

Subject: 2006/07 Financial Outturn

Status: For Publication

Report to: Cabinet

Date: 7th June 2007

Report of: Head of Financial Services

Portfolio

Holder: Well Managed Council

Key Decision

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

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to update Members on the General Fund outturn for 2006/07, the Capital Programme and Treasury matters.

2. CORPORATE PRIORITIES

- 2.1 The matters discussed in this report are linked to and support the following corporate priorities:
- *Strong financial management and the delivery of value for money services (Improvement)* – Effective and strong Financial Management ensures the effective management of the Council's resources which then enables the provision of value for money services.

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 during 2006/07 focused on the key risk areas of: Employment costs, Income, agreed budget savings and emerging issues and opportunities, in addition too service department net costs.
- 3.1.2 As from 1st April 2007 a further £1M, 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 and potentially increasing general reserves.

4. 2006/07 FINANCIAL OUTTURN

4.1 Capital

4.1.1 Capital Receipts, are summarised as follows:

	£000
○ GVH – Right to Buy, Vat shelter & Affordable housing	2,019
○ Capital receipts from land and property sales	838
Total	2,857

4.1.2 Receipts were below our previous expectations due to:

	£000
○ GVH – RTB delays as per the contract	366
○ Land and property sales, timing difference	275
○ Deminimus capital receipts (credited to revenue)	84
Total	725

These delays have not impacted on the financing of the programme due to the expenditure slippage identified below

4.1.3 Actual Capital Expenditure to 31st March 2007 was as follows:

Value	Detail
£1,118k	Whitworth Civic Hall
£2,679 k	Housing Investment Programme
£201k	DDA Works
£429k	SS&L – Kerb Sider (LEF Grant adjustment), vehicle lease buy out and slippage from 2005/06
£309k	Accommodation Strategy – slippage from 2005/06
£294k	ICT
£61k	Restructuring Costs
£18k	Swinnel Brook Culvert

£308k	Regeneration – Futures park
£218k	LSVT – slippage from 2005/06
£26k	Car Parks
£20k	Top O'Slate site Remediation
£50k	Insurance Costs – awaiting repayment
£18k	Property (re Capital Building Programme)
£5,750k	Total

4.1.4 The capital spend for 2006/07 is therefore financed by:

Value	Detail
£1,887k	Specific Grants (PDG, NWDA, DCLG, DFG, etc)
£685k	Capital Grant
£3,011k	Useable capital receipts (including insurance)
£35k	Building Control Contributions
£15k	Aggregates Levy
£56k	LPSA
£60k	GVH (towards disabled facilities)
£5,750k	

4.1.5 Useable Capital Receipts - the following table shows balances brought forward, new receipts, usage and available balances carried forward:

Value	Detail
£115k	Balance b/forward as at 31/3/06
£2,857k	Capital Receipts during 06/07
£992k	Insurance Receipts
£3,011k	Capital Expenditure
£953k	Balance c/forward as at 31/3/07

Of the above balance carried forward £856k is reserved for affordable housing under the term of the Housing Stock Transfer agreement.

4.1.6 Capital Expenditure Slippage on the 2006/07 programme to carry forward in to 2007/08:

Value	Detail
£36k	Whitworth Civic Hall
£182k	Property (re Capital Building Programme)
£13k	Museum
£4k	Car Parks
£30k	Cemeteries
£134k	Housing Programme
£135k	Henrietta Street Depot

£534k	Balance to c/forward
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This sum is less than the slippage in capital receipts reflecting the continued overall product under commitment of capital resources

4.1.7 Approvals requested: The Councils Capital Steering group has recently met and seeks approval for the following additional capital resources either as part of strategic measures to maximise revenue resources, or to meet spending needs identified since the capital start programme was set:

Value	Detail
£100k	DWP support previously agreed by Cabinet from earmarked reserves. Change of approach in order to optimise resources (£78k incurred during 06/07, £22k to c/fwd)
£26k	Top O' Slate Remediation – Increased cost due to Environment Agency conditions in relation to site preparation and initial monitoring.
£144k	Capital items previously reported as revenue during 06/07 in order to maximise financial flexibility (See 4.2.5)
£388k	Vehicle Replacement Programme (Year 1) being the commencement of a 7 year programme for the replacement of SS&L vehicles currently owned by the Council (ie non-leased vehicles). Final financing arrangements (ie Purchase or Lease) to be delegated to the Executive Director of Resources (Appendix 1)
£38k	Customer Relationship Management (CRM) – integration of Council back office systems with Lancashire County Council's shared CRM system (Appendix 2)
£46k	Internet / Intranet GIS Mapping system to replace systems no longer supported (Appendix 3)
£19k	Replacement of signage with signage reflecting the new corporate identity and consistent with current requirements in terms of health and safety (Appendix 4)
£40k	Partial replacement of Ski matting (Appendix 5)

4.2 Revenue

4.2.2 Overall a full year favourable variance of £171k is anticipated. Each service Department summary compared to original budget is as follows:

General Fund Service Area	Full Yr Budget * 2006/2007 £000	Full Yr Forecast 2006/2007 £000	Variance £000
Streetscene & Liveability	4,879	4,633	245
Spatial Develop	546	470	76
Customer Services & E-govt	1,837	1,728	109
Community & Partnerships	1,693	1,702	(9)
Regeneration & Strategic Housing	551	462	89
Homelessness	0	0	0
Finance	355	363	(9)
Policy & Change Management	167	148	19
Legal & Democratic Services	1,345	1,524	(179)
Human Resources	143	154	(11)
Non-distributed Costs	0	12	(12)
Corporate Resources	(711)	(563)	(148)
Risk Items	0		0
Total	10,806	10,635	171

* adjusted for previously agreed virements and internal charges

4.2.3 The major changes (explained further below) since last reporting being:

	£000's
Anticipated Adverse Outturn	-46
Uninsured Historical Claim (latest estimate)	-138
Non Capitalised Redundancy costs	-46
Total anticipated adverse outturn	-230
<i>Favourable:</i>	
Deminimus receipts	84
S106	118
Revenue Capitalised	144
Risk Provision	55
Housing Benefits Subsidy	183
<i>Adverse</i>	
Concessionary travel	-82
Contract provisions	-52
HR - Rewards	-12
Sundry	-37
Current Favourable Outturn position	171

4.2.4 As can be seen above, in the last reports to Members we anticipated an overall adverse impact on reserves as a result of: budget overspends (£46k), Historical claim (£138k) and reduced capitalisation directives from the Dep't of Communities and Local Government (£46k). Collectively we therefore anticipated a £230k negative impact on reserves.

4.2.5 *Additional Favourable Variances* - This was however has been reduced by adjusting accounting treatments and other variances as follows:

Deminimus Capital Receipts (£84k) – ie individual capital receipts on the disposal of assets generating below £10k are allowable as a revenue contribution. These had previously been reported alongside general capital receipts.

Section 106 agreements (£118) – Amongst other things, colleagues within the legal department have helped identify historical balances in relation to S106 agreements no longer required as the ongoing expenditure required has previously absorbed into ongoing revenue budget resources

Revenue Capitalised (£144k) – A number of revenue items previously treated as revenue costs have now been legitimately reclassified as capital expenditure. These include: capitalised salaries, accommodation costs, acquisition of assets and associated legal costs

Risk Provision (£55k) – We had hoped to increase the Legal liabilities reserve, but as previously reported it is suggested that this is reversed in order to support general reserves. The Legal Liability Reserve therefore remains at £100k

Housing Benefits Subsidy (£182k) – The year end Housing Benefits Claim is all but complete and indicates a significantly better position, in cash terms, than that forecast at the midyear; albeit this represents only a 1% favourable gain in percentage terms. The volatility of this area is one of the reasons for the creation of a Revenue Volatility Reserve (see 4.4).

