

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

Review of Performance against the Financial Strategy 2011/12

1. Purpose of Report

- 1.1. To provide Members with the opportunity to scrutinise the Council's financial performance against the revised budget 2011/12, and the financial performance against previous years, particularly to assess the performance of specific services which 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 4th September 2012, when Cabinet will be receiving the report.

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 those years, set by the last Council. Each year we produce a delivery plan which sets out the specific actions for the year. 2011/12 is the final year of the 2008-12 Strategic Plan, and the new 'Plan for Lichfield District 2012-16', sets out this Council's ambition, focus and priorities for the next 4 years.
- 2.3 The Medium Term Financial Strategy sets out the allocation of resources and the policies and parameters within which Managers are required to operate. We are required by law to set a 3-year balanced budget. The Strategy covers revenue and capital expenditure and was approved in February 2012, covering the period 2011-15.
- 2.3 This report covers the financial performance for the financial year 2011/12 and measures performance against the Financial Strategy as well as year on year.

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 Council's Strategic Plan.
- 3.2 Overall the financial performance has resulted in less money being required from reserves to support services, so that our reserves will last a longer time. This has been achieved through stringent cost controls, our Budget Reduction Programme for 2011 and previous Expenditure Reviews.
- 3.3 The Budget Reduction Programme 2011 achieved significant savings in a cost effective way – achieving **£4.456m** over the life of the Medium Term Financial Strategy 2011-14, which included **£887k** in 2011/12.

4. Financial Implications

- 4.1 The cost of services and activities of the Council of **£10.892m** was **£289k** less than budget. This cost is after funds have been provided for future projects/risks in earmarked reserves.
- 4.2 This was **£462k** less than last year when the cost of Council services to be met by local and national taxation was **£11.354m**.
- 4.3 Overall, the Council has utilised **£328k** less Reserves than anticipated in the approved budget.
- 4.4 This performance is as a result of the unremitting focus on controlling costs, generating income and introducing new ways of providing services and was achieved in a financially uncertain period.
- 4.5 Overall the reduced spend has contributed to an improved general reserves position compared to the expectations in February 2012 when the Medium Term Financial Strategy was set by Council.

5. Risk Management Issues

Risk	Likelihood/ Impact	Risk Category	How has the risk been managed?
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. Tight project management of projects.
Planned Capital receipts are not received.	Medium/High	Financial	The budget for Capital receipts was monitored as part of the Council's normal budget monitoring procedures.
The Recession	High/High	Financial/ Economic/ Environmental/ Social/Legal	Close monitoring of the higher risk key business areas and those areas affected by the downturn. Managers continuously gather and analyse information and took action where it was possible to do so.

Background Documents:

Strategic Plan 2008-12

Medium Term Financial Forecast 2011-12

OUR REVIEW OF 2011/12 PERFORMANCE AGAINST THE FINANCIAL STRATEGY

1 Delivering our Priorities: financial performance for 2011/12

- 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 have faced higher costs on some areas of spend like fuel and utilities.
- 1.4 Year on year we have had to make significant reductions in spend levels, to afford the cost increases and live within our available financial resources.
- 1.5 The economy remained in a relatively volatile state with both negative and positive growth during this financial year, significantly affecting our income position. This impact is common across the country for other Councils.
- 1.6 In this report we account for our financial performance for the full year up to 31st March 2012, including the results of our Budget Reduction Programme. We also provide the financial impact of the preceding Expenditure Reviews.
- 1.7 We quantify the ongoing impact of the economic environment for the year; the performance in 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 The context for our financial performance

- 2.1 We reported to Council on 14th February 2012, that our estimated potential funding gap for 2014/15 was **£939K**. This arises in Year 3 of our Medium Term Financial Strategy.
- 2.2 Whilst this estimate is not without risk, it represents a significant improvement on larger funding gaps in previous years. Importantly it shows the sustainable savings made by our *2011 Budget Reduction Programme* in securing a more stable position over the next 2 years.
- 2.3 The results of the *Budget Reduction Programme for 2011-14* presented to Strategic Overview & Scrutiny Committee in February 2012 showed that we generated **£4.45m** against a £4.77m funding gap.
- 2.4 The risk to our Year 3 position is the uncertainty surrounding the Government's Resource Review which includes changes to Business Rates which will radically change the way we are funded. Our Medium Term Financial Strategy includes a prudent estimate on the impact of this for the next 3 years.
- 2.5 We expect to know further details on the funding impact in December 2012. We reported to 3rd July 2012 Cabinet that in the meantime national guidance to interpret the new framework is being utilised by the Council so we understand any funding implications as soon as announcements are made.
- 2.6 Since 2008, the Financial Strategy has identified savings up to 2013/14, of **£12.486m**, as shown in the table below.

Total Savings Reflected in Base Budget	Amount taken out of the budget during Savings Reviews 2007-11						
	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	Total 2008 to 2014 £m
Budget Reduction Programme 2011			0.013	0.887	1.766	1.790	4.456
Expenditure Review 2010 Savings			1.068	1.030	1.156	Built into the base budget	3.254
Expenditure Review 2009 Savings	0.80	0.822	1.236	1.253	Built into the base budget		3.391
Expenditure Review 2008 Savings	0.372	0.463	0.550	Built into the base budget	Built into the base budget		1.385
Total Cumulative Savings	0.452	1.285	2.867	3.170	2.922	1.790	£12.486m

