

## STRATEGIC OVERVIEW AND SCRUTINY COMMITTEE

22<sup>nd</sup> June 2010

Agenda Item 7

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### SUBMISSION BY CLLR MJ WILCOX, THE LEADER OF THE COUNCIL & THE CABINET MEMBER FOR FINANCE, REVENUES & BENEFITS

#### Our Financial Performance 2009/10

#### 1. Purpose of Report

- 1.1. To provide Members with the opportunity to scrutinise the Council's financial performance against the Revised Budget 2009/10, and the financial performance of service areas against previous years, particularly to assess the performance of specific services that represent a higher risk to the Council by reviewing trends in income, expenditure and cost to the Council.
- 1.2. To provide the views of Members from this Committee to Cabinet at its meeting of June 29<sup>th</sup> 2010, when Cabinet will be considering it. The report is attached at **Appendix A**.

#### 2. Background

- 2.1 As part of leading the organisation, managers have to account to Members for their management of the financial resources and for the performance of the organisation against what the Council has agreed.
- 2.2 The Strategic Plan 2008-12 sets out the ambition, focus and priorities for 4 years. The Plan is 'milestoned' for each year, so that we can bring appropriate focus to delivery.
- 2.3 The Leadership Team, together with their Cabinet Members, are responsible for delivering against the milestones for the Strategic Plan and are required to report progress on this, enabling Members to review the performance of the organisation.
- 2.4 The Financial Strategy sets out the allocation of resources and the policies and parameters within which Managers are required to operate. Legally we are required to set a 3-year balanced Budget. The Strategy covers Revenue and Capital Expenditure and was approved in February 2010 covering the financial period 2010-14.
- 2.5 The report covers the financial performance for the financial year 2009/10 and measures performance against the Financial Strategy. Aspects like community safety, human rights, and sustainability issues are all dealt with as part of the delivery of the priorities so have not been separately identified.

#### 3. Community Benefits

- 3.1 The reporting of timely budget performance statements enables Members to critique and scrutinise performance for the efficient and effective use of resources, in the interest of the community, for the delivery of services and key priorities, as set out in the Strategic Plan.
- 3.2 Overall, the financial performance of the Council means that less money from general reserves was needed to support services. This means we have more general reserves available to assist with the Council's finances. This has been achieved through stringent cost controls.
- 3.3 The performance also shows that the impact of the Recession has been contained and has been roughly in line with what managers forecast this time last year.
- 3.4 Expenditure Review 2009 achieved the savings required and did so in a cost effective way.

#### 4. Financial Implications

4.1 Overall, there was a contribution from General Reserves of **£658K**, compared with a budgeted contribution from General Reserves of **£1,470K**, a reduction of **£812K** of contribution from General Reserves.

#### 5. Risk Management Issues

Risk	Likelihood/ Impact	Risk Category	Counter measure	Responsibility
	Management of the Council's Revenue and Capital budget is critical to the successful delivery of key Council's priorities, and control measures need to be in place to manage the re-scheduling or re-profiling of projects and to respond to the changing financial climate.	Medium/High	Financial	Close monitoring of expenditure. Maximising the potential of efficiency gains. Early identification of any unexpected impact on costs, for example, central Government policy changes, movement in the markets, and changes in the economic climate. Prioritisation of capital expenditure. Project management of projects.

#### Background Documents:

Strategic Plan 2008-12

Medium Term Financial Forecast 2008-12

## OUR REVIEW OF 2009/10 PERFORMANCE AGAINST THE FINANCIAL STRATEGY

### 1 Delivering our Priorities: financial performance for 2009/10

- 1.1 Being *absolutely customer focused* means that we want more of our resources to be focused on those areas which are important to our residents.
- 1.2 Being *performance driven* means that we want to constantly align resources to areas where we want to deliver to a higher standard.
- 1.3 Getting *more for less* has been a key driver for us in each year of our Strategic Plan. Year on year we face higher costs on some areas of spend like fuel.
- 1.4 Year on year we have had to make savings and efficiencies, cutting other costs to afford these increases and achieve the savings.
- 1.5 The financial climate significantly changed during 2008/09, with the economic downturn being officially classified as a recession in the latter part of that year, and it continued on throughout 2009/10. Along with other District Councils, our income and costs were significantly affected, as has been some of the progress on our top priorities which are funded through our capital investment.
- 1.6 In this report we show the Expenditure Review savings made to date and account for our financial performance for the full year to March 2010. We quantify the impact of the recession for the year; the performance on the key business risk areas; the overall performance on the Bottom Line, and the performance on the aspects of our priorities which are funded through capital investment.

### 2 Performance on the Expenditure Review 2009

- 2.1 We reported to Council on 24th February 2009, that our potential funding gap for 2010/11 and 2011/12 was **£3.477m**.
- 2.2 We completed a comprehensive Review of Expenditure by the end of July 2009.
- 2.3 The Table below shows that the Total Savings achieved from the 2009 Review for the years from 2008/09 was **£3.391m**. The small short fall of **£86K** against the target was mainly due to timing issues as many of the savings impacted on posts which had to follow the appropriate consultation process.
- 2.4 The final figure achieved is net of the cost of the savings of **£169.5K** (or **4.8%** of the savings achieved). We took out **28.5** posts, with only **8.5** of these being compulsory redundancies, which resulted in the cost of savings being relatively modest. This was achieved by reconfiguring services in response to vacancies arising to optimise the savings.
- 2.5 The Medium Term Financial Strategy for 2010-14 as approved at 9<sup>th</sup> February 2010 Cabinet challenges the Council to identify **£3.569m** of savings. Expenditure Review 2010 is currently in progress across all of the Council.

Total Savings	Approved 3-Year Medium Term Financial Strategy 2009/12				
	2008/09 £K	2009/10 £K	2010/11 £K	2011/12 £K	TOTAL 2009/10 to 2011/12 £K
Total Savings Target	0	0	1,725	1,752	3,477
<b>Expenditure Review 2009 Savings achieved</b>	<b>80</b>	<b>822</b>	<b>1,236</b>	<b>1,253</b>	<b>3,391</b>
Variation against Total Savings Target for 2009 Review	£80K	£822K	£(489)K	£(499)K	£(86)K
<b>Expenditure Review 2008 savings</b>	<b>£372K</b>	<b>£463K</b>	<b>£550K</b>	-	<b>£1,385K</b>
<b>Total Cumulative Savings</b>	<b>£452K</b>	<b>£1,285K</b>	<b>£1,786K</b>	<b>£1,253K</b>	<b>£4,776K</b>

### 3 Impact of the Recession on the Council's financial position

- 3.1 The Recession has had a significant impact on District Council's finances.
- 3.2 The scale, length and depth of the Recession has been and still remains difficult to accurately predict. The impact is being closely monitored and assessed by individual service/activity in order to assess as accurately as possible the financial risk to the Council's finances, so that we can take mitigating actions into 2010/11.
- 3.3 Since we first estimated the likely impact of the Recession in Nov 2008 the recessionary impact for 2009/10 was estimated to be **£1,150K**.
- 3.4 The actual impact for 2009/10 is **£1,428K**, a difference of **£278K**.
- 3.5 The principal variations are Commercial Rents **£184K** and Interest on Balances **£127K**, with the remaining mainly due to Planning Fees **£50K**. These adverse variations have been partly offset by additional Car Parking Fee Income **£(48K)** and an improved performance in Leisure Centres **£(36K)** against the anticipated forecast of the impact.
- 3.6 The impact of the Recession on The Garrick Theatre did not arise until September 2009 so is not included in our original predictions, however is estimated to be circa **£60K**, assuming that **11%** additional income could have been achieved rather than the **6.2%** actually achieved. This would make the total actual impact **£1.488m**.

