

Subject: Financial Monitoring for
2008/09

Status: For Publication

Report to: Cabinet

Date: 22nd October 2008

Report of: Head of Financial Services

Portfolio

Holder: Finance and Resources

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

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 estimates monitoring for 2008/09, the Capital Programme and Treasury matters.

2. CORPORATE PRIORITIES

2.1 The matters discussed in this report are linked to and support each of the Council's priority areas however in particular they impact on following:

- o *A Well Managed Council: strong financial management and the delivery of value for money services (Customers, Community Network, Improvement, Partnerships) – Effective and strong Financial Management ensures the effective management of the Council's resources which then enables the provision and delivery 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, emerging issues and opportunities and in particular service department net costs.

3.1.2 The delivery of capital receipts is now emerging as a prime area of focus for the Council in supporting its corporate priorities.

4. BACKGROUND AND OPTIONS

4.1 Capital

4.1.1 Capital Receipts as at 31st August compared to full year expectations were as follows:

Receipts:	Expectations £000	Received £000	Surplus / (Deficit) £000
Land & Property Sales	1,100	106	(994)
GVH - RTB	1,438	85	(1,353)
GVH - Vat Shelter	560	0	(560)
	3,098	191	(2,907)

4.1.2 The Whitworth NO is due for auction 16th October. The current housing climate continues to be a challenge. Officers remain hopeful of generating £750k from various projects during the course of 08/09.

4.1.3 Actual Capital Expenditure to 1st September 2008 compared to budget is as follows:

Expenditure:	Approved Expenditure £000	Expenditure to date £000	Balance outstanding £000	% Balance outstanding
Customer Services & e-Government	105	105	1	0%
SS&L	1,692	296	1,396	83%
Communities & Partnership	64	34	30	47%
Regeneration & Economic Dev	44	14	30	69%
Corporate	1,513	170	1,343	89%
Housing (excludes affordable housing)	3,422	656	2,766	81%
	6,840	1,274	5,566	81%

4.1.4 Officers have recently finalised the tender process with regard to the capital maintenance programme for 08/09 and the slippage from the previous year. Members and the public should see the benefits of this investment over the summer months.

4.1.5 **S.106 (Town & Planning Act 1990)** – Finance, Legal and Planning Officers have recently been working to review the processes and monitoring of S.106 planning monies with a view maximising value.

4.2 Net Revenue Expenditure Forecast

4.2.2 The estimated revenue spend outturn compared to budget for 2008/09 is £217k favourable (previously reported £115k). The following table is slightly different from that previously shown in that the table now includes movement on earmarked reserves and is detailed by service area as follows:

General Fund Summary - Aug 2008 (Period 5)

Service Area	2008/09 Org Budget (adj for JE & org review) £000	2008/09 Forecast £000	2008/09 Variance (Adv)/Fav £000	Variance last reported £000	Change in August (Adv)/Fav £000
Place Directorate					
Place Operations	3,864.3	3,775.0	89.4	41.4	48.0
Customer Services and e Government	2,779.1	2,788.4	(9.3)	(20.5)	11.2
Communities	1,252.6	1,161.4	91.2	106.2	(15.0)
Regeneration	652.1	577.9	74.2	72.7	1.5
Business Directorate					
Building Control Services	133.7	125.9	7.9	3.0	4.9
Environmental Services	780.4	747.5	32.8	34.4	(1.6)
Legal & Democratic Services	1,131.3	1,090.5	40.8	8.8	32.0
Planning Services	528.4	601.3	(72.9)	(61.6)	(11.3)
Corporate Support Services					
Finance & Property Services	220.7	324.7	(104.0)	(103.8)	(0.2)
Corporate Management	541.2	542.1	(0.9)	(0.9)	0.0
People and Policy (incl P&P & Comm)	301.3	294.4	6.9	4.7	2.2
Non Distributed Costs	481.5	484.1	(2.6)	(2.6)	0.0
Capital Financing and Interest	(902.4)	(966.4)	64.0	33.0	31.0
Favourable impact on General Fund	11,764.3	11,546.8	217.5	114.8	102.7
Use of Earmarked Reserves					
Transfer to/(from) Change Management Reserve	(37.0)	71.3	(108.3)	0.0	(108.3)
Transfers to/(from) Economic Regeneration Reserve	(112.0)	(112.0)	0.0	0.0	0.0
Transfers to/(from) Single Status Reserve	(111.5)	(111.5)	0.0	0.0	0.0
Transfers to/(from) Health & Wellbeing Reserve	0.0	22.6	(22.6)	0.0	(22.6)
Net Impact on Reserves	11,503.8	11,417.2	86.6	114.8	(28.2)

4.2.3 The variances are detailed as follows:

4.2.4 Place Directorate (Total forecast gain of £245k, previously reported £200k)

4.2.4.1 *Place Operations* (forecast gain of £88k). Cemeteries income continues to exceed budget (further £16k). Changes in the market now mean an income stream on Glass, Cans & Plastics from 01/09/08 – previously there had

been a cost of disposal cost, this together with increases in paper results in a favourable £39k variance for the month..

