

**Subject:** Financial Monitoring

**Status:** For Publication

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**Report to:** Cabinet

**Date:** 18<sup>th</sup> October 2006

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**Report of:** Head of Financial Services

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**Portfolio**

**Holder:** Finance & Risk Management

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**Key Decision:** No NO/YES (Please delete)

Forward Plan  General Exception  Special Urgency  "X" In  
*Relevant Box*

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**1. PURPOSE OF REPORT**

1.1 The purpose of the report is to continue to update Members on the General Fund estimates for 2006/07, the Capital Programme and Treasury matters; as well as progress with delivering budget savings and growth.

**2. CORPORATE PRIORITIES**

2.1 The matters discussed in this report are linked to and support the following corporate priorities:

- Financial Management: *embedding financial management throughout the organisation.*

**3. RISK ASSESSMENT IMPLICATIONS**

3.1 All the issues raised and the recommendations in this report involve risk considerations as set out below:

3.1.1 Financial monitoring focuses on the key risk areas of: Employment costs, Income, agreed budget savings and emerging issues and opportunities. In addition the current monitoring analysis now focuses on service department costs as part of the 06/07 budget exercise.

3.1.2 The Councils' investment in new financial systems and the restructure within the Financial Services department has now begun to assist the Council in developing more robust forecasting techniques, which will allow potential financial risks to be identified and addressed earlier in the year.

3.1.3 The Council has available non-earmarked reserves as at 31<sup>st</sup> March 2006 of £646k. In addition as from 1<sup>st</sup> April 2007 a further £1,099k, currently within the Housing Revenue Account, will become available for General fund use. This one off funding source has been identified in the Medium Term Financial Strategy to support the Council's change / improvement programme, potential impact from Single Status.

#### 4. BACKGROUND AND OPTIONS

##### 4.1 Capital

4.1.1 As at 30<sup>th</sup> September 2006, £45k of useable capital receipts, from the disposal of assets, above the deminimus level (£10k) have been generated. Amounts received below £10k total £32k.

4.1.2 As previously reported the disposal programme in relation to the accommodation strategy has commenced. The council has recently accepted offers on Haslingden Neighbourhood Office and Roberts Street Depot. Rawtenstall Cemetery Lodge, previously approved for disposal, has been delayed and is awaiting land registry resolutions. New initiatives will be undertaken on the marketing and disposal of other vacant properties, following the appointment of a new Property Manager (9<sup>th</sup> October 2006). Based on this activity the authority should achieve its disposal targets for 2006/07.

4.1.3 Actual Capital Expenditure in the first quarter is as follows:

<b>Value</b>	<b>Detail</b>
£650k	Whitworth Civic Hall – due for completion and handover 23 <sup>rd</sup> Oct
£619k	Housing Investment Programme
£127k	DDA Works
£395k	SS&L – Kerb Sider (LEF Grant adjustment), vehicle lease buy out and slippage from 2005/06
£291k	Accommodation Strategy – slippage from 2005/06
£22k	ICT
£134k	DDA
£40k	Restructuring Costs
£18k	Swinnel Brook Culvert
£47k	Regeneration – Futures park
£218k	LSVT – slippage from 2005/06
<b>£2,561</b>	<b>Total</b>

## 4.2 Revenue

4.2.1 Overall a full year favourable variance of £78k is now forecast. The main areas of movements within each service area are detailed in Appendix 1. The total forecast variance by service department is as follows (note figures in brackets represent overspends):

<b>General Fund</b>	<b>Full Yr</b>		<b>Full Yr</b>		<b>Variance</b>
<b>Service Area</b>	<b>Budget *</b>		<b>Forecast</b>		<b>£000</b>
	<b>2006/2007</b>		<b>2006/2007</b>		<b>£000</b>
	<b>£000</b>		<b>£000</b>		
<b>Streetscene &amp; Liveability</b>	4,412		4,290		122
<b>Spatial Develop</b>	602		532		70
<b>Customer Services &amp; E-govt</b>	1,915		2,200		(285)
<b>Gen Fund Housing</b>	243		243		0
<b>Community &amp; Partnerships</b>	1,241		1,241		0
<b>Regeneration</b>	274		238		36
<b>Finance</b>	454		401		53
<b>Policy &amp; Change Management</b>	162		162		0
<b>Legal &amp; Democratic Services</b>	2,240		2,240		0
<b>Human Resources</b>	221		221		0
<b>Non-distributed Costs</b>	(459)		(459)		0
<b>Corporate Resources</b>	(500)		(682)		182
<b>Risk Items</b>	0		100		(100)
<b>Total</b>	<b>10,806</b>		<b>10,728</b>		<b>78</b>