4.2.6 *Additional Adverse Variances* – a number of adverse budget variances occurred as we approached closure of the accounts as follows:

Concessionary Travel (£82k): as result of changes to concessionary travel, namely free travel for the over 60's (within boundary) and a flat 50p fare cross boundary we have seen a significant increase in the volume of activity. In particularly the historical fall in activity over the late autumn, winter months and the early part of spring did not materialise. This has been a Lancashire wide concern for a number of districts. It is clear that the forecasts initially commissioned by the Lancashire & Cumbria Concessionary group were significantly underestimated. However the negative impact on the Rossendale budget has not been as great as some districts within Lancashire.

Contract Provisions (£52k): At this stage we have taken a worst case scenario in regard to the cost of certain contracted out services (in the main Homelessness)

HR Rewards & Recognition strategy (£12k): Members have recently approved a pay and recognition strategy for which an initial provision is required.

Sundry items (£33k): As part of final close down a number of sundry adjustments were required netting off to an adverse variance. Amongst the majority of cost was the final impact from the Housing Stock Transfer, being costs now falling upon General Fund (eg ex-employee pension strain costs as a result of previous early retirements or added years).

4.3 Implications for 2007/08 Revenue budgets

4.3.1 The 2006/07 closedown has identified some implications for 2007/08. They are as follows:

- Concessionary Travel volume increases.
- Residual cost previously allocated to Housing Revenue Account
- Housing Benefits Subsidy potential gain
- Maximising the empty properties relief available with regard to NNDR

4.4 **Reserves** : Attached to this report is a proposed reserves policy statement which in line with best practice outlines the purpose of each reserve, acceptable level and procedure for releasing resources for each reserve.

The paragraphs below outline proposals for the most significant reserves also taking account of the release of the former HRA resources after 31st March 2007

4.4.1 General reserves are unearmarked resources and it is proposed to set them as follows as a result of the outturn.

General Reserves	
Balance b/fwd at 31st March 2006	646
06/07 Outturn Surplus	171
Transfe to Revenue Volatility Reserve	(100)
Balance c/fwd at 31st March 2007	717

Nb – The Medium Term Financial Strategy indicates Council policy to maintain general reserves of between £500k and £750k. The current position is therefore towards the upper level of the range.

4.4.2 Taking into account the risks to financial stability arising specifically from

- Concessionary Fares
- Housing Benefit Payments
- Interest rate fluctuations

It is proposed to create an earmarked Budget Volatility Reserve to assist in managing these risks. The table below outlines proposals for this reserve.

Budget Volatility Reserve	
Balance b/fwd at 31st March 2006	0
Transfer from General Reserves	100
Balance c/fwd at 31st March 2007	100
Transfer from HRA	100
Available Balance	200

4.4.3 The Change Management Reserve exists to support the Council's improvement programme. Use of the reserve in year is outlined below.

Change Management Reserve	Change Manag't	Budget Approval	Actual Spend	Carried Forward
Balance as at 31st March 2006	724			
Communications Resources (one off element)		35	25	10
External Advice - Strategic Partnership		100	36	64
External Advice Waste Transfer Station		50	50	0
Upgrade CONFIRM Contract Management System		20	16	0
Digitise Street Cleansing Routes		20	20	0
Extend period of interim management for front line services		22	22	0
Community Involvement strategy		30	30	0
£10 k as one off for purchase of Christmas lights (linked to the priority of promoting Rossendale)		10	10	0
Internal Communications		5		5
Financial Services		20	20	0
RL Trust - restructure costs		274	274	0
Drainage expenses		20	20	0
Pension Strain		134	134	0
LPSA Contribution	56			
	780	740	657	79
Balance as at 31st March 2007	123			
Earmarked & C'fwd from 2006/07	(79)			
Transfer from HRA	1,000			
Job Evaluation Prov'n	(400)			
Transfer to Revenue Volatility Reserve	(100)			
Available balance	544			

4.4.4 *Economic Regeneration Reserve* - The Council received £661k in the latter half of March 2007 as a result of the Local Authority Business Growth Incentive Scheme. Essentially this is a central government scheme that returns a proportion of increased NNDR revenues back to local authorities. The Councils Medium Term Financial Strategy has earmarked these funds to an Economic Regeneration Reserve to support, amongst other things, the Council's new Economic Regeneration Team.

