

Leicester
City Council

**RESOURCES AND CORPORATE ISSUES
SCRUTINY COMMITTEE
CABINET**

11th January 2007
15th January 2007

REVENUE BUDGET MONITORING 2006/07– PERIOD 7

REPORT OF THE CHIEF FINANCE OFFICER

1.0 INTRODUCTION

- 1.1 The purpose of this report is to show a summary position comparing spending with the budget. The report is the second in the regular cycle of reports for the 2006/2007 financial year showing budget issues that have arisen so far.
- 1.2 Each Scrutiny Committee will receive only this covering report and the appendix (or appendices) which relate to its portfolio. The Resources and Corporate Issues Scrutiny Committee will receive the appendices that relate to its portfolio and a summary report considering the overall position.
- 1.3 The Cabinet will receive this covering report and the overall position for the Council.
- 1.4 Members of the Cabinet or the Resources and Corporate Issues Scrutiny Committee wishing to see the appendices relating to any portfolio not appended to the report should please contact the report author.

2. SUMMARY

- 2.1 The General Fund budget set for the financial year 2006/2007 was £232.5m. Together with the sums carried forward by service departments from 2005/2006 of £0.2m, the revised budget is now £232.7m. After 7 months of the year, 69% of the revised budgets of departments have been spent.
- 2.2 Departments continue to be working under significant budgetary constraints. The departments where this is most felt include Adults and Community Services, Housing and Resources, who are forecasting that they will need to draw on departmental reserves or capitalisation in order to achieve a balanced outturn.

3. RECOMMENDATIONS TO CABINET

3.1 The Cabinet is recommended to:

- a) Note the changes made to the original approved budget for 2006/07;
- b) Note the expenditure to date and the budgetary issues which have emerged so far this year;
- c) Note the proposals put forward to ensure that spending is contained within the Departments' budgets;
- d) Approve the establishment of an earmarked reserve for the capital financing costs associated with the Building Schools for the Future programme as outlined in paragraph 6.3;
- e) Note the budget transfers outlined in paragraph 3.4.

3.2 Scrutiny Committees are asked to consider issues affecting their portfolio and make any observations to the Cabinet as they see fit.

3.3 The Resources and Corporate Issues Scrutiny Committee is asked to consider the overall position for the whole Council and make any observations it sees fit.

4. FINANCIAL IMPLICATIONS

The report is solely concerned with financial issues.

5. LEGAL IMPLICATIONS

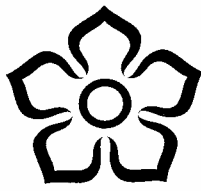
There are no direct legal implications in this report. Peter Nicholls, the Head of Legal Services has been consulted in the preparation of this report.

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MARK NOBLE
CHIEF FINANCE OFFICER

DECISION STATUS

Key Decision	No
Reason	N/A
Appeared in Forward Plan	No
Executive or Council Decision	Executive (Cabinet)



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15th January 2007

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REVENUE BUDGET MONITORING 2006/07– PERIOD 7

REPORT OF THE CHIEF FINANCE OFFICER

SUPPORTING INFORMATION

1. INTRODUCTION

- 1.1 This report provides a summary position for all expenditure at the end of period 7 for the financial year 2006/2007.
- 1.2 The report is the second full report for this financial year, and shows the overall General Fund position against the original budget (£232.5m) adjusted to £232.7m for under/over spends carried forward from 2005/06 of £0.2m. Further reports will be presented to Cabinet and Scrutiny committees at period 9 and outturn.

2. SUMMARY OF THE REPORT

- 2.1 After 7 months of the year, 69% of the revised budgets of departments have been spent.
- 2.2 Departments continue to be working under significant budgetary constraints. The departments where these are most felt are Adults and Community Services, where action is being taken to reduce spending which (together with the use of reserves and other one-off monies) should mean that spending can be contained within budget; Housing due to unforeseen bed and breakfast and housing benefit costs; and Resources where it is likely that departmental reserves will need to be used to ensure a balanced outturn. Further information is contained in section 5 of this report.
- 2.3 The Housing Revenue Account (HRA) is forecasting a deficit of £1.5m, which is slightly smaller than the budgeted deficit for the year of £1.7m. This is mainly as a result of reduced capital financing costs. The forecast balance at year-end is

£1.8m (compared with an original budget of £2.3m).

