Rossendale BOROUGH COUNCIL

**ITEM NO. E1**

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| **Subject:** | Financial Monitoring Report 2018/19 Q1 | | **Status:** | For Publication | | |
| **Report to:** | Cabinet | | **Date:** | 12th September 2018 | | |
| **Report of:** | Finance Manager | | **Portfolio Holder:** | Resources | | |
| **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)** |
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| 1.1 | That Members note the contents of the report. |
| 1.2 | Members approve the proposals to apply £660k of capital receipts to reduce the annual MRP charge by £145k - see item 5.7. |

## 2. PURPOSE OF REPORT

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

2.2 Members approve the proposals to apply £660k of capital receipts to reduce the annual MRP charge by £145k - see item 5.7.

## 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 2019/20 budgets in the coming months.
- The Council must explore ways of bridging its forecast c.£1m annual 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, plans for the local retention of 75% of the business rates by 2020/21, the current fair funding review and any potential implications of Brexit.
- Implications from the Governments latest consultation on the 2019/20 finance settlement: https://www.gov.uk/government/consultations/local-government-finance-settlement-2019-to-2020-technical-consultation

## 5. BACKGROUND AND OPTIONS

5.1 **2018/19 Q1 Monitoring Report as at the end of June 2018 (see Appendix 1)**

This first report of the financial year 2018/19, is showing an expected favourable variance of £24k, compared to the original budget of £10,032k. The most notable changes so far are shown in the table on page 5 of the report. The main changes being:

5.1.1 Favourable one-off variances

- The council has received £35k in grant towards the creation of a Brownfield Land Register and a Custom Build Register.

5.1.2 Adverse one-off variances

- Officers are in the process of replacing some of the operational fleet during 2017/18, but in the meantime additional repairs and hire costs of around £78k are being met from savings on the MRP.

5.1.3 Favourable recurring variances which will impact upon the MTFS

- On the grounds that 2017/18 returned a favourable £75k for the collection of court costs on Council Tax and Business Rates, the original budget for 2018/19 was increased by £40k. By the end of Q1 recovery reports lead officers to expect another £21k on top of that.
- The introduction of garden waste charges in March 2018 was expected to bring in £87k of income, but take-up has far outstripped the predictions so the current forecast is for an additional £140k on top of that and this should be a recurring favourable variance for future years
- The pensions pre-payment should achieve a saving of around £300k over the three years. The allocation of those savings across the 3 financials years by the actuarial company has assigned more savings to year 2 and 3 than officers expected, so a favourable variance of £38k is predicted for 2018/19 and similar for 2019/20.

5.1.4 Adverse recurring variances which will impact upon the MTFS

- The price of fuel for the operational vehicles has risen 8% since the budgets were set, adding £7k to the annual costs and this is a volatile cost which may be subject to impacts from the Brexit negotiations throughout the year.
- An increase in the levels of contaminates and a drop in the market rates for recyclates, resulted in an adverse variance of £52k in 2017/18 and that led officers to reduce the 2018/19 original budget by £25k. Despite this, officers are predicting a further adverse variance of £37k for 2018/19 based on Q1 performance.
- Markets income is showing a full-year adverse variance of £21k, which looks to be following a similar performance in 2017/18.
- The 2018/19 income budget for licensing was reduced by over £210k following the policy decisions during 2016/17. Officers predict a further adverse variance of £75k against the original 2018/19 income budget, but this is being covered by staff savings of £118k.

- Despite improvements in collection performance for sundry debts, there seems to be an annual requirement to top up the doubtful debts provision by around £20k, therefore officers propose to build this into future budgets.
- The original budget included rental income from the former transport company premises on Knowsley Road Industrial Estate, but at present the site is being marketed for sale, which would lead to a capital receipt, but reduce the annual revenue income by £113k (being the cost of business rates and rent voids)

5.2 **Earmarked Reserves**

The total cash-backed Earmarked Reserves brought forward at 1st April 2018 were £6,164k.

