

CABINET	AGENDA ITEM No. 5.2
6 July 2009	Public Report

Cabinet Member(s) responsible:	Cllr Seaton	
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BUDGET MONITORING REPORT FINAL OUTTURN 2008/09

R E C O M M E N D A T I O N S	
FROM : <i>Executive Director of Strategic Resources</i>	Deadline date : 19 June 2009
<p>1. That the final outturn position for 2008/09 on the Council's revenue and capital budget is noted.</p> <p>2. That the performance on treasury management activities, payment of creditors in services and collection performance for debtors, local taxation and benefit overpayments be noted.</p>	

1. ORIGIN OF REPORT

1.1. This report is submitted to Cabinet on 6 July 2009 as a monitoring item.

2. PURPOSE AND REASON FOR REPORT

2.1. The purpose of this report is to inform Cabinet of the final financial performance for revenue and capital for 2008/09.

2.2. This report also contains performance information on treasury management activities, the payment of creditors in services and collection performance for debtors, local taxation and benefit overpayments.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	
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4. FINAL OUTTURN 2008/09

4.1. Corporate Overview

4.1.1. The Budget for 2008/09 was set in February 2008 when the economy was stable. During 2008/09 the 'credit crunch' and related recession have had a significant impact on the revenue and capital income of the Council. The recession can further adversely affect Council expenditure as the demand and support needs of the local community change depending on individual circumstances.

- 4.1.2. Since approving the budget in February 2008, in the context of year two of a three year financial settlement and corporate plan running to 2011, the Council expected to deliver its priorities and continue its strategy of achieving service delivery efficiencies. Early in 2008/09, it became clear that the economy was potentially heading for a recession, the financial markets were becoming increasingly unstable, traditional income streams such as parking income and planning fees were decreasing and the energy market was experiencing turbulent price fluctuations.
- 4.1.3. Collectively, the Corporate Management Team and Departments implemented a range of short term measures to mitigate any financial impact within revenue and capital during the financial year such as: -
- i. A moratorium on capital or freeze on capital projects to enable assessment of the capital programme, further potential for capitalisation of spend shown within revenue and financing of capital projects;
 - ii. Reviewing the impact of the Council's cash flow in the context of the volatile financial markets;
 - iii. Monitoring of the risks identified within the Medium Term Financial Strategy, monthly budget monitoring reports and analytical review performed on the previous financial year;
 - iv. Measuring the direct impact of the credit crunch on the Council whilst having regard for the indirect impact;
 - v. Reviewing the levels of reserves, balances and contingencies since the budget was approved;
 - vi. A robust review of Operations and Children Service's budgets, implementing and monitoring of an action plan to mitigate pressures. The pressures within these budgets resulted primarily from demand led services, reduced income streams and the ability to meet the ambitious savings programme;
 - vii. Other remedial actions across all departments such as a freeze on recruitment and supplies and services budgets on all non business critical expenditure.
- 4.1.4. In summary, the Corporate Management Team has successfully managed the impact on the Council's finances and delivered an improved position on that previously forecast.

4.2. Financial Report – Revenue

- 4.2.1 The Council's overall revenue financial position is £141k under spend. This is in part due to the robust mechanisms put in place to mitigate the impact of the credit crunch, utilising the capacity fund to meet one off expenditure, capitalisation of eligible revenue expenditure and reduced costs of borrowing and financing. The change in the financial position has been summarised in the next table.

Key Movements	£000	£000
Adopted Outturn (Full Council 25 February 2009)		564
Direct Credit Crunch Impact	115	
Demand Led Pressures	118	
Capitalisation of ICT (PC Replacement)	-213	
Other Pressures and Management Actions	-725	
Net Movement		-705
Final Outturn		-141

- 4.2.2 The direct impact of the credit crunch has been monitored throughout 2008/09 and has resulted in an overall budgetary pressure of £1,066k, an increase of £115k since the adopted outturn as seen in the following table.