\* Includes previously agreed virements

£100K, in the "Risk Items" above, is included in the forecast as a risk in relation to legal fees for cases in which the Council is currently engaged. This represents a prudent provision and while Officers are hopeful of winning these cases prudence dictates that a pessimistic view be taken.

- 4.2.2 The significant change which has occurred since last reports is that of Street Scene & Liveability (SS&L) and Customer Services.
- 4.2.3 A number of changes have occurred to the organisational structures within SS&L together with a better understanding of the impact of transport changes. These changes are currently being agreed with the Head of Service to ensure that they are achievable. Quarter one saw the approval of an additional £109k virement to SS&L from Corporate resources to address recurrent budget issues.
- 4.2.4 Previous reports have noted the volatility of Housing Benefits costs. Following completion of the mid year Housing Benefits Subsidy estimate, provision has now been made within the forecast for the potential worst case impact of the net cost of housing benefits, based on information from last year and the current year. Capita will now monitor housing benefit cost estimates on a regular basis – one of the benefits of the new partnership arrangements.
- 4.2.5 On the positive side we currently have taken a prudent view regarding the favourable impact from staff vacancies, which have been significant within

Street Scene and Customer Services. It would be reasonable to estimate at least £200k saving by the end of the year subject to further virement agreements or policy changes – the SS&L forecast in 4.2.1 includes manpower savings of £134k. At the end of the first 6 months, total actual staff costs incurred compared to budget were as follows:

<b>Staff Costs 6 months to 30.09.06</b>	<b>Q1 Estimate 2006/2007 £000</b>	<b>Actual to date 2006/2007 £000</b>	<b>Variance £000</b>
<b>Streetscene &amp; Liveability</b>	1,563	1,416	147
<b>Spatial Develop</b>	370	352	17
<b>Customer Services &amp; E-govt</b>	765	685	80
<b>Community &amp; Partnerships</b>	41	44	(3)
<b>Regeneration &amp; Strategic Housing</b>	298	286	12
<b>Finance</b>	252	252	(0)
<b>Policy &amp; Change Management</b>	41	41	1
<b>Legal &amp; Democratic Services</b>	580	561	19
<b>Human Resources</b>	145	135	10
<b>Total</b>	<b>4,054</b>	<b>3,772</b>	<b>282</b>

Some of the staff savings achieved to date have been earmarked for use during 2006/07; however it would be reasonable to estimate that additional manpower savings could be available at the end of the financial year, in addition to those detailed in 4.2.1 and appendix 1. In particular the improved sickness absence levels within SS&L will continue to have a positive impact on agency costs. Heads of Service should not, unless previously approved, incur additional spend in year from staff savings.

4.2.6 The £100k cash saving on the SS&L vehicle buyout (reported to Members in September 06) together with additional income from supply of services to Green Vale Homes have been utilised to accommodate the adverse variances relating to benefits subsidy identified above.

4.2.7 **2006/07 budget savings:** The 2006/07 budget was based on the understanding that £224k would be delivered by a mix of reduced spending and additional income generation. The achievements to date against the original plans are as follows:

Proposal	£000's	Comment
<b><i>Increases in Fees and Charges Above Inflation</i></b>		
Increase in Burial Charges (in line with PRI)	6.5	Fees increased by RPI however current trends forecast that income will be c. £30k down on budget (= to 25% fall). This reflects a national volume issue rather than a price issue.
	<b>6.5</b>	
<b><i>Improved Efficiency</i></b>		
Closure of Greenhouses at Stubblelee Park	29.4	Final details completed in the Summer. Overall savings will be achieved for 2006/07
Changed arrangements for managing Pets Corners	5.9	This is offset by an underspend in the £15k investment in the Dog Warden service, currently being saved
Vehicle Repair Costs	40.0	Achieved and likely to be overachieved in a full year
In House Provision of Printing	20.0	Achieved
Procurement Savings Telephone Calls	18.5	Achieved but linked with IT infrastructure, final savings to be confirmed during the budget process
Savings to fund Client Side Support	20.0	Revenues and Benefits client side team cost have now been achieved within the original total budget provision
	<b>133.7</b>	
<b><i>Alternative Means of Service Delivery</i></b>		
Reprovision of Tourist Information Services by other means	46.2	Savings made and resources redeployed
Reprovision of Land Drainage Services	20.0	This saving has yet to be achieved due to the need to complete outstanding work. The additional cost has been absorbed within the totality of the SS&L budget.
Reprovision of Pest Control Service by other means	17.6	A 6 month delay in the agreement resulted in the addition of c. £20k of salary costs. However this has more than been off set elsewhere within SS &L and the savings in a full year for the new arrangements will be in excess of that budgetted.
	<b>83.8</b>	
<b>Total policy options for reduced expenditure</b>	<b>224.1</b>	

4.2.8 **2006/07 budget enhancements:** The 2006/07 budget included enhancements totalling £385k of a recurrent nature. Their project position to date against the original plans are as follows:

<b>Proposal</b>	<b>2006/07 £000's</b>	<b>Comment</b>
<b><i>Embedding our Customer Promise</i></b>		
Animal Wardens - Out of Hours Service	15.0	Delayed
Local Land and Property Gazetteer	42.0	Project progressing in line with plan.
Information Management	43.0	Project to follow on completion of the above LLPG plan
Communications Resources	34.5	Expenditure incurred in delivery of the strategy
Environmental Health Restructure	11.0	New structure in place
	<b>145.5</b>	
<b><i>Delivering Regeneration Across the Borough</i></b>		
Strengthened Strategic Housing Function	60.0	Resources being used to complete project work while the structure of Strategic Housing service is agreed
	<b>60.0</b>	
<b><i>Revenues and Benefits Strategic Partnership</i></b>		
Client Side Support Post (to be self funding)	20.0	Self funding achieved and client side structure in place
<b><i>Promoting Rossendale</i></b>		
Tourism and Marketing Officer	36.4	Cabinet has agreed the use of resources to deliver specific outputs using external providers in 2006/07
<b><i>Improving Performance Against the 8x8x2008 Indicators</i></b>		
Strengthening the Streetscene back office	17.0	New structures in place
Refuse & Street Cleansing - Cover for Absence	45.0	Budget allocated. However level of absence reduced and therefore some under spend is occurring reflected elsewhere in this report.
Street Cleansing - Existing HIT Team vehicle costs	16.0	Vehicle in use
	<b>78.0</b>	
<b><i>Delivering on the District Vision</i></b>		
LSP - Operational Budget	10.0	Resources committed
Police Community Support Officers	35.0	First two PCSO's now in post. However, the Police authority have indicated that there is no requirement to make payment in this financial year leading to an under spend reported elsewhere.
	<b>45.0</b>	
<b>Total Policy Options for Increased Expendi</b>	<b>384.9</b>	

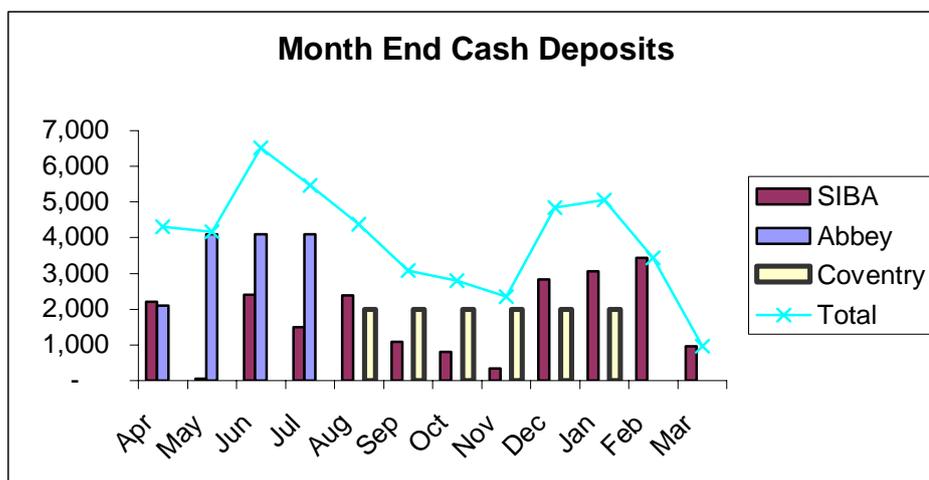
### 4.3 Treasury Management

4.3.1 As previously reported the transfer of the Council's housing stock on 27<sup>th</sup> March 2006 to Green Vale Homes resulted in all the Councils External debt being repaid, a more favourable position that anticipated in the budget. The change in circumstances means that the net budget capital financing cost is now anticipated to be a net surplus as follows:

	Budget 06/076	F'cast 06/076	Variance
Minimum Revenue Prov'n	153	115	39
Treasury Costs	10	8	2
Interest Paid	66	5	61
Interest Received	(40)	(211)	171
<b>Total Cost / (surplus)</b>	<b>189</b>	<b>(83)</b>	<b>272</b>

4.3.2 The above table shows a current favourable variance on capital financing of £272k, this is in line with previous reports.

4.3.3 The Council is able not only to earn interest on its book figures but on funds committed but not yet paid out. The total balances on which the council was earning interest at 30<sup>th</sup> September was £3,087k – the banks would refer to this as available cleared balances. The graph below shows our month end cleared balances over the first 5 months and the forecast cash flow for the remainder of the year:



4.3.4 The above graph shows the available cleared balances in each of the investment accounts, both historical and forecast. The peaks in June 2006 and January 2007 are due in the main to the months being free from precepts being paid to County, Police and Fire authorities.

4.3.5 The current interest terms for the accounts which the Council regularly uses are:

	%		Interest Paid
	AER Gross Rate		
<b>SIBA</b>			
£1.5 M +	4.84	4.75	Quarterly
£1M - £1.5 M	4.78	4.70	Quarterly
<b>Abbey National</b>			
£3 M +	4.84	4.74	Annually
£500k - £3 M	4.74	4.64	Annually
£250k - £500k	4.50	4.41	Annually
<b>Coventry BS</b>			
£2 M	5.07	5.01	6 Months

4.3.6 There was no change to interest rate on 5<sup>th</sup> October when the bank of England's Monetary Policy Committee (MPC) last met but there is now strong speculation regarding a further interest rise in November, after the next Inflationary Report. Any further change will depend upon expectations regarding: growth in the economy, energy prices passing into wage settlements and strength of inflation expectations.

4.3.7 Sector Treasury Management (the Council's treasury advisors) takes the view that future rates will increase in the medium term as follows:

	Q/E3 2006	Q/E4 2006	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008
<b>Base Rate</b>	4.75%	5.00%	5.00%	5.00%	4.75%	4.75%	4.75%
<b>25yr PWLB</b>	4.50%	4.50%	4.50%	4.25%	4.25%	4.25%	4.50%

#### *Sector's commentary (September 2006)*

Rates to rise one more time in November as protection against inflationary concerns

- Growth predicted to be higher in Q4 2006 putting upward pressure on inflation
- Inflation above target at the 2 year horizon and significantly above target near term
- Housing market firmer than expected
- Output gap less than expected

Rates to fall in 2007 as:

- Consumer reaction uncertain
- Sterling is strengthening
- US economic downturn, rates to fall

## **5. COMMENTS OF THE HEAD OF FINANCIAL SERVICES**

5.1 Financial Matters are dealt within the report.

## 6. COMMENTS OF THE HEAD OF LEGAL AND DEMOCRATIC SERVICES

6.1 Unless specifically commented upon within the report, there are no implications for Legal and Democratic service matters.

## 7. COMMENTS OF THE HEAD OF HUMAN RESOURCES

7.1 Unless specifically commented upon within the report, there are no implications for Human Resource matters.

## 8. CONCLUSION

8.1 Overall the General Fund revenue forecast is showing a full year surplus of £78k and includes provision for Council's current know risk areas.

8.2 Capital receipts from surplus properties need to be realised in order to avoid the Council incurring debt (either internal or external).

## 9. RECOMMENDATION(S)

9.1 The Members note and consider the contents of the report.

## 10. CONSULTATION CARRIED OUT

10.1 Executive Director of Resources

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<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>
2006/07 Budget (revenue and capital)	Full Council papers – Feb 06