

Report to: **Executive**
Date: **25 November 2008**
Report of: **Executive Member for Resources**
Subject: **General Fund/Housing Revenue/Capital Finance - 2008/2009 Monitoring Statement**
Ward: **All**

1.0 Purpose of Report

1.1 To advise members on the financial position for the period 1st April 2008 to 30th September 2008..

2.0 Consultation

2.1 Consultation has taken place with the Director of Finance and Corporate Services and through the process, budget holders. The Management Team has considered 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 30th September, the mid point in the financial year.

4.0 Revised Forecast Position - General Fund

4.1 Appendix 1 shows the projected position on a directorate basis. The variances against budget are contained in the footnotes.

4.2 Members are referred to appendix 1/1, which shows a general fund under-spend of £308,580 (1.6% of the budget requirement) for the period. (Item B), Subject to variations the budget is broadly on-line. The under-spend has increased by around £82k since the last report this would have been significantly higher but we are seeing an increase in the cost of concessionary fares as demand is exceeding take up assumptions at the time the scheme was being agreed.

Additional Savings

- A readjustment of the Environmental Services budget (£100k).
- Further savings from vacant posts (£25k).
- The return of further material savings from support service costs to the general fund account. (£83,500). (See Support Services Appendix 2).

Additional cost pressures since last report

- Benefits overpayment income worsened by a further £11k from last review.
- Investment income forecasted to be £20k less than last reported.
- Concessionary fares costs are expected to increase by £100k due to increased demand.

4.3 The following table broadly outlines the material over and under spends at the end of September 2008.

Under-spends/Savings/Increased Income to 30th September 2008	£k
*Savings from vacant posts – Regeneration and Development	425
*Savings from salaries and wages – other directorates	206
*Vacancy Factor offset by savings on vacant posts	(500)
Increased investment income	177
Reduced borrowing costs	63
Savings on insurance premiums as a result of LGR	250
Use of Reserves Saving – Personnel & Payroll	45
Transfer of material under-spend from Estates/Property & asset functions	83
Planning Delivery Grant - Windfall not transferred to specific reserve	126
Over-spends/reduced Income to 30th September 2008	£k
Reduction in benefit overpayment income	296
Reduction in Income – Planning/Building Control/Land charges	185
Concessionary Fares	100

*It should be noted that savings of £500k, around 3% of payroll, were factored into the 2008/9 budget in respect of vacant posts and that target is expected to be met by the end of September 2008.

4.4 The detailed analysis of material *under-spends* is as follows:

- **Savings from vacant posts** are factored into the budget year on year and the provision has been exceeded, unfortunately the situation signals capacity problems which given local government review are difficult to address. At this stage the Management Team & Heads of Service are monitoring the position and identifying backfilling options where appropriate.
- **Increased investment income** has increased due to higher reserves at financial year end and grants being received earlier than anticipated.
- **Reduced borrowing costs** are due to the 2007/8 capital programme being financed without the need to borrow funds.
- **Savings on insurance premiums** have occurred due to the annual renewal date falling mid-year, the new Council being responsible from April 2009.
- **Use of Reserves** – Reserve no longer required. This item relates to the business administration apprentice scheme which has been mainstreamed.
- **Support Service Reserve** – It is practice to transfer material under-spends on individual support services to the benefit of services, which at this stage is the general fund account..
- **Planning Delivery Grant** – this grant is being treated as windfall income in the current year.

4.5 In terms of in year budget pressures a number of issues are emerging for the Council.

- **Fuel Costs**, recent high prices of fuel and oil have impacted on transport budgets. (£90k).

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- **The recovery of benefit overpayments**, the detail of which was described in the report at the end of June 2008. The position seems to have stabilised with the estimate for the end of this month standing at £296k. The position will continue to be monitored. .
- **Income from planning fees, building control fees and land charges** has reduced by around £185k. The loss is mainly due to reduced activity in the housing market and the economic downturn coupled with some evidence of falling application numbers.
 - Planning - £70k
 - Building Control - £40k
 - Land Charges £75k

In terms of the budget the falls in income are being masked by savings in vacant posts and planning delivery grant.

- **Concessionary Fares** – as the year is unfolding it is becoming clear that the demand for concessionary fares has increased over and above that anticipated when contracts were agreed in the latter part of the last financial year and this is being reflected in the invoices received in September. At this point the estimated year end forecast is showing a potential overspend of around £100k because of rising demand.