The opening balance on the Transitional Reserve was £2,767k, to which £684k of New Homes Bonus grant will be added. The original budget included the application of the same £684k from New Homes Bonus and a further £795k as general budgetary support. At the moment the £24k favourable variance on the General Fund would be transferred back into the Transitional Reserve, leaving a net balance of £231k after the planned MTFS support up to 2020/21.

The Business Rates Retention Reserve now reflects the in-year variances discussed in detail on page 28 of Appendix 1, including the renewable energy income of £164k for the year and the S31 Grant income of £818k. Funding for the original 2018/19 budget included the application of £800k from this reserve.

The Planning Reserve has been called upon to support £153k of costs in relation to the Local Plan, leaving just £41k to fund further costs in 2019/20 and future years.

The closing balance at the 31st March 2019 is now predicted to be £5,069k, but planned usage, particularly of the Transitional Reserve through the life of the MTFS, will reduce this to £3,113k by March 2022. With these reserves being cash-backed this reduction will impact upon bank interest receipts in future years.

5.3 **Government Grants**

The opening value of Government Grants Unapplied at the 1st April 2018 was £889k, including £708k of Disabled Facilities Grant carried forward into 2018/19. The allocation of Better Care funding for DFGs in 2018/19 is £947k, giving total resources for 2018/19 of almost £1,656k.

The Homelessness grant of £68k is the balance of funding received by Rossendale as administrator of the young person's homelessness grant, which will be distributed amongst the participating parties in 2018/19.

The Transforming Lives and Hoarding Grants are a joint project with the Police & Crime Commissioner to tackle problems early and the balance of funds received during 2016/17 have been spent in quarter 1 of 2018/19.

Assuming full use of DFG funds, the balance of unapplied Grants at March 2019 will be £nil.

5.4 **Staff Monitoring**

The table on page 20 shows the cash saved on salaries in Q1 has been £51k. However, the table on page 4 is a more complete picture of the net projected savings for the year, giving anticipated savings of £76.9k. The target for staff savings built into the original budget was £150k, so there is still £73.1k to find.

5.5 **Treasury and Cash Management**

As the tables on page 25 show, the bank balances at the end of June were £12,337k.

At the end of Q1 there had been no changes in the individual interest rates on the bank accounts, but the proportion of funds being held in the instant access and 32- or 35- day notice accounts has risen as officers keep funds more liquid in order to manage the cash available for the ongoing capital commitments. This means that the effective overall interest rate has dropped slightly to 0.4% compared to the target rate of 0.65%. Base interest rates are now expected to remain static at 0.5% until the end of the calendar year.

At the beginning of August the Bank of England base rate was raised from 0.5% to 0.75%, but this had not been predicted by the Council's advisors and so was not included in the budget forecasts.

5.6 **Debt Monitoring**

Of the £518k 2017/18 sundry debtor invoices outstanding at the end of March, £430k has been received in Q1, bringing the current collection rate for the invoices raised during 2017/18 up to 97.95%.

New debts raised in 2018/19 totalled £1,795k, including the £947k invoice to LCC for the Disabled Facilities Grants. This gives an outstanding debt at balance at the end of June 2018 of £1,422k.

Officers have identified that £102k of those debts outstanding are potentially doubtful, excluding £947k DFG due from LCC and £126k being collected by instalments throughout the year. The provision for doubtful debts began the year at £87k, leading officers to forecast a further provision contribution requirement of £20k.

At least £34k of the older outstanding debt is recorded on the Local Land Charges Register, so the cash should come in to the Council eventually.

5.7 **Capital Resources and the Capital Programme**

The Usable Capital Receipts brought forward at the 1st April 2018 totalled £2,625k of which £649k was required for projects carried over into 2018/19.

Capital Grants due for projects in 2018/19 are expected to total £7,300k of which £5,123k has already been received. This includes the allocation of £947k from the Better Care Fund in 2018/19 for Disabled Facilities Grants, an increase of £78k (9%) on the 2017/18 levels, as noted in 5.3 above.

