

AUDIT PANEL			
Report Title	REVIEW OF HALF YEAR FINANCIAL POSITION		
Key Decision	NO		Item No. 6
Ward	ALL		
Contributors	EXECUTIVE DIRECTOR OF RESOURCES		
Class	PART 1	Date: 3 DECEMBER 2008	

1. Summary and Purpose

This report presents the overall financial position of the Council at the half year stage of the 2008/09. It is intended to provide information to Audit Panel members to keep them up to date with the latest financial picture and to better prepare them to scrutinise the full year accounts at year end.

2. Recommendations

Members of the Audit Panel are asked to note the contents of the report.

3. REVENUE MONITORING

3.1. Directorate revenue monitoring position

Monitoring of the revenue budget happens throughout the year and is reported up to the Public Accounts Select Committee. Based on latest monitoring information, there is a projected year-end overspend of £0.410m. This represents a projected outturn of £262.931m which is illustrated in Table 1.

Table 1 – Council-wide projected budget variance for 2008/09

DIRECTORATE	2008/09 Revised Budget (£000)	Projected variance at half year (£000)	Projected year end outturn (£000)
Children & Young People	56,024	(245)	55,779
Community Services	91,523	81	91,604
Customer Services	37,827	476	38,303
Regeneration	17,341	282	17,623
Resources	28,812	(184)	28,628
Central Financing Items	30,994	0	30,994
Total	262,521	410	262,931

3.2. Housing Revenue Account

The latest budget monitoring indicates that the Housing Revenue Account (HRA) will be in a balanced budget position at year end.

4. **Capial**

4.1. Capital Programme monitoring

Table 2 (below) shows that overall within the Council's capital programme projects have spent 36% of their forecasts for the year as at the end of September (£26.4m against forecasts of £73.4m). This compares with 25% for the second quarter of 2007/08. This shows an improvement in 2008/09 due to a large number of projects already on site during the first quarter of 2008/09. It should be noted that never has such a high proportion of forecasts been spent at this stage of the year. This suggests that the current monitoring and reporting of project spend is making forecasts more accurate.

Table 2 – Directorate analysis of capital spend forecasts

DIRECTORATE	Spend at half year (£000)	Forecast (£000)	% of forecast spent
Community Services	2,182	5,791	38%
Resources	814	1,363	60%
Children & Young People	11,238	23,857	47%
Regeneration	6,235	16,853	37%
Customer Services	5,170	11,040	47%
Directorates' Capital Programme sub total	25,639	58,904	44%
Lewisham Homes	805	13,654	6%
Grand Total	26,444	73,399	36%

4.2. Fixed Assets

At the half year stage there is an increase in Fixed Assets of £24.209m due to capitalisation of spend. At the end of 2008/09, the Council's fixed assets were worth £2,048.741m. However, by the end of the year this figure will have reduced due to the impact of the annual depreciation charge, and impairment and disposal of fixed assets.

4.3. Capital reserves and balances

At the half year stage the Capital Adjustment Account has increased by £10.084m to £1,519.249m. The Capital Adjustment Account represents a store of capital resources set aside to meet past expenditure on capital. The Usable Capital Receipts Reserve has decreased by £5.312m to £13.238m as these receipts have been used to finance new capital spend.

5. Treasury Borrowing and Investments

- 5.1. The Council's 2008/09 treasury strategy forecast a net borrowing increase of £83.3m over three years, representing a shift away from using internal balances. This has now been increased to £90m to reflect the increases in the estimated Capital Financing Requirement (CFR) over the period
- 5.2. To date in 2008/09 debt of £45m has been entered into. This includes a market loan of £15m at a rate of 4.375% and two PWLB loans of £20m and £10m with rates of 4.39% and terms of up to 50 years. All these loans historically represent extremely good value and the rates entered into have been the lowest available during 2008/09 to date. In order to raise debt to CFR levels the Council will need to consider entering into a further £41m of debt. The Executive Director of Resources closely monitors the economic environment and will make all efforts to take on these loans at the very best rates available and at the most opportune time.
- 5.3. As a result of this the total amount of overall borrowing (both short term and long term) on the Council's balance sheet at the end of the 2008/09 is expected to be higher than it was at the end of 2007/08. However, it should be noted that the short term borrowing will be less. This is because the 2007/08 short term borrowing balance included a number of Lender Option/Borrower Option (LOBO) borrowing with option dates within 12 months. As the dates for these options passes this will return to the long term borrowing section of the balance sheet.
- 5.4. Forecasts for interest on revenue balances are prudent. This recognises the fact that economic forecasts frequently change and sometimes by substantial margins. The importance of this approach has been underlined by events over the last year. As most of the Council's investments are short term they are more sensitive to interest rate movements than the Council's debt portfolio which is mainly held in fixed interest rate debt.
- 5.5. The Executive Director for Resources appointed external cash managers, as agreed by Mayor and Cabinet in October 2006. The external cash managers are managing around £52m of available funds, using a wider selection of financial instruments (such as gilts and certificates of deposit). Each cash manager was given £15m as an initial investment with a further investment of £10m each in 2008/09.