The Table below sets out the actual impact of the Recession on the Council's finances for 2009/10 :

Impact of the Recession on District Council's Finances	2009/10		
	Original Estimate of Impact (Nov 2008)	Actual Impact (Outturn March 2010)	Variation
	£K	£K	£K
<b>Changes in Net Expenditure</b>			
Leisure Centres	320	284	(36)
Planning Fees	65	115	50
<b>Reduction in Income</b>			
Car Parking Fees	252	204	(48)
Commercial Rents	-	184	184
Local Land Charges	106	107	1
The Garrick Theatre	-	60	60
Interest on Balances	381	508	127
Council Tax Base	26	26	-
<b>Total Recession Impact for 2009/10</b>	<b>£1,150K</b>	<b>£1,488K</b>	<b>£338K</b>

### 4 Focus on key business risk areas

- 4.1 Our key business risk areas are the subject of close management focus, as they rely on significant income generation.
- 4.2 Small changes in the business within these areas can have a significant impact on the *Bottom Line* for the Council.
- 4.3 Leisure Centres overall had a revised Budget of **£1.9m** in income generation for the Council. The Lichfield Garrick also has a budgeted income at almost **£1.9m** meaning together these recreational services that Lichfield offers requires almost **£4m** in commercial income to sustain the service.
- 4.4 Our other key business areas are Car Parks, with a projected income of **£1.9m**, Waste & Recycling income - **£0.8m**, Planning Fee income - **£0.4m**, Commercial Rents - **£0.7m** and Treasury Management interest - **£0.2m**.
- 4.5 Here we advise on their financial performance for 2009/10.
- 4.6 In the table overleaf we look at *the trend* in the financial performance for each of the areas – how they did compared to previous years, alongside their performance *against budget*.
- 4.7 For the Council as whole the key risk areas account for **£(187)K** of the favourable variance against the Revised Budget with the other less risky areas being helped by a one-off VAT reclaim connected to a legal case (known as the Fleming Case) of **£(444K)** for VAT paid in the early 1990's.

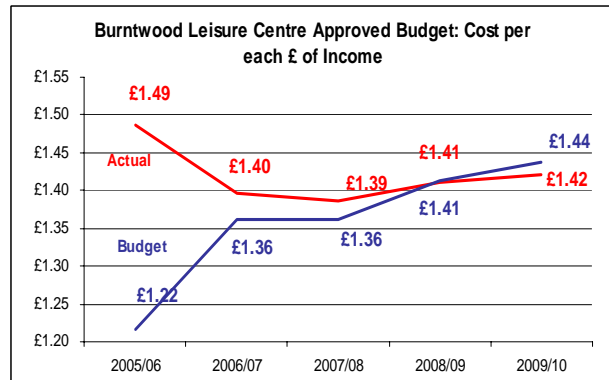
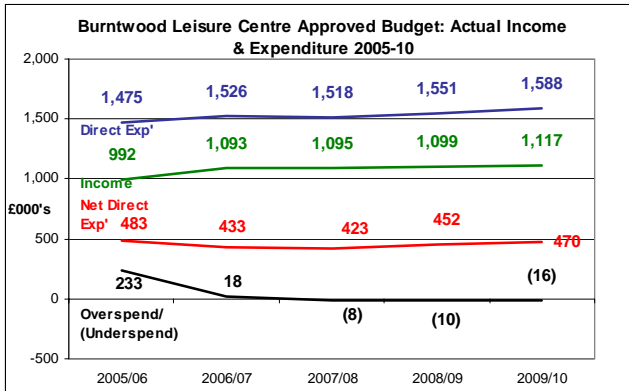
**Summary of performance on our key business risk areas – Full Year Outturn to 31<sup>st</sup> March**

Area	Trend on financial performance	Position on budget
Leisure Centres	<p><b>Income:</b> Compared with last year the Leisure Centres are just <b>£65K</b> down on last year (<b>3%</b>).  <b>Direct costs:</b> Compared with last year the Leisure centres are <b>£37K</b> up (<b>1%</b>).                      Overall this means the Leisure Centres performed below 2008/09 by <b>£102K</b> which is better than expected.</p>	<p><b>Income:</b> Compared with the revised Budget, the Leisure Centres are <b>£18K</b> down (<b>1%</b>).  <b>Direct costs:</b> Compared to the revised Budget, the Leisure Centres are <b>£39K</b> (<b>1%</b>) better than Budget. This means overall the Leisure Centre's have performed better than the revised Budget by <b>£(21K)</b>.</p>
Recycling and waste management	<p>The waste management service cost the Council <b>£70K</b> less than in 2008/9.  <b>Direct Costs</b> were down by <b>£271K</b> on last year. <b>Income</b> was down by <b>£201K</b> on last year. The move to the new blue bin fortnightly collection service for dry recycling, resulted in transport and employee costs being down by <b>£68k</b> on 2008/9.</p>	<p>The outturn position for waste and recycling is an underspend against revised budget of <b>£(149)K</b>. This is largely the result of the roll out of the blue bins and the move to fortnightly collections for dry recycling waste, producing a saving against budget for both employee costs (<b>£86K</b>) and fuel costs (<b>£59K</b>), the latter as a result of taking 3 vehicles off the road.</p>
Car parks	<p>Car parks contributed <b>£76K</b> more to the Council's bottom line than in 2008/9, with a total net income of <b>£1,448m</b>. Income was <b>£49K</b> (<b>2.6%</b>) higher and cost were <b>£28K</b> lower than in 2008/9. This is in spite of the closure of the multi-storey car park, and is due mainly to an increase in income from season tickets.</p>	<p>Performance shows an underspend of <b>£112K</b> against the revised budget, performance against the original budget shows an underspend of <b>£192K</b>, which was achieved during an exceedingly challenging year. <b>Income</b> was in line with Qtr 3 Revised Estimate and better than Original Budget by <b>£(48K)</b>, despite the economic recession and the impact of the closure of the multi-storey car park.</p>
Planning fees	<p>Income is up by <b>£6K</b> compared to the same time last year even though the number of minor and major scheme applications have reduced by <b>12%</b> as a result of the Recession.</p>	<p>Planning fee income is <b>£54K</b> lower than budget proactive management action amounting to <b>£37K</b> has reduced the net direct expenditure variance to <b>£17K</b></p>
Local Land Charges	<p><b>Income</b> is up by <b>9%</b> on 2008/9, which reflects an <b>3%</b> increase in the number of searches.</p>	<p><b>Income</b> has remained broadly in line with Budget at just <b>£1K</b> lower than estimated.</p>
Commercial Rents	<p><b>Income:</b> The rent from shops and Industrial Units achieved was <b>£147K</b> lower than 2008/9, due to the Recession.</p>	<p>There is an overall reduction in rental income of <b>£68K</b> less than the revised estimate, as result of retrospective rent reviews.</p>
Concessionary Fares	<p>The number of passes issued in 2009/10 of <b>1,705</b> represents an <b>11%</b> increase .</p>	<p>The number, length and type of concessionary journeys in 2009/10 are less than those in 2008/9. Also, the average fare was not increased. Overall, this resulted in a saving to the Council of <b>£104K</b> in 2009/10 of payments to bus operators.</p>
The Lichfield Garrick	<p><b>Income:</b> is up by <b>£132K</b> or just over <b>7.1%</b> compared to the same time last year, but this is below what we need to cover the increase in costs. The recession impacted on income.  <b>Direct costs:</b> Costs have increased by <b>£211K</b> or <b>9.1%</b> compared with the same time last year, in part reflecting increased activity in the theatre.</p>	<p>Overall the total cost to the Council is <b>£34K</b> better than the revised budget  <b>Income</b> was significantly higher than the original budget (by <b>£344K</b> or <b>21%</b>) and at <b>£2m</b> was slightly higher than the revised budget.  <b>Direct costs:</b> Costs were up by circa <b>£570K</b> on the original budget but came in slightly better than the revised budget.</p>
Treasury Management	<p>The level of income from investments has reduced compared to last year. In 2008/9, the Council's average annual return was <b>4.9%</b> and this compares to an average return for 2009/10 of <b>0.96%</b>. Projected interest rates are very difficult. Most commentators agree that rates are unlikely to increase significantly in the short term.</p>	<p>Net investment receipts were <b>£180K</b> for 2009/10 and this compares to a revised budget of <b>£180k</b><sup>1</sup>. The <b>£104K</b> reduction in interest since Approved Budget reflects the prioritisation of the safe return of our investments rather than maximising rates of return (yield) and a general deterioration in investment returns in the markets due to interest rates falling.</p>