4.6 The above cost pressures have been notified to Durham County Council as part of the 2009/10 budget process.

Support Services

4.7 The support service information in Appendix 2 is divided into 2 parts the upper section relating to services supported by specific reserves where there will be no re-charge to front line services. These therefore need to be considered separately. The under-spend of £45k relates to one off funding for the business administration apprenticeship scheme, which has been mainstreamed and therefore is no longer required. This position has not changed since the last report.

4.7 Since the last report a review of the position in Asset and Property Management has released savings of £83,500 in respect of vacant posts. At this point in time posts of this nature are difficult to recruit and the position is being monitored on a day to day basis utilising agency staff when necessary. In terms of accounting treatment small balances are usually transferred to the Support Service Reserve however as this is a material under-spend it has been transferred to the general fund as a contribution from support services.

4.7 The lower section in the table refers to those elements of the services which are recharged to services and this element is showing an under-spend of just over £135,800. The under-spends are mainly attributable to vacant posts and managers are monitoring the position in terms of capacity.

4.8 General Fund Balance

4.8.1 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 2007/8 which took into account of the review of reserves. Within the statement members will see the transfers of earmarked reserves to fund specific items and the transitional plan.

4.8.2 The revised forecasted balance to the 31st March 2009 is £3.68m. Members will be aware that the Council's budget was subject to a consent process where the estimated year end position was £3.374m.

4.8.3 The position on reserves and balances is considered in paragraph 7 of the report.

5.0 Housing Revenue Account (HRA)

5.1 At the end of September the account showed a surplus of £654k. The majority of the surplus was due to increased income from rents, around £600k, coupled with savings from management and maintenance (£43k) and slight increases in subsidy and interest. The savings equate to around 3.4% of the budget.

5.2 The increase in rent income is mainly attributable to a fall in right to buy sales and the position will be monitored as the year progresses.

5.3 The forecasted reserve position to the end of March 2009 is just over £2m against a budget position of £1.25m. The HRA reserve position is reviewed later in the report.

6.0 Capital Programmes 2008/9 to 2010/11

6.1 Although the programme is subject to a separate report in terms of the delivery aspects it is appropriate to tie the financing issues into the half year review. This gives the opportunity to coordinate the financial management of the 3 accounts (General fund, HRA and Capital Account) and take a view on the reserve position.

6.2. Members will recall that when the 3 year capital investment plans were agreed in February there was heavy reliance on capital receipts from sales of land and assets. Following a progress report by the Head of Asset and Property Management at the end of September it is now clear that capital receipts from disposals have all but dried up for the time being.

6.3. In terms of the 2008/9 - 2010/11 programmes it is appropriate to consider the Decent Homes/ALMO works separately from the general fund schemes. The main reason for this is that the Capital Works Unit was transferred earlier this year under a strategic partnering arrangement on the basis of the 3 year programme agreed by the Council in February and of course the expectation that additional investment income would be received during 2009/10. It is therefore important to ensure these programmes are secured.

Decent Homes/Housing Programmes

6.4 In view of the above it is proposed that the Housing (Decent Homes Programmes) would be financed as follows:

	2008/9	2009/10	2010/11	Total
	£m	£m	£m	£m
Expenditure requirement	7.9	7.5	6.75	22.15
Financing requirements:				
Major Repairs Allowance	5.4	5.2	5.2	15.8
Supported Capital Expenditure Allowance:	1.0	1.0	1.0	3.0
Capital Receipts	0.6	0.7	0.0	1.3

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HRA – Contribution from Reserves	0.9	0.6	0.55	2.05
Totals	<u>7.9</u>	<u>7.5</u>	<u>6.75</u>	<u>22.15</u>

- 6.5 The programmes are secured on the basis that we expect major repairs allowances to be higher than forecasted at the time the budget was set and members are requested to support the use of housing revenue surpluses in 2008/9. This approach has been discussed with the Chief Executive of East Durham Homes and the Corporate Director of Resources of Durham County Council, which have yet to consider programmes beyond the current year.

General Fund Related Schemes

- 6.6 The main general fund programmes support regeneration and economic development, private sector housing together with asset management and some minor works.
- 6.7 The impact of the reductions in capital receipts will impact heavily on the general fund element of the programme, the requirement being around £15m over 3 years. However the sale of North Blunts, Peterlee valued at £3.125m is now being processed by the County Council and could materialise by year end, this has been discussed with the County Council's officers.
- 6.8 In the half year review commitments had reduced by around £450k and slippage of around £2.1m, which will be carried forward was identified. These developments will reduce financial pressures in the current year.

