Rossendale
BOROUGH COUNCIL

ITEM NO. E1

Subject:	Financial Monitoring Report 2017/18 as at end Sept 2017		**Status:**	For Publication			
Report to:	Cabinet		**Date:**	29th November 2017			
Report of:	Finance Manager		**Portfolio Holder:**	Portfolio Holder for Resources and Customer Services			
Key Decision:	☐	Forward Plan ☒	General Exception ☐		Special Urgency ☐		
Equality 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.
1.2	That Members agree the use of £50,000 from the Employment & Transport Reserve to support the cost of taking Phase 2 of the Spinning Point development to planning application stage.

2. PURPOSE OF REPORT

2.1 The purpose of the report is to update Members on the financial performance in the first six months of the year compared to the original budget set back in February.

3. CORPORATE PRIORITIES

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

- **A clean and green Rossendale:** our priority is to keep Rossendale clean and green for all of Rossendale's residents and visitors, and to take available opportunities to recycle and use energy from renewable sources more efficiently.
- **A connected and successful Rossendale that welcomes sustainable growth:** our priority is to ensure that we are well connected to our residents, key partners and stakeholders. We want to make the most of every pound we spend and we are always looking for new and innovative ways to make the resources we do have, work harder for us.
- **A proud, healthy and vibrant Rossendale:** our priority is to ensure that we are creating and maintaining a healthy and vibrant place for people to live and visit.

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 and the impact of variances being reported here will be assessed when officers are considering the detailed 2018/19 budgets in the coming months.
- Progress in identifying and implementing further savings to meet the challenges in the Medium Term Financial Strategy (MTFS) are being reflected in the 2018/19 budget working papers.

- Members will be aware that the recent decision by the Secretary of State in the wind farm extension appeal puts an added pressure of £600k per annum on the MTFS.
- In light of this the Council's risk register score for the alignment of financial resources and expenditure will need to be updated from its current rating of C1(moderate likelihood and catastrophic impact).
- The Council must explore ways of bridging its forecast funding gap. Amongst other things this may include becoming more commercially aware, aiming to grow its resources alongside the challenges to its cost base.
- Any continued austerity planning by Central Government resulting in a further reduction of central government resources and any potential implications of Brexit.

5. BACKGROUND AND OPTIONS

5.1 2017/18 Financial Monitoring as at the end of September 2017 (see Appendix 1)

This second monitoring report covers actual activity from April to the end of September and forecasts the full-year impact to be a favourable variance of £199.1k. The most notable changes from the £233.6k favourable variance forecast back in July are shown below:

5.1.1 Favourable one-off variances

- Minimum Revenue Provision (MRP) savings on operational fleet where delayed purchase has led to a repayment 'holiday'. However, part of this saving is needed to offset the £45.8k increase in maintenance costs associated with holding onto the older fleet for longer than was anticipated.
- Homelessness admin grant has been received in 2017/18 in excess of anticipated costs. Though the grant is ongoing, the costs are expected to rise in 2018/19, therefore the favourable variance is a one-off gain this year.
- Internal Audit fees accrual at the end of 2016/17 was overly prudent by £16.7k.

5.1.2 Favourable recurring variances which will impact upon the MTFS

- The cost of annual corporate subscriptions to organisations like Regenerate Pennine Lancashire has reduced by £5.9k.
- Pension costs of added years for former employees are reducing slightly each year, leading to an ongoing saving of at least £13.6k.

5.1.3 Adverse recurring variances which will impact upon the MTFS

- The housing benefit subsidy is a highly complex and volatile budget area. The proportion of government subsidy received is dependent on the value and nature of claims paid out and the mid-year forecast showed an expected grant receipt rate of 99.07%. This means that the on an estimated total payable of £18.1m, the subsidy deficit is expected to be £168k, which is £118.9k worse than the original budget. The subsidy deficit should be recovered from claimants by deduction of overpayments from future years benefit. Hence, there is an opposite, favourable, movement in recovery of overpayments. Prudence prevents officers from expecting full recovery.
- During Q2 and the detailed budget setting calculations for 2018/19, it has come to light that the IT budgets have not been adjusted for the past 3 years. The original budget for 2017/18 was £411.6k compared to £417.8k in 2014/15. Whilst officers have made every effort to reduce costs where possible, over this time there has been a net £20k increase in software costs and £26k increase in the costs of holding and securing the Council's data (of which c£15k pertains to Rossendale Leisure Trust).
- The implications of policy changes to taxi licensing continue to impact more on the income (and to some extent the costs) in 2017/18 than was expected, leading to an increase of £20.6k in the adverse variance reported back in July.