3 Impact of the current economic climate on the Council's financial position

- 3.1 The economic environment has had a significant impact on the District Council's finances. It has been and still remains difficult to accurately predict.
- 3.2 The effects of operating in such an environment have been closely monitored throughout the year. Predictions were made of the likely impact on Lichfield District Council when the recession first hit in 2008/9.
- 3.3 The estimate of this had been accounted for within our 2011/12 Budgets after being assessed by individual services. This was done to allow us to determine as accurately as possible the financial risk to the Council's finances, so that we could take mitigating actions.
- 3.4 We have monitored the ongoing impact of the economic climate since the budget of 2008/9 when the 'credit crunch' first hit. For 2011/12 the impact was estimated to be **£0.552m**.
- 3.5 The actual result was worse by over half a million - as shown in the table below, resulting in the impact being **£1.077m**.
- 3.6 In the table we can see that Car Park Income was more adversely impacted than anticipated – by just over **£300k**.
- 3.7 The impact on Commercial rents was first anticipated in 2009/10 and since then the position has worsened by **£77k** for 2011/12.
- 3.8 Whilst the impact on interest on our investments in this financial year has not been as severe as anticipated (up by **£52k**), this masks the fact that since 2008/9 we have seen a drop of **£940k** in income earned, circa **£600k** of which is due to the lower interest rates. Our Investment deposit rates in 2008/9 were at **4.9%** and have deteriorated to an average of **1.05%**.
- 3.9 Another area where we have seen an impact of the recession is at the Garrick Theatre. It is difficult to quantify how income has been affected by the economic recession - people having less disposable income available to spend on theatre tickets; changing patterns of consumer behaviour on shopping and car parking use which affects the day time catering trade of the Theatre. We do know that income grew for 6 consecutive years prior to 2009/10 and we are now seeing a reduction. Therefore the impact of the recession on the Council is possibly larger than stated in the table.
- 3.10 The Table below sets out the estimated impact of the Economic Climate on the Council's finances for 2011/12:

Impact of the Economic Environment on District Council's Finances 2011/12:	Estimate of Impact on Budgets before recession hit ¹	Impact up to 31 st March 2012	Variation
	£m	£m	£m
Changes in Net Expenditure			
Leisure Centres	0.070	0.084	0.014
Planning Fees	0.029	0.068	0.039
Car Parking Fees	0.291	0.606	0.315
Commercial Rents	n/a	0.077	0.077
Local Land Charges	0.051	0.125	0.074
Interest on Balances (Investment Income)	0.111	0.059	(0.052)
Total Impact for 2011/12	£0.552m	£1.077m	£0.525m

¹ Based on original Budgets set in February 2008/9

4 Focus on key business risk areas

- 4.1 Our key business risk areas are the subject of close management focus, because they rely on significant income generation. Small changes in the business within these areas can have a significant impact on the *Bottom Line* for the Council.
- 4.2 For example, Leisure Centres achieved **£1.9m** in income in 2011/12 and the Lichfield Garrick **£1.4m**. So together our cultural and recreational services achieved **£3.3m** in commercial income.
- 4.3 Our other key business areas are Car Parks, achieving an income of **£1.6m**, and we have Commercial Rents achieving **£0.8m**, Planning Fee income of circa **£0.5m**, and Treasury Management interest of around **£130k**.
- 4.4 In total this means that we achieved around **£6.5m** of income, which is affected by a range of variables specific to the business areas including external factors, like the economic climate.
- 4.5 Here we report on the financial performance for the key business risk areas.
- 4.6 In the table overleaf we look at *the trend* in the financial performance for each of the areas – **how they compared to previous years, alongside their performance against budget for this year.**

Summary of performance on our key business risk areas for the year 2011/12

Area	Year on year financial performance (comparing performance to 2010/11)	Position on budget (our revised estimate) (comparing performance to budget for 2011/12)
Leisure Centres	<p>Income: at £1.9m was up by £18k compared with the previous year despite the ongoing economic environment (comparison excludes a business rates refund in 2010/11).</p> <p>Direct costs: were down by £34k or 1% on last year.</p> <p>Overall this means the Leisure Centres cost the Council £53k or 7% less than 2010/11.</p>	<p>Overall the net cost to the Council of the Leisure Centres is £47k lower than budget.</p> <p>Income: budgeted income was achieved through targeted marketing and was a good performance given the difficult trading environment.</p> <p>Direct costs: were £45k (2%) better than budget, mainly due to reducing employee costs at Burntwood Leisure Centre.</p>
Recycling and waste management	<p>The waste service continued to make savings following the introduction of the new Shared Service on 5 July 2010.</p> <p>The service delivered £219k in efficiencies in 2010/11 and has delivered £275.4k in savings this year.</p>	<p>The net cost to the Council for the service was £25.4k lower than that budgeted.</p> <p>Income: was higher due to more income earned from an increase in tonnages of dry recycling.</p> <p>Costs: lower than expected fuel costs despite their volatility during the year.</p>
Car parks	<p>This year the Car Parks Service made a net contribution towards the Council's bottom line of £1.191m, lower than the previous year when it was £1.314m.</p> <p>Income year on year is falling, but at a lower rate - the reduction in 2010/11 was £232.2k or 13.9%, whilst in 2011/12 it was £42.3k or 2.9%.</p> <p>Expenditure is relatively fixed, with a 12% increase compared to the previous year, in the main due to increasing NNDR costs</p>	<p>The £1.19m contribution to the Council's bottom line is higher than budgeted by £60.2k.</p> <p>The good performance against budget is a result of income not falling in line with expectations when the budget was set and costs being lower than budget, despite the unexpected payment of £10k due to an underground leaking pipe by the multi storey car park.</p> <p>The closure of Friary Outer car park may impact on performance against budget this year.</p>
Planning fees	<p>The planning service <i>contributed</i> £6k to the Council's bottom line, compared to £121k last year.</p> <p>Income: £95K less compared to last year, with planning applications up by 1%.</p> <p>Costs: were £4k (1%) below last year.</p>	<p>The net contribution of £6k to the Council's bottom line was £24k less than that budgeted.</p> <p>Income was £21k (4%) less than the budget</p> <p>Costs were £3k (1%) higher than budget.</p>
Local Land Charges	<p>The service is a <i>net contributor</i> to the Council's bottom line, and for 2011/12 the service contributed £43k compared to £64k last year.</p> <p>Income: A 19% reduction in the number of searches has contributed to income being just over 8% down on 2010/11 at £156k.</p> <p>Costs: were slightly higher (£8k) than last year.</p>	<p>The service <i>contributed</i> £43k to the Council's bottom line, £13k below budget.</p> <p>Income – was up by £3k on budget.</p> <p>Costs: were up by £16k or 16% on budget.</p> <p>We lost £13k because of the revocation of the statutory fee for personal searches, and there were extra costs incurred to optimise our income on other areas.</p>
Commercial Rents	<p>Our property portfolio generated £807k of income to the Council's bottom line.</p> <p>Income: Rental income was up by £29k on last year, largely due to re-letting a vacant property and increases in rents levels.</p>	<p>Rental income was £19k above budget at £807k, substantially due to increases in rent levels.</p>
The Lichfield Garrick	<p>Income: at £1.4m is down by £108K (7%) compared to last year, mainly due to staging fewer productions.</p> <p>Direct costs: were down by £209K or 3% compared to last year, achieved substantially through lowering employee costs (£98K) and lowering the cost of productions (£126K)</p> <p>Overall this means that the Garrick cost the Council £100K (19%) less than last year.</p>	<p>Overall the net cost to the Council is £81K lower than that budgeted.</p> <p>This was due to a range of reasons across Income and Direct Costs - lower employee costs (by £23k), improved production performance and venue hire income, and in the final 2 months of the year, an improvement in Bar & Catering income.</p>
Treasury Management	<p>The average annual return on investment income has dropped over the last 4 years, with the <i>loss</i> of income to the Council's bottom line since 2008/9 being £940k, £600k of which is recessionary impact.</p>	<p>Net interest receipts achieved were £165K compared to a Budget of £154k, largely due to more funds being available for investment.</p>

