

Report to: **Executive**  
Date: **17<sup>th</sup> March 2009**  
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 1<sup>st</sup> April 2008 to 31<sup>st</sup> January 2009 and the projections through to 31<sup>st</sup> March 2009.
- 1.2 To firm up on a number of financial arrangements to ensure that from this Council's perspective the transition to the new council is as clear and smooth as possible.

## **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 have discussed the implications of the report.

## **3.0 Process**

- 3.1 Budget holders are required to carry out a monthly exercise of examining their spending and income streams and the attached appendices/statements reflect the forecasted position to the 31<sup>st</sup> March 2009.

## **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 now shows a general fund over-spend of £201,820, which is just over 1% of the agreed budget for the period. (Item B). This reversed the position in the last report to the end of November 2008 where an estimated surplus of £157,905 was expected, a turnaround of around £359k. Subject to the variations the budget is broadly on-line and within our target limits of + or - 2%.
- 4.3 The directorate over-spend amounts to £362,340 (Item A) and that position has worsened by around £425k since the last report.

### ***Summary of material changes by Directorate***

- 4.4 The following summarises the material increases in costs since the last report. The figures exclude support services which are reported separately below.

## **Directorate of Community Services**

- Environmental Services – £30k as a result of an accounting adjustment which will occur as a result of the demise of this Council.
- Environmental Health and Licensing - £74k, where external funding for the coastal rangers is unlikely to materialise for the current year (£50k). In addition a provision of around £25k has been made in respect of difficulties arising from the recycling service due to global economic problems beyond our control.

## **Directorate of Regeneration and Development**

- Planning & Building Control - £79k. This pressure is mainly due to anticipated levels of income in respect of planning, building control and land charges falling by a further £70k.
- Asset and Property Management - £51k as a result of reduced income from applications for land and the installation of beach safety signage at Crimdon, £32k, which was required by law. It should be noted that this refers to the direct service element of the service, the support service aspects are dealt with in paragraph 4.12.

## **Directorate of Finance and Corporate Services**

- Concessionary Fares Scheme - Over the last 9/10 months the service has seen a steady increase in demand from residents living in County Durham however recent estimates show that visitors from outside County Durham, particularly to Durham City, have increased much higher than anticipated when budgets were being planned. It is now likely that the overall cost of providing the county-wide scheme will increase by around £1m and as districts share those costs on the basis of the concessionary fares grant distribution our share equates to around 25% of the overall cost. In effect our costs are expected to increase by around £250k in total, however as we have already made provision for £100k in previous reports the Council requires a further £150k since the last review.
- Benefits Recovery issue previously reported – Increased by a further £20k to £313k.

4.5 Taking account of the above the following table broadly outlines the overall material over and under spends expected for 2008/9.

<b><u>Under-spends/Savings/Increased Income to 31<sup>st</sup> January 2009</u></b>	<b><u>£k</u></b>
*Estimated savings from vacant posts – Regeneration and Development	425
*Estimated savings from vacant posts – other directorates	230
*Vacancy Factor offset by savings on vacant posts	( 500)
Reduced borrowing costs	103
Savings on insurance premiums as a result of LGR	300
Use of Reserves Saving – Personnel & Payroll	45
Transfer of material under-spend from Support Services	254
Planning Delivery Grant - Windfall not transferred to specific reserve	126
Democratic Services - General	75
<b><u>Over-spends/reduced income to 31<sup>st</sup> January 2009</u></b>	<b><u>£k</u></b>
Environmental Services-Replacement bins/increases in fuel costs/adj:	45
Environmental Health and Licensing - Coastal Rangers/Recycling Costs	58
Reduction in Income –Planning/Building Control/Land charges	330
Asset and Property Management – Loss of Income/Signage	51

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Reduction in benefit overpayment income	313
Concessionary Fares	331

\*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 met.