- 2.4 Corporate budgets are anticipating a saving in excess of £2m. This is mainly due to high cash balances earning interest but also some timely borrowing decisions. The budget for interest earned on cash balances was once again increased significantly in 2006/07 but continues to surpass expectations.

3. BUDGET FOR 2006/07

- 3.1 The General Fund budget for the financial year 2006/07 is **£232.5m**, of which £1.3m is being funded from general reserves resulting in a net budget requirement of £231.2m. After adding the approved carried forward amounts from 2005/06 (**£0.2m**) the budget for the year is now **£232.7m**.

- 3.2 Each Corporate Director is required by Finance Procedure Rules to ensure that services are delivered within budget, and has the responsibility of providing a framework for monitoring the budgets within the guidelines provided by the Chief Finance Officer.

- 3.3 Financial control is generally maintained by monitoring actual expenditure against approved budgets at regular intervals throughout the year. However 2006/07 is unique due to the Integrated Services Project (ISP). This project has reconfigured Council services in response to the Children Act 2004. A report was approved by Cabinet on 30th October 2006 setting out the operational budgets relating to the new departments, however, the budget transfers relating to support services are not yet finalised. In addition to this, the new departmental structures are not yet reflected in the council's core financial management and information system. Therefore, in order to ensure robust financial management arrangements are in place during this period a budget monitoring protocol established earlier in the year and endorsed by Senior Management will continue to be applied.

- 3.3 Corporate Directors are responsible for their controllable budgets. These include employee costs, running costs and income. 'Indirect expenditure' or 'below the line charges' are the responsibility of the service provider with the cost of those services being included in the providers' controllable budgets.

- 3.4 The following budget transfers between departments which relate to the transfer of functions and do not effect the budgets of any services:

- **Housing Benefit Audit Investigations team** - transfer £157.4k from Resources department to Housing;
- **Net Recharges** - The transfer to Regeneration and Culture Department of £252.1k to correct a long standing anomaly arising from the transfer of services from the former Commercial Services Department.

- 3.5 The table below details the revised (subject to review) budget for the authority presented in the new departmental structure.

Table 1	Restated Original Budget for 2006/07	Approved Carry forwards	Virements	Provisional Revised Budget for 2006/07
Department	£000	£000	£000	£000
Chief Executive's Office	2,395.8	-	-	2,395.8
Children & Young People	54,950.7	-	143.4	55,094.1
Regeneration & Culture	58,943.5	6.9	1,644.7	60,595.1
Housing	6,298.4	(32.4)	233.8	6,499.8
Housing Benefits	487.8	-	-	487.8
Adult & Community Services	68,486.4	210.1	218.8	68,915.3
Resources	18,269.5	-	340.7	18,610.2
Total Departments	209,832.1	184.6	2,581.4	212,598.1
Corporate Budgets				
Miscellaneous	8,810.4	-	(2,329.3)	6,481.1
Capital Financing	17,165.0	-	-	17,165.0
General Fund (excl. net recharges)	235,807.5	184.6	252.1	236,244.2
Net Recharges	(3,272.6)	-	(252.1)	(3,524.7)
TOTAL GENERAL FUND	232,534.9	184.6	0	232,719.5

4. SUMMARY OF PROJECTIONS

4.1 The results of the monitoring of the budgets are summarised in Appendix 1.

5. SIGNIFICANT ISSUES ARISING FROM DEPARTMENTS

The budgetary issues, which have emerged to date, are as follows:

5.1 Chief Executive's Office

5.1.1 The Chief Executives office is currently forecasting an overspend of £78k mainly as a result of issues relating to the funding for the Partnership Team. The budget will be balanced by the merger of the chief executive's and partnership teams.

5.2 Children & Young People

5.2.1 The budget of the Children and Young People's Department has two components:

(a) general fund services, which are projected to underspend by £0.3m at present. Although this projection does not take account of all emerging service pressures

to which the department is having to respond. Every effort is being made to manage services within available finances; and

- (b) the schools block, which is facing total pressures of £0.7m (this can be partially offset by the schools block contingency of £0.4m, subject to the approval of the Schools Forum).

