Report to the Finance & Performance Management Scrutiny Panel

Date of meeting: 9 September 2010

Portfolio: Finance & Economic Development

Subject: Quarterly Financial Monitoring

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Recommendations/Decisions Required:

> **That the Panel note the revenue and capital financial monitoring report for the first quarter of 2010/11.**

Executive Summary

The report provides a comparison between the original profiled budgets for the period ended 30 June 2010 and the actual expenditure or income as applicable.

Reasons for proposed decision

To note the first quarter financial monitoring report for 2010/11.

Other options for action

No other options available.

Report:

1. The Panel has within its terms of reference to consider financial monitoring reports on key areas of income and expenditure. This is the first quarterly report for 2010/11 and covers the period from 1 April 2010 to 30 June 2010. The reports are presented based on which directorate is responsible for delivering the services to which the budgets relate.

2. Salaries monitoring data is presented as well as it represents a large proportion of the authorities expenditure and is an area where historically large under spends have been seen.

Revenue Budgets (Annex 1 – 9)

3. Comments are provided on the monitoring schedules but a few points are highlighted here as they are of particular significance. The salaries schedule (Annex 1) shows an underspend of £182,000 or 3.6%. The report has been amended slightly to isolate two particular areas where underspends are particularly evident and in both cases there are particular reasons for the underspend occuring.

4. Building Control is managed within a ringfenced account that over a three year period should break even. Income from fees has been somewhat depressed over the last two years or so. In order to keep the account in balance posts have deliberately been held vacant in recognition of this downturn.

5. The works unit has been undergoing a process of downsizing to a core of employees

with other work being outsourced. This is being achieved largely through not filling vacancies. As these posts would have been included in the budget this now shows as an underspend.

6. Once the areas above are taken out of the equation the underspend overall amounts to £97,000 or 2.1%. The budget included 1.5% for pay inflation, there will now not be an award this year so this represents a saving on the budget, and given the inclusion of a 2% vacancy allowance within the budgeted figures already vacancy levels are on average running at a little over 2.5%.

7. Building Control Income shows an under achievement of £39,000 at 30 June, when compared to the three year average used for budget monitoring purposes. If income levels this financial year are consistent with this profile then based on maintaining current staffing the account at year end will be in deficit. However if income levels are consistent with the last financial year then the account looks set to break even. The trend so far looks more in line with 2009/10 than the three year average so it suggests a breakeven position is possible. Clearly this needs to be monitored closely so that if remedial action is necessary it can be instigated as soon as possible.

8. Investment interest levels in 2010/11 will be lower than that in the estimate and rates look unlikely to recover much for at least two years. Rates on short term investments under a year for example are not even as high as 1%. The Council has had some difficulty in identifying suitable counterparties with whom to invest without breaching counterparty limits. The next Cabinet meeting will receive the Treasury Management Strategy which has been updated following guidance from the Councils recently appointed advisors Arlingclose. It is likely, if adopted, that additional headroom with existing counterparties will be created however it is unlikely to result in any improvement in returns.

9. By the end of 2009/10 recoveries relating to the Heritable bank amounted to 34.98% of the loans made. This was slightly higher than expected, as when the last notification from the administrators was received this suggested 28.79% would be received in 2009/10. Since then a further 6.27 pence in the pound has been received which means of the original £2.5m lent about 41.5% has now been returned leaving £1.46m still outstanding. The recovery rate is still expected to be at the rate of 85p in the pound. Based on this, £375,000 is not expected back, and has been allowed for within the DDF in this financial year.

10. Development Control income at Month 3 is £20,000 below expectations. There have not been any large scheme fees coming through so far this year and although at month 4 the shortfall has not worsened, recent legistlation changes are expected to make achievement of the budgeted level more difficult rather than easier.

11. Hackney Carriage licensing income is again above budgeted levels though in line with last years actual. Other licensing income is also in line with 2009/10.

12. Income from MOT's carried out by Fleet Operations are in line with last year. The budget has been set at £292,000 assuming income trends follow last years actual this figure should be met or slightly exceeded.

13. Income from Local Land Charges being more or less in line with expectations is somewhat academic. A recent legal ruling will have a significant effect on the Council's ability to generate income from searches. A full report on the implications is to be presented to the next cabinet.

14. The Housing Repairs Fund shows an underspend of £379,000. This is a greater level of underspend than at this time last year. During 2009/10 some framework agreements were let which led to an underspend last year and suggests that the budgets can be revised down slightly in 2010/11 however some of the underspend is because there tends to be a higher proportion of repairs occurring during the winter months.

15. Payments to the Waste Management contractor are lagging behind expectations in

that the May payment had not been made by 30 June 2010 due to a delay in invoicing. The payment was subsequently made during July. Whilst this obviously shows as an underspend on Refuse Collection, Street Cleansing and Recycling it is also part of the reason for the underspend on Special Services within the HRA.

16. Where income budgets are not likely to be met, or under and overspends are expected this is noted within the report or on the schedules. Where no comment exists the actual outturn, at this point in time, is expected to be broadly in line with budgets.

Capital Budgets (Annex 10 - 16)

17. Tables for capital expenditure monitoring purposes (annex 10 -16) are included for the three months to 30 June. There is a brief commentary on each item highlighting the scheme progress.

18. The full year budget for comparison purposes is the original budget plus agreed carry forwards from 2009/10.

Major Capital Schemes

19. All three major schemes exceeding £1m reported on during 2009/10 reached practical completion in that year. A Final Account report has been presented to Cabinet for the Loughton Broadway Town Centre Enhancement, the Bobbingworth Tip report is due at the next Cabinet and the Springfields report will follow shortly. Going forward the only scheme falling into this category is the Limes Farm Hall Development which will be included once spending on the project commences.

Conclusion

20. The situation regarding Local Land Charges is particularly concerning at a time when Local Authorities are going to face difficult financial settlements anyway. The Cabinet will receive a report on the current situation but there will be a CSB income loss of at least £30,000 and potential for repayments of past fees relating to personal searches. There are other types of fee within Land Charges which could potentially go the same way and this could have a larger adverse impact. Members will be kept up to date as things unfold.

21. Income from Development Control and Building Control will also need to be closely monitored. The former is below expectations and, unless some larger schemes do come through, meeting the budget is unlikely. With the latter it is difficult at this stage to assess whether the ring fenced account will be in deficit or breakeven.

22. Investment interest is not going to reach the budget level. Returns do not look likely to improve in the foreseeable future either. There is little that can be done other than managing the situation as best we can including funding investment interest shortfalls from the DDF.

23. The panel is asked to note the position on both revenue and capital budgets as at Month 3.

Consultations Undertaken

This report has been circulated to Portfolio-holders. An oral update will be provided to cover any additional comments or information received from Portfolio-holders.

Resource Implications

Additional resource requirements may arise due to shortfalls in income. These issues will be kept under review. The 2011/12 budget process has just started and this process, which includes a review of the 2010/11 budget, will look to find savings in 2010/11 to mitigate the effects, as far as possible, of the likely income losses identified above.

Legal and Governance Implications

Reporting on variances between budgets and actual spend is recognised as good practice and is a key element of the Council's Governance Framework.

Safer, Cleaner, Greener Implications

The Council's budgets contain spending in relation to this initiative.

Background Papers

Various budget variance working papers held in Accountancy.

Impact Assessments

These reports are a key part in managing the financial risks faced by the Council. In the current climate the level of risk is increasing. Prompt reporting and the subsequent preparation of action plans in Cabinet reports should help mitigate these risks.