5 Our Leisure Centres, Parks and Play

Leisure Centres:

Net direct expenditure	Actual 11/12	Actual 10/11	Budget 11/12
	£653k	£706k	£700k

- 5.1 The Net direct expenditure for 2011/12 for our Leisure Centres was **£53k** or **7%** lower than last year, i.e. the Leisure Centres cost the Council **£53k** less in 2011/12 than in 2010/11.
- 5.2 Direct costs dropped by **1%** or **£34k**, and income (excluding the impact of a one-off business rates refund in 2010/11) was **£18k** up on last year at **£1.9m**.
- 5.3 Against budget, income at the Leisure Centres was in line (within **£2k**), and direct costs were **£45k (2%)** lower. This means overall the Leisure Centres have performed better than Budget by **£47k**.
- 5.4 The improved result was largely as a result of actions taken and reported in previous Expenditure Reviews and the recent Budget Reduction Programme – the emphasis of which has been to reduce costs yet also to maintain income.
- 5.5 The savings have occurred across each of our Leisure Centres:-
- ❖ Friary Grange cost the Council **£11k** less than 2010/11, with costs in line and membership income up. (Net direct Expenditure of **£130k**).
 - ❖ King Edward VI cost the Council **£4k** less than the previous year, with both income and costs broadly in line with last year. (Net direct Expenditure of **£120k**)
 - ❖ Burntwood Leisure Centre cost the Council **£37k** less than 2010/11, with an improvement in Swimming and Gym Membership income together with reduced Employee costs. (Net direct Expenditure of **£403k**)
- 5.6 The performance was primarily due to increased sales of gym memberships and swimming at Burntwood. The improvement was also despite the severe rainfall experienced in 2011 and a difficult economic climate.

Play, sports development activities:

Net direct expenditure	Actual 11/12	Actual 10/11	Budget 11/12
	£133k	£110k	£152k

This includes play, mobile leisure, sports development, Positive Futures and the Aspire schemes.

- 5.7 The net direct expenditure for 2011/12 for these activities was **£23k** or **21%** higher than last year, mainly due to the cessation of the Children's Fund contributions towards the costs of the Aspire project.
- 5.8 The actual net direct spend compared to budget was **£19k** lower, mainly to controlling staffing costs.

Parks, greens and open spaces:

Net direct expenditure	Actual 11/12	Actual 10/11	Budget 11/12
	£1.121m	£1.116k	£1.161m

- 5.9 The Net direct expenditure for 2011/12 for our Parks was broadly in line with the previous year (within **£5k**).
- 5.10 Particular highlights to note were that Chasewater costs were reduced by **£30k** partly because of the transfer of the Country Park to the County Council but also because of reducing the employee costs for the Budget Reduction Programme.
- 5.11 The financial performance across our Park portfolio was
- ❖ Burntwood Parks - the cost of running our parks were **£30k** higher than in 2010/11, with a net direct expenditure of **£205k** because of additional maintenance works to the tree stock, lighting and premises.
 - ❖ Beacon Park - cost circa **£28k** less to run in 2011/12 than in 2010/11, with a net direct expenditure of **£314k**. We were able to reduce costs by restructuring the Parks Service and our income increased by **£19k**.
- 5.12 Looking at performance against budget, our Parks were **£40k** below budget, of which circa **£30k** arose in Beacon Park. Much of this was due to subsequent funding of some costs from the Heritage Lottery Fund award.

Leisure, Parks & Play overall:

Net direct expenditure	Actual 11/12	Actual 10/11	Budget 11/12
	£2.106m	£2.121m	£2.217m

- 5.13 The net direct expenditure for 2011/12 for our Leisure, Parks and Play services as a whole was **£15k** lower than the previous year. This comparison excludes a one-off VAT rebate received in 2011/12¹ and a one-off NNDR rebate received in 2010/11².
- 5.14 Against budget, Leisure, Parks and Play as a whole came in under its budgeted level of net expenditure by **£111k**, primarily because costs were controlled and a strong trading performance in January to March.