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

## ***Effects of the Economic Downturn on the financial position***

- 4.7 Many commentators have been surprised at the speed at which the downturn materialised, there was little time to prepare and it has been more a case of damage limitation.
- 4.8 At Easington we put reserves in place to weather any potential storm and to some degree although we are moving to an over-spend position it is still expected that our year end position on revenue reserves will be met and there will be options to fund any financial gaps in capital. Within our revenue budgets we factored in reductions in staff costs of 3% and this target has been met and has gone some way to manage the situation. On the other side higher than estimated investment income has not materialised because of the recent reductions in interest rates which have been significant.
- 4.9 Although generally the Council has managed the situation in 2008/9 there is no doubt 2009/10 would have been a challenge, that said it is felt there would have been sufficient reserves to smooth the position in the medium term until budget adjustments were made. Areas where we have been significantly affected are as follows:
- The decline in the housing market has reduced the level of property and land sales reducing revenue investment opportunities and requiring elements of the capital programme to be financed from revenue and possibly prudential borrowing. Although the government has brought forward capital investment from future years there is no new money and inevitably there will be an impact on future regeneration and housing programmes probably across the region. We expected sales of around £6m this financial year and the outcome is likely to be less than £1m
  - General price Inflation (peaked at around 5%) and the increased costs of concessionary fares exposed government assumptions when they set the level of revenue grant for 2008/9. The rising cost of fuel in the summer increased operating costs significantly.
  - Fees from planning, building control and searches are likely to be around £340k less than estimated.
  - We are seeing increased demand for benefit; with caseloads increasing by around 10% to 12%, unfortunately reductions in government grant for 2008/9 has not helped the position albeit increases are expected in 2009/10.
  - Although investment income has held up for the year it would have been significantly higher had sales from land and property not declined and indeed interest rates not fallen so dramatically.
  - The fall in the value of recyclates threatened to reduce the Council's income from recycling credits during the year and although the position is being monitored there are likely to be issues beyond April.

## ***Performance***

4.10 The anticipated directorate position ignoring support services is as follows:-

### *Chief Executive*

It is expected that the Chief Executive's directorate will achieve savings of around £99k which is 4.3% of the budget.

### *Directorate of Community Services*

Operationally community services were probably affected more than most however in overall terms the Directorate has managed the pressures to around 1% of the approved budget.

### *Directorate of Regeneration and Development*

This directorate made significant savings during the year but they were attributable to staff savings as a result of vacant posts which of course put pressure on staff and workloads. In addition income streams have reduced by around £360k, including asset management, albeit an element of this was offset by planning delivery grant of £126k received in year.

Despite the turbulence the Directorate is forecasting a surplus of around £219k equating to 2.6% of budget.

### *Directorate of Finance and Corporate Services*

The customer facing side of the directorate is projecting overall expenditure exceeding budget by £584k of which around £331k is due to the increased demand for concessionary fares. However this will be offset by a reduction in borrowing costs as a result of debt management activity and insurance costs will be around £300k less than anticipated due to LGR.

In overall terms it is forecasted that the net overspend will be around £181k just over 2% of budget.,

4.11 In view of the severe difficulties outlined above it is pleasing to report that the overall projected deficit to date is only 1.04% of the approved budget and is within the local tolerance levels of +/- 2% of the budget requirement.

### *Support Services*

4.12 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 upper part of the table shows savings of £254k covering a number of services. Whereas in previous years these material surpluses would have been transferred into the support service reserve given the difficulties outlined above the Director of Finance and Corporate Services has directed them to the general fund to address the budget pressures outlined above.

- 4.13 Members will note savings of £151,910 in the Asset and Property Management Unit.
- 4.14 The lower part of the table shows further savings from support services of £118,249 which to date has not been transferred to general fund reserve.

#### **4.15 General Fund Balance**

- 4.15.1 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 the review of reserves. Within the statement members will see the transfers of earmarked reserves to fund specific items and the transitional plan.
- 4.15.2 The revised forecasted balance to the 31<sup>st</sup> March 2009 is £3.408m. Members will be aware that the Council's budget was subject to a consent process where the estimated year end position was £3.374m.