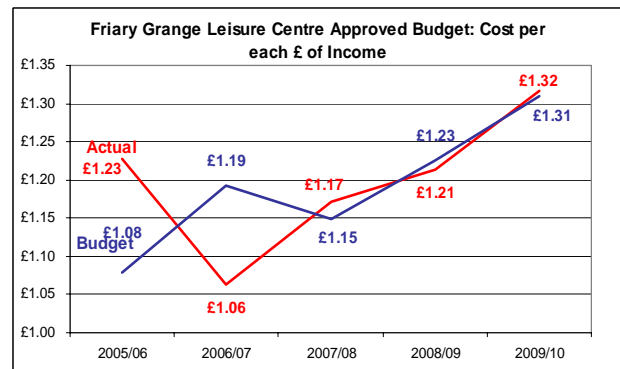
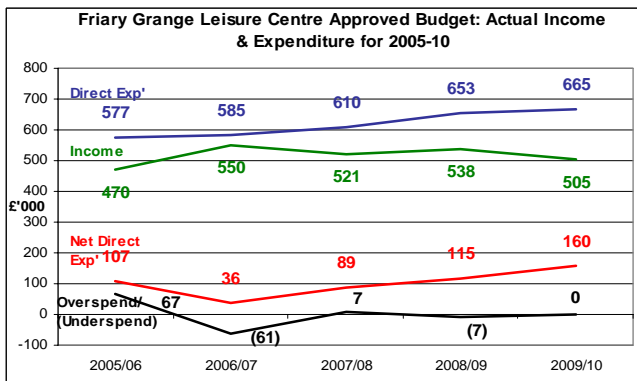
1 For further details see the Annual Report on Treasury Management Services elsewhere on this Agenda.

## 4 Our Leisure Centres

5.1 Our Leisure Centres performed marginally better than the revised budget by £(21K) or 2%. In total, the Centres cost the Council **£819K**, which is more than they cost last year, but lower than the amount budgetted of **£839K**.



5.2 Although the net direct cost of the Leisure Centres to the Council grew by **£102K** in 2009/10 compared with 2008/9, the Recession has made it difficult to maintain levels of business. However, we had previously identified the likely impact of the prevailing economic climate and so had been able to take action to ensure that the Centres remained well within budget. Our ambition and our challenge for this year was to achieve budget by maintaining existing levels of income and realising identified savings in expenditure.



5.3 Income was down by approximately **£65K** compared with the same period last year. This is largely because of the following: the continuing unavailability of the swimming pool at King Edward VI Leisure Centre which meant we could not sell swimming coaching courses; the cold weather in January and February meant that the synthetic turf pitches were unplayable for long periods; and slightly lower than forecast income from swimming. In addition, the 2008/9 period benefited from the timing of Easter – whereas 2009/10 did not.

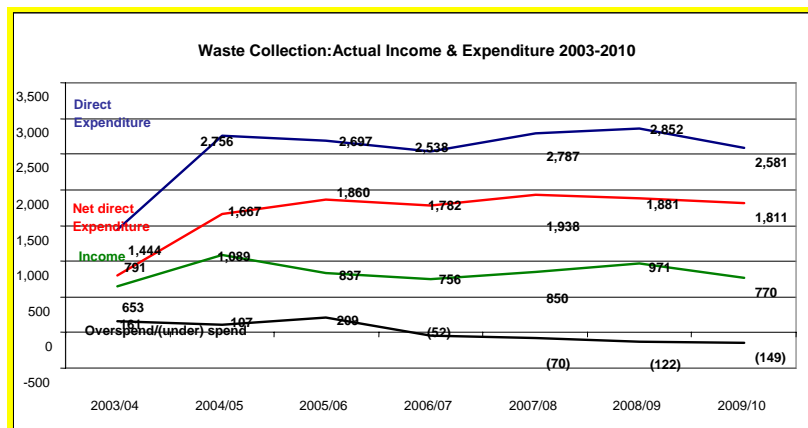
5.4 We have also operated in an industry that has been affected by deflationary pressures, so we had to lower some prices, particularly for our direct debit memberships and for swimming to ensure that we remained competitive and to maintain our customer base.

5.5 But there were areas of good performance: we had our best year ever for attracting customers to *Inspire: Fitness at Burntwood*, and our catering operation at Burntwood was considerably more profitable than in 2008/9 – a year in which it made it's first ever trading surplus.

5.6 Direct expenditure increased by **£37K (1%)** compared to last year. This was mainly due to: Utilities (**£16K**); National Non-Domestic Rates (**£7K**) and Grounds Maintenance (**£5K**) (the latter being an accounting adjustment which was previously outside of direct costs). We also incurred one-off costs in implementing the actions outlined in Expenditure Review 2009. However, we maintained controls on all other costs – in particular staffing costs which were reduced by **£17K** despite incurring one-off costs of restructuring.