1 Additional VAT rebate from the Fleming VAT case of £227k. The primary rebate of £444k was received in 2009/10.

2 A Business Rates rebate for our Leisure Centres was received in 2010/11 totalling £286k (after professional fees).

6 Recycling and Waste Management

Net direct expenditure	Actual 11/12	Actual 10/11	Budget 11/12
	£1.942m	£1.669m	£1.967m

The new Shared Service was introduced in July 2010, and comparisons year on year are therefore difficult as 2011/12 was the transition year. Some one-off set up costs have been netted off the budget figure to enable a real trading comparison on performance.

- 6.1 The year end position against budget was a net saving of **£25.4k** for 2011/12.
- 6.2 This was mainly due to additional income from recycling credits as dry recycling tonnages were higher than originally anticipated, and less expenditure on fuel as the expected fuel price increase was not as high as originally anticipated.
- 6.3 Our focus on this top priority service is to stay a top performing recycler and to lower the cost of doing so – to do more with less.
- 6.4 Fuel remains an area of potential concern and inflation has been built into the Medium Term Financial Strategy to offset rising fuel prices.
- 6.5 One of the measures we use to monitor the cost is to calculate the cost per household:- .

Cost per household for domestic refuse and recycling							
2004/5	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12
£57.61	£68.84	£59.71	£55.89	£46.34	£44.25	£43.26	£44.91

- 6.6 The increase in cost per household in 2011/12 is the result of rising fuel prices. The Shared Waste Service has just begun its 3rd year of operation, and the predicted cost per household for 2012/13 is **£44.58**.

7 Car Parks

Net direct contribution	Actual 11/12	Actual 10/11	Budget 11/12
	(£1.191m)	(£1.314m)	(£1.131m)

- 7.1 The Car Park service is a net contributor to the Council's bottom line, contributing **£1.19m** in 2011/12.
- 7.2 Car parking usage and income is impacted by the economic climate, and because of this we have held car park charges at the level set in April 2008 (prior to this there were year on year increases to at least keep pace with inflation), so there have been no increases for 4 years.
- 7.3 In setting the budget for 2011/12 we anticipated that occupancy and income would be down on the previous year, based on trends seen both here and in other town centre car parks sub regionally and nationally. As the recession took hold, we saw, amongst other things, consumers having less disposable income on average, higher (and volatile) fuel costs dissuading people from driving and a shift to bus usage.
- 7.4 The budget for 2011/12 and actual out-turn was as follows:-

2011/12	Budget £	Actual £	Difference £	2010/11 actual £	10/11 v 11/12 actuals - £
Income	(1.638m)	(1.626m)	-12k	(1,703m)	77k
Direct costs	507k	435k	-72k	389k	46k
Net contribution	(1.131m)	(1.191m)	+60K	(1.314m)	-123k

- 7.5 The **£72k (14%)** lower direct costs was due to tight cost control. As a result the contribution of the car parking service to the Council's bottom line was **£60k** better than budget, at **£1.19m**.
- 7.6 Comparing performance to the previous year, income was **£77k (4.5%)** less. Costs were higher (**£46k or 12%**) than those for 2010/11 which was substantially due to business rates. The net contribution to the Council's bottom line was **£123k** less than in 2010/11, at **£1.19m**.
- 7.7 Year on year forecasting for car parks is difficult because of the variables involved, many of which are external. For instance, we saw an increase of **9%** in car park income for the 3 week period when the Hoard was exhibiting at the Cathedral, but the closure of a key department store at the end of August 2011 saw the use of the multi-storey car park drop and has been a factor contributing to the continued fall in revenue.
- 7.8 2012/13's net contribution has been set at **£1.054m** and assumes that there will be no loss of net income due to the closure of Friary Outer Car Park for redevelopment, as users will be asked to relocate to our other car parks and there is sufficient capacity. Whilst it was anticipated that there will be some loss of income, it was estimated that this would be offset by the lower business rates cost as a result of vacating Friary Outer.

7.9 For 2012/13, the closure of Friary Outer during the redevelopment phase does appear to be having a negative impact on income, and this is reported in the first quarter financial performance report, elsewhere on this agenda. The 2012/13 budget was set using the trends in 2010/11 and 2011/12.

8 Planning Fees and Local Land Charges

Planning fees:

Net direct <i>contribution</i> (note was a <i>cost</i> in 9/10)	Actual 11/12	Actual 10/11	Budget 11/12
	(6k)	£(121)	(£30k)

Planning Fee income fees come from routine planning applications and major applications, together with any costs recovered.

8.1 For the second year the service is a net contributor to the Council's bottom line.

8.2 However this year we earned less income from major planning applications than last year, even though we transacted more planning applications.

8.3 In 2011/12 we received **950** planning applications, compared to **937** for the same period last year, an increase of **13(1%)**.

8.4 Here we show income and direct costs compared to budget and to the previous year.

2011/12	Budget	Actual	difference	2010/11 actual	10/11vs 11/12 actuals
Income	£524k	£503k	£21k	£619k	+116k
Direct costs	£494k	£497k	£3k	£498k	-£1k
Net contribution	(£30k)	(£6k)	£24k	(£121k)	+£115k

8.5 At **£503k**, income was down by **£116k** on the previous year, attributable to lower fees from major planning applications. We anticipated that income would be lower, and set a budget to reflect this, but the income drop was **4%** lower than the set budget.

8.6 Direct costs were broadly in line with last year and with the budget.

8.7 As a result, the service contributed a lower amount to the Council's bottom line this year than last - **£(6k)** compared to **£(121k)** for 2010/11, but it is a contributor.

Local Land Charges:

Net direct <i>contribution</i>	Actual 11/12	Actual 10/11	Budget 11/12	Actual 9/10
	(£43k)	(£64k)	(£56k)	(£93k)

8.8 The service is a net contributor to the Council's bottom line, and contributed **£(43k)** in 2011/12.

8.9 We achieved **£156k** in income, which was **8%** lower than last year and direct costs were **£113k**, which at **£8k**, was just up on the previous year.