5.2.2 There are a number of variances, both underspends and overspends, across the department that result in the overall position. Those of significant value are highlighted below:

- Independent schools (£410k overspend - Schools Block) – this is forecast to overspend because of a large increase in the number of pupils supported by this budget, as local provision is not available to meet their needs. The budget is highly sensitive to demand as a single placement can cost in excess of £100k. The budget includes growth of £550k from the 2006/07 DRS; the overspend is in addition to this growth in the budget.
- Mainstream statementing (£372k overspend - Schools Block) - The budget reimburses the costs of support to statemented pupils in mainstream schools. The spend on this budget is determined by the support needs identified in pupil statements.
- Home to school transport (£250k overspend - General Fund) – Information suggests continuing cost pressures in this area, but the position is being scrutinised.
- Child placements (£208k overspend - General Fund) - There is continued pressure on this budget, which covers payments to foster carers and adoptive parents. The number of placements has increased, and the rates paid to carers have increased this year as agreed in the budget. There may be a further £50k of grant income in the year, which will offset the overspend.
- Transport - Looked After Children (£500k overspend - General Fund) - Based on 2005/06 costs, the overspend arises from increased cost pressures. The forecast cost includes a charge of £250k for in-house transport, which is based on the apportionment of costs of the former Social Care and Health Department. It is acknowledged by Adults and Community Services Department that this apportionment needs to be reviewed in the light of the actual transport being delivered.
- Nursery education grants (£184k underspend - Schools Block) – this is predominantly arising from lower than projected take up of eligible child care places at the new Children’s Centres during the Summer Term. It has been assumed that the provision of 80 new places will be fully taken up from the Autumn Term; information becoming available indicates that this may not be the case and that the underspend may increase.
- Duty & Assessment Team (£151K underspend - General Fund) - Underspend being caused by staff turnover, and a downward trend on running costs.
- Premature retirement costs (£200k underspend - General Fund) - The projected

underspend is on the general fund element of the budget. From 1st April 2006, costs relating to all new retirements fall to the Schools Block for funding.

5.2.5 Schools

Schools have delegated budgets for which they are responsible. The department oversees the position particularly concentrating on schools at risk of deficits. In general schools are predicting that they will draw on the £12m of reserves that they held at the beginning of the year. The budget includes £170.3m Dedicated Schools Grant income from the government, and as previously reported the final grant allocation is £0.8m lower than anticipated, largely due to reduced pre-school pupil numbers. This has not been included within the overall forecast as officers are still exploring options to contain this shortfall.

5.3 Regeneration & Culture

5.3.1 The department is forecasting a **balanced outturn** on a net budget of £60.6m.

5.3.2 A significant budget pressure for the department in 2006/07 is in achieving the organisational review staff savings of £0.7m incorporated into the budget strategy. The review started later than anticipated, however the revised structure is now operational. A combination of savings made through vacant posts not being filled across the department and a contingency fund specifically for delays in completing the review means the department will achieve its budgeted review savings.

5.3.3 The most significant area of risk for the department remains the achievement of budgeted income, and in particular the income from De Montfort Hall shows, planning fee income and income from Bereavement, Parks and Landscape Services. We are currently on target, but monitoring the situation closely as there is a seasonal effect, which means that any shortfalls in coming months would have a disproportionate impact on the department.

5.3.4 The departments' four traded services (Fleet Transport, Operational Transport, City Highways and Catering) are all forecasting a break-even position.

5.4 Housing

5.4.1 The department has significant financial pressures in two areas during the current year and capitalisation of revenue expenditure will be required in order to minimise the overspend. The backlog in dealing with housing benefit claims, due to an IT problem, continues to cause financial pressures as agencies are being employed to clear the backlog. It is anticipated that additional expenditure of £200k will be incurred as a result. Secondly, there has been a significant increase in the use of bed and breakfast, which is a volatile area and difficult to control. The predicted overspend in this area is £150k.

5.4.2 The departmental overspend, before capitalisation, is £0.4m. The Director is making every effort to reduce the remaining overspend of £70k. If this is not possible then further capitalisation may be required.

5.4.3 Housing Benefit Payments

The 2004/05 subsidy claim has not yet been finalised by the Department of Work and Pensions (DWP). There were a number of issues reported by the District Auditor during the course of their audit of this claim and the authority has already made a provision of £1m to meet the potential costs of any claw back. It is expected that the claim will be finalised within the next month and the current estimate suggests that the level of claw back by the DWP, as a worst case scenario, is £1.1m.