5.2 **Earmarked Reserves**

The total cash-backed Earmarked Reserves brought forward at 1st April 2017 were £6,229k (excluding the Transport Reserve).

Officers recommend the allocation of the first £20k of surplus in 2017/18 to balance the Directorate Investment Reserve, and then the remaining £179.1k could be transferred into the Transitional Budgetary Reserve, to leave an anticipated balance of £2,604k at the end of 2017/18 to support the future requirements of the MTFS.

The Local Taxation Reserve (formerly the Business Rates Retention Reserve) now reflects the in-year variances discussed in detail on page 32, including the renewable energy income of £157k for the year and £678k of S31 grants receivable as well as the requirement to clear the cumulative deficit for prior year business rates on the balance sheet at 31st March 2017.

The Planning Reserve has received £35k from S106 agreements in 2017/18 but is expected to be called upon to support £164k of costs, leaving just £58k for future costs. There are no plans at present re-commence contributions into this Reserve to fund future District Plan costs.

The forecast closing balance at the 31st March 2018 is now £5,756k, but planned usage through the life of the MTFS of the Local Business Rates Retention Reserve and the Transitional Reserve, will reduce this to £2,974k by March 2021.

5.3 **Government Grants**

The opening value of Government Grants Unapplied at the 1st April 2017 was £566k, including £392k of DFG slippage. Better Care Funding for DFG grants in 2017/18 has been received now at £869k, leading to a total funding available in 2017/18 of £1,261k.

The Homelessness grant of £82k is the balance of funding received by Rossendale as administrator of the young persons homelessness grant, its usage is undetermined.

The Transforming Lives and Hoarding Grants are a joint project with the PCC to tackle problems early and these funds are expected to be spent during 2017/18.

The forecast balance at March 2018 is £82k.

5.4 **Staff Monitoring**

Members will recall that the original budget set a vacancy saving target of £150k. The table on page 4 of the attached report shows a current forecast of £107.2k net savings across all departments. Officers are working with managers to determine a robust allocation of the original target. As the table on page 24 shows, £41k has been achieved in cash terms in the first six months of the year.

5.5 **Treasury and Cash Management**

As noted in the July report, the savings arising from the advance payment of the pensions liability are expected to be £99.8k in 2017/18 and similar savings have now been built into the budgets for the next 2 years. This represents an effective interest rate of around 2% per annum compared to the 1% per annum being earned on current 364-day banking investments.

The Council's current banking portfolio performance cannot compare with the Capita model at 0.5% as that is driven by investments in foreign banks which the Council's Treasury Management Strategy considers too risky. Officers have now determined that an effective interest rate of 0.15% above the bank base rate would be a SMART target. Though the base rate has been 0.25% since August 2016, the Council's main current account is only earning 0.1%. At the end of Q2 the effective interest rate has hit that 0.40% target, thanks to the 1-year deposit with Lloyds earning 1% until December 2017 and a slight rise in the

Handelsbanken rate to 0.20% while we have over £2.5m in the account.

The effective rate at the end of Q3 will be dependent upon the rate which can be achieved on renewal of the £2m Lloyds 1-year deposit which matures on the 14th December.

5.6 **Debt Monitoring**

New debts raised in 2017/18 now total £2,358k, of which £1,980k has already been collected, a further £82k is to be collected in instalments over the coming months and £203k is not yet over one month old. For invoices raised in April to August this will equate to a recovery rate of around 95%.

Given the focus on collecting debt wherever possible, officers have identified £99.6k as potentially doubtful. Against this the balance of the doubtful debt provision is now £98.8k, given the additional provision of £20k approved in July and included on page 20/21.

5.7 **Capital Resources and the Capital Programme**

Though there has been very little activity in selling Council assets so far this year, officers are optimistic that the target of £50k will be reached. As part of the MTFS development officers have reviewed the de-minimis level for receipts and confirmed that £10k is the average across Lancashire, therefore no change is proposed to the current £10k level.

The Capital Programme approved back in February was £885k, principally £500k of DFGs, £130k of CPOs, £135k of building maintenance works and £130k of operational spend on parks, playing fields and vehicles.

At the end of 2016/17 there was £8,873k committed to ongoing capital projects, known as slippage. These projects included £5,241k for Spinning Point Phase 1, £1,601k for the ongoing Bacup THI scheme and £391k balance of DFG grants and a full list is shown on page 29 of the attached report. Of the £1,762k capital receipts brought forward at 1st April, £635k was already committed to funding these slippage projects.

By the end of September a further £765k has been added to the programme, the latest project being the £138k Mullards play area work funded by grants, S106 monies and capital receipts brought forward from previous years.