8.10 We received **1,781** searches in 2011/12, **19%** less than last year. The lower numbers of searches resulted in the **£21K(33%)** drop in the contribution to the Council's bottom line compared to that achieved in 2010/11

8.11 Comparing performance to budget our income was up by **£3k**, but direct costs were higher by **£16k**, so that the net direct *contribution* to the Council's bottom line of **£43k** was just under the budget by **£13k**.

8.12 Following a court ruling, which applied to all Councils, the statutory charge for personal searches was revoked on 27th July 2010. The impact of this change resulted in a reduction in the net direct contribution of **£50k** compared with 2009/10. To mitigate this and remain competitive in this market we reduced our fees, improved our customer service, invested in new technology and carried out a marketing campaign.

9 Commercial Property

Income	Actual 11/12	Actual 10/11	Budget 10/11
	(£807k)	(£778k)	(£788k)

9.1 We achieved **£807k** income from rent of Shops, Land and Industrial Units in 2011/12, which was **£29k** up on the income achieved in 2010/11, and **£19K** more than budget.

9.2 Shop and industrial unit rents have been under downward pressure as the impact of the economic climate affected the property market. The table below shows we experienced a large drop in rental income between 2009/10 and 2008/9.

9.3 However, the rent reviews completed in 2011/12 are seeing an increase in rental income.

Commercial rents income year on year					
2006/07**	2007/08	2008/09	2009/10	2010/11	2011/12
£994k	£889k	£889k	£742k	£778k	£807

**The income figure for 2006/7 was exceptionally high due to a back payment of rental income of £0.102m in that year.

9.4 The vacancy rate in 2011/12 for our properties was lower than the previous year, with only 1 Shop unit vacant at the year end.

10 The Lichfield Garrick

Net direct expenditure	Actual 11/12	Actual 10/11	Budget 11/12
	£424k	£524k	£505k

10.1 Net direct expenditure for 2011/12 for the Garrick was **19% (£100K)** lower than that for 2010/11 i.e. the Garrick cost the Council **£100k** less in 2011/12 than in 2010/11.

10.2 This has mainly been achieved by reducing employee costs which were **£98k** lower in 2011/12 than the previous year. This strategy has been to restructure the team when vacancies arose.

10.3 Productions yielded an additional **£37k** as a result of a strategy to schedule fewer shows but target those with the higher demand. Whilst ticket income for productions was down by **£89k** the costs of staging them was down by **£126K**. The improved performance on productions represented a **28%** surplus on productions compared to **22%** in 2010/11, with every £1 of expenditure yielding **£1.39p** compared to **£1.28** in 2010/11.

10.4 This improved yield was generated by negotiating better contracts with Producers and programming shows that have already proven popular in previous years. We also saw the favourable impact of the auditorium expansion to 500+ which completed in September 2011, with productions like *the Chinese State Circus* who came because of the seating expansion, producing a better yield and the additional seats contributed circa **£25k** to the improved net direct expenditure position.

10.5 About a quarter of our performance income is earned by the Christmas show, which achieved its highest surplus yet at **23%**, and this compared to **21.6%** surplus achieved in 2010/11 for *Peter Pan*.

10.6 Bar and Catering income, which is circa **12%** of the gross income, has been impacted by the recession, and was down by **£39k** on 2010/11. However mitigating action saw income pick up significantly in the last 2 months. Gross profit margin was **57%** compared to **58%** for the previous year, and net profit margin was just under **10%** achieving a net surplus of **£22k**, just **£6k** down on last year.

10.7 An assessment of the impact of the Garrick on the local economy shows that for every **£1** the Council spent on the Garrick in 2011-12, circa **£15** was generated within the local economy. Around **100,000** people came to the Theatre in 2011, which is an average of almost 2,000 people per week coming into the city centre. Theatre production occupancy levels were higher at nearly **80%** compared to **64%** in 2010, and is the highest recorded to date.

11 Treasury Management - the investment income we received

11.1 Net interest receipts achieved are just over **£940k** lower than that achieved in 2008/9. In 2008/9 income from investments was **£1.1m** and is now **£165k**:-

Interest earned	Actual 11/12	Actual 10/11	Actual 9/10	Actual 8/9
	£(165k)	£(203k)	£(383k)	£(1,105k)
Average % rate	1.05%	0.85%	0.96%	4.9%

11.2 This represents a significant loss of income to the Council.

11.3 The table shows we achieved **£38k** lower than last year.

11.4 The average annual % return achieved was higher than in 2010/11 because a number of investments were made for longer periods and these attracted a higher return (or yield).

Interest earned	Actual 11/12	Actual 10/11	Budget 11/12
	£(165k)	£(203k)	£(154k)
Average % rate	1.05%	0.85%	1.05%

- 11.5 Comparing to budget, the amount achieved this year was higher (£11k or 7%) because there was additional cash available due to lower spend in both capital and revenue. Further details can be found in the Treasury Management Annual Report which is elsewhere on this agenda.
- 11.6 The performance for 2011/12 was a direct result of the changes in the banking sector and the prevailing conditions in the financial markets. Interest rates have significantly reduced and there are far fewer financial institutions available to the Council in which to place its investments.
- 11.7 The performance of the Treasury Management function needs to be measured against the investment objectives of *security* (the safe return of our monies), *liquidity* (making sure we had sufficient money to pay for our services) and *yield* (the return on our investments).

Security

- 11.8 Our aim for the risk status of our portfolio was **A-**, utilising the lowest rating from the three credit rating agencies.
- 11.9 The investments outstanding at the 31st March 2012 had a risk status of **A+** based on the length of the investment and **AA-** based on the value of the investment, which is a more secure risk status. These risk statuses are both compliant with our aim and the recommendations from our Treasury Management advisors.
- 11.10 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. We also maintained balances in Money Market Funds and Instant Access Accounts to provide for unforeseen cash flow requirements.
- 11.11 The average length of investments we made in 2011/12 was **80 days**.