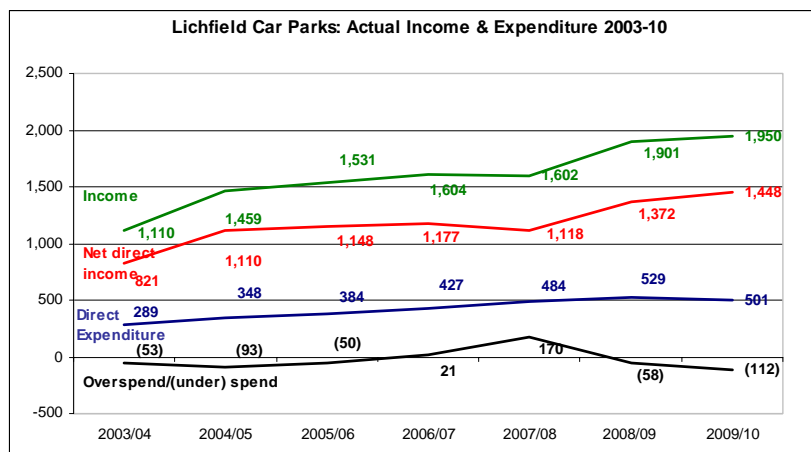
## 6.0 Recycling and Waste Management

- 6.1 The waste service as whole (residential and commercial) cost the Council **£70K** less than in 2008/9 and showed a significant underspend against budget in 2009/10. This was largely the result of the changes to the dry recycling service mentioned above. Both transport and employee costs were reduced, the former by **£14.5k** and the latter by **£53k** when compared with 2008/9. Savings against budget in 2009/10 amounted to **£58.5k** on fuel costs and **£86k** on employee costs. Overall as a result of moving to fortnightly collection services, whilst income is down by **£201K** year on year this has been more than offset by expenditure savings of **£(271K)**.
- 6.2 Our focus on this top priority service has continued to be to stay a top performing recycler and to lower the cost of doing so – do more with less. This was achieved with the service increasing its recycling rate to **54.7%** by the year end. This compares with a rate of **52.75%** in 2008/9 and is an increase of **3.7%**. Over the same period, the waste sent to landfill decreased by **8%**.
- 6.3 The service was improved by the roll out of the blue bins and the move to a fortnightly collection service for dry recycling waste. This was extended to the majority of the District by November 2009 and has already proven to be successful in terms of monetary savings. As a result, dry recycling waste collected increased from November 2009 to end March 2010 by almost **600 tonnes** as compared with the same period in 2008/09. This also meant both transport and employee costs were down by **£68k** as compared with 2008/09.
- 6.4 The new service has also contributed to a lower carbon emission count.



## 7 Car Parks

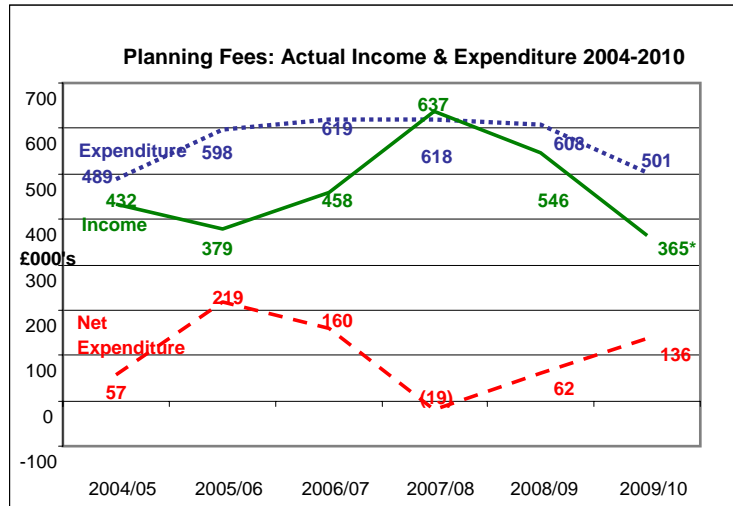
- 7.1 The car parks service contributed **£76K** more to the Council's bottom line than in 2008/9, with a total net income of **£1,448m**. Income was **£49K** higher and cost were **£28K** lower than in 2008/9.
- 7.2 Sales of season tickets saw an increase, and the loss of the multi-storey car park places was in the main compensated by an increase in income from the surface car parks, although we did see usage fall as a result of the economic recession. The position on costs was achieved despite the additional pressure of the expenditure incurred on the multi storey car park.
- 7.3 Comparisons to the revised budget are shown in the graph, with an underspend of **£112K**, performance against the original Budget shows an underspend of **£192K**, which was achieved during an exceedingly challenging year.





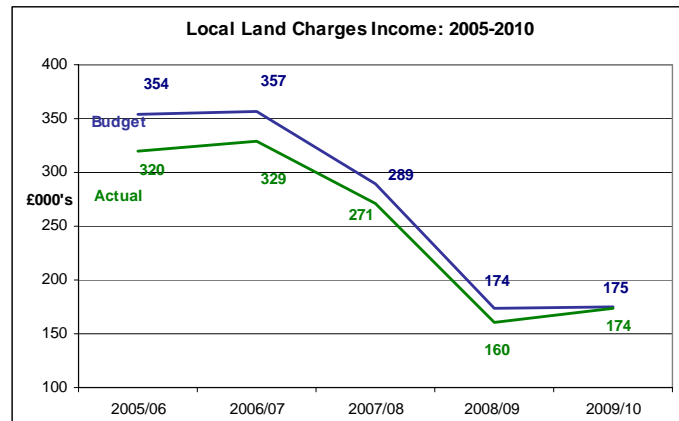
## 8 Planning Fees and Local Land Charges

- 8.1 Planning Fee income comprises fees from routine planning applications and major applications, together with any costs recovered, with the Budget for 2009/10 set at **£419K**.
- 8.2 In 2009/10 we received **831** planning applications, compared with **949** for 2008/9, a reduction of **118 (12%)** applications. This **12%** reduction in applications has resulted in a shortfall in income of **£54K** against Budget.
- 8.3 Due to an accounting change Housing Planning Delivery Grant (HPDG) is shown outside of Net Cost of Service in 2009/10. In 2008/09 we received **£187K** HPDG, therefore excluding this Planning fee income of **£365K** in 2009/10 compares to 2008/9 income of **£359K** representing an increase of **£6K**.
- 8.4 Proactive management has reduced expenditure by **£107K (18%)**. The total net expenditure has been reduced to **£136K**.



\* Excludes Housing Planning Delivery Grant of **£367K** in 2009/10 (shown below Net Cost of Service)

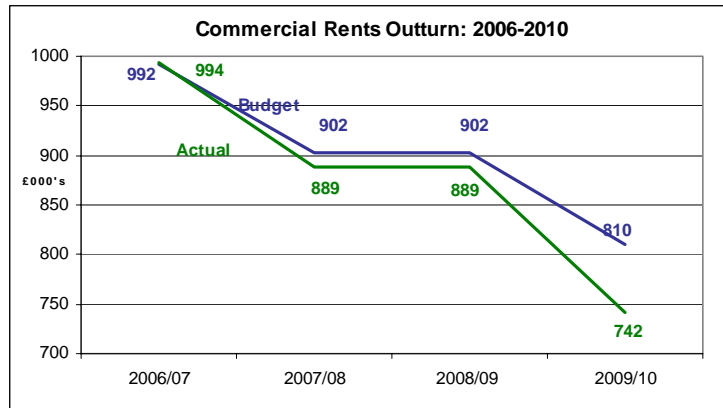
- 8.5 Local Land Charges shows a reduction of **£1K** in income in comparison with the revised estimate. The income for 2009/10 shows an increase of **9%** in comparison with 2008/9. This reflects a **3%** increase in the number of searches despite the 'downturn' in the housing market.