6. Debtors

- 6.1. The centralised debtors team was created at 1 April 2008, and is responsible for the collection of the following debts: Community, Trade Refuse, Transport Trade, Transport Client, Resources, Pest Control, Environment (Other) and CYP.

- 6.2. Debts are continuing to be cleansed and action taken to recover the outstanding arrears. Disputes are being raised with the debt raising teams and service departments.
- 6.3. Examples of recovery action being taken by the Central team Include:
- 28 County Court Claims Issued
 - Instructing bailiffs to recover unpaid commercial rent
 - Instructing Debt Collection Agents to recover unpaid Trade

Table 3 – Percentage of invoices cleared within 90 days of due date

Percentage of invoices cleared within 90 says of due date	Total for 2007/08	Debt raised Apr 09	Debt raised May 09	Debt raised Jun 09	Debt raised Jul 09
By Value	90	91	85	81	81
By Number	80	84	81	81	87

Table 4 – Aged debt analysis

Age of debt	As at end Sep 07 (£000)	As at end Mar 08 (£000)	As at end Sep 08 (£000)
0-30 days	4,727	6,365	1,654
31-60 days	661	618	789
61-90 days	360	338	1,418
> 90 days	6,953	5,784	5,840
Total	12,701	13,105	9,701

7. Cash Flow Statement

Following a number of accounting difficulties experienced in the production of the Cash Flow Statement for 2007/08, some detailed review and development work has been carried out, and this has demonstrated that the majority of the statement can be produced more efficiently by automatic means. As a result, in 2008/09 a mid-year draft statement has been successfully produced for the first time. This is currently being further developed and refined, and the notes to the statement are being automated in the same way.

8. Other Significant Impacts on the Accounts

8.1. 2008/09 Statement of Accounts

- 8.1.1. The Statement of Accounts is produced in accordance with the Statement of Recommended Practice (SORP). There are only a few minor changes to the SORP this year. These minor changes involve the rules for impairment of fixed assets and the treatment of the Area Based Grant but are not on the same scale as the changes in last year's SORP regarding the capital reserves and the treatment of financial instruments. However, the new rules

for the treatment of the Area Based Grant will make one difference to the appearance of the Income and Expenditure grant as this income will now appear at the bottom of the I&E Account under the heading “General government grants” instead of as income against the relevant service lines. This is because there is no longer any rules determining how this grant money should be spent so it is now a “general grant” instead of a “specific grant”.

- 8.1.2. In 2007/08 there was a Large Scale Voluntary Transfer (LSVT) of housing stock to Phoenix Community Housing, a registered social landlord. The accounting treatment for this transfer resulted in a large deficit on the Income and Expenditure Account in 2007/08. As a result the deficit on the 2008/09 Income and Expenditure Account would be expected to be lower by approximately the value of the Phoenix LSVT in 2008/09. There are two more stock transfers taking place in 2008/09, but these are on a smaller scale than the Phoenix transfer, so will have a less significant impact on the accounts.

8.2. Future Statement of Accounts

- 8.2.1. From 2010/11 the Council will be required to produce the Statement of Accounts in accordance with International Financial Reporting Standards (IFRS). The Code of Practice on Local Authority Accounting for 2010/11 will also be prepared under the oversight of the Financial Reporting Advisory Board (FRAB) rather than the Accounting Standards Board (ASB) as for previous years.
- 8.2.2. IFRS is being introduced to the public sector to improve consistency and comparability as well as to follow private sector best practice. Some of the key differences that will result from the move to IFRS include the accounting treatment for Private Finance Initiative (PFI) projects; leases; financial instruments; and segmental reporting.
- 8.2.3. The Council is planning for these changes now in order to be able to meet the new requirements when they come in.

9. Timetable

- 9.1. The 2008/09 financial year will end on 31 March 2009. The Pre-Audit Statement of Accounts is required to be produced by the end of June 2009 and the Audited Statement of Accounts by the end September 2009. Both of these will be reported to Audit Panel.
- 9.2. The Audit Commission will again be providing the external audit of the 2008/09 Statement of Accounts.

10. Legal Implications

There are no legal implications directly arising from this report.

11. Crime and Disorder Implications

There are no crime and disorder implications directly arising from this report.

12. Environmental Implications

There are no environmental implications directly arising from this report.

13. Conclusion

The Council's financial position is continually monitored during the year, and not just at year end. This report summarises much of this in-year monitoring at the half year stage and demonstrates that the controls and checks are in place to ensure that a timely and accurate set of accounts can be produced at year end.

Background Papers

None reported

If there are any queries on this report please contact the Group Manager
Accounting 020 8314 6458