There are a number of other factors that can affect this volatile budget including:

- Any variations arising from the audit of the 2005/06 claim; and
- Overpayments/overpayment recoveries.

The budget includes provision for additional costs arising from the above which could be significant due to the scale of activities (£109m payments per year).

5.4.3 Housing Maintenance Trading Unit

The present forecasts indicate a surplus close to the budgeted surplus of £0.2m. This surplus will be used to fund capital expenditure as part of the HRA capital programme.

5.4.4 Housing Revenue Account

The original budget for the HRA indicated a planned £1.7m deficit for the year to be met from HRA balances, which stood at £3.4m as at 31st March 2006. The latest forecast indicates a small reduction in the deficit to £1.5m. There are a number of variances which have contributed to this underspend, the most significant of which is reduced capital financing costs (£0.7m). This is due to debt rescheduling and reduced prudential borrowing and has been offset by an increase in negative subsidy payable to the government (£0.5m).

5.5 Adult and Community Services

5.5.1 The former Adult and Community Services Department had been forecasting an underlying overspend for some time, which it planned to address by management action and one-off use of reserves and carried forward monies. A number of additional risks and uncertainties associated with major service and organisational reviews such as Adult Learning Options and the Integrated Services Programme have also been highlighted, and these remain as risks at the present time.

5.5.2 The areas with net overspends continue to be Community Care (Adults) and Older People's Divisions. This reflects the pressures on community care services evident for a number of years and the level of commitments at the start of the year, including home care, residential placements, and adult mental health services. Managers continue to explore options for reducing the forecast overspend,

although these are limited due to the requirement to meet assessed needs under the Fair Access to Care criteria and the need to achieve urgent performance improvements and targets in key areas.

5.5.3 There are also concerns that the requirement for the NHS to achieve financial balance this year will further impact on the Department. Examples locally include cost improvements being required of the NHS Trust providing Learning Disability and Mental Health services and the need to commit to “invest to save” strategies such as Intermediate Care services.

5.5.4 A number of actions have been implemented to manage the position, including:

- Consistent application of eligibility criteria for social care
- Reviewing whether vacancies need to be filled
- Maximising the use of external income and partnerships
- Ensuring the Adult Learning Service remains within its LSC grant funding, with appropriate use of reserves
- Absorbing Anti-Social Behaviour costs within the wider Crime and Disorder budget
- Challenging charges under Joint Service Agreements
- Deferring payment of an “above inflation” increase to independent sector residential care providers until January 2007, in recognition of sector-specific cost increases.
- Deferring investment in Information Technology. This will impact on progress to modernise ways of working, keeping equipment updated and maximising the benefit of major initiatives such as the Electronic Social Care Record.
- Requiring the additional in-year investment in staff to improve performance against specific targets to be contained within existing resources and spending forecasts.

5.5.5 After taking these actions into account, the potential remaining overspend should be reduced to a level that can be offset by the use of funds and reserves brought forward from the predecessor departments in 2005/06, and by maximising the use of Government grants to support core priorities. However, the use of such one-off monies will reduce future flexibility and limit the level of service development and initiatives that can be funded from these grants.

5.5.6 By implementing these measures, it is anticipated that the Department would be able to remain within its budget this year, within the proviso that no significant unforeseen risks or events occur over the autumn and winter period.

5.6 Resources

5.6.1 The Department has previously reported some specific services with financial pressures which are expected to lead to overspends by the year end. The following areas continue to forecast an overspend:

- The Coroners’ service has had problems for several years, but with the prospect of a national review of the financing of Coroner’s Services it has been decided by the Departmental Management Team to absorb the costs if at all possible. The deficit in 2006/07 is currently forecast to be around £250k.

- The Childcare Vouchers scheme will take longer than previously envisaged to generate the anticipated savings, and a shortfall of £80k is forecast.

5.6.2 In addition, there are pressures within Property Services and some other pressures across the Department such as the building cleaning client costs (£73k) and IT recharges for Internet/ e-mail infrastructure (£56k). The Land Charges section is now hopeful that the recovery plan instigated as part of the 2006/07 budget will be successful in tackling the underlying budget problems within that service and delivering a balanced outturn.