## 9 Commercial Property

- 9.1 We receive income from rent of Shops, Land and Industrial Units.
- 9.2 We received **£147K** less in 2009/10 than in 2008/9. Shop rents and industrial units were and continue to be under pressure as the Recession effectively placed a squeeze on consumer spending and lack of credit available for businesses.
- 9.3 The amount received in 2009/10 was **£68K** less than the revised estimate. This was as a consequence of a retrospective rent review for the Three Spires Shopping Centre for the years 2007, 2008 and 2009. This resulted in a rent refund of **£83K**, partially offset by additional rental income of **£15K**.
- 9.4 Currently there are currently **3** Industrial units vacant.

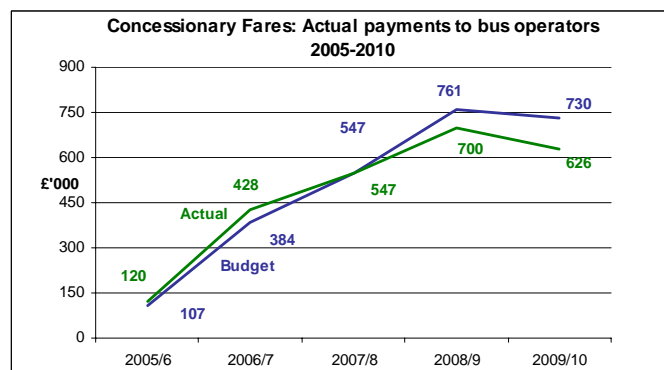




\*\*The income figure for 2006/7 was exceptionally high due to a back payment of rental income of £102K in that year.

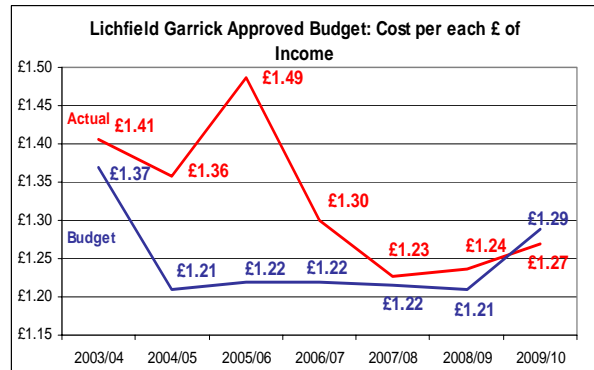
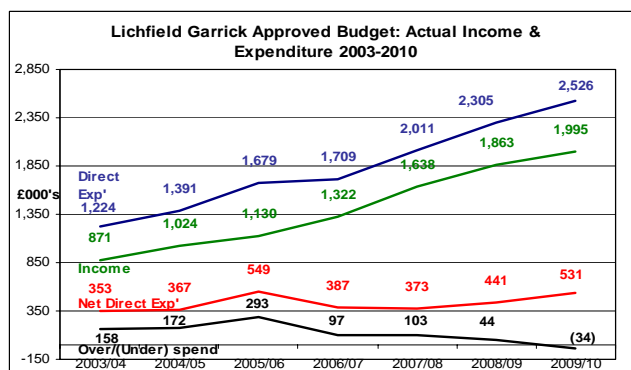
## 10 Concessionary Fares

- 10.1 The Council is a member of the Staffordshire and Stoke-on-Trent Travel Concession Scheme. This is administered by Staffordshire County Council on behalf of 6 Local Authorities - Lichfield District Council, Staffordshire Moorlands District Council, Newcastle-under-Lyme Borough Council, Stafford Borough Council, South Staffordshire Council and Stoke-on-Trent City Council.
- 10.2 The number of bus passes issued for 2009/10 was **1,705**, this represents an annual increase in demand for bus passes of **11%**. The cumulative number of passes issued to date since April 2008 is **17,755**.
- 10.3 The number, length and type of concessionary journeys in 2009/10 are less than those in 2008/9. Also, the average fare was not increased. Overall, this resulted in a saving to the Council of **£104K** in 2009/10 of payments to bus operators.



## 11 The Lichfield Garrick

- 11.1 Overall the total cost to the Council is **£34K** better than the revised budget, and this includes a one-off reimbursement of VAT of **£35K** net, as a result of a legal ruling. However, because the increase in expenditure was more than the increase in income, the Garrick cost the Council more than last year.



- 11.3 Direct income was up by **7.1%** on last year at **£2m**, exceeding last year's level by **£132K**.
- 11.4 Direct *expenditure* has increased by **9.1%** this year compared to last year, and was due to increases in staff costs and supplies and services
- 11.5 The **7.1%** rise in income was achieved in the depth of the recession. Income would have needed to rise by **11% (£2.068m)** to cover the extra expenditure, and this was not unachievable given the growth in income in the preceding years of nearly **14%, 24% and 17%**.
- 11.6 However, income was affected by the Recession, particularly in September and October, with attendances lower in these months. Corrective action was taken on staffing costs and marketing costs which substantially improved the financial position for the second half of the year, and these cost reductions will continue into 2010. The severe bad weather in January also impacted on income for the Pantomime, when snow and ice caused school closures which resulted in cancellations for performances, although the Pantomime's income was up by **£25K** on the previous year. In addition we estimate that the Recession reduced income by circa **£60K**.
- 11.2 A continued focus on the performance of Bar and Catering facilities during the year has resulted in a **£50K surplus** (net profit), an increase of **£38K** on the previous year.
- 11.7 A new Box office facility has been installed which is designed to actively control employee costs on the box office *and* provide an improved customer service, as the new system allows people to book on-line, select their seats and print their own tickets. When booking customers can view the stage from their seat which will have a marked impact on the use of the facility. Increasing the number who book and print their own tickets will reduce cost in this area, and reduce the congestion in foyer area at show starting times. The new service has been well received so far.
- 11.8 During the year, at the request of the Chairman of the Garrick Panel, the economic impact of the Theatre on the local economy was researched and calculated, using an industry standard method devised by the University of Sheffield to calculate the regenerative impact of spend by public bodies on art and culture. Using the methodology, the economic impact of the Garrick on the local economy was calculated to be **£8.3m** for 2009/10. This compares to **£7.6m** for 2008/9. The return on the Council's investment is calculated to be **16:1**, i.e. for every **£1** the Council provided to the Garrick, **£16** was generated within the local economy. This categorises the net direct expenditure, which is the cost to the Council, as *investment*. The full report on this was presented to the Garrick Panel in February 2009, and subsequently summarised to Cabinet.

## **12. Treasury Management - The Investment Income we receive**

- 12.1 The Financial Year 2009/10 continued to present challenging circumstances with regards to Treasury Management. The Recession, coupled with the increased risk that counterparties would default on repaying the Council's investments (counterparty credit risk) presented the Council with additional issues not normally encountered. The main implications of the exceptional circumstances have been:
- ❖ Deteriorating investment returns, resulting in slightly reduced investment income from that originally budgeted and;
  - ❖ An increase in counterparty risk, this has reduced the number of counterparties that the Council can use to invest with.
- 12.2 The performance of the Treasury Management function should be measured against the investment objectives of Security (the safe return of our monies), Liquidity (making sure we have sufficient money to pay for our services) and Yield (the return on our investments).

