

Subject: Financial Monitoring

Status: For Publication

Report to: Cabinet

Date: 14th November 2007

Report of: Head of Financial Services

Portfolio

Holder: A Well Managed Council

Key Decision:

NO

Forward Plan
Relevant Box

General Exception

Special Urgency

“X” In

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to update Members on the General Fund estimates for 2007/08, 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 priority:
- *A Well Managed Council: strong financial management and the delivery of value for money services (Customers, 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 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 07/08 budget exercise.

4. BACKGROUND AND OPTIONS

4.1 Capital

4.1.1 Capital Receipts to date compared to full year expectations are as follows:

Receipts:	Budget Expectations	Received	Surplus / (Deficit)
Land & Property Sales	1,085	129	(956)
GVH - RTB	1,676	0	(1,676)
GVH - Vat Shelter	428	0	(428)
Insurance	50	144	94
	3,239	273	(2,966)

4.1.2 Receipts from GVH are due, under the terms of the transfer contract, at the end of the financial year.

4.1.3 As at 30th October 2007 of the useable capital receipts noted above £125k was above the deminimus level of £10k. Amounts received below £10k total £4k. This is in addition to £144k received in connection with insurance claims (in particular Haslingden Sports Centre).

4.1.4 The disposal programme has been identified and a number of major items have already been approved by Members. The Executive Director of Resources continues to chair a regular meeting with the Property Services and Legal Teams in order to monitor the progress of the disposal programme. The current disposal programme has targeted at least £750k to be received by Christmas. Recent developments include the acceptance of offers for the Whitworth Neighbourhood Office' following a tender process, which will make significant progress towards this target.

4.1.5 Officers are currently estimating the cost of repair work to the Rochdale Road, Bacup car park which has recently suffered the collapse of a retaining wall. Additional capital resources may be required to make good the damage caused.

4.1.6 Actual Capital Expenditure to 29th October 2007 compared to budget is as follows:

Expenditure:	Approved Expenditure	Expenditure to date	Balance outstanding
Customer Services & e-Government	382	121	261
SS&L	1,086	130	957
Communities & Partnership	130	40	90
Regeneration & Economic Dev	34	8	26
Corporate	986	374	612
Housing	4,314	1,508	2,806
	6,932	2,181	4,751

4.1.7 Spending continues to be significantly behind a straight line profile. Some elements of this are likely to pick up later in the year. However, future expenditure slippage is likely and so the position will be kept under review.

4.2 Forecast Net Revenue Expenditure

4.2.2 The current revenue spend forecast compared to budget for 2007/08 indicates some cost pressures but overall a net favourable variance of £48k (compared to a favourable variance previously reported of £24k) [see shaded area below] and is detailed by service area as follows:

Service Area	2007/08 Base Budget £000	2007/08 Forecast £000	2007/08 Variance Adv/(Fav) £000
Operational Services			
Community and Partnerships	1,392	1,343	(49)
Customer Services and e Government	1,955	1,966	11
Regeneration	573	561	(12)
Regulatory Services	567	578	11
Street Scene and Neighbourhood Services	4,756	4,714	(42)
Support Services			
Finance & Property Services	165	297	132
Democratic Services	783	801	18
Policy and Performance	141	141	0
Corporate Management	627	643	16
People and Organisational Development	108	108	0
Non Distributed Costs	655	698	43
Financing and Reserves			
Capital Financing and Interest	(523)	(674)	(151)
Transfer to/(from) Reserves	0	(25)	(25)
Transfers to/(from) Earmarked Reserves	64	64	0
Total	11,263	11,215	(48)

NB - re the variance column, figures in brackets are favourable variances, those without brackets are adverse variances

4.2.3 The movement in the variance is detailed as follows:

- 4.2.3.1 Community & Partnership (favourable variance increased by £8k) – being in the main various sundry changes (research, sports federation, publicity, grants)
- 4.2.3.2 Customer Services & e-Government (adverse variance increased by £7k) – being a number of minor adjustment / forecast corrections.
NB The Council has previously set aside £261k (after changes to the 06/07 Minimum Revenue Provision) as a budget volatility reserve to absorb such demand led costs should Members so approve. The above transfer from reserves includes the use of £117k of this reserve to support the forecast of an increase in the cost of concessionary travel. Based on a straight pro-rata if the first 6 periods, the above forecast may be excessive by £45k. However, uncertainty remains in this area particularly as we approach the latest changes, towards the end of the calendar year, namely robust data on which to redistribute costs as a result of the introduction of new smart cards.
- 4.2.3.3 Regeneration (no significant change). The forecast assumes that restructure cost of £43k will be met from Change Management Reserve (see below 4.4.3).
- 4.2.3.4 Regulatory Services (formerly Spatial Development) (adverse variance decreased by £1k) – No material changes. The main area of risk remains

the forecast for Development Control. The forecast currently anticipates a £20k income budget variance.