This brings the total revised Capital Programme up to £10,523k with three major schemes still being the Bacup THI, Spinning Point Phase 1 and the DFG grants.

- Bacup THI has incurred £508k to the end of September, 32% of the scheme for the year.
- Spinning Point is expected to cost £5.2m in total, of which £563k has been incurred to date on the demolition phase of the works.
- On DFGs £394k has been spent or committed, which represents 31% of the new scheme total for the year of £1,260k. Occupational Therapist referrals from LCC continue to limit the level of activity.

5.8 **Minimum Revenue Provision**

Given delays in replacing some operational vehicles & equipment, the total favourable variance on the MRP costs for 2017/18 has risen to £138k. Much of this is being offset against the rising costs of vehicle maintenance, as noted at 5.1.1 above.

Members attention is drawn to the detail on page 30 of the attached report which explains that the net £20k adverse variance in Leisure investment MRP is more than repaid by Rossendale Leisure Trust Ltd under the arrangements put in place in November 2016 for the Haslingden Sports Centre equipment re-purchase.

5.9 **Section 106 Agreements**

The tables on page 29 of Appendix 1 show the current agreements in force which are available for Rossendale Council projects, with the balance of funds and any deadline dates.

At the moment there is £157.6k available for revenue projects, principally from the Douglas Rd/ Tong Lane development which has no time limit specified in the agreement.

There is also £228.7k for capital projects, including agreements from developments at Cowm Park Way, Holmefield House and Mytholme House. Funds received from the Eastgate development have been spent by the end of July deadline on the Healey Dell Woodlands and Pump Track projects noted on page 29. The next known expiry deadline is July 2020 for the £110k Cown Park Way agreement monies to be spent on public open spaces projects.

5.10 **Collection Fund**

The collection rates for both council tax and business rate collections are slightly behind the time in 2016/17 at 56.2% and 57.6% respectively, though they have improved during Q2. With a strong focus on collecting funds promptly, there has been an increase in court cost recharges for both council tax and business rates, leading to the favourable forecast of £25.3k on page 7 of Appendix 1.

The current projection for the overall council tax collection fund is a surplus of £659k, of which this Council would keep £101k (up from £469k and £72k respectively back in July). This represents just over 15% of the total, with the majority going to Lancashire County Council.

Under the new business rates scheme, variances from the original budgets fall into two categories – those arising from changes to the collection fund and those arising from grants and levies received or charged to the General Fund. Changes to the Collection Fund have been revised downwards at Q2 to £249k (from £475k in July), of which Rossendale keeps £100k (40%). However, this is subject to volatile areas such as rateable value changes by the Valuation Office, and to the end of Q2 the borough's net rateable value has been reduced by £451k, compared with a forecast reduction of £184k back in July. However, as a result the provision for future appeals is expected to reduce to £550k from £700k back in July.

The second area of variance occurs in the revenue accounts based upon the entitlement for this Council year-on-year, renewable energy income and the S31 grants made available to cover central government relief decisions. At present officers predict a favourable variance of £771k, of which Rossendale would in the past have paid over £385k to central government. The Lancashire pooling arrangement will allow the retention of this money, less a 10% share going to LCC through the pool.

Therefore, the overall gain on business rates is predicted to be £810k in 2017/18, compared to the MTFS target of £800k.

5.11 **Spinning Point Phase 2**

The Council is about to enter into Phase Two of Spinning Point. One of the first cost elements of this project is in regard to the cost of taking the development to planning application stage estimated at to be £150k. £50k is available within the RTB partnership and therefore requires £50k each from the development partners (Council and Barnfield).

In due Couse a further £150k will be required from the two partners (£75k each) in order to get to the development stage. All such cost (c £300k) will in due course be reclaimed from the development of Phase Two.

The Council has previously committed to the development of Spinning Point Phase Two. In due course the Council will have the opportunity to consider its further involvement in

Spinning Point Phase Two, both as financier and owner in part or full, of the completed development. Should the Phase Two development not progress, the Council risks the forfeit of £1.1m Local Growth Fund in relation to Phase One.

COMMENTS FROM STATUTORY OFFICERS:

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. CONCLUSION

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

9.2 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, especially in light of the wind farms adverse decision.

9.3 Council should not get complacent following this 2017/18 favourable variance forecast, but remember the forthcoming significant reductions in income: Rate Support Grant, waste cost share and renewable energy.

Background Papers	
Document	Place of Inspection
Financial monitoring statements for each service area.	Financial Services.
2017/18 Corporate Priorities, Budget, Council Tax and The Medium Term Financial Strategy.	RBC website - Full Council 1/03/2017