Liquidity

- 11.12 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. We are actively managing liquidity risk by purchasing Certificates of Deposit and Treasury Bills because they can be sold on the secondary market in the event the money is required for unforeseen circumstances. We also have significant sums invested in call accounts and Money Market Funds which provide instant access to cash.
- 11.13 Therefore, due to the level of our liquid investments in 2011/12 we did not need to temporarily borrow.

Yield

- 11.14 In 2011/12 we achieved an average interest rate of **1.05%** and this compares to our performance indicator of the average 7-day London Inter-bank Bid (LIBID) rate, which was **0.52%**, the 1 month rate was **0.58%**, the 3 month rate was **0.89%** and the 6 month rate was **1.21%**.
- 11.15 Net Investment Income included Investment Income receipts (excluding Car Loan Interest) and Interest Payments. The projected overall net Treasury Management position compared with budget is shown in the following table :

Details	2011/12 Original	2011/12 Final Budget	2011/12 Actual
Average Amount we had available to Invest (£m)	£12.44m	£15.59m	£16.87m
Average Interest Rate (%)	1.16%	1.05%	1.05%
Interest Receipts	£133,000	£167,000	£179,551
Interest Paid	(£13,000)	(£12,500)	(£14,514)
Net Investment Income (£)	£120,000	£154,500	£165,037

12 The Bottom Line for 2011/12

12.1 Here we look at the spend by the categories we are required to use in our **Statements of Accounts**, and we focus on the projected outturn for 2011/12 compared to the approved budget and the bottom line.

	Approved Budget	Actual Outturn	Variation
	£m	£m	£m
What we planned to spend the money on			
Central services incl. finance, revenue collection, personnel, emergency planning	1.078	1.170	0.092
Cultural and related services, incl culture, heritage and leisure	4.148	4.229	0.081
Environmental and regulatory services, incl waste services	3.876	3.384	(0.492)
Highways, roads and transport, incl car parking	(0.585)	(0.916)	(0.331)
Housing Services, Housing & Council Tax Benefits	1.002	0.657	(0.345)
Planning services	1.643	2.162	0.519
Corporate and democratic core services incl. democratic representation, corporate management	2.304	2.272	(0.032)
Non-distributed costs	0.141	0.570	0.429
Net cost of Services	13.607	13.528	(0.079)
Less - transferred from capital and pension	(2.161)	(2.939)	(0.778)
Less - income from cash investments	(0.194)	(0.206)	(0.012)
Add - interest Payments	0.013	0.096	0.083
Net revenue expenditure	11.265	10.479	(0.786)
Less - transferred from earmarked reserves	(0.084)	0.413	0.497
Cost of local services met by local and national taxes	11.181	10.892	(0.289)
How we plan to fund this			
Local taxes - Council Tax	(5.389)	(5.389)	0.000
National Taxes - Formula Grant	(1.117)	(1.117)	0.000
Business Rates	(3.615)	(3.615)	0.000
Collection Fund Surplus	(0.005)	(0.005)	0.000
Council Tax Freeze Grant	(0.135)	(0.135)	0.000
New Homes Bonus	(0.261)	(0.300)	(0.039)
Sub Total	(10.522)	(10.561)	(0.039)
Revenue Account Deficit to be met by a Contribution from/(to) General Reserve	0.659	0.331	(0.328)

12.2 What is the performance telling us?

- ❖ The cost of the Council of **£10.892m** which was met by local and national taxation was **£289k** less than budget. This cost is after funds have been provided for future projects/risks in earmarked reserves.
- ❖ This was **£462k** less than the previous financial year (2010/11) when it was **£11.354m**.
- ❖ Overall, the Council has utilised **£328k** less Reserves than anticipated in the approved budget.
- ❖ This performance is as a result of the unremitting focus on controlling costs, generating income and introducing new ways of providing services and was achieved in a financially uncertain period.

12.3 The improvement in performance is due to various trading factors explained below.

12.4 **The Net Cost of Service** variance of **£79k** is before transfers from capital and therefore the 'real' variance on the cost of local services met by taxes is a favourable variance of **£786k**.

12.5 **Contributions to Earmarked Reserves** during the year were **£497k** more than Revised Estimate. This is the net impact of reserves used in the year to support 2011/12 activity offset by new reserves set up to fund known risks and projects in future years.

Of the **£497k**, over **£300k** is made up of 5 large items with the remaining being reserved for various smaller items. The 5 larger items were:

- ❖ **£112k** – External funding grants received in 2011/12 but will be used in 2012/13:
 - i. New Homes Bonus received early in respect of the 2012/13 allocation
 - ii. Homelessness Prevention grant
- ❖ **£83k** – To fund costs on the Joint Waste Shared Service as a result of future property growth
- ❖ **£60k** – To fund Phase II of the Garrick auditorium invest to save works enabled by the better financial performance of the Theatre (since the year end the approved cost amount is up to **£50k**, based on final costings).
- ❖ **£38k** – The LDC contribution to HLF Park works to date, expected to be paid out in 2012/13.
- ❖ **£30k** – Funding for the Lichfield Olympic Torch Event that took place in June 2012.

12.6 **Key Business Risk Areas:** **£0.517m Net Improvement**

Performance on the key business risk areas have been explained in detail earlier in the report.

12.7 **Other Variations:** **£0.269m Net Improvement**

Cost of Local Services, including:

- ❖ **£(0.067m)** - Homelessness related grants received and reserved for work in 2012/13 (see above)
- ❖ **£(0.058m)** - Additional Housing Benefits clawed back from residents in the area. This was due to continued efforts to ensure income is recovered where possible and brought back into the authority to be re-used for services.
- ❖ **£(0.055m)** - Lower than anticipated staff resource on CCTV in addition to lower maintenance expenditure due to recent refurbishment
- ❖ **£(0.039m)** - This is mainly an under-spend on general Revenues & Benefits Service expenditure. The variance also includes some one-off grants transferred to earmarked reserves as unspent in the financial year
- ❖ **£(0.032m)** - Urban Design & Conservation has generated savings in employee costs and additional income
- ❖ **£(0.017m)** - the remaining variance being due to smaller items

Grant Income:

- ❖ **£(0.039m)** New Homes Bonus 2012/13 allocation (provided by Central Government) (see above).