Table 2 on page 24 of the attached report shows that the unallocated capital receipts available at the end of 2018/19 are expected to be £1,718k. Officers are considering applying around £660k of this to make an additional Minimum Revenue Payment (MRP). This would reduce the annual MRP charge by £145k per annum, representing a 22% return on the use of those funds. This would leave £1,058k available for future projects. Member's views are sought.

The original Capital Programme for 2018/19 was £1,443, including £500k for DFGs and £693k for replacement operational vehicles. The slippage from 2017/18 was £7,489k, the bulk relating to the ongoing Bacup THI, Spinning Point Phase 1 and the DFGs. The only addition to the programme in Q1 was the extra allocation of Better Care Funding for DFGs.

The revised capital programme for 2018/19 at the end of Q1 is £9,264k against which £5,756k has either been spent or committed to date, equating to 62%.

5.8 **Minimum Revenue Provision (MRP)**

Given delays in replacing some operational vehicles & equipment, the total one-off savings on MRP costs for 2018/19 are predicted to be £75k, of which is being used to offset the rising costs of vehicle maintenance, as noted on page 8 of the report.

See 9.3 being a proposal to use capital receipts to further reduce annual MRP costs.

5.9 **Section 106 Agreements**

The tables on page 26 of Appendix 1 show the current S106 agreements in force which are available for Rossendale Council projects, with the balance of funds and any deadline dates.

At Q1, there is £132k available for revenue projects, principally from the Douglas Rd / Tong Lane development which has no time limit specified in the agreement, from which £10k is being transferred to the revenue account each year to support grounds maintenance costs.

There is also £193k for capital projects, including agreements from developments at Cowm Park Way, Holmefield House and Mytholme House. Members and officers are currently considering options for funding the Stubbylee Dell project, one option being the application of the remaining £14k from the Cloughfold development.

5.10 **Collection Fund**

The collection rates for council tax and business rate have ended Q1 slightly behind last year's performance.

The current projection for the overall council tax collection fund is a surplus of £105k, of which this Council will keep £16k.

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 are forecast as £383k favourable, the main features of the Q1 activity including

- an increase of £324k in the opening liability following 2017/18 banding decisions
- less additional reliefs awarded of £38k
- a reduction in the Doubtful Debt Provision from £380k budget to £268k, and
- maintaining the planned £600k contribution to the Appeals Provision

The second area of variance occurs in the General Fund 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. Officers have calculated the S31 grants due for the year at £818k, which in the past would have meant that Rossendale would have paid over £488k 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 table at the foot of page 28 shows the prediction of an overall gain on business rates for 2018/19 of £1,037k, compared to the MTFS target of £800k, which bodes well for the MTFS. All things being equal, a prudent estimate would be to anticipate an additional £200k on-going annual surplus from the Council's share of NNDR.

5.11 **EMPTY HOMES**

No material movement on cost albeit there have been some recent signs of increased communications from former lease holders. The practical completion certificate exercise continues with 29 to complete.

**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 above.

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.

9.3 With the MTFS challenges in mind, officers recommend the option to reduce the revenue impact of MRP in 2018/19 and future years through the one-off application of £660k of Capital Receipts in order to reduce revenue costs by £143k per annum. This would give an immediate return of 22% in the first year, averaging 7% over the MTFS.

9.4 Council should not get complacent following this prediction for a small net favourable variance in 2018/19, but remember the forthcoming significant reductions in external income sources: Rate Support Grant and New Homes Bonus. The MTFS plans for 2019/20 will see the use of £1,194k of reserves in order to balance costs and income. Such a strategy is not sustainable in the long term.

| Background Papers | |
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| Document | Place of Inspection |
| Service monitoring statements. | Financial Services. |
| 2018/19 Corporate Priorities, Budget, Council Tax and The Medium Term Financial Strategy. | RBC website - Full Council 28/02/2018 |