	2008/9	2009/10	2010/11	Total
	£000	£000	£000	£000
Estimated Expenditure requirement	<u>5.400</u>	<u>9.300</u>	<u>6.280</u>	<u>21.000</u>
Financing requirements:				
*Capital Receipts	2.923	2.800	0.500	6.223
**Prudential Borrowing		3.937	4.500	8.437
Supported Capital Expenditure (SHIP)	0.600	0.750	0.750	2.100
Regeneration Reserve	0.177	0.188		0.365
Use of Reserves (£1.5m)	0.410			0.410
Capital Reserve	0.020	0.245		0.265
Liveability Reserve	0.247	0.698		0.945
Planning and Delivery reserve		0.200		0.200
General Fund Contribution from Reserves	0.200			0.200
Section 106 reserves	0.020	0.035	0.050	0.105
Single Housing Investment Programme-revenue grant	0.367			0.367
Grants and Contributions	0.423	0.450	0.480	1.353
Totals	<u>5.387</u>	<u>9.303</u>	<u>6.280</u>	<u>20.970</u>

*Assumes capital receipts of £3.625 for 2008/9 including North Blunts and £500k per year for 2009/10 and 2010/11 as a worst case scenario.

** Assumes prudential borrowing will be used as a means of financing gaps caused by the reduction in capital receipts.

Prudential Borrowing

- 6.9 Prudential borrowing is a tool to finance capital expenditure but unlike supported borrowing the loan must be financed from revenue. Two years ago the Council established a regeneration reserve and a management of change reserve to deal with potential gaps in funding following the Comprehensive Spending Review announcements. The reserves could be either used to finance gaps in programmes or to finance borrowing over the medium term (5 years) until there was an upturn in the housing market. The advantage of using reserves to fund borrowing is that future capital receipts can be used to repay the loan thus reducing future liabilities.
- 6.10 It is in the interests of this Council to secure the funding to deliver our capital programmes in 2009/10 and 2010/11 and with this in mind it is sensible to bolster the regeneration reserve to provide the new Council with options to address the funding gap.

7.0 Review of Reserves and Balances

- 7.1 In considering the position on the above cognizance has been taken of the implications of the local government review and consequently the Council's Director of Finance and Corporate Services has met with the Corporate Director of Resources for Durham County Council and has agreed an approach to shore up the financing position on the capital programme. In agreeing the approach it is acknowledged that as financing decisions are made after the end of the financial year ultimately these decisions will be the responsibility of the new Council.
- 7.2 In considering this approach a review of the specific reserves (Appendix 5) has been undertaken. These decisions will be notified to the new Council and care will be taken to ensure we deliver the budgets as agreed in the general consent.

Proposals

- 7.3 As stated above we have 2 reserves one of which was established to smooth the management of change in the medium term (Management of Change Reserve - £1.5m), the other being a Regeneration Reserve which was established to supplement the funding for the regeneration and economic development aspects of the capital programme.
- 7.4 Given the financial pressures outlined above it makes sense to simplify matters by transferring surpluses and specific reserves no longer required to the Regeneration Reserve to provide financing options for the capital programme.
- 7.5 Taking account of the above members are asked to consider the following proposals: -
- 7.5.1 The support service reserve had a balance of £314k at the end of March 2008. It was decided to utilize £44,110 of the reserve to support the 2008/9 budget leaving around £270k in the reserve. Given that savings of £135k are emerging in the current year's budget it is proposed to transfer £200,000 to the Regeneration Reserve and finance the £44,110 from savings in the current year.
- 7.5.2 To utilize £130k from the support service reserve to establish a specific reserve to complete the Apollo Pavilion project (£15,000), to carry out works at Easington Colliery (£30k) and ear mark £85,000 as a council contribution to the play strategy the overall scheme is valued at over £900,000. (Play Strategy/Apollo Reserve). The total sums are £130k.
- 7.5.3 To transfer the Management of Change Reserve (£1,500,000) to the Regeneration Reserve.
- 7.5.4 To transfer £250k from the Planning Delivery Reserve to the regeneration reserve.
- 7.6 If approved the regeneration reserve would be valued at around £4.2m at the end of March 2009 and would provide an option to either directly finance £4.2m of the gap in the capital programme or

finance borrowing of £7m to £8m for a period of 5 years during which time it is likely capital receipts will have materialised to repay the debt and associated revenue costs.

