Rossendale alive BOROUGH COUNCIL

ITEM NO. D1

Subject:	Financial Monitoring Report	**Status:**	For Publication
Report to:	Cabinet	**Date:**	21st October 2015
Report of:	Finance Manager	**Portfolio Holder:**	Resources & Performance
Key Decision: ☐	Forward Plan ☒	General Exception ☐	Special Urgency ☐
Community Impact Assessment: Required:	~~Yes~~/No	Attached:	~~Yes~~/No
Biodiversity Impact Assessment Required:	~~Yes~~/No	Attached:	~~Yes~~/No
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1.	**RECOMMENDATION(S)**
1.1	That Members note the contents of the report.

2. PURPOSE OF REPORT

2.1 The purpose of the report is to update Members on:

- the latest revenue forecast for 2015/16,
- to consider the Council's mid-term balance sheet and
- to update the Council's Medium Term Financial Strategy revenue forecast.

3. CORPORATE PRIORITIES

3.1 The matters discussed in this report impact directly on the following corporate priorities:

- **Regenerating Rossendale:** This priority focuses on regeneration in its broadest sense, so means supporting communities that get on well together, attracting investment, promoting Rossendale, as well as working as an enabler to promote the physical regeneration of Rossendale.
- **Responsive Value for Money Services**: This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.
- **Clean Green Rossendale:** This priority focuses on clean streets and town centres and wel managed open spaces, whilst recognising that the Council has to work with communities ar as a partner to deliver this ambition.

The primary focus of the Council's budget setting is to support its Corporate priorities.

4. RISK ASSESSMENT IMPLICATIONS

4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:

- Financial monitoring of General Fund service departments focuses on the key risk areas of employee costs, income, implementation of agreed budget savings, emerging issues and opportunities and in particular service department net expenditure.
- Budget setting for future years is now treated as an integral part of financial monitoring during the current year. Progress in identifying and implementing further savings to meet the challenges in the Medium Term Financial Strategy (MTFS) are being reflected in the first-draft 2016/17 budget working papers as they begin to take impact on the 2015/16 year and beyond.
- The budget-setting exercise back in February identified a further reduction in resources over the medium term producing a future in-year deficit at the time totalling up to £1.4m by 2019/20. Though these figures are continually being reviewed, Members, collectively, still continue to face some difficult choices in order to balance expenditure

with available resources over the medium term.

- Continued austerity planning by Central Government resulting in a further reduction of central government resources.
- The recent intervention of The Secretary of State in relation to the Scout Moor wind turbine expansion.
- The Council's risk register currently scores the alignment of financial resources and expenditure as E3 (likelihood remote / impact moderate). This current score is updated in the conclusion below (10.2)
- The Chancellor's recent announcement with regard to the 100% retention of local taxation.

5. BACKGROUND AND OPTIONS

5.1 2015/16 Revenue Forecast

Given the timing of the Committee the revised forecast as at period 6 is not yet available. The last forecast, at the end of period 4, presented to the last Cabinet indicated a full year budget surplus of £631k. The main factors being:

- Favourable – New Homes Bonus receipts, Taxi Incomes, Staffing and Fuel costs.
- Adverse – Empty Homes Programme, property costs and falls in recycling income.

A full update on the period monitoring will be brought to the November Cabinet meeting.

5.2 Balance Sheet review (30th September 2015)

In reviewing the Council's balance sheet and comparing it to previous periods there is an opportunity to question any material changes in value. The Council's balance sheet as at 30th September 2015 compared to 31st March 2015 is as follows:

See page 3 for interim balance sheet.

