

**Subject:** Financial Monitoring

**Status:** For Publication

**Report to:** Cabinet

**Date:** 20<sup>th</sup> February 2008

**Report of:** Head of Financial Services

**Portfolio**

**Holder:** A Well Managed Council

**Key Decision:** No

Forward Plan  General Exception  Special Urgency

**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:

- o *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:

<b>Receipts:</b>	<b>Budget Expectations</b>	<b>Received</b>	<b>Surplus / (Deficit)</b>
<b>Land &amp; Property Sales</b>	1,085	135	(950)
<b>GVH - RTB</b>	1,676	143	(1,533)
<b>GVH - Vat Shelter</b>	428	0	(428)
<b>Insurance</b>	50	144	94
	3,239	422	(2,817)

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 30<sup>th</sup> January 2008 of the £135k useable capital receipts noted above £125k was above the deminimus level of £10k. Amounts received below £10k total £10k. This is in addition to £144k received in connection with insurance claims (in particular Haslingden Sports Centre) and £143k from GVH, being an additional payment in relation to 06/07.

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. In addition the legal team have a separate weekly meeting to pursue outstanding matters and opportunities. Whitworth Neighbourhood office seems to be stalling following the tender process, officers are assessing the options. Various officer negotiations are in progress regarding other assets and involve varying degrees of complexity. As part of the drive to bring transactions within the pipeline to a conclusion more quickly at maximum value, an Officer Scheme of Delegation has been completed with a business case for the short term appointment of a Disposals Surveyor.

4.1.5 Actual Capital Expenditure to 30<sup>th</sup> January 2008 compared to budget is as follows:

<b>Expenditure:</b>	<b>Approved Expenditure</b>	<b>Expenditure to date</b>	<b>Balance outstanding</b>	<b>% Balance outstanding</b>
<b>Customer Services &amp; e-Government</b>	382	134	248	65%
<b>SS&amp;L</b>	1,086	406	680	63%
<b>Communities &amp; Partnership</b>	130	116	14	11%
<b>Regeneration &amp; Economic Dev</b>	34	22	12	35%
<b>Corporate</b>	986	398	588	60%
<b>Housing</b>	4,314	2,045	2,269	53%
	6,932	3,121	3,811	55%

4.1.6 Spending continues to be behind on a straight line profile, with 55% of the programme still outstanding and only 2 months of the financial year remaining. Future expenditure to be deferred into 08/09 is likely to total at least £600k (this includes £350k earmarked towards pension deficits – Officers are currently in positive talks with Green Vale Homes on this matter).

## 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 £65k (this compares to a similar favourable variance previously reported of £107k) [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	Variance last reported £000
<b>Operational Services</b>				
Community and Partnerships	570	525	45	42
Customer Services and e Government	2,793	2,775	18	17
Regeneration	553	573	(20)	18
Regulatory Services	698	717	(20)	(15)
Street Scene and Neighbourhood Services	4,807	4,768	39	42
<b>Support Services</b>				
Finance & Property Services	203	349	(146)	(131)
Democratic Services	820	839	(19)	(19)
Policy and Performance	137	133	4	4
Corporate Management	496	519	(23)	(24)
People and Organisational Development	194	194	0	0
Non Distributed Costs	655	698	(42)	(52)
<b>Financing and Reserves</b>				
Capital Financing and Interest	(523)	(753)	231	231
Transfer to/(from) Reserves	0	6	(6)	(6)
Transfers to/(from) Earmarked Reserves	(140)	(140)	0	0
<b>Total</b>	<b>11,263</b>	<b>11,203</b>	<b>60</b>	<b>107</b>

NB - re the variance column, figures in BRACKETS are ADVERSE variances, those WITHOUT BRACKETS are FAVOURABLE variances

4.2.3 The movement in the variance is detailed as follows:

4.2.3.1 Community & Partnership (No significant movement)

4.2.3.2 Customer Services & e-Government (No significant movement)  
*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 £85k (previously £85k) of this reserve to support the forecast of an increase in the cost of concessionary travel. The current forecast adverse variance is now projected at £118k – final transfers from the budget volatility reserve will be made at the end of the financial year in line with the actual level of costs.*