Income	Impact of Credit Crunch £k	Movement from Adopted Outturn
Planning Fees	600	↓
Land Charges	271	↑
Commercial Property Rents (Increase in Void Units and NNDR on unlet properties)	195	↔
TOTAL	1,066	

- 4.2.3 The impact of the credit crunch can be seen on reduced income streams from planning fees and land charges whilst the Council has increased expenditure relating to increased void and vacant properties beyond the provision included in the current budget. Reduced income levels can also be seen on parking income and contracts.
- 4.2.4 The final outturn revenue monitoring report shows an overall forecast under spend of £141k against the approved general fund budget of £154,629k. The under spend is summarised in the next table at departmental level. A breakdown by departments is included in Appendix A.
- 4.2.5 The Dedicated Schools Grant (DSG) shows an overall over spend of £6k against a budget of £108,580k. However in accordance with accounting guidance this balance will be carried forward into 2009/10 to be recovered from the DSG. The grant has been updated since the MTFs was published. Schools Forum is responsible for decisions related to the Dedicated Schools Grant. This has been included for information purposes only.

Adopted Outturn £(k)	Summary of Revenue Position at 31 March 2009 (Final)	Annual Budget £(k)	Actual £(k)	Variance £(k)
509	Chief Executive	7,918	8,457	539
335	Assistant Chief Executive	9,679	9,608	-71
0	Children's Services	46,135	46,120	-15
292	City Services*	12,218	12,965	747
860	Environment & Community	21,112	21,795	683
-1432	Strategic Resources	18,979	16,999	-1,980
0	Adult Social Care	38,588	38,544	-44
564	General Fund Total	154,629	154,488	-141
413	Dedicated School Grant Total	108,580	108,586	6

* - Includes costs associated with the corporate decision to retain Westcombe

4.3. Financial Report – Reserves

- 4.3.1 In setting the 2008/09 budget, the level of Council balances was considered sufficient in meeting the MTFs recognising the requirement to review the balances to ensure delivery of the priorities within the corporate plan to 2011.

4.4. Financial Report – Capital

4.4.1 At the start of the 2008/09 financial year the Capital Programme was £100.6m. This revised budget was a combination of the agreed Medium Term Financial Plan (MTFS) of £76m and final slippage of schemes from 2007/08 of £24.6m which was mainly the result of delays with projects.

4.4.2 The global economic climate also impacted on the generation of capital receipts for the Council, which in turn influenced the way the Council funded the programme. The original budgeted level of receipts stood at £43.4m, however only £6.5m was actually received by the end of March 2009. From the proactive management actions outlined below the Council has been able to reduce its overall level of borrowing by £7.1m against the revised February budget mainly due to a more efficient use of grants against capital projects.

Overall position of the Capital Programme 2008/09

Capital Programme by Directorate:	MTFS 2008 to 2010	Budget 2008/09 Including Slippage From 2007/08	Revised Budget Feb 09	Outturn Expenditure
	£000		£000	£000
Adult Social Care	516	651	651	318
Assistant Chief Executives	14,073	17,864	6,720	5,204
Children's Services	22,692	32,508	26,854	21,600
City Services	1,233	2,305	2,468	2,405
Environment and Community Services	16,435	19,842	18,483	16,025
Chief Executives	2	128	128	205
Strategic Resources	13,205	19,473	12,761	12,096
Total Expenditure	68,156	92,771	68,065	57,853
Contingency	(939)	(939)	(916)	0
Estimated Slippage	8,760	8,760	-	-
Total	75,977	100,592	67,149	57,853
Financed by:				
Grants & Contributions	21,681	31,520	34,782	34,334
Capital receipts	43,428	43,428	5,387	6,548
Borrowing	10,868	25,644	26,980	16,971
Total Resources - required	75,977	100,592	67,149	57,853

4.4.3 To ensure that expenditure was targeted correctly a moratorium, or freeze, was placed on all capital projects therefore reviewing all of the schemes in the capital programme in order to assess and target the Council's available resources to those areas with the greatest demand.

4.4.4 The final position for the Capital Programme expenditure is £57.8m which is significantly less than the revised budget in April 2008 of £100.6m. This is the result of the following actions:

- i. A moratorium, or freeze, on all capital projects
- ii. Natural delays of work being completed on schemes
- iii. Savings being made in the delivery of schemes

4.5. Financial Report – Treasury Management Activity 2008/09

4.5.1 The Treasury Management Strategy was adapted during the year in the light of actual and forecasted developments to the national and local economic situation. The Strategy seeks minimal net financing costs over the medium term whilst still being aware of the short-term implications of decisions taken.