INTERIM BALANCE SHEET as at 30th September 2015	31st March 2015 £000s	30th September 2015 £000s	Notes
Property, equipment and other assets	29,159	29,223	1
Long-term Investments (Rossendale Transport)	647	647	
Long-term Debtors	3,657	3,331	2
Long-term Assets	**33,463**	**33,201**	
Inventories	40	40	
Short Term Debtors	1,127	1,309	3
Cash and Bank Investments	11,363	15,851	4
Assets held for sale within one year	197	99	5
Current Assets	**12,727**	**17,299**	
Short-term Creditors	(3,711)	(7,498)	6
Short-term Provisions	(431)	(363)	
Grant Receipts in Advance	(2,131)	(2,025)	7
Current Liabilities	**(6,273)**	**(9,886)**	
PWLB loan	(3,680)	(3,588)	
Long-Term Provisions	(413)	(233)	8
Net Pensions Liability	(34,051)	(33,057)	9
Long- term Liabilities	**(38,144)**	**(36,878)**	
Net Assets	**1,773**	**3,736**	
Represented by:			
General Fund	1,000	1,000	
Earmarked Reserves	10,584	11,139	10
Capital Receipts Reserve	1,736	1,719	
Grants Unapplied	364	599	11
Usable Reserves	**13,684**	**14,457**	
Unusable Reserves	**(11,911)**	**(10,721)**	
Total Reserves	**1,773**	**3,736**	

The following notes explain the key changes in the Council’s balance sheet over the six month period:

1. Includes acquisition of Rawtenstall Police Station, “Grip & Go” less depreciation
2. Reduction in Empty Homes Debtors
3. Sundry Debtors invoiced at the beginning of the financial year for the full 12 months.
4. In the main the favourable timing of Council Tax, Business Rates receipts and grants, before expenditure and onward distribution.
5. Land disposals
6. Includes Housing Benefits subsidies and Council Tax received in advance of Council payments to precepting bodies (Lancashire County Council, etc.). Linked to 4 above.
7. Reduction due to recycling of Home and Communities Agency grant
8. Business Rates – successful appeals and subsequent refunds. Cost to Council 40% initially before 50% levy reduction.
9. Reduced by the August 2015 pensions deficit payment (£994k)
10. Period 4 monitoring net favourable impact
11. Disabled Facilities Grants received but not yet used.

5.3 **Medium Term Financial Strategy (MTFS) update**

5.4 The MTFS submitted to members in February 2015 identified a funding gap of £843k for 2019/20. Officers identified 4 keys areas to ensure this gap was closed. They are as follows along with an update:

1. Council considers increasing Council Tax after 2015/16 as per the MTFS (annual value c. £98k rising to c. £500k in the final period of the MTFS)
   a. This remains a key assumption in the current MTFS.

2. Council secures the wind farms income as per the MTFS (c. £690k pa)
   a. Development Control Committee recently approved the extensions of Scout Moor which would have enabled the above. However, an Article 31 Holding Directions was issued on 29th September for the applications to allow the Secretary of State more time to consider the case.
   b. The revised MTFS assumes that final planning approval will be forthcoming and that associated revenues commence mid 2017/18, however, the intervention of The Secretary of State puts this anticipated revenue stream at risk. The likelihood of the extension must at least be view as “moderate” however; the impact for the Council given the values at stake would be “catastrophic” as defined in the Council’s risk strategy and therefore evaluated at C1 in terms of the Council’s risk evaluation matrix.

3. Council secures financial savings post the September 2016 Capita contract end date (c. £400k)
   a. This has now been secured and exceeded.
   b. The extension agreement was signed on 2nd October. The Council has secured £1.35m of saving over the 5 year term compared to its previous MTFS forecast assumptions.
   c. The current MTFS assumes that the renegotiated contract value can be maintained beyond Sep 2019 following a formal full OJEU tender exercise.

4. Council seeks a partner to avoid an annual NNDR levy (c. £400k)
   a. The basis of a pooling arrangement has been agreed across the whole of Lancashire for those Districts wishing to partner with Lancashire County Council on the basis of 10% share to County, 90% to the individual Districts, and with individual Districts responsible for deficits below their baselines.
   b. However, the anticipated prospectus from DCLG has not yet been published, therefore, a partnership agreement has been formed on the previous year’s prospectus and will be lodged with DCLG in time for consideration prior to the Autumn financial settlement.
   c. On 5th October 2015 the Chancellor announced that by the end of the Parliament local government will be able to retain 100% of local taxes and abolish the Uniform Business Rate. The actual detail and therefore implications for Council has yet to be published. This matter is discussed further below and may be the reason for the delay in publishing a prospectus for 2016/17.