12.8 Working Balance, Reserves and Provisions

- ❖ The Council had General Reserves of **£(3.407)m** as at 31st March 2011.
- ❖ 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. For 2011/12 this was maintained at **£1m** representing **7.4%** of the cost of local services.
- ❖ The actual 2011/12 contribution from general reserves is **£331K**. After taking account of the minimum level of reserves of **£1m** this will leave a balance of **£(2.076m)** to assist with the Medium Term Financial Strategy going forward.

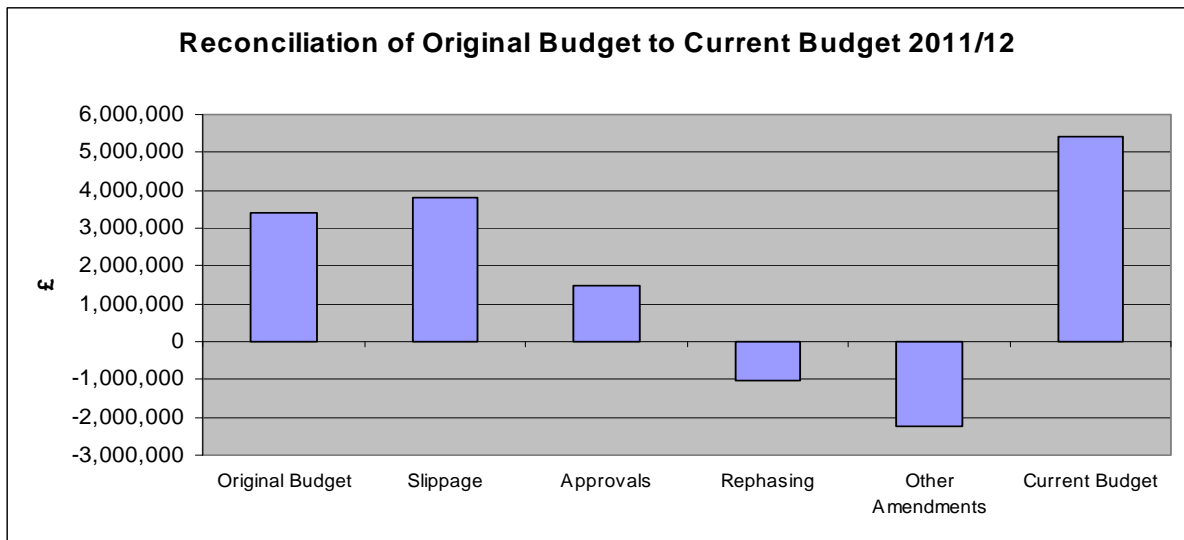
Glossary: Description of functional areas in the Table above

Central services include >> Revenue collection • Emergency planning • Financial Services and more.
Cultural and related services include >> Culture and heritage • Sports • Parks and open spaces
Environmental and regulatory services include >> Waste collection • Street cleansing • Community safety • Public conveniences • Environmental health and licensing .
Planning services include >> Planning • Economic development and more.
Housing services include >> Preventing homelessness • Housing and council tax benefits • Housing services
Highways, roads and transport services include >> Car parking and more.
Corporate and democratic core include >> Democratic representation • Corporate management
Non distributed costs include >> Retirement benefits • Capital charges non-operational assets.

13 Investing in our Priorities – Capital

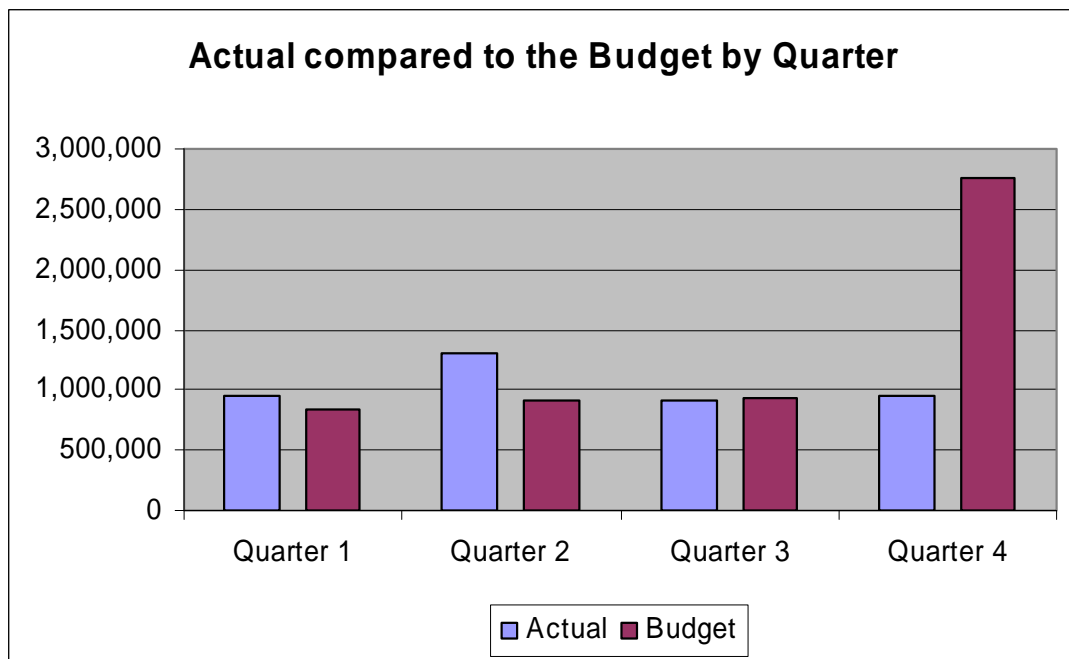
Management of the Capital Programme in 2011/12

- 13.1 The Council on the 22 February 2011 approved an Original Budget for 2011/12 of **£3.383m**.
- 13.2 There was slippage of **£3.824m** in the Capital Programme in 2010/11 that has been carried forward to 2011/12 and this resulted in a revised budget for 2011/12 of **£7.207m**.
- 13.3 In addition, the Cabinet has approved several reports and there have been some other minor changes, such as re-phasing under delegation, which increased the budget by a further **£1.490m**, there has been re-phasing of some project spend to later years of **£(1.020m)** and some other amendments to remove budgets for completed projects of **£(2.245m)** the largest of which relates to Chasewater Dam. Therefore, the Final Budget for 2011/12 was **£5.432m**.
- 13.4 The reconciliation of the Original Budget to the Final Budget is also shown in the graph below:



How did we perform in 2011/12?