4.2.3.3 Regeneration (no significant change, other than the following reversal of the Change Management Reserve). The forecast had previously assumed that restructure cost of £43k would be met from Change Management Reserve this has now been reversed with any requirement/ final adjustment being made at the end of the financial year. *As reported last period the Council faces a potential claw back of grants previously claimed – this is due to the exclusion of third party non-cash matched contributions previously claimed. Potential risk:£14k – further audit commission clarification is anticipated at the end of February 08.*

- 4.2.3.4 Regulatory Services (adverse variance increased by £5k) – being additional software implementation costs.
- 4.2.3.5 Street Scene & Liveability (adverse variance of £3k). Various minor movements.
- 4.2.3.6 Financial & Property Services (adverse variance £15k) being asbestos surveys and increased energy costs
- 4.2.3.7 Democratic Services (No significant movement),
- 4.2.3.8 Corporate Management (No significant movement)
- 4.2.3.9 People & Organisational Development (No significant movement)
- 4.2.3.10 Non- distributed costs – being removal of internal interest charges on S106 balances.
- 4.2.3.11 Capital Financing and interest – (No significant movement)
- 4.2.3.12 Transfer to/(from) reserves are analysed as follows:

<b>Transfer to/(from) reserves</b>	
Budget Volatility re Concessionary Travel	(85)
Change Management re MRP	91
	<b>6</b>

4.2.4 *Impact of variances on Service Departments* – As previously reported 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 (see 4.2.5 below). 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 under budget:

	<b>£000</b>
Services where net costs are below budget (less saving retained within the service)	274
Services where costs are above budget	(248)
Net transfer to reserves	(6)
<b>Negative/(Favourable) Impact on General Reserves</b>	<b>21</b>

4.2.4 Given this and as part of 4.2.3.3 above it is anticipated that the General Reserves will be £21k below its maximum level at the year end. However, this is not a material sum in the context of the overall budget plus further variances are likely to emerge prior to the year end.

4.2.5 The two main service areas that will be entitled to roll forward 50% of their annual saving into 2008/09 for non-recurrent expenditure are noted below:

- Street Scene & Neighbourhood Services (anticipated roll over - £20k) proposed to be used towards the first year project requirements as identified in the “Play Strategy” (amongst other things: fencing, seating, footpaths, play equipment.)
- Communities & Partnerships Services (anticipated roll over - £22 k) the proposal is to use to improve service delivery to the people of Rossendale through strengthened partnership working at a neighbourhood level. In particular this would entail the development of neighbourhood plans aligned to the Sustainable Neighbourhood Strategy. This delivers on two of the Council's key priorities moving into ‘Phase Three’ of :
  - Champion the borough and its people by strong community leadership going forward is to promote engagement and partnership working at a local area level
  - Developed strong partnership with customers and residents to shape places through neighbourhood management

#### 4.4 **Employment Costs**

4.4.1 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 10 (January) for total employment costs.

Employment Costs - Period 10 - January 2008	2007/08	2007/08	2007/08
	YTD Budget £000	YTD Actual £000	Variance (Adv)/Fav £000
<b>Operational Services</b>			
Community and Partnerships	99	76	23
Customer Services and e Government	415	379	36
Economic Regeneration & Strategic Housing	433	487	(54)
Regulatory Services	922	898	24
Street Scene and Neighbourhood Services	2,699	2,640	59
<b>Support Services</b>			
Finance & Property Services	608	606	2
Democratic Services	215	203	12
Policy and Performance	77	76	1
Corporate Management	298	300	(2)
People & Operational Development	289	293	(4)
<b>Total</b>	<b>6,055</b>	<b>5,958</b>	<b>97</b>

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

4.4.2 The 2007/08 pay award (2.5%) has now been paid to staff.

4.4.3 The Council retained the equivalent of 0.95% (£61k) of the Councils salaries and wages budget. It is proposed that the surplus generated will be added to the Single Status Reserve – final figures will be quantified and appropriate adjustments prepared for January’s monitoring statement.