### **Security**

- 12.3 Our aim for the risk status of our portfolio was **AA-** using the Fitch long-term credit rating. However, in line with best practice we now utilise the lowest rating from the three credit rating agencies as the basis for assessing the risk status and this has revised the risk status to **A+**.
- 12.4 The investments outstanding at the 31<sup>st</sup> March 2010 had a risk status of **AA-** and this is compliant with our aim and the recommendations from our Treasury Management advisors.
- 12.5 In addition, we are currently keeping the length of our investments relatively short term to ensure that we can react to changes in counterparty credit risk very easily. Our Treasury Management advisors have recommended investments are for no longer than **1 year** in duration to manage counterparty credit risk. The average length of investments we made in 2009/10 was **84 days**.

## Liquidity

- 12.7 Measuring the performance in relation to liquidity is a much more difficult task and the easiest way to assess performance is to see how frequently we needed to borrow on a temporary basis during the financial year. In 2009/10 we temporarily borrowed on two occasions - **£500k on 3<sup>rd</sup> June 2010 for 5 days at 0.35%** (we earned **1.06%** on our investments for the same period) and **£600k on 3<sup>rd</sup> August 2010 for 7 days at 0.30%** (we earned **0.91%** on our investments for the same period).

## Yield

- 12.8 In 2009/10 we achieved an average interest rate of **0.96%** and this compares to our performance indicator of the average 7-day London Inter-bank Bid (LIBID) rate, which was **0.39%**.
- 12.9 For further details see the Annual Report on Treasury Management and actual Prudential Indicators 2009/10, elsewhere on this agenda.

## The Bottom Line

13.1 Here we look at the spend by function, as used in our **Statements of Accounts**, focusing on the projected outturn compared to the Approved Budget and the bottom line.

	Approved Budget £K	Actual Outturn £K	Variation £K	Note Reference
<b>What we plan to spend the money on</b>				
Central services incl. finance, revenue collection, personnel, emergency planning	1,461	1,358	(103)	
Cultural, environmental and planning services, incl culture and heritage, leisure, waste, planning,	10,512	8,826	(1,686)	
Housing Services, Housing & Council Tax Benefits	1,168	764	(404)	
Highways, roads and transport, incl car parking concessionary fares	946	(681)	(1,627)	
Corporate and democratic core services incl. democratic representation, corporate management	2,665	2,152	(513)	
Non-distributed costs	161	1,997	1,836	1
<b>Net cost of Services</b>	<b>16,913</b>	<b>14,416</b>	<b>(2,497)</b>	
Less - transferred from capital and pension/earmarked reserves	(3,641)	(1,790)	1,851	2
Less - income from cash investments	(190)	(383)	(193)	3
Add - interest Payments	10	45	35	3
<b>Cost of local services met by local and national taxes</b>	<b>13,092</b>	<b>12,288</b>	<b>(804)</b>	
<b>How we plan to fund this</b>				
Local taxes - Council Tax	(5,227)	(5,227)	0	
National Taxes - Formula Grant	(1,128)	(1,128)	0	
Business Rates	(4,888)	(4,888)	0	
Collection Fund Deficit	47	47	0	
Local Authority Business Growth Incentive Scheme (LABGI)	(44)	(44)	0	
Area Based Grant	(22)	(23)	(1)	
Housing and Planning Delivery Grant	(360)	(367)	(7)	4
<b>Sub Total</b>	<b>(11,622)</b>	<b>(11,630)</b>	<b>(8)</b>	
<b>Revenue Account Deficit to be met by a Contribution from/(to) General Reserve</b>	<b>1,470</b>	<b>658</b>	<b>(812)</b>	5

### 13.2 What is the performance telling us?

- The **£(804K)** favourable variance on the cost of local services represents a variance of **6.1%** on the Revised Budget.
- This represents the variance against the Approved Budget as estimated at January 2010 for the 9<sup>th</sup> February Cabinet.
- Before taking account of variances in general grants of **(£8K)** we set out the main variances for this **£(804K)** favourable variance.

### 13.3 Notes on the main variances

The following notes are key items reported by exception to explain the outturn compared to the Revised Budget. Each service area shown in the table is also impacted by accounting adjustments around Capital and Pensions. These are added back in the Revenue Outturn (see Note 2 below) to show the real cost to Taxpayers for Council Tax purposes. These Capital and Pension charge variances are therefore not explained here in further detail as their impact overall is £0.

- ❖ The Key Business Risk Areas have been discussed in detail in the main body of this report and account for **£(187K)** of the total variance.
- ❖ VAT recovered from Her Majesty's Revenues and Customers (HMRC) in a one-off voluntary disclosure claim related to a national legal case known as the '**Fleming Case**' realised **£(444k)** for the Council. This was not included in the Budget as at the time of Approval the outcome of the claim was not certain. The Fleming Case capitalised on the absence of any 'breathing space' given to organisations to retrospectively claim VAT before a 3 year limit was implemented by HMRC. This meant the Council could claim back VAT paid on services which are now exempt. After professional fees this generated on a one-off basis to the Council **£(444)K** in overpaid VAT and cumulated interest. (Impact to services: Leisure **£197K**, Car Parks **£8K**, Garrick Theatre **£35K**, Cumulated Interest **£204K**).
- ❖ **In Culture, Environmental & Planning Services:**
  - Other favourable Leisure & Parks variances amounting to **£(104)K**. These are mainly due to a vacant Leisure Director post, additional grant income particularly in Play Development and well managed expenditure.
- ❖ **In Housing Services, Housing & Council Tax Benefits:**
  - Proactive fraud management within Housing and Council Tax Benefits has resulted in additional income of **£(107K)**.
- ❖ **In Highways, Roads & Transport:**
  - Contributions from Staffordshire County Council to reimburse set up costs on Car Parking Enforcement **£(17K)**.
- ❖ Of the variances already explained, **Employee Costs** excluding a Pension Charge variance of **£(1.127m)** reflect an underspend of **£(48k)**. The total approved budgeted expenditure of **£47.983m** includes total employee costs of **£14.597m (30%)**.

#### 1. Non-Distributed Costs

- Includes Capital Charges for impairment of Non-Operational Assets and FRS17 Pension adjustments for past service costs and retirement benefits.

#### 2. Transfer from Capital, Pension and Earmarked Reserves

- Includes the add back for Capital and Pension Charges mentioned above and **£379K** appropriation to Earmarked Reserves which will fund projects in future years.
- Capital Charges mainly relate to spreading the cost of our Capital Assets over their life (Depreciation/Amortisation) and reflecting Asset values which are comparable to market value – where our Asset values are considerably lower than Market Value at the end of March they have been written down to reflect this with the charge held in the Revenue Account (Impairment).
- Pensions are accounted for in accordance with the Financial Reporting Standard (FRS)17 Retirement Benefits. Here we show the cost of retirement benefits that will be paid in the year in which they are earned, even though we don't pay it out now. Changes in the financial assumptions for 2009/10 has resulted in a reduction in the FRS17 service cost that is included in Net Cost of Services. This is principally due to a favourable change in financial assumptions at the start of the accounting year. However, it is revenue neutral for the Council.