- 4.2.3.5 Street Scene & Liveability (a favourable variance now increased by £38k). In the main this is due to a revision in the impact of side waste, tipping fees and staffing costs. This has been off set by some additional software licence costs being paid in advance.
- 4.2.3.6 Financial & Property Services – no material change
- 4.2.3.7 Democratic Services – no material changes, however there is a potential gain in the claw back of expenditure in relation to previous General Election costs incurred by Council.
- 4.2.3.8 Corporate Management – no material change
- 4.2.3.9 People & Organisational Development – no material changes
- 4.2.3.10 Non- distributed costs – no material changes
- 4.2.3.11 Capital Financing and interest (see 4.5.1 below)
- 4.2.3.12 Transfer to/(from) reserves are analysed as follows:

Transfer to/(from) reserves	£000
Budget Volatility re Concessionary Travel	(116)
Change Management re MRP	91
	(25)

- 4.2.4 *Impact of variances on Service Departments* - We need to be aware, as we look towards the end of the financial year, that Members have previously agreed that where departments are able to make savings, unless there are other corporate pressure, the service area can carry forward into future years 50% of the saving to fund non-recurrent local investment initiatives. At the same time those departments that incur expenditure above agreed budgets are required to recover that overspend (unless agreed by Members) from future year's budget resources. The impact of the above on Council reserves is therefore shown below, on the worst case assumption that all overspends are written off to general reserves. Overall the net Council spend (and impact on reserves) is currently forecast to be marginally above budget:

	£000
Services where net costs are below budget (less saving retained within the service)	(202)
Services where costs are above budget	230
Use of volatility reserve	(25)
Negative/(Favourable) Impact on General Reserves	3

4.3 Employment Costs

4.3.1 The above forecast includes, amongst other things, some anticipated saving on salary costs. To put the above net expenditure in context the following table shows the current net saving position as at period 7 (October) for total employment costs.

Employment Costs - Period 7 - October 2007	2007/08 Actual £000	2007/08 Budget £000	2007/08 Variance £000
Operational Services			
Community and Partnerships	59	68	(9)
Customer Services and e Government	259	282	(23)
Regeneration	328	298	30
Regulatory Services	429	434	(5)
Street Scene and Neighbourhood Services	1,791	1,859	(68)
Support Services			
Financial Services (including Non-Distributed Costs)	284	291	(7)
Democratic Services	459	474	(15)
Policy and Performance	53	54	(1)
Corporate Management	209	205	4
People & Operational Development	198	186	12
Total	4,069	4,151	(82)

NB - re the variance column, figures in brackets are favourable variances, those without brackets are adverse variances

4.3.2 The 2007/08 pay award has not yet been paid to staff. The table above includes the original budget figure, less the 2% pay award budget, in order to show a realistic underlying position.

4.3.3 Latest developments in the National pay award are that the pay offer (2.457% on spinal column points five and above with effect from the 1st April 2007 with a further increase in spinal column point 4 to take it to £6.00 an hour) has been accepted by UNISON and AMICUS.

4.3.4 The Council retained the equivalent of 0.95% (£61k) of the Councils salaries and wages budget. It is proposed that the surplus generated (c.£33k) will be added to the Single Status Reserve.

4.4 Reserves, Provisions & Grants

4.4.1 Appendix 1 illustrates the most significant Reserves, Provisions & Grants available to the Council less amounts already committed.

4.4.2 Previous reports have indicated a shortfall within the area supported by Planning Delivery Grant (PDG). However a reserve of £100k exists as a Legal

Liability Reserve for amongst other things major planning appeals. Now that the Executive Director for Regulatory Services oversees both these areas it suggested that the two reserves be consolidated giving a combined uncommitted reserve of £50k.

- 4.4.3 Change Management Reserve – costs have been incurred as a result of restructuring costs and non-budgeted salary costs totalling £43k within the Regeneration Team. Members are asked to delegate the decision on the financing of this expenditure to the Head of Financial Services in consultation with the Portfolio holder for a Well Managed Council. The options for funding are either the Change Management Reserve or in year budget savings.