#### 4.5 Reserves, Provisions & Grants

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

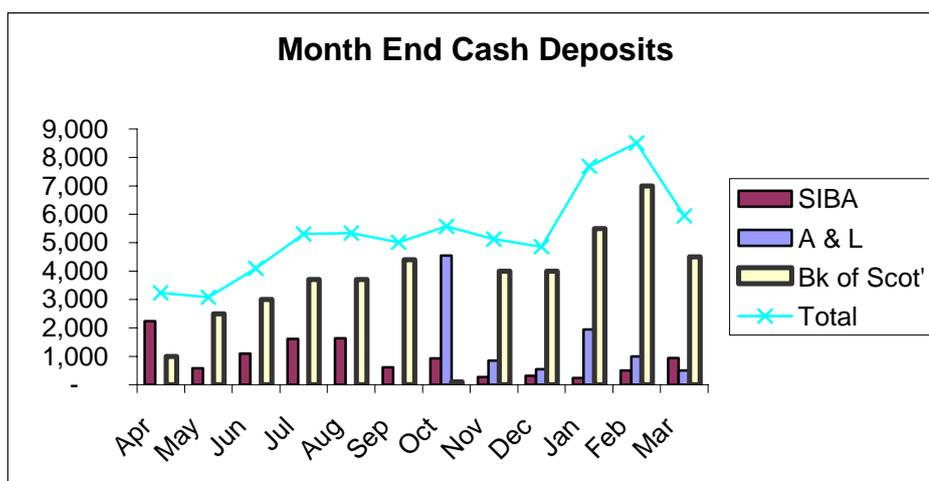
#### 4.6 Treasury Management

4.6.1 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)	(352)	(142)
<b>Total Cost / (surplus)</b>	<b>(95)</b>	<b>(328)</b>	<b>(233)</b>

4.5.2 The above table shows a current favourable variance on capital financing of £233k (a marginal increase on previous reports). The forecast for the final quarter reflects a prudent approach. The technical gain (as previously reported re the Minimum Revenue Provision) has been transferred to the Change Management Reserve as previously approved.

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 31<sup>st</sup> January was £7,667k – the banks would refer to this as available cleared balances. The graph below shows our month end cleared balances over the first 10 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:

	AER	% Gross Rate	Interest Paid
<b>SIBA</b>			
£1.5 M +	5.35	5.25	Quarterly
£1M - £1.5 M	5.30	5.20	Quarterly
<b>Alliance &amp; Leisester</b>			
£500 +	5.74	5.61	Monthly
<b>Bank of Scotland</b>			
£1 M +	5.90	5.75	Monthly
£500k - £1 M	5.59	5.45	Monthly
£0 - £500k	3.56	3.50	Monthly
<i>(as at 31/1/08)</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. Members can see from the above that rates offered by The Bank of Scotland continue to be more competitive.