4.5.2 In summary, therefore, the following actions were taken:

- i. In anticipation of large scale borrowing by the UK Government, which was likely to lead to rising fixed term interest rates, limited new borrowing and restructuring of existing Council debt was undertaken in August. The fixed interest rates achieved at the time are lower than those currently prevailing in the money market, which validates the approach taken.
- ii. Investment returns on in-hand cash balances have fallen below borrowing rates, so these monies are being used to temporarily finance capital expenditure instead of borrowing. As investments have declined, the Council has simultaneously avoided its exposure to the risk that deposit-taking institutions may fail to repay investments on maturity.
- iii. Investment returns were expected to fall later in 2008/09, so it was decided in late Summer 2008 to place a proportion of available cash on deposit at fixed, higher interest rates, for periods up to one year. This strategy enabled the Council's investment performance to exceed the benchmark by 1.4%.

4.5.3 The 2008/09 treasury management activities are summarised as follows:

	Strategy	Action
a)	Exploit long-term funding opportunities at interest rate levels that are below short-term rates forecast / anticipated over the foreseeable future.	In anticipation of rising long term borrowing rates, £2m was raised in August. Further funding has been delayed as long term rates have risen while short term / variable rates have fallen.
b)	Consider rescheduling of fixed or variable rate loans to maximise interest rate savings and minimise the impact on Council budgets.	£6.8m of existing debt was rescheduled in August to secure very long term funding at an advantageous fixed interest rate, which provides budget certainty for the duration of the replacement loan.
c)	Consider repayment of external loans or avoid new borrowings when it is in the best financial interest to do so.	As investment returns fell below the cost of borrowing later in the financial year, in-hand cash balances were used to temporarily finance capital expenditure instead.
d)	Invest with credit worthy organisations to limit exposure against loss.	The Council's lending criteria has been successively tightened during the last 18 months. Despite this the Council has a £3m exposure to Icelandic owned UK banks as these deposits were placed prior to the credit crisis. Currently the Council only lends to the UK Government, local authorities and our own bank, Barclays.
e)	To achieve the optimum investment return	The investment portfolio was

	Strategy	Action
	commensurate with security, liquidity requirements (access to funds), debt management alternatives (avoidance of borrowings, premature repayments etc), if these would generate savings in the medium term.	restructured as the credit crisis deepened. In-hand cash balances have been used to finance capital expenditure to minimise counterparty risk and as an alternative to diminishing investment returns. Even allowing for the non-performing Icelandic deposits, the Council's investments have yielded 5.06% compared to the benchmark of 3.66%.

4.5.4 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow money in the long term for capital purposes. In 2008/09 the CFR was:

Opening Capital Financing Requirement 1 April 2008	£000 134,255
New Capital Expenditure Financed by Borrowing	16,971
Minimum Revenue Provision for Debt Repayment	(5,363)
Closing Capital Financing Requirement 31 March 2009	145,863

4.5.5 Compared against the CFR the following loan transactions were undertaken during the year:

Borrowings as at 1 April 2008	£000 139,636
External Loans Maturing in 2008/09 and not replaced	(7,128)
Capital Expenditure Financed by Borrowing	
New External Loans (see 4.5.7 below)	2,000
Use of Internal Cash Balances in lieu of External Borrowing	11,355
Rescheduling of Loans (see 4.5.8 below)	
Loans Prematurely Redeemed	(6,757)
Replacement Loans Raised	6,757
Closing Capital Financing (Borrowing) Requirement	145,863

4.5.6 The following new long-term loan was raised from the Public Works Loans Board in 2008/09 to finance capital expenditure and to replace maturing loans:







	£(k)
Borrowed on 15/08/08 for 49 years at a fixed rate of 4.39%.	2,000

- 4.5.7 During the year an opportunity arose to reschedule £6.76 million of debt i.e. repaying loans early and refinancing into another maturity period at a low interest rate. The transactions were as follows:

	£(k)
Redeemed on 12/08/08, 2 years remaining, running at an interest rate of 5.35%.	(2,000)
Redeemed on 12/08/08, 4 years remaining, running at an interest rate of 5.35%.	(2,257)
Redeemed on 12/08/08, 4.5 years remaining, running at an interest rate of 5.35%.	(2,500)
Replacement loan on 12/08/08 for 50 years at a fixed rate of 4.42%.	6,757

4.6. Financial Report – Performance Monitoring

- 4.6.1 The following table summarises the current status of various performance targets. Individual targets are shown with a RAG status and Direction of Travel based upon the performance against the targets set for 2008/09 and compared with the previous month. Further detail can be seen in Appendix B.