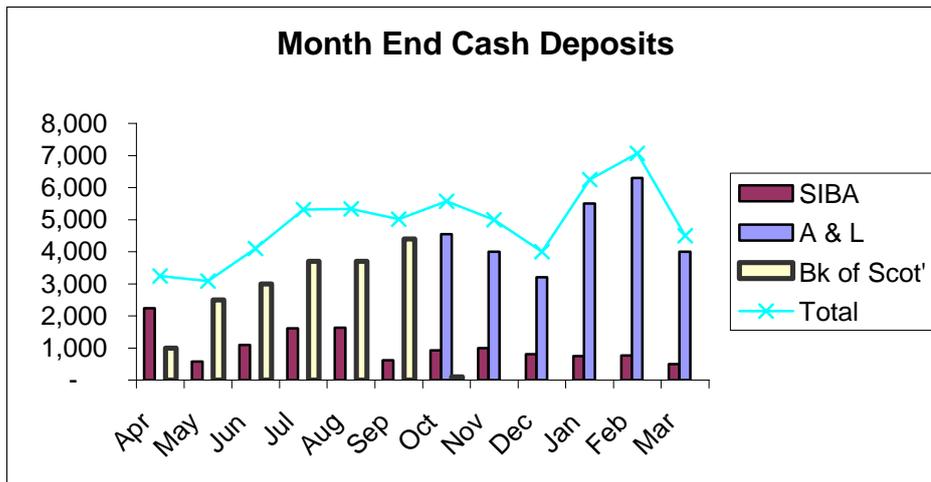
4.5 Treasury Management

- 4.5.1 Interest received less capital financing costs compared to budget are anticipated to as follows:

	Budget 07/08	F'cst 07/08	Variance () = Fav
Minimum Revenue Prov'n	110	19	(91)
Interest Paid	5	5	0
Interest Received	(210)	(272)	(62)
Total Cost / (surplus)	(95)	(248)	(153)

- 4.5.2 The above table shows a current favourable variance on capital financing of £153k (a fall on previous reports, this reflects anticipated future falls in interest rates – see below). The technical gain (as previously reported) has been transferred to the Change Management Reserve as previously approved. The forecast should be a prudent view as additional interest gains are currently being negotiated on year end balances due to Council. These balances are now in the process of being repaid.

- 4.5.3 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 31st October was £5,574k – the banks would refer to this as available cleared balances. The graph below shows our month end cleared balances over the first 7 months and the forecast cash flow for the remainder of the year (analysed by our different investment accounts):



4.5.4 The above graph shows the available cleared balances in each of the investment accounts, both historical and forecast. The peaks in June 2007 and January 2008 are due in the main to the months being free from precepts being paid to County, Police and Fire authorities.

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

	%		Interest Paid
	AER	Gross Rate	
SIBA			
£1.5 M +	5.88	5.75	Quarterly
£1M - £1.5 M	5.82	5.70	Quarterly
Alliance & Leicester			Monthly
£500 +	6.18	6.01	
Bank of Scotland			
£1 M +	6.04	5.88	Monthly
£500k - £1 M	5.72	5.58	Monthly
£0 - £500k	3.82	3.75	Monthly
<i>(as at 30/10/07)</i>			

4.5.6 The Council's current account banking arrangements ensure that any surplus funds are automatically transferred into a Special Investment Bank Account (SIBA) on a daily basis or transferred back to the current account as funds are required. Until mid October 2007, the Bank of Scotland's seven day notice account was amongst the most favourable rates (ahead of bank base rate) within the required risk parameters. However the rate has reduced from those seen a month ago therefore Officers have opened a new account with Alliance and Leicester. This account not only offers a better interest rate but funds can be called back at anytime without notice.

4.5.7 In the USA the central bank, the Federal Reserve, made a dramatic intervention in financial markets by cutting rates to 4.75% from 5.25% on 30th October. In the UK, the next meeting of The Bank of England's Monetary Policy

Committee will next meet 8th November to debate and set the UK's base interest rate for the month ahead.

- 4.5.8 Our treasury advisors, Sector, now believe bank base rates have reached their peak. Their latest forecast published October 07 is as follows:

	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008
Base Rate	5.75%	5.75%	5.50%	5.25%	5.25%
25yr PWLB	4.90%	4.90%	4.80%	4.70%	4.65%

- 4.5.8 Latest inflation reports (September) show CPI at 1.8 (no change) which is below the target of 2.0%. Headline inflation however fell to 3.9% in September (down 0.3%) – again due to average mortgage interest rates. September inflation rates are significant for a number of reasons amongst others they are the benchmark on which the Government bases its pensions and benefits increases. It is also the rate at which the Council measures itself with regard to next years increase in Council Tax. The Council has set itself a maximum of 3% increase therefore in real terms this would be 0.9% below inflation.

5. COMMENTS OF THE HEAD OF FINANCIAL SERVICES

- 5.1 Financial matters are dealt with 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 specific legal implications.

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 to be in line with the Councils net revenue budget and includes provision for Council's current know risk areas.

9. RECOMMENDATIONS

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

9.2 Members are asked to approve the recommendations as per 4.3.4 (transfer to Single Status Reserve), 4.4.2 (transfer of Legal Reserve) and 4.4.3 (restructuring costs).

10. CONSULTATION CARRIED OUT

10.1 Executive Director of Resources

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Background Papers	
Document	Place of Inspection
2007/08 Budget (revenue and capital)	Full Council papers – Feb 07
2007/08 Additional capital authorisations	