5.5 The key assumption changes in the revised MTFS since February 2015 are now:

1. A further fall in Revenue Support Grant (RSG)
   a. Based on The Chancellor’s summer request for two saving scenarios (25% & 40% reductions) across all Government departments. The revised MTFS assume a 40% reduction in the combined value of New Homes Bonus and RSG, with the 40% reduction being reflected in the RSG line.
   b. Should NHB continue to be supported in full by central Government and therefore any 40% reduction focused solely on RSG, this would have the effect of retaining £740k of annual resources by 2020/21 - enough to give a balanced

budget, all other things remaining the same..

c. The first indications as to the eventual level of Government funded resources will be on publication of the draft local government settlement, which is expected the week prior to Christmas 2015.

2. As in the previous monitoring reports an annual cost estimate of £200k pa has been assumed for the provision of the Empty Home Project.
3. The recent renegotiated cost base for the provision of Council Tax, Housing Benefits and Customer Services can be maintained beyond September 2019.
4. The 2013 pension's deficit repayments will continue at the same rate following the next valuation in 2016. This will save c. £68k pa compared to previous forecasts.
5. Future receipt of New Homes Bonus has been based on the average annual value over previous years being £118k pa (equating to an additional c. 190 properties). The core budget includes £496k pa, the additional uplift is included in the possible savings.

Other areas to note

- The Homelessness grant received in previous years awaits confirmation beyond 2015/16 and therefore is not forecast in future years. This may prove to be an over pessimistic assumption. However, should the funding cease Members should consider the provision of the Homelessness Service in light of para 5.8, bullet point one below.

5.6 **Revised Financial Forecast over the Medium Term**

The future forecast budget requirements compared to anticipated resources is a follows:

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £000
Budget Estimates	**9,048**	**9,026**	**9,142**	**9,282**	**9,413**
Estimated Funding:					
Council Tax / Collection Fund	4,989	5,089	5,191	5,295	5,400
Council Tax Base Growth	16	32	48	65	81
RSG	762	427	239	134	75
NNDR	1,942	2,001	2,061	2,123	2,186
Grant for 0% C Tax uplift 2015-16	54	-	-	-	-
NNDR Retained	400	400	400	400	400
Resources	**8,164**	**7,949**	**7,939**	**8,016**	**8,142**
Surplus / (further savings required)	***(884)***	***(1,077)***	***(1,203)***	***(1,266)***	***(1,270)***
Potential cost pressures	(375)	(405)	(1,068)	(1,098)	(1,128)
Potential savings	801	1,425	1,758	1,700	1,720
Surplus / (further savings required)	***(458)***	***(57)***	***(512)***	***(664)***	***(678)***
Use of Reserves	458	57	512	664	678
Surplus / (further savings required)	**(0)**	**0**	**(0)**	**0**	**0**

NB

1. *For 2015/16 onwards the use of reserves relate to Transitional Reserves. The above demonstrates an underlying and increasing revenue deficit which in the immediate periods is supported through the use of the Transitional Reserve but which in 2020/21 is almost fully utilised. Future year deficits cannot be*

funded beyond 2010/21.

2. *The revenue deficit in future years can be seen to range between c £450k and c £700k+ per annum.*

5.7 Potential future changes due to cost pressures and possible savings are as follows:

Cost pressures	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'001**
DWP Admin Subsidy	30	60	90	120	150
LCC Cost Share & Recycling Income	0	0	633	633	633
Empty Homes Project	200	200	200	200	200
Subsidy reduction Single Fraud Service	37	37	37	37	37
Ins Premium Tax (+3.5%)	8	8	8	8	8
Volume & Technical	100	100	100	100	100
	375	**405**	**1,068**	**1,098**	**1,128**

Possible savings	**2016-17 £000**	**2017-18 £000**	**2018-19 £000**	**2019-20 £000**	**2020-21 £000**
Taxi Licensing	262	262	262	262	262
New Homes Bonus	352	382	412	442	442
Local Business Rates (Renewable Energy)	0	190	379	379	379
Rental income (Renewable Energy)	0	113	233	233	233
NNDR Pooling	0	360	360	360	360
Pension Deficit Savings	68	64	67	70	73
Debt restructuring	0	0	0	0	0
	682	**1,370**	**1,713**	**1,746**	**1,749**

NB – There is a potential to restructure PWLB debt to produce some savings but given the low level of interest rates this is not the time to optimise the potential value and therefore is a last resort.