Performance Data	Current Month	
	RAG Status	Direction of Travel
Treasury Management	A	
Prompt Payment of Invoices	R	
Outstanding Sundry Debt	R	
Housing Benefit Overpayments	R	
Council Tax Collection	A	
Business Rates Collection	A	

- 4.6.2 During 2008/09, remedial action has been taken to limit the impact on the performance indicators which were set before the downturn of the economy was known.
- 4.6.3 In particular the level of tax collection has become more problematical as the recession impacts on council tax payers and business rate payers.

5 CONSULTATION

- 5.1 Detailed reports have been discussed in Departmental Management Teams.

6 ANTICIPATED OUTCOMES

- 6.1 To note the outturn position for the Council.

6.2 To note the performance figures for the Council.

6.3 To note the actions being that have been taken during 2008/09.

7 REASONS FOR RECOMMENDATIONS

7.1 This monitoring report for the 2008/09 financial year is part of the process for producing the Statement of Accounts.

8 ALTERNATIVE OPTIONS CONSIDERED

8.1 None required at this stage.

9 IMPLICATIONS

9.1 This report does not have any implications effecting legal, human rights act or human resource issues.

10 BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985).

Detailed monthly budgetary control reports prepared in Departments.

Budget Monitoring Revenue 2008/09 by Department			
	Annual Budget £(k)	Outturn Forecast £(k)	Outturn Variance £(k)
CHIEF EXECUTIVE DEPARTMENT			
Chief Execs Department	421	719	298
Legal & Democratic Services	3,896	3,874	-22
Human Resources	3,601	3,864	263
CHIEF EXECUTIVE DEPARTMENT TOTAL	7,918	8,457	539
ASSISTANT CHIEF EXECUTIVE			
Asst Chief Executive Unit	2,122	1,927	-195
City Centre	757	759	2
Communications	590	792	202
Strategic Growth & Development	6,154	6,130	-24
DIP/DAAT	56	0	-56
ACE TOTAL	9,679	9,608	-71
DIRECTOR OF CHILDREN'S SERVICE			
Resources	5,385	5,005	-380
Commissioning and Performance	2,624	2,120	-504
Learning & Skills	9,279	8,803	-476
Family and Communities	5,895	5,614	-281
Children's Social Care	22,952	24,578	1,626
CHILDREN'S SERVICE TOTAL (GENERAL FUND)	46,135	46,120	-15
DIRECTOR OF CITY SERVICES			
Building & Technical	-797	382	1,179
Street Scene & Facilities	1732	1,919	187
Property, Design and Maintenance	-141	-380	-239
Other Trading Activities and Business Support	1977	1,682	-295
Maintenance	9401	9,119	-282
Westcombe	46	243	197
CITY SERVICES TOTAL	12,218	12,965	747
DIRECTOR OF ENVIRONMENT & COMMUNITY SERVICES			
Director's Office	817	1,018	201
Resilience Team	467	426	-41
Planning Services	1,317	1,940	623
Environment & Public Protection Services	2,418	2,286	-132
Community Safety	0	0	0
Transport & Engineering	9,319	9,603	284
Culture & Recreation	6,151	5,816	-335
City Centre Director	623	706	83
ENVIRONMENT & COMMUNITY SERVICES TOTAL	21,112	21,795	683
DIRECTOR OF STRATEGIC RESOURCES			
Director's Office	183	148	-35
Finance	10,364	8,491	-1,873
Strategic Improvement	687	765	78
ICT	1,441	1,224	-217
Strategic Procurement	130	489	359
Strategic Property	-3,651	-3,308	343
Customer Services	1,804	1,762	-42
Revenue & Benefits	748	156	-592
Internal Audit	150	149	-1
Efficiency Team/Projects	2,805	2,805	0
Waste Management	4,318	4,318	0
STRATEGIC RESOURCES TOTAL	18,979	16,999	-1,980
ADULT SOCIAL CARE			
Adult Social Care	38,588	38,544	-44
ADULT SOCIAL CARE TOTAL	38,588	38,544	-44
GENERAL FUND TOTAL	154,629	154,488	-141
DEDICATED SCHOOL GRANT TOTAL	108,580	108,586	6

PERFORMANCE MONITORING DATA

Treasury Management

Treasury management activities cover borrowings raised to finance the Council's capital expenditure and investment of its cash balances. The Council's external debt as at 31 March 2009, which is all at fixed rate, was £134.5 million at an average rate of 4.57%. This average rate can be compared to the Bank Base Rate, 0.5% from 5 March 2009, and interest receivable on investments. The actual total external debt of £134.5 million can be compared against the Council's Authorised Limit for borrowing of £194.0 million which must not be exceeded, and the Operational Boundary (maximum working capital borrowing indicator) of £150.0 million.