#### **4.16 General Fund - Proposals**

- 4.16.1 Members will recall that the Council received a significant amount of *area based grant* during 2008/9 and it is anticipated that a significant element will be unutilised at the financial year end. Although it is difficult to forecast the end of year position clearly it would be inappropriate for that balance to transfer into the general fund reserve and it is therefore proposed to establish a specific reserve, *the Area Based Grant reserve*, and to transfer unspent balances at 31<sup>st</sup> March 2009 into that reserve. This action will ensure that committed funds can be identified post vesting day.
- 4.16.2 The Council has been notified that it is due to receive around £255k of *Local Authority Business Growth Incentive Grant* (LABGI) grant for 2008/9. Although the grant will not be received until after the financial year end it will be accrued and reflected in the Council's accounts for 2008/9. As in previous years it is proposed to transfer the amount into the *regeneration reserve* to meet capital commitments.

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

- 5.1 At the end of January 2009 the account outlined in appendix 4 showed a surplus of £695k. The majority of this was due to increased income from rents, around £660k, coupled with savings from management and maintenance (£47k). The saving equates to around 3.6% of the budget.
- 5.2 The increase in rent income is mainly attributable to a fall in right to buy sales.
- 5.3 The forecasted reserve position to the end of March 2009 is just under £1.6m against a budget position of £1.25m. The forecasted HRA reserve position reflects the decision taken by Executive on the 25th November to utilise surpluses to fund pressures on the capital programme in addition to providing support for East Durham Homes.

#### **5.4 Housing Revenue Proposals – Support for East Durham Homes**

- 5.4.1 In June 2008 (out-turn report) the Executive approved continuing support for East Durham Homes the overall package valued at £1.36m. The package covered a variety of projects including preparation for outsourcing the repairs service, redundancies, establishing a general reserve within the Company, training initiatives and IT development. The arrangement for drawing down these funds has been effective and timely enabling the Company to benefit from efficiencies and effectively maximize saving opportunities which is essential to sustaining their financial position.
- 5.4.2 By the end of this financial year it is expected that around £1.14m of that support will have been utilized leaving around £225k in the reserve
- 5.4.3 Clearly the Company is in a situation where in the future it will need to react quickly to emerging and changing situations and timing is critical to securing savings and efficiencies. Unfortunately from 1<sup>st</sup> April all transactional procedures transfer to the new Council and experience to date shows processes as cumbersome and lengthy. The Director of Finance and Corporate Services is not confident that the new Council will have effective and timely systems and processes in place in the months immediately following vesting day and asks members to consider transferring the balance of outstanding support funds to East Durham Homes prior to 1<sup>st</sup> April.2009. He adds that there are no procedural issues as the support fund is within the budgetary framework agreed by the Council.

## **6.0 Capital Programme 2008/9 to 2010/11**

- 6.1 Appendix 5 outlines the capital financial position to the end of December (3<sup>rd</sup> quarter) showed total spend of £9m against the approved programme of £16m. This equates to around 56% of budget and members may recall that at the September review slippage of £2.9m around 17% was identified bringing the position more into line. The main aspect of slippage was in respect of private sector renewal – £2.1m.
- 6.2 In terms of decent homes work and aids and adaptations spend is on target spend being at 78% of budget. As previously reported the new partnering arrangements for capital works are expected to bring an additional £800k of efficiencies this year which will be converted into additional work particularly in respect of aids and adaptations where waiting lists are being reduced.
- 6.3 Economic development, regeneration and asset management schemes are progressing with expenditure to date being around £1.5m against the budget of £4.1m, around 36% of budget. It is expected that by the year end spend will equate to £3.7m, around 90% of the approved programme. In considering progress against these schemes it is worth remembering that the spend refers only to the council contribution and the pace of progress is affected by the need to secure external funding contributions and negotiation in terms of development.
- 6.4 Income from sales of property and land are virtually at a standstill in terms of value. It was hoped that the North Blunts, Peterlee site valued at £3.3m would have been completed to partly finance this year's programme but unfortunately there will be a delay beyond vesting day meaning there is likely to be a funding gap estimated at around £3m for the current year.
- 6.5 As previously discussed there are 2 options to fund the programme in 2008/9:
- to utilise the regeneration reserve as a one off contribution from reserves. This reserve is expected to be valued at around £4.5m at the year end.

