Treasurer.

5.7 Environmental Services

There are a number of issues within Environmental Services which amount to

a predicted net overspend for the year amounting to just over £39,000. Car Park fine income is likely to be under budget by £12,000. Vehicle, fuel prices and agency costs are affecting Refuse Collection and Street Cleansing services and are expected to be over budget by just over £47,250. In addition the utilities, fuel oil and telephone costs at Sacriston Depot are projected to be over by approximately £23,000. However, additional income has been generated amounting to just under £53,000 in respect of Grounds Maintenance and Cemeteries which reduces the net projected overspend for the year. Additional recycling has added a £5,000 cost pressure on our budgets in 2008/09 and a verbal update will be given on the day of the meeting on the financial issues surrounding the recycling service.

5.8 Revenues and Benefits

The service is showing a net overspend against budget for the year of approximately £20,000. However the service has made significant salary savings which are shown in the salary contingency which is reflected in Other Corporate Services. Overall the service area will be under spent at the end of the financial year.

5.9 Regeneration

The service is showing a net overspend against budget for the year of approximately £140,000. The main reason is a forecast shortfall in Market income of £102,000 for the year. In addition CCTV expenditure is expected to be over budget by £20,000 due to salaries costs and the cost of maintaining the equipment. An amount of £20,000 has been identified as being required to carry out maintenance works and health and safety related testing at the Communal Rooms.

5.10 Corporate Development Unit

The forecast underspend of £39,000 for the year is due to income received in the year which was not budgeted for.

5.11 Legal & Democratic Services

Due to the economic downturn Land Charges income is projected to be under budget by £80,000 at the end of the financial year.

5.12 Other Corporate

The end of year position for Other Corporate issues is expected to show an overall overspend against budget of £157,000. This is mainly due to a predicted shortfall in the Right to Buy sales income amounting to £109,990. We estimated 21 sales at £9,999 per property (as per the Stock Transfer Agreement). To date we have only generated and received £79,992 from the sale of 8 properties. It was agreed at the meeting of the Executive on 1 December 2008 to use the HRA balance to meet the projected shortfall in Right to Buy Sales income.

5.13 Summary of General Fund Position

Based on the mid-year monitoring information, the overall end of year forecast for the General Fund Revenue account shows an underspend of £58,000.

Action has already been taken as highlighted in 5.3 above to limit expenditure against controllable budgets to ensure offsetting savings are identified so there is no call on the general fund balance at the year end.

I am also investigating the possibility that Minimum Revenue Provision was over provided for in 2005/2006. This is potentially a further saving of £80,000 that could increase the revised projected underspend highlighted above.

Heads of Service will also continue to work with budget holders to explore what else can be done to reduce expenditure and maximise income.

Members will be aware that the County Treasurer has already authorised expenditure to address ER/VR costs from Council reserves. It is likely that further expenditure may be required to address ER/VR costs as the new Unitary structure is put in place and the County Treasurer has suggested that our reserves would be the initial funding source for such expenditure. Members will be aware from this report that we are proposing the utilisation of the Local Government Re-organisation contingency of £219,000 to address this year's budget position and therefore the costs associated with the ER/VR approved expenditure will initially fall to the General Fund balance which is now supported by the HRA balance being made available in this year.

5.14 Capital

Members will be aware that a decision was taken to freeze asset sales which were intended to support the capital programme in 2008/2009. Since that time we have been managing our limited capital resources through the Capital Working Group with the priority being to ensure we address any urgent health and safety issues.

As of today's date we have a very small residual amount of capital resource which is being committed to some final urgent works and we are liaising with County officers so we can understand the capital priorities of the Council and the future dependency on the release of further capital to support service provision.

A bid was made to the County Treasurer in September 2008 and this has been fed into the capital bid process for budget prioritisation along with further bids in respect of 2009/2010.

6. GENERAL FUND RESERVE / BALANCE

The General Fund Reserve was expected to be £350,000 as at 31 March 2009. This is consistent with our Medium Term Financial Plan and the figure used by the County Treasurer in his budget preparations for the new Unitary Authority. The table below indicates the latest projection of the level of the General Fund Reserve at the end of the financial year.

Table 1 – General Fund Reserve

	Amount £'000
Balance brought forward as at 1 st April 2008	394
Less:	
Underspend in 2007/08 transferred to Insurance Reserve	4
	390
Less:	
Balance of Contingent Liability as Agreed previously	44
	346
Add:	
Estimated Underspend in 2008/09	58
Estimated balance as at 31 st March 2009	404

The above table indicates that the projected balance is likely to be £404,000 and is £54,000 above the level expected. However, there are three issues outstanding that I need to bring to your attention that could have an impact on the projected balance of the General Fund Reserve and these are detailed below:-

1. Recycling Credits

The income we receive comes from Durham County Council and is payable to us, not when the materials are collected from the kerbside but when the recycling company sells on the recycled materials. Because of a downturn in market conditions the recycling company was forced to stock pile the recycled goods. As a result we were not receiving any income from Durham County Council and our budgets were overspending. An agreement was reached with the County Council to ensure that the money owed to us for the recycled materials would be recorded in our year end accounts to balance the budget. The risk that we could still face to our financial position is if any of the collected recycled materials end up in landfill sites then we would not be entitled to the recycling credit. The Environmental Manager Services Manager has confirmed that to date no materials have passed to landfill and therefore the recycling credits will be available to mitigate the previously identified risk.

2. Concessionary Fares

The latest figures we have from Durham County Council indicate that the recharge to Chester-le-Street District Council for the cost of the Concessionary Fares Scheme in 2008/09 is £916,192.30. This is over our budget provision of £828,880 by £87,312.30. We have requested further clarification from the County Council regarding the information available to verify the additional cost of the scheme and the share that we are expected to pay for. In the meantime I have agreed with the Chief Executive to pay up to the amount we provided for in the 2008/09

budget. To date we have not received the assurances regarding the validity and audit trail of any additional claims made by the bus companies which are monitored by the County Council.

3. Contingent Liability

I may have to make a provision in the accounts in 2008/09 in relation to any financial penalty imposed by the Courts in relation to the Dreamspace incident at the Riverside Park. At the time of writing this report the sentencing hearing has not yet taken place and we are not therefore aware of any penalty attributable to that sentencing. This will need to be included in our annual Statement of Accounts for the year ended 31 March 2009.

7. **RECOMMENDATIONS**

- 7.1 The Executive is recommended to note the financial monitoring information detailed section 5 and the projected balance on the General Fund Reserve detailed in section 6 of the report.

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