At 31 March 2009 external investments totalled £48.5 million and have yielded interest at an average rate of 5.06% in the financial year to date. The performance is above the target benchmark 7 day rate of 3.66%.

Prompt Payment (Invoices paid within 30 Days)

The current performance for the prompt payment of invoices for 2008/09 in comparison to the cumulative performance for 2007/08 is shown in Table 3.

Phase 2 of the Invoice Processing project implemented early February is resulting in an increase of responses from departments to clear invoices that have been on hold (unpaid) for an extended period. The benefit from this project enables departments to be automatically notified when an invoice requires intervention and view a scanned image of the invoice.

Performance for month ending April 2009 has resulted in 95.7% invoices being paid within 30 days.

Table 1 : Performance on Borrowings 2008/09

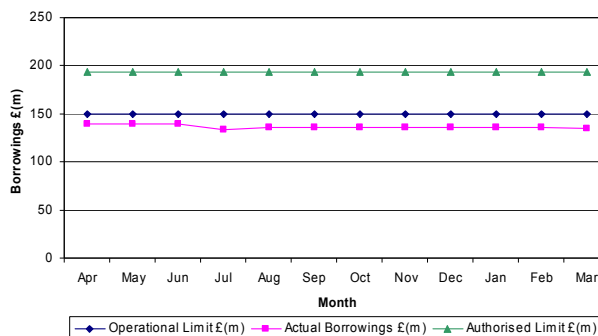


Table 2 : Performance External Investments 2008/09

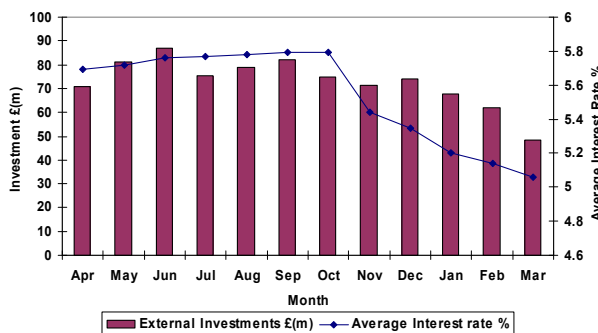
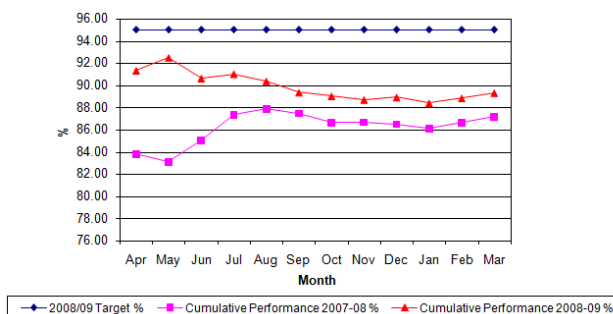


Table 3 : Prompt Payment of Invoices



Sundry Debt Performance

The latest outstanding sundry debt figures for debt over 6 months old are shown in Table 4 in comparison to 2007/08 figures. The impact of the recession has resulted in delayed payment of invoices by customers, non payment or rescheduling of the amount due into instalments. These figures include debt that will potentially require write off using the Cabinet Member Decision Notice as the individual debt is in excess of £10k. Decision notices are currently being prepared and a prudent view has accounted for the potential bad debt within the debt provision.