- 13.5 Below we show spend quarter by quarter in 2011/12 using performance against our Final Budget:



13.6 Below we look at spend by top priority for 2011/12 Financial Year, focussing on the actual position for the year compared with the Revised Budget.

Top Priority	Projected Outturn (Quarter 3)	Final Budget	Actual	Variance	Note Ref	
	£m	£m	£m	£m		
Create safe, strong and proud communities	0.105	0.105	0.094	(0.011)		☑
Improve people's health and well being	0.305	0.449	0.202	(0.247)	1	●
Help people realise their potential	0	0	0	0		☑
Involve local people and partners	0	0	0	0		☑
Help people access a home that's right for them and to live independently	0.752	0.752	0.632	(0.120)	2	●
Vibrant towns and villages	3.517	3.293	2.395	(0.898)	3	●
Protect and enhance our environment for future generations	0.347	0.322	0.334	0.012		☑
Attract even more investment into our District	0.042	0.042	0.047	0.005		☑
Provide great value services centred on customer's needs	0.373	0.469	0.378	(0.091)		☑
Total Capital Expenditure	£5.441	£5.432	£4.082	(£1.350)		

KEY: ☑ Actual within £0.1m of our final budget ● Actual not within £0.1m of our final budget

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

Note 1: Improve People's Health and Well Being

- ❖ Friary Grange Changing Rooms (**£50k**) – an allocation of Section 106 monies towards this project was approved by Cabinet on 4th May 2010. However, the budget is insufficient to complete the required works and therefore attempts are currently being made to supplement this budget with funding from other sources.
- ❖ Darnford Park (**£78k**) – the works related to this project were completed early in the 2012/13 financial year.

Note 2 : Help People Access a Home that's right from them and to Live Independently

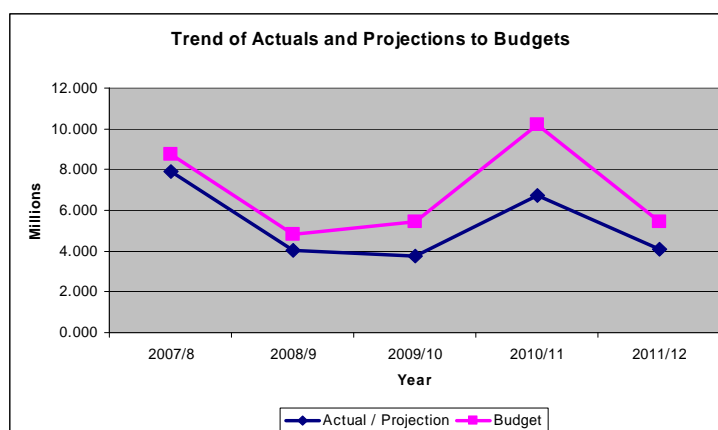
- ❖ Accessible Homes (Disabled Facilities Grants) (**£69k**) – the target spend was £650k, however on 17th January 2012 the Government announced a further £44k of funding, revising the final budget to £694k. This additional allocation so near to the end of the financial year meant there was therefore insufficient time to spend this sum during 2011/12 and it will therefore be added to the planned spend in 2012/13.

Note 3 : Vibrant Towns and Villages

- ❖ Friary Outer Development (**£613k**) – this project was delayed until the start of 2012/13.

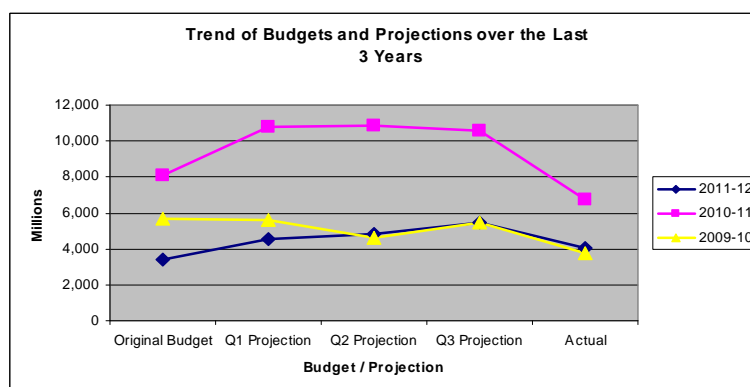
How does this year's performance compare to previous years?

13.8 The graph below compares actual capital spend with the budget for a 5-year period.



13.9 Previously the Council has underspent its Capital Programme by between **10%** and **38%** compared to the final. In 2011/12 the gap was **25%** (**34%** in 2010/11) due to the two major projects within the Capital Programme related to the Chasewater Dam and the Heritage Lottery Parks project under spending (as detailed previously in this report).

13.10 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 where we can manage our performance more effectively in terms of capital spend. We can see the trend is similar for all four 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

13.11 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 2011/12:-

Project Name	Annual Spend in 2011/12		
	Final Budget £k	Actual £k	Variance £k
Planned maintenance	45	42	(3)
Third Senior Grass Pitch	22	22	0
Swimming Pool Enhancements	37	36	(1)
Security Barriers	14	13	(1)
Inspire Fitness Replacement Equipment	10	10	0
Sound System in Sports Hall	2	2	0
TOTAL	130	125	(5)