8.0 Local Government Review

8.1 The Council is continuing to work with officers from the County Council to formulate the 2009/10 budget for the new Authority. This required us to notify them of savings likely to accrue as a result of the local government restructuring together with identified cost pressures and income reductions including those impacting on capital programmes.

8.2 In terms of capital we will re-submit the Council's capital commitments for the next 2 years which broadly represents those approved by the Council when the budget was set last February. The submission will include a summary of the process adopted by the council and the problems being posed by the slow down of capital receipts, which is affecting all Councils, together with proposals to mitigate the impact on schemes in the programme.

8.3 As part of the run up to next April the District Councils have been asked to identify potential budget pressures for the new Council. It is appropriate to deal with this in our monitoring reports and the following are considered as pressures which could impact in future years.

Benefit Overpayments: Worst scenario:- overpayment income is £300k less than estimated however DW&P data transfer has resumed and the position will be monitored.

Vacancy Factor: Experience at Easington requires a vacancy factor of 3% if resources are to be maximized. For the new Council's budget for 2009/10 an assumption of 2% has been made and this will result in a budget pressure of around £125k in respect of salaries and wages going forward into the new Council.

Concessionary Bus Fares: Increased take-up since the scheme was introduced has created pressure on this budget and at this stage it is estimated that there will be an overspend of around £100k in this financial year.

Interest on investments will need to be monitored to provide a realistic investment income figure in the new council. Over the last few weeks have seen interest rates fall significantly as part of the strategy to address the economic pressures and further falls are forecasted in the future. In addition to the impact of interest rates investment opportunities could also be reduced for the following reasons:

- Specific reserves are likely to reduce in the medium term.
- General reserves have been earmarked by the new Council to meet implementation costs.
- Income deposits from the disposal of land and property are reducing due to the issues in the housing market.

Increases in fuel costs are currently causing a budget overspend of around £89k. Although we are seeing prices reduce they are not expected to reach 2007/8 levels and therefore there is likely to be a base budget impact from 2009/10 onwards. The position will be monitored during the current year.

Pay Settlement 2008/9

Agreement has been reached to have the above claim settled by arbitration and it has also been agreed to pay the current offer of 2.45% on account. As most authorities have included a provision of 2.5% in budgets it is likely there will be additional cost pressures on the base budget.

9.0 Implications

9.1 **Policy**
None

9.2 **Financial**

There are no changes to the budgetary framework, the proposals outlined in paragraphs 6.5 and 7.5 provide options to secure the outcomes of the capital programme 2008/9 to 2010/11. The monitoring aspects of the report are for information.

9.3 **Legal**

None

9.4 **Local Government Review**

Issues affecting the review are outlined in paragraph 8 of the report. The report has been forwarded to Durham County Council.

9.5 **Risk**

The risks are being managed by the assessment prepared in respect of the medium term financial plan.

9.6 **Communications**

None

Corporate Implications

9.7 **Corporate Plan and Priorities**

The budget plans of the Council supports the high level priorities as outlined in the corporate and transitional plans of the Council.

9.8 **Equality and Diversity**

None

9.9 **E Government**

None

9.10 **Procurement**

None.

10.0 Recommendations

10.1 To agree the following proposals: -

- To utilise the surplus on the HRA to finance the capital programme relating to decent homes and other ALMO works.
- To transfer £200,000 from support service reserve to the Regeneration Reserve.
- To utilise £130k from the support service reserve to establish a specific reserve to complete the Apollo Pavilion project (£15,000), Works at Easington Colliery (£30k) and to ear mark £85,000 as a council contribution to the play strategy. (Play Strategy/Apollo Reserve/Minor Works).
- To transfer the Management of Change Reserve (£1,500,000) to the Regeneration Reserve.
- To transfer £250k from the Planning Delivery reserve to the Regeneration Reserve.

10.2 To note the monitoring position.

Background Papers

Budgetary & Cost tabulations prepared from the Financial Management System.

Statements from Budget Holders

Final Accounts Information 2007/8 - Working Papers

Budget Reports - Council Extraordinary Meeting 21/02/2007 and 22/02/2008.

Report to District Council – Review of the Medium Term Financial Position - 2008/9 to 2010/11. 20th December 2007.

Report to Executive 2nd September 2008 – General Fund/HRA Monitor and other financial issues.

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