- 4.2.4.2 *Customer Services & e-Government* (forecast adverse variance of £9k, compares to an adverse £20k previously reported) Software licences, staff vacancies and disaster recovery savings.
- 4.2.4.3 *Communities* (forecast gain of £91k, previously reported £106k) Additional cost of local community plans and development initiatives, less savings Neighbourhood salaries due to vacancies.
- 4.2.4.4 *Regeneration* (forecast gain of £74k previously reported £72k). There are a number of variances netting out to negligible movement in total. Adverse being variances being the reversal of an “homelessness grant” (referred to in the previous report) and recruitment advertising. Savings being Staff vacancies and contract changes.
- 4.2.5 Business Directorate (Total forecast favourable £9k compared to previously reported an adverse of £15k)
 - 4.2.5.1 *Building Control* (forecast gain of £3k, previously £3k) – No significant changes
 - 4.2.5.2 *Environmental Services* (forecast gain of £33k previously £34k) – No significant changes
 - 4.2.5.3 *Legal & Democratic Services* (forecast gain of £41k previously £9k) Being a reduction in staff costs due to vacancies.
 - 4.2.5.4 *Planning and Land Charges* (forecast adverse of £73k previously £62k) – Further reductions in Land Charges of £6k (now £50k in total)
- 4.2.6 Corporate Support Services (Total forecast adverse variance of £37k previously adverse £70k)
 - 4.2.6.1 *Finance & Property* (forecast adverse of £104k previously £104k) – No significant changes
 - 4.2.6.2 *Corporate Management* (forecast adverse £1k, previously adverse of £1k) – No significant changes
 - 4.2.6.3 *People & Policy* (forecast favourable £7k previously adverse of £5k) – No significant changes
 - 4.2.6.4 *Non Distributed Costs* (forecast adverse £3k previously adverse of £3k) – No significant changes
 - 4.2.6.5 *Capital Financing* (forecast gain of £64k previously £33k) – The authority continues to make gains from strong cash flow and current market conditions.

4.2.7 Concessionary Travel – As reported previously Lancashire County Council have made a tentative prediction of additional costs across the whole of the County. Our best estimate to date based on this information is for a adverse budget impact of £190k which has been approved as an application of the Budget Volatility Reserve. *This additional expense is not yet reflected in the above forecast.*

4.3 Employment Costs

4.3.1 The above outturn includes, amongst other things, some saving on salary costs. To put the above net expenditure in context the following table shows the net salary saving position as at period 5 (Sept 08) for total employment costs.

Employment Costs - Period 5 - August 2008	2008/09 YTD Budget £000	2008/09 YTD Actual £000	2008/09 Variance (Adv)/Fav £000	Period 5 Movement (Adv)/Fav £000	Budgeted Staff FTEs	Current Vacant Posts
Place Directorate						
Communities Service	217	203	15	4	3.0	1.0
Customer Services	152	142	10	4	10.8	1.0
Regeneration Service	207	178	29	13	13.0	3.0
Operations Service	1,000	977	23	27	114.9	4.0
Business Directorate						
Building Control Services	87	83	4	2	6.0	0.0
Environmental Services	196	158	38	10	12.0	1.0
Legal Democratic Services	104	103	1	(10)	19.4	1.5
Planning Services	197	186	11	(1)	17.2	1.0
Corporate Services						
Corporate Management	195	191	5	1	7.0	0.0
Finance & Property Services	314	305	9	4	23.5	1.0
People & Policy	157	148	9	3	10.0	1.0
Non-Distributed Costs	93	145	(52)	2	0.0	0.0
Total	2,922	2,819	102	59	236.8	14.5

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

4.3.2 The above forecasts do not yet take account of the financial impact following the recent senior management restructure. It is anticipated that a further gain of £27k will impact on the 08/09 out turn after redundancy costs of £23k, notice periods £16k and previously agreed market supplements £11k.

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. New requirements being:

Change Management:

- Job Evaluation: appeals and Senior Staff review – £20k
- Health Admin: redundancy and pension strain - £10k

- Operations Service – This was funding previously agreed by Members but reversed in the 07/08 accounts close down - £14k
Health & Wellbeing Projects
- Appointment of Temporary Technical Officer - £23k

4.5 Treasury Management

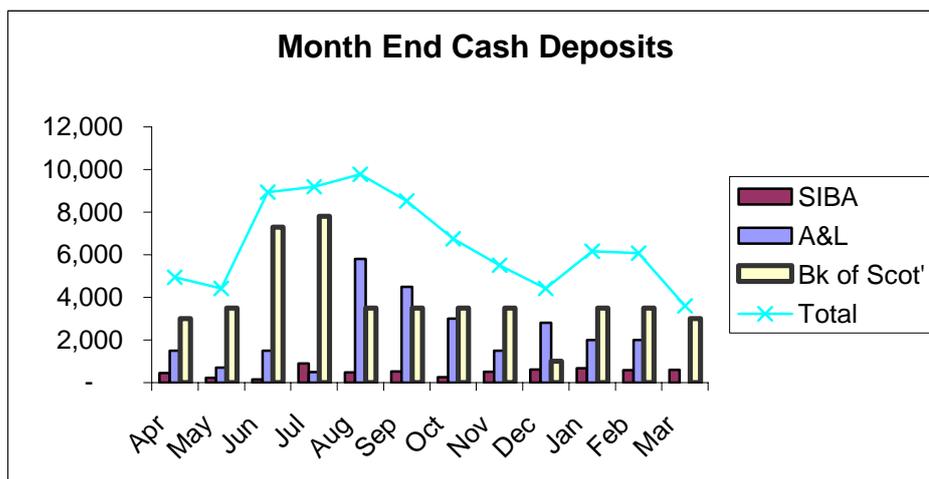
4.5.1 Interest received less capital financing costs compared to budget were as follows:

	Budget 08/09	F'cast 07/08	Variance () = Neg'
Minimum Revenue Prov'n	(88)	(88)	0
Interest Paid	(5)	(6)	(1)
Interest Received	237	303	65
Total	145	209	64

4.5.2 The above table shows a current and prudent favourable variance on capital financing of £64k (compared to £33k reported last month). In the main this is due to interests rates on deposits being received approximately 0.6 to 1.0% above base rates and stronger than anticipated cash flows (the budget was based on 5% base rates).

4.5.3 At this stage though we are not forecasting any change to the Minimum Revenue Position, there may be some saving also in this area. However, this will be ultimately be determined by the availability of Useable Capital Receipts and the use of internal borrowing requirements.

4.5.4 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 August was £9,780k – the banks would refer to this as available cleared balances. The graph below shows our month end cleared balances over the 12 months.



4.5.5 The above graph shows the available cleared balances in each of the investment accounts, both historical and forecast. August balances continue to be strong as a result of amongst other things a NNDR year end debtor and receipt of Elevate grant during August

4.5.6 Cash flow over the medium term is expected to be strong. The initial 3 month deposit matured during September and was rolled over for a further 3 months at the rates shown below. The current interest terms for the accounts which the Council regularly uses are:

	AER	% Gross Rate	Interest Paid
SIBA			
£1.5 M +	5.09	5.00	Quarterly
£1M - £1.5 M	5.04	4.95	Quarterly
Alliance & Leisester			
£500 +	5.60	5.54	Monthly
Bank of Scotland			
£1 + <i>(as at 18/09/08)</i>	6.22	6.05	Monthly
Bank of Scotland 3 month fixed		5.93/6.08	Quarterly

4.5.7 Much speculation has been made in the media about the robustness of the banking sector. Indeed the Bank of Scotland, part of the HBOS group and the subject of takeover by Lloyds TSB. Both these banks and indeed the Council's principle banker NatWest (part of the Royal Bank of Scotland Group) are the subject, amongst others, of rights issues to be underwritten by HM Treasury. That said all our deposit takers remain on our treasury advisers list for deposits under 1 year. The intervention of HM Treasury can only add to the security of the Council's cash assets

- 4.5.8 Rossendale BC has not been the victim of the collapse of the Icelandic bank: Landsbanki. As noted in 4.5.6 above all the Councils deposits reside with UK high street named banks. It is understood that the Landsbanki had been offering rates of between 7.5% and 8% hence the attraction for other councils to this institution.
- 4.5.9 7th August saw as anticipated no change to bank base rates, they remain for the 5th month running 5.00% with the Bank of England's Monetary Policy Committee choosing the middle ground as it balances the dilemma of inflation fears and a slowing economy. However, as can be seen below our treasury advisors are anticipating a cut sometime during the last quarter of 2008, though there remain other economists forecasting a status quo.
- 4.5.10 The Inflation figure saw further changes in the September numbers. The Consumer Price Index for August rose to 4.7% (July 4.4%), with the Retail Price Index down to 4.8% (July 5.0%). The largest upward pressure came from housing and household services due to a rise in average gas and electricity bills this year, compared with a fall last year. There was a large, partially offsetting, downward effect from the price of heating oil which fell by more than last year, following a decrease in the price of crude oil. There were further large upward pressures from, amongst other things, food & non-alcoholic drink and downward pressure from transport costs.
- 4.5.8 The finance institution USB are forecasting a 0.5% cut in interest rates in the final quarter of 2008, going down to as little as 3.25% in 2009. Our treasury advisors, Sector, forecast remains unchanged as follows:

	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009
Base Rate	5.00%	4.75%	4.50%	4.25%	4.25%
25yr PWLB	4.60%	4.55%	4.55%	4.55%	4.55%

as at September '08

- 4.5.9 Officers continue to focus on sundry debtors, currently standing at £614k for 31st August 2008 and compare to £546k (Debtor Days 78) for the same period last year. At the same time the average time taken for debts to be paid has increased from 62 days in July to 99 days at the end of August – though this is a result of raising invoices totalling £185k in relation to s.106 agreements.

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 recommend the additional use of the Change Management Reserve and the Health& Wellbeing Projects Reserves as detailed in 4.4.1 above.

10. CONSULTATION CARRIED OUT

10.1 Directors, Heads of Services and Budget Holders.

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

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Background Papers	
Document	Place of Inspection
2008/09 Budget (revenue and capital) 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.	Full Council papers – Feb 08 Financial Services