#### 3. Income from cash investments and Interest payments

- We received net investment income of **£(180K)** which was in line with our Revised Budget.
- We also have to take into account the interest element on Finance leases the authority has entered into and any interest appropriated to earmarked reserves which amounts to **£35K**.

#### 4. Housing and Planning Delivery Grant

- We received an additional **£(7K)** for 2009/10 and the grant is treated as a general grant (not attributable to a specific service).

#### 5. Working Balance, Reserves and Provisions

- The Council had General Reserves of **£3,979K** as at 31<sup>st</sup> March 2009.
- The Council is required to maintain an adequate Minimum Level of Reserves to ensure they represent an appropriately robust 'safety net' that adequately protects the Council against potential unbudgeted costs. This is maintained at **£1,000K** representing **8.0%** of the cost of local services.
- The 2009/10 contribution from general reserves is **£658K**. Therefore this will leave a balance of **£3,321m** to assist with the Medium Term Financial Forecast going forward.

### Glossary: Description of functional areas in the Table at Paragraph 13.1

**Central services** include >> Revenue collection • Emergency planning • Financial Services and more.

**Cultural, environmental and planning services** include >> Culture and heritage • Sports • Parks and open spaces • Waste collection • Planning • Street cleansing • Community safety • Public conveniences • Environmental health and licensing • Economic development and more.

**Housing services** include >> Preventing homelessness • Housing and council tax benefits • Housing services

**Highways, roads and transport services** include >> Car parking • Concessionary fares and more.

**Corporate and democratic core** include >> Democratic representation • Corporate management

**Non distributed costs** include >> Retirement benefits. • Capital charges non-operational assets.

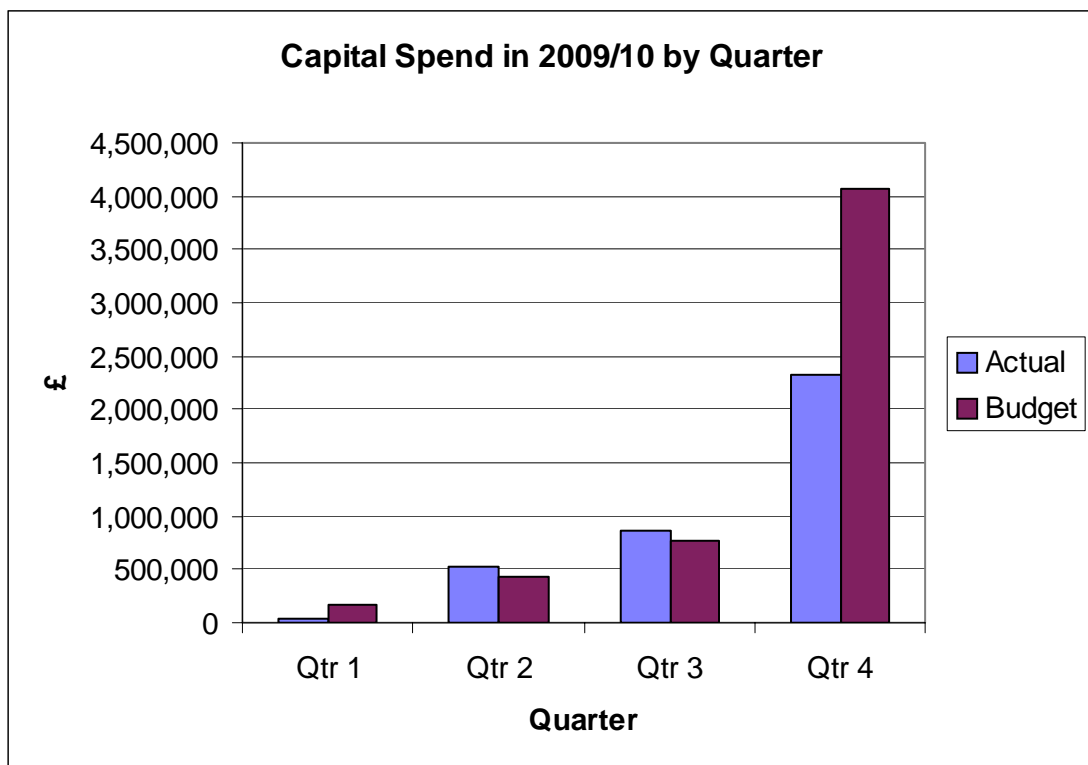
## 14 Investing in our Priorities – Capital

### Management of the Capital Programme in 2009/10

- 14.1 The Council on the 24<sup>th</sup> February 2009 approved a total Capital Programme budget for 2009/10 of **£5,652k**.
- 14.2 Council approved a Revised Budget of **£5,474k** on 24<sup>th</sup> February 2010. Following some updates to reflect Manager's final budgetary projections, the Final budget for 2009/10 was **£5,434k**.

### How have we performed in 2009/10?

- 14.3 Below we show spend quarter by quarter in 2009/10 using performance against our final budget.



- 14.4 The graph shows that the majority of under spend occurred in quarter 4 of the financial year and predominantly related to three key projects Chasewater Dam, Heritage Lottery Fund Lichfield Parks and the Community Hall at Darwin Park and the reasons for these under spends are shown in 14.6 below.



14.5 Below we look at spend by top priority of the 2009/10 financial year focussing on the actual position for the year compared to the final budget.

Top Priority	Projected Outturn (Quarter 3)	Final Budget	Actual	Variance	Note Ref
	£k	£K	£K	£K	
Create safe, strong and proud communities	5	5	19	14	
Improve people's health and well being	164	164	122	(42)	
Help people realise their potential	4	4	4	0	
Involve local people and partners	0	0	0	0	
Help people access a home that's right for them and to live independently	772	772	536	(236)	1
Vibrant towns and villages	2,605	2,486	1,197	(1,289)	2
Protect and enhance our environment for future generations	773	764	815	51	
Attract even more investment into our District	14	14	12	(2)	
Provide great value services centred on customer's needs	1,137	1,225	1,028	(197)	3
<b>Total Capital Expenditure</b>	<b>5,474</b>	<b>5,434</b>	<b>3,733</b>	<b>(1,701)</b>	

14.6 The actual outturn for three of our strategic priorities significantly varies from the final budget. The main reasons for this are:

**Note 1 : Help people access a home that's right for them and to live independently**

- **Decent Homes Standard (£117K)** – The plan was to devise and develop an improvement scheme that supplemented and enhanced the West Midlands "Kickstart" Loan programme, which the Council is accessing through a partnership approach with other southern Staffordshire Local Authorities. This scheme did not officially launch until February 2010 and therefore it was not possible to devise a suitable scheme in the time available.
- **Accessible homes (Disabled Facilities Grants) (£96k)** - Whilst the budget was under spent by £96,000 at the end of the financial year there was an expenditure commitment of £170,000 relating to 22 approved grants that had not been completed in 2009/10.

**Note 2 : Vibrant towns and villages**

- **Heritage Lottery Fund Lichfield Parks (£666k)** - We expected to start the capital works on site September but after the original tenders were received it was determined that we needed to undertake a value engineering exercise to bring the tenders within budget. After the conclusion of this process, contractors were appointed in December and the start on site was not until the New Year.
- **Community Hall at Darwin Park (£260K)** – The original date in the programme for practical completion was 10<sup>th</sup> April, however practical completion actually took place 28<sup>th</sup> May, so the building programme ran about 6 weeks behind schedule, and hence the apparent "under spend" at 31<sup>st</sup> March. This was due to severe winter weather, delays in connecting electricity, and some variations to the design of the roof construction.
- **Youth Building at Fradley (£115k)** – The youth building is subject to ongoing dialogue between prospective tenant, landlord, and funder and therefore spend is likely to be in later financial years.