The amount of debt written off for 2008/09 is £134,484 from 502 invoices. This amounts to an average of £267.90 per invoice. The main reasons for writing off debt are:

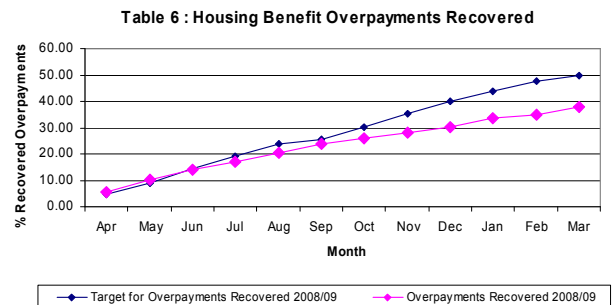
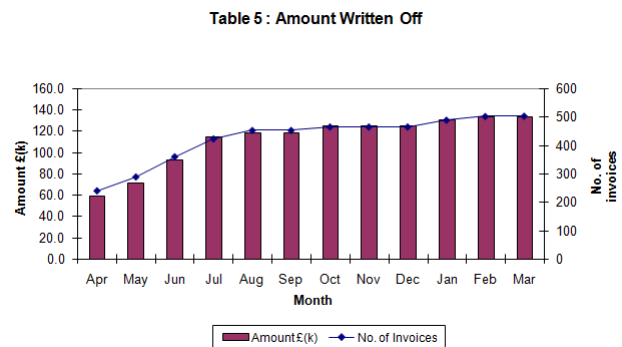
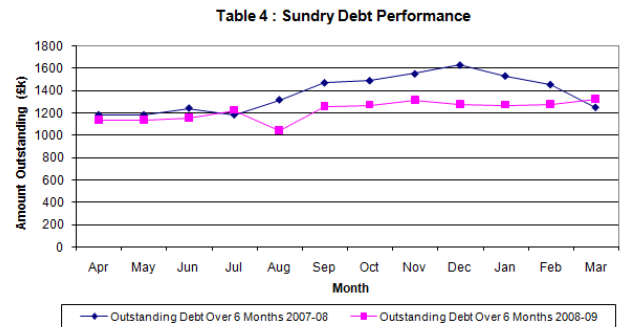
- Historical sundry debt outside of statutory deadlines;
- The debt being uneconomical to pursue; and
- Legal Services and the bailiff company exhausting all possibilities of recovering the debt.

The Council's strategy for writing off debt is followed accordingly.

Housing Benefit Overpayments

Table 6 shows the total amount of housing benefit overpayments recovered against the target rate of 50%.

Work continues in this area to improve current performance, the Council carried £1,674m over from last year and to date have raised a further £1,479m of which £1,187m has been recovered this year, equating to 37.66% against PM8 which calculates both in year identified and previous year balances against amount recovered. The percentage recovered against the balance raised during period equals 80.28% but this to date has not been split between current and aged arrears.



The number of claimants has risen since the economy has been in recession.

Council Tax and Business Rates Collection

The following tables 7 and 8 show the performance for collection of Council Tax and Business Rates for the period to date.

Council Tax

The collection rate for Council Tax at the end of the financial year 2008/09 is 96.24% against a target of 97.5% (down 1.26%). Compared with the collection rate for the previous year the rate was 96.85% (down 0.61%).

It should be noted that the target was set during the previous year without the foresight to predict the significant economic downturn that has gripped the country. There can be little doubt that this has affected the ability to improve upon the previous years collections although the proactive recovery actions taken by the team does appear to have limited the deficit of in year collection to a relatively small amount, in the circumstances.

Business Rates

The collection rate for Business Rates at the end of the financial year 2008/09 is 96.90%. This is 2.5% down on the target and 1.38% down on the previous year. Changes in legislation meant that previously exempt properties that were unoccupied began to attract a charge. This increased the overall amount that needed to be collected and given that there was no trading from the premises in question meant that it was more difficult to collect. In addition to this the well know credit crunch has undoubtedly had a direct impact on the level of business rates collected and it is anticipated that this situation will continue in the new financial year.

Table 7 : Council Tax Collection

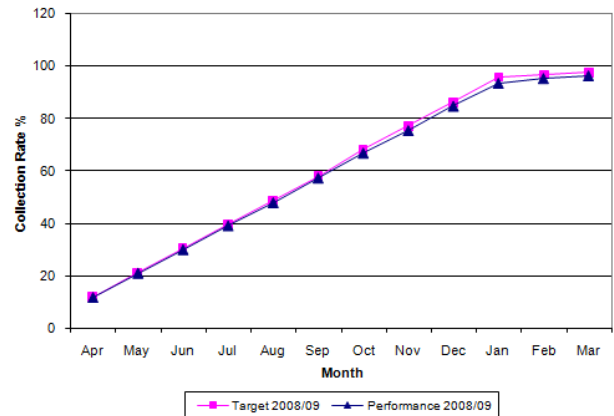


Table 8 : Business Rates Collection