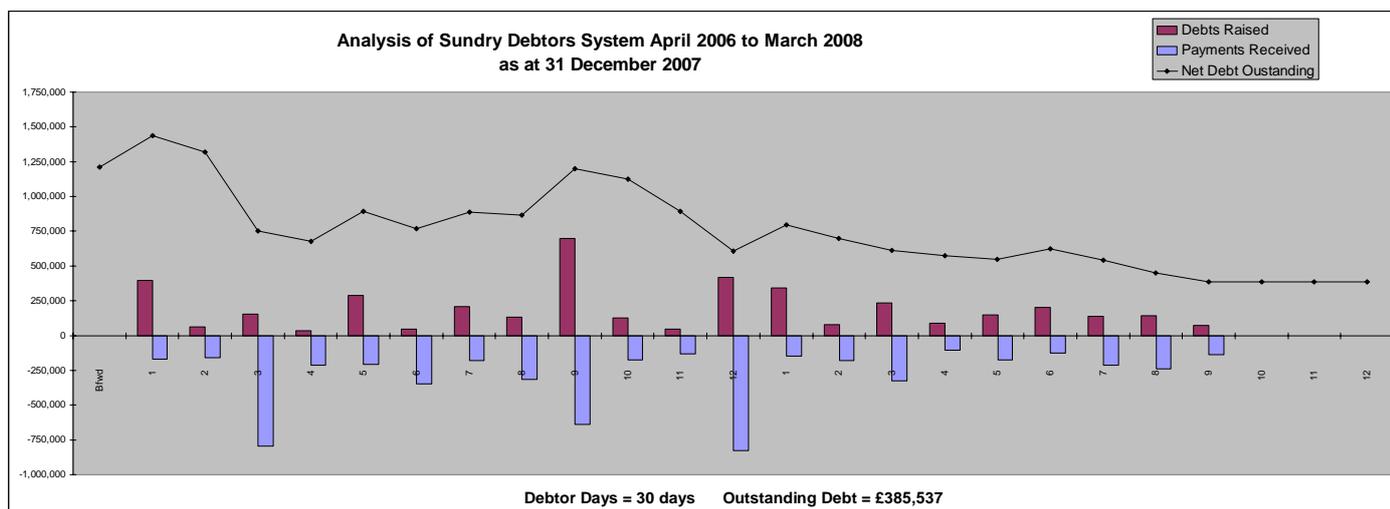
4.5.7 At their January meeting the Bank of England's Monetary Policy Committee (MPC) issued a clear warning of future interest rate cuts. At the meeting of 7<sup>th</sup> February the MPC did just that, cutting rates a further 25 basis points to 5.25%. Analysts had widely predicted the move, which followed recent cuts in the US where the Federal Reserve had slashed its borrowing costs to 3% from 4.25%.

4.5.8 Our advisors (SECTOR) latest forecast, published 31/01/08, has been further revised downwards as follows:

	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009
<b>Base Rate</b>	5.25%	5.25%	5.00%	4.75%	4.75%	4.75%
<b>25yr PWLB</b>	4.60%	4.60%	4.55%	4.50%	4.50%	4.55%

*as at 31/01/08*

4.5.8 The following chart re sundry debtor balances is presented for Members benefit and goes some way to explaining strong cash flow over the past year. In particular debtor days now standing at 30 compared to 85 as at March 07 and a reduction in sundry debtors outstanding of £200k:



**COMMENTS FROM STATUTORY OFFICERS:**

**5. SECTION 151 OFFICER**

5.1 Financial matters are dealt with within the report.

**6. MONITORING OFFICER**

6.1 Unless specifically commented upon within the report, there are no specific implications for consideration.

**7. HEAD OF PEOPLE AND ORGANISATIONAL DEVELOPMENT (ON BEHALF OF THE HEAD OF PAID SERVICE)**

7.1 Unless specifically commented upon within the report, there are no implications for consideration.

**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 That Members approve in principle the carry forward of service savings as noted in 4.2.5 above.

**10. CONSULTATION CARRIED OUT**

10.1 Executive Director of Resources

**11. EQUALITY IMPACT ASSESSMENT**

Is an Equality Impact Assessment required ~~Yes~~ / No

Is an Equality Impact Assessment attached ~~Yes~~ / No

**12. BIODIVERSITY IMPACT ASSESSMENT**

Is a Biodiversity Impact Assessment required ~~Yes~~ / No

Is a Biodiversity Impact Assessment attached ~~Yes~~ / No

<b>Contact Officer</b>	
Name	Philip Seddon
Position	Head of Financial Services
Service / Team	Financial Services
Telephone	01706 252465
Email address	philseddon@rossendalebc.gov.uk

<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>
2007/08 Budget (revenue and capital)	Full Council papers – Feb 07  Financial Services
2007/08 Additional capital authorisations	
Monthly detailed financial monitoring statements for each service area, including gross income and expenditure budget variances, in addition to the net service variance analysis detailed above.	