5.8 **Bridging the future forecast funding gap**

Council Members should give consideration to, amongst others, the following in order to reduce the funding gap:

- A number of local authorities are seeing such financial pressures as to be considering the delivery of statutory services only to a service level that can successfully defend a legal challenge.
- Consideration should therefore be given to ensuring non-statutory services are self-funding.
- Staffing costs: consider the re-introduction of unpaid leave and the budgeting of natural annual vacancies/turnover (c. £80k pa + £45k pa).
- Waste collection service. Given the end of the Lancashire cost share agreement in March 2018 a review of service and efficiency opportunities is being undertaken across all Lancashire waste collection authorities.
- The Council supports its capital programme with a £100k pa contribution from revenue budgets. A more aggressive approach could be made to land disposals
- Review of all fees and charges to ensure that they not only cover the cost of services provided but that they are also comparable to other districts and any market competition.

All the above involve difficult consideration and choices for Members in ensuring the medium term financial stability and ultimately financial sustainability of Council.

5.9 **Retention of Business Rate (Chancellor's announcement 5th October 2015)**

The Chancellor has recently announced that by the end of the current Parliament local government will be able to retain 100% of local taxes including business rates. In addition, the Uniform Business Rate will end and allow local authorities the power to cut business rates in order to promote local regeneration and the economy.

If completed this will be one of the biggest changes to local government financing in a generation and could be one of the final steps in making local government and in particular District Councils financially dependent on their local economies and tax-raising powers. Any such change will inevitably see winners and losers.

At the time of writing we await to see the detail, however this raises a number of immediate observations, amongst others:

- What is to be the position, if any, on 2016/17 business rates pooling?
- How will future business rate baseline safety nets be funded?
- How will net top up regions be funded?
- What share will passport directly to Lancashire County Council and the Fire Authority. Currently the 10% will require a significant increase to negate their current top up
- What is the impact on the funding of RGS, NHB and other central funding?

The following analyses the estimated value of Business Rate raised within Lancashire District Councils for 2015/16 compared to Dep't for Communities & Local Gov't (DCLG) settlements for the same year:

Lancashire CC & Districts	
	£m
Business Rates raised	367.3
Baseline Funding	208.9
Net surplus	158.4
2015/16 RSG funding	190.3
Shortfall	(31.9)
Other pressures	
New Homes Bonus	19.4
Fire Authority Settlement	29.4
	48.8

The above illustrates that that Lancashire CC, Fire and the shire districts currently receive more in core funding (£80m) than raised collectively through Business Rates. Presumably this current funding comes from the redistribution of regional surpluses together with other funding DCGL receives from the Treasury.

Therefore, it would seem that the 100% retention of local taxation by local authorities will still need to be balanced against local need and service demands across the whole of England.

6. SECTION 151 OFFICER

6.1 Financial matters are noted in the report attached.

7. MONITORING OFFICER

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

8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Unless specifically commented upon within the report, there are no implications for consideration. Staffing issues have been discussed with colleagues in the People & Policy section.

9. CONSULTATION CARRIED OUT

9.1 Directors, Heads of Services and Budget Holders.

9.2 Capita Asset Services specialist treasury management advisors.

10. CONCLUSION

10.1 Robust monitoring of the General Fund and MTFS is essential to control risks expressed in section 4.

10.2 Despite a continued cost reduction programme, the challenge remains for Council to continue its efficiency agenda in order to realise its medium term saving target. Members, collectively, continue to face difficult choices in order to balance expenditure with available resources over the medium term.

10.2 The Council is now facing a number of significant uncertainties which are either driving the funding gap (i.e. decline in RSG) or in the Council's ability to bridge the funding gap (i.e. Renewable energy associated revenues). With this in mind the Councils risk register will be changed to C1 (currently E3) in relation to the failure to align/balance future expenditure and resources.

Background Papers	
Documents	Place of Inspection
Financial monitoring statements for each service area.	Financial Services.
Capita Asset Services "Citywatch" report for July 2015	Financial Services
February 2015 MTFS report.	Council Minutes