5.6.3 It is expected that the areas of overspend will largely be offset by savings in other areas of the department, but a call on the department's investment reserve may be required to deliver a balanced outturn. This would be undesirable, as the reserve has been created for the purpose of facilitating investment related to service development and improvement, not to fund budget pressures. Consequently, the Departmental Management Team is keeping the position under close scrutiny.

6. CORPORATE BUDGETS

6.1 This budget (£24.8m) includes a number of items that are not within the controllable budgets of any corporate directors. Capital financing (£17.2m) is by far the largest element of the budget but it also includes bank charges, audit fees, levies and other miscellaneous expenditure.

6.2 The Capital Financing budget is currently forecasting a saving **in excess of £2m**. This saving mainly reflects large net inflows of cash into the authority, i.e. cash receipts in excess of cash expenditure. There has been a growing trend of increasing interest income now over several years. The budget for this interest is always set prudently as cash balances can be very volatile, but, although the budget for 2006/07 was set at higher levels than previous years, the underlying cash balances are still likely to exceed expectations, thereby earning additional interest. Main contributory factors are the change in funding for schools, which has resulted in DSG being received earlier than equivalent revenue support grant (RSG); and delays to the LAA programme. Savings are also being made due to delays in the CLABS replacement programme, but these savings will be needed to meet consequent price increases. Further reasons for the saving include good borrowing decisions: low interest rates were exploited at the end of 2005/06, and borrowing undertaken in advance for the entirety of the 2006/07 capital programme. This money has been invested pending need, and is benefiting from the increase in short term interest rates seen in recent months.

6.3 Corporate budgets include a provision of £3.3m to meet costs associated with the Building Schools for the Future (BSF) programme of investment. This sum includes £0.4m of client team costs and a further £2.9m to meet the associated capital financing costs. Whilst the client team budget is expected to be fully spent, an agreement has been reached with the DFES in which they will provide advance rather than retrospective funding which represents a significant cashflow benefit. This also means that the £2.9m capital financing budget will not be required until later years. Members are asked to approve the establishment of a new earmarked reserve in order for these monies to be set-aside to meet these costs in future

years.

7. GROWTH & REDUCTIONS

7.1 Departments have submitted returns on the growth and reductions contained within the 2006/07 Departmental Revenue Strategies. There are no items of major significance, other than those reported in earlier paragraphs, to report. However, the Children and Young People's Department are reporting potential shortfalls in the following areas, all of which have been built into their overall forecast:

- Information Management Admin Support (£10k) – Service review cannot be undertaken and saving will not be achieved;
- Home to School Transport (50k) tightening of controls on non-routine hours – Shortfall of £12k expected in 2006/07 but full savings expected in subsequent years;
- Reduction in the budget commitment (£120k) to the Community School Budget Partnership Agreement - There is a possible shortfall in year 1 due to differences in financial/academic years, but full savings expected in future years;
- Workplace Nursery – Overspend of £47k due to timing of closure decision.

8. INVOICE PAYMENTS

8.1 The Council has set a target to pay 92% of all undisputed invoices on time (2005/06 target: 91%) A payment is deemed to be "on time" if it is paid within 38 days of the invoice date. Performance against this target varies between departments and, if the target is to be achieved, it is important that any deficiencies in Departments' arrangements are identified and rectified promptly. The performance for the month of October was 94.1%, and the cumulative position for the 7 months to date 91.7%. The performance for the remainder of the year needs to run at around 92% if the target of 92% is to be achieved. The performance of each department is shown in the table found at Appendix B.

9. FINANCIAL INDICATORS

9.1 As part of the 2006/07 budget report, Cabinet and Council approved various financial indicators taken from the council's balance sheet and cashflow statements. These are monitored and reported as part of the regular cycle of budget monitoring reports.

9.2 The indicators are attached at Appendix C to this report and include the position as at 1st April 2006 together with a forecast for the year ended 31st March 2007. These indicators suggest that:

- Borrowing is expected to increase. As stated in paragraph 6.2 above, long term borrowing was undertaken at the end of 2005/06 sufficient to meet all this year's capital spending needs. The further increase in borrowing is to meet capital payments when they fall due, which is expected to be preferable to the use of

- invested cash; and
- Reserves and balances are forecast to reduce, however, experience suggests that at this stage of the year these figures should be viewed with an element of caution.