- **Chasewater Dam (£111k)** – commencement on site will be later than originally planned and this means that some expenditure forecast to occur in 2009/10 will now take place in subsequent years.
- **Shortbutts Lane Park – (£99k)** – there has been some slippage with this project and this was caused by the need to undertake some value engineering following receipt of high tender prices.

**Note 3 : Provide great value services centred on customer's needs**

- The total variance of **(£197k)** is made up of a small under spends on a series of projects such as £45k in relation to the capital contingency that has not been allocated or spent.

14.7 The remaining variance consists of a number of small-scale project variances.

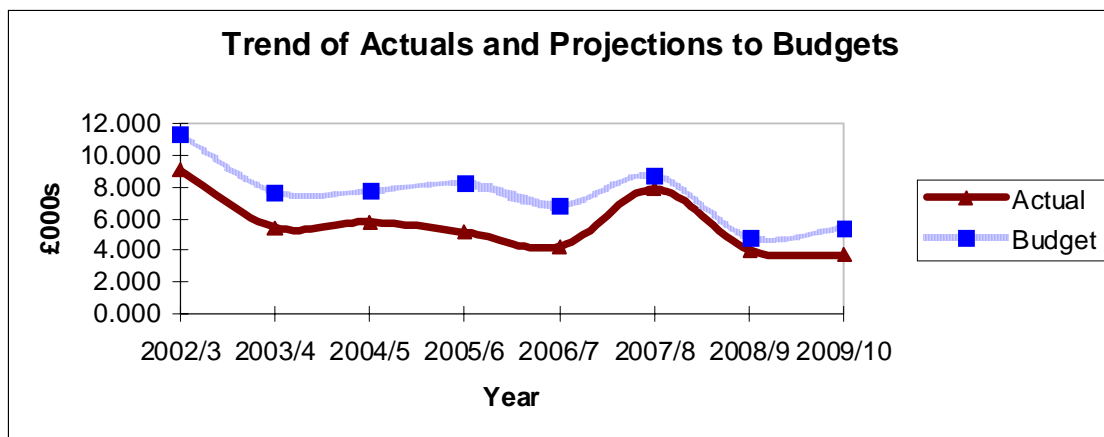
14.8 The overall capital under spend of **£1,701k** consists of **£1,879k** of capital under spending (slippage) that will need to be carried forward and added to the budget in later financial years and the remaining sum of **(£178k)** relates to spend financed by Finance Lease and revenue budgets.

14.9 We financed our actual capital expenditure of **£3,733k** using the following sources of finance:

- Capital receipts from the sale of assets - £746k
- Burntwood Leisure Centre Sinking Fund - £104k
- Capital Grants and Contributions - £1,223k
- Section 106 Contributions - £719k
- Revenue and Earmarked Reserves - £237k
- An increase in our Capital Financing Requirement - £704k

**How does this year's performance compare to previous years?**

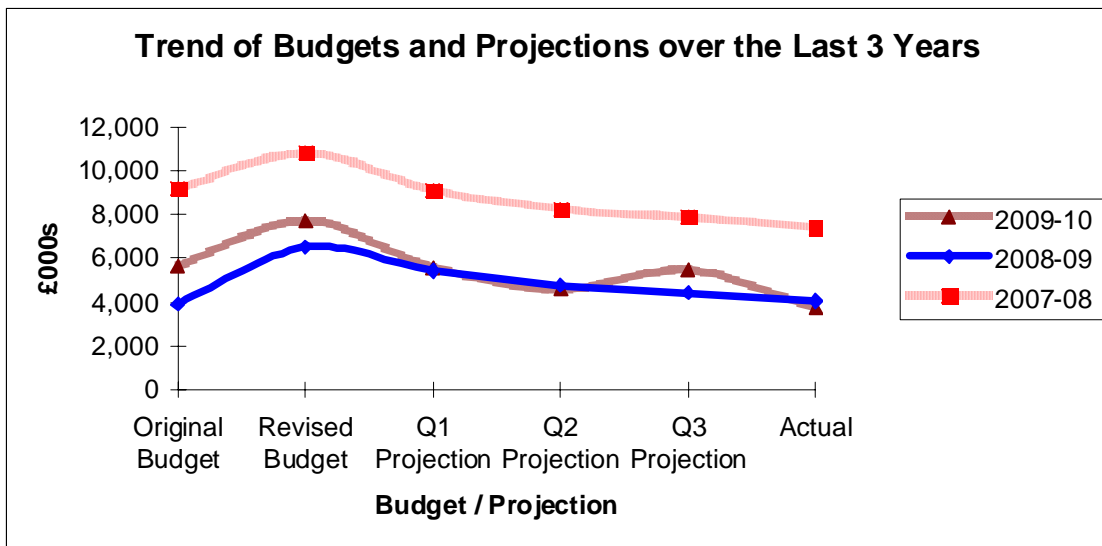
14.10 The graph below compares actual capital spend with the budget for a 8-year period.



14.11 Previously the Council has under spent its capital programme between **20%** and **38%** compared to the final budget however, through improved reporting and monitoring over the last three years we have closed the gap (**16% in 2008/09**). However, in 2009/10 the gap has widened to **31%**.

14.12 One of the main reasons for the gap widening is that during 2009/10 the Council undertook a major review of its Capital Programme and during the review project managers were encouraged to delay spend where possible. This proactive action has contributed to the level of under spend in this financial year and has provided additional flexibility in enabling the Council to redirect unspent resources to other more pressing capital investment needs.

- 14.10 It is also useful to analyse the trend of budgets, projections and the actual spend in a financial year to see if we can identify a trend to enable us to project our capital spend more accurately. The trend analysis shown in the graph below shows budget, projections and actual spend in the recent 3 financial years and this identifies areas we can manage our performance more effectively in terms of capital spend. We can see the trend is similar for all three years and our revised budget is higher than our original budget (due to slippage) and our projections for capital spend reduce throughout the financial year.



#### Capital Investment at Burntwood Leisure Centre

- 14.11 The Council is required, under the terms of the funding agreement with the National Lottery in relation to the Burntwood Leisure Centre, to set aside resources to be used for the future repair and renewal of the centre in a 'sinking fund'. Both the level of investment and the centre in terms of the District Council's leisure provision is significant, therefore monitoring information is provided in the table below for all approved projects in 2009/10.

Project Name	Annual Spend for 2009/10		
	Final Budget £K	Actual £K	Variance £K
Planned maintenance	42	41	(1)
Replacement of Inspire Gym Equipment	3	0	(3)
Chip & Pin Upgrade	7	5	(2)
Inspire Studio 2 Conversion	16	11	(5)
Other Burntwood Leisure Centre Projects	16	0	(16)
Replacement of Cardio Vascular Equipment	47	47	0
<b>TOTAL</b>	<b>131</b>	<b>104</b>	<b>(27)</b>