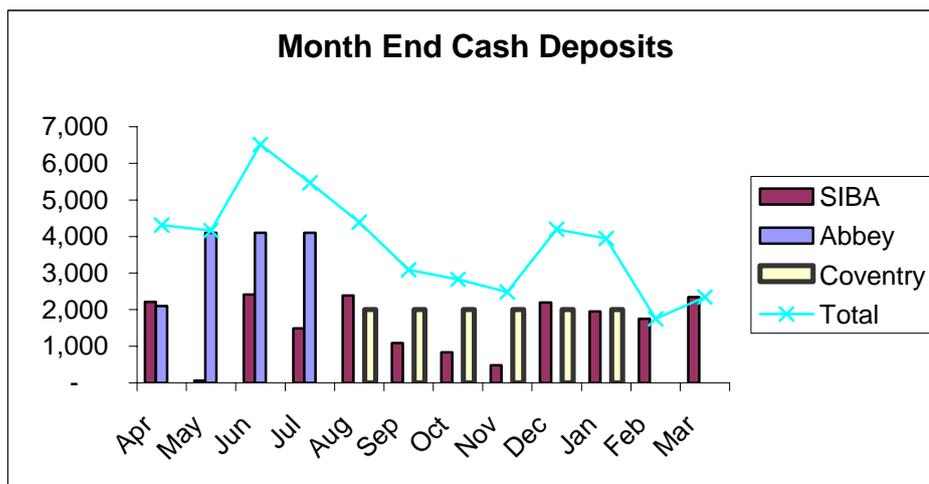
4.4.5 *Legal Liability Reserve* – as per 4.2.5 there is no change to this reserve and it remains at £100k.

4.4.6 The Council's overall reserves position has continued to be strengthened allowing resources to be provided to facilitate the management of the risks facing us and the continuation of investment in improvement.

4.5 Treasury Management

4.5.1 The final cash position as at 31st March 2007 was £2,133k in terms of a balance sheet position, though due to uncleared cheques, £2,345k of cleared funds was available for deposit. At the time of writing the Bank of England's MPC has just announced a further 25 basis point rise in the bank base rate and now stands at 5.50%. In addition SECTOR, our treasury advisors, are anticipating a further increase of 25 basis points by the end of September 2007.

4.5.2 The cash flow for the full 12 months has therefore been as follows:



4.5.3 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.

4.5.4 In accordance with The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management, attached as an Appendix 6 is The Annual Treasury Management Report for 2006/07.

5. COMMENTS OF THE HEAD OF FINANCIAL SERVICES

5.1 Financial Matters are dealt within the report. In particular the Council will have to assess the level of its General Reserves.

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 shows a full year surplus of £171k and includes provision for Council's current know risk areas. This represents a continuing strengthening of the Council's overall financial position.

9. RECOMMENDATIONS

- 9.1 That Members note and consider the contents of the report.
9.2 Recommend the capital expenditure requests in 4.1.7 to the Council
9.3 Approve the final revenue adjustments creating an in year surplus of £171k
9.4 Recommend the movement in reserves (ie General Reserve, Housing Revenue Account , Revenue Volatility Reserve, Change Management Reserve and Economic Regeneration Reserve) as in 4.4 to the Council
9.5 Recommend the attached Reserves Policy Statement to the Council for approval.
9.6 Approve The Annual Treasury Management Report for 2006/07 (4.5.4 Appendix 6)

10. CONSULTATION CARRIED OUT

- 10.1 Executive Director of Resources
10.2 Finance & Risk Management Portfolio Holder

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