10. **OTHER IMPLICATIONS**

Other implications	Yes/No	Paragraph referred
Equal Opportunities	No	-
Policy	No	-
Sustainable and Environmental	No	-
Crime and Disorder	No	-
Human Rights Act	No	-
Elderly/People on Low Income	No	-

11. **DETAILS OF CONSULTATION**

11.1 All departments are consulted on revenue budget monitoring.

Author: Lisa Turner
Date: 1/12/2006

MARK NOBLE
CHIEF FINANCE OFFICER

GENERAL FUND REVENUE
BUDGET MONITORING PERIOD 7 2006/07

APPENDIX A

	Original Budget	Carry forwards	Virements	Revised Budget for Year	Actual Expenditure to Period 7	Forecast Outturn	Forecast Variance over (under) spend - before action is taken	Forecast Variance	% Spend Period 7 2006/07	% Spend Period 7 2005/06
	£000	£000	£000	£000	£000	£000	£000	%	%	%
Chief Executive's Office	2,395.8	0.0	0.0	2,395.8	1,990.7	2,473.8	78.0	3.3%	83.1%	67.7%
Children and Young People *	54,950.7	0.0	143.4	55,094.1	46,674.9	55,077.3	(16.8)	(0.0)%	84.7%	58.7%
Regeneration & Culture	58,943.5	6.9	1,644.7	60,595.1	37,494.8	60,595.1	0.0	0.0%	61.9%	61.5%
Housing	6,298.4	(32.4)	233.8	6,499.8	4,526.7	6,569.5	69.7	1.1%	69.6%	63.0%
Housing Benefit	487.8	0.0	0.0	487.8	284.6	487.8	0.0	0.0%	58.3%	58.3%
Adult & Community Services	68,486.4	210.1	218.8	68,915.3	40,518.6	68,915.3	0.0	0.0%	58.8%	60.2%
Resources	18,269.5	0.0	340.7	18,610.2	16,306.3	18,958.2	348.0	1.9%	87.6%	80.4%
Total Departments	209,832.1	184.6	2,581.4	212,598.1	147,796.6	213,077.0	478.9	0.2%	69.5%	60.7%
Corporate Budgets										
Miscellaneous	8,810.4	0.0	(2,329.3)	6,481.1						
Capital Financing	17,165.0	0.0	0.0	17,165.0						
Total Corporate Budgets	25,975.4	0.0	(2,329.3)	23,646.1						
TOTAL GENERAL FUND	235,807.5	184.6	252.1	236,244.2						
Net Recharges	(3,272.6)	0.0	(252.1)	(3,524.7)						
TOTAL GENERAL FUND	232,534.9	184.6	0.0	232,719.5						

Departmental comparisons between 05/06 and 06/07 are not valid due to departmental restructuring and differences in the treatment of grant income, including DSG.

**INVOICE PAYMENT STATISTICS
APRIL 2006 TO OCTOBER 2007 (7 MONTHS)**

	INVOICES PAID "ON TIME"	
	No.	£
EDUCATION	20,627	48,526,339.06
% of totals	92.0%	96.9%
HOUSING	20,931	28,014,677.57
% of totals	93.5%	91.4%
REGENERATION & CULTURE	27,097	48,104,971.00
% of totals	86.7%	89.5%
RESOURCES	18,546	34,639,452
% of totals	93.9%	93.9%
SOCIAL CARE & HEALTH	19,328	16,986,049.42
% of totals	95.0%	94.4%
TOTAL	106,529	176,271,488.85
% of totals	91.7%	93.1%

FINANCIAL INDICATORS
Forecast Balance Sheet and Cashflow Items
Period 7: 2006/07

<u>Financial Indicator</u>	Actual as at 1st April 2006 £'000	Forecast at 31st March 2007 £'000
<u>Balance Sheet Items</u>		
Reserves & Balances:		
General Fund (excluding service department carry forwards)	7,884	8,500
Earmarked Reserves	38,921	31,209
Earmarked Capital Reserves	14,421	7,500
Housing Revenue Account	3,371	1,815
Debtors (excl. Bad Debts Provision)	68,520	60,500
Creditors	74,771	67,300
Long-Term Borrowing	323,895	323,895
<u>Cashflow Movements</u>		
Increase/(Decrease) in all borrowing	73,560	27,572