- to fund from un-supported borrowing where the costs would be met from the regeneration reserve.

These options have been discussed with Durham County Council.

## **6.6 Debt Redemption**

- 6.6.1 The following paragraphs are very technical in nature but necessary to ensure that all options can be considered in financing the 2008/9 capital investment programme.
- 6.6.2 In accordance with capital regulations Councils are required to charge the revenue account an amount to cover the minimum revenue provision (MRP) for each financial year. The MRP is to ensure Council debt is repaid over a reasonable period of time. Technically there are 4 options to do this and in considering the budgets for 2008/9 the Director of Finance and Corporate Services opted to make minimum revenue provisions of 4% which is option 2 and is known as the capital financing requirement method. At the time he did not advocate un-supported borrowing as a financing option.
- 6.6.3 Because of the volatility in the property market it is now likely that for 2008/9 un-supported borrowing will have to be considered as an option and although capital financial decisions will be reflected in the Council's financial statements the decision itself will be made by the Chief Financial Officer (s.151) of the new Council. If this Council had advocated un-supported borrowing 12 months ago the Director of Finance and Corporate Services would have opted for what is known as the 'Asset Life' method of provision. This method is used where capital expenditure on an asset is financed wholly or partly by un-supported borrowing.
- 6.6.4 To provide the County Council with the option to use un-supported borrowing to finance our 2008/9 programme this committee is requested to approve the adoption of the 'Asset Life' method of provision. In considering this decision members are asked to note that the request is in respect of a capital financing option and if the regeneration reserve is used to fund the costs there would be no additional expenditure, the impact being financed by the regeneration reserve, neither would there be an impact on council tax and therefore the decision would be within the budget framework for 2008/9.

## **7.0 Local Government Review (LGR)**

- 7.1 Officers have assisted in the preparation of the 2009/10 budget for the new Unitary Council. As part of that process they have informed them of financial issues/pressures that have emerged in this financial year.
- 7.2 In terms of capital the Council's commitments for the next 2 years have been submitted, reviewed and re-submitted to the County Council and broadly represent those approved by the Council when the budget was set last February. The submissions included a summary of the process adopted by the council, the problems being posed by the slow down of capital receipts, which is affecting all Councils, together with financing proposals to mitigate the impact on schemes in the programme.

7.3 The estimations within the main body of the report do not take account of any redundancy and pension costs of LGR.

## **8.0 Implications**

### **8.1 Policy**

None

### **8.2 Financial**

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

### **8.3 Legal**

None

### **8.4 Local Government Review**

Issues affecting the review are outlined in paragraph 7 of the report.

### **8.5 Risk**

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

### **8.6 Communications**

None

#### **Corporate Implications**

### **8.7 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.

### **8.8 Equality and Diversity**

None

### **8.9 E Government**

None

### **8.10 Procurement**

None.

## **9.0 Recommendations**

9.1 Members are asked to note the monitoring position as outlined above and agree to the following recommendations:

9.1.1 To establish a specific reserve, *the Area Based Grant reserve*, and to transfer unspent balances at 31<sup>st</sup> March 2009 into that reserve.

9.1.2 To transfer accrued *Local Authority Business Growth Incentive Grant (LABGI)* grant for 2008/9, around £255k, to the Regeneration Specific Reserve to meet capital commitments as set out in the Council's Medium Term Investment Plans.

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- 9.1.3 To transfer the unutilised balance of support for East Durham Homes to the Company at the end of the financial year.
- 9.1.4 To agree to adopt the 'Asset Life' method' of provision to charge the revenue accounts with appropriate amounts to ensure debt is repaid within a reasonable period. (See paragraphs 6.6.1 to 6.6.4).

## **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. 20<sup>th</sup> December 2007.

Report to Executive 2<sup>nd</sup> September 2008/14<sup>th</sup> October 2008/25<sup>th</sup> November 2008. – General Fund/HRA Monitor and other financial issues.

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