Rossendale BOROUGH COUNCIL

ITEM NO. E1

Subject:	Financial Monitoring Report 2018/19 Q3	**Status:**	For Publication
Report to:	Cabinet	**Date:**	13th February 2019
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**
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 financial performance in the first three quarters of the financial 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 recommendations 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 have been considered by officers when preparing the detailed 2019/20 budgets.
- The Council must explore ways of bridging its forecast c£700k 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 Government's 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 Q3 Monitoring Report as at the end of December 2018 (see Appendix 1)

This third report of the financial year 2018/19, is showing an expected favourable variance of £270k, 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 in Q3 being:

5.1.1 Favourable one-off variances

- Planning fee income is up £68k.
- Housing Benefit subsidy - although this report is forecasting a cautious further favourable variance of £42k for 2018/19, this is a highly volatile area for the Council and to predict such variances in the future would be unwise.
- Recovery of overpaid benefits looks to be £15k above the annual target.
- Licensing income recovered slightly, improving the previous adverse variance by £12k.
- Business Rates refund of £85k on the former Liberal Club.

5.1.2 Adverse one-off variances

- Operational property running costs now look to be costing another £6k more than the budget, but £14k of the total adverse variance is one-off in nature, relating to refurbishments and treatment of Japanese Knotweed.
- The £35k Brownfield & Custom Build grants for planning services were reported as favourable variances at Q2, but these funds are now to be transferred to the Planning Reserve to support future costs of the Local Plan.

5.1.3 Favourable recurring variances which will impact upon the MTFS

- Interest income rates are rising again, with the Council's banks following the base rate rise in the autumn. In addition, the Council's resources exceeded £18m for a short time in October and have exceeded £12m for 49.5% of 2018/19 so far. Rising base rate predictions for summer 2019 will improve the interest rates being earned in future years, but the use of reserves will mean that the impact is not as high as this quarter's favourable £5k forecast.

5.1.4 Adverse recurring variances which will impact upon the MTFS

- Knowsley Road industrial site is still under review for sale or lease. This delay will cost a further £21.6k in 2018/19.

5.2 Earmarked Reserves

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

At the moment the £270k favourable variance on the General Fund would be transferred back into the Transitional Reserve, leaving a net balance of £1,160k after the planned MTFS support up to 2021/22.

The closing balance at the 31st March 2019 is now predicted to be £5,312k, but planned usage, particularly of the Transitional Reserve through the life of the MTFS, will reduce this to £3,837k 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 was £947k but a further £116k has been allocated in Q4, giving total resources for 2018/19 of almost £1,772k. Despite a widening of the DFG policy in summer 2018 and measures by LCC to release the occupational therapy referrals in the autumn, officers predict a carry forward of around £750k in DFG resources.

All other grants are planned to be used during 2018/19, so the balance of unapplied Grants at March 2019 is expected to be £750k.

5.4 Staff Monitoring

The table on page 20 shows the cash saved on salaries at Q3 has been £182k, however, the table on page 4 is a more complete picture of the net projected savings for the year given some external support for essential services.

Departments are anticipating a real saving of £112.5k for the year plus £24k of additional leave purchased by staff. The target for staff savings built into the original budget was £150k, so there is still £13k to find.

5.5 Treasury and Cash Management

As the tables on page 21 show, the bank balances at the end of December were £10,874k, but this conceals the fact that the total resources exceeded £12m for over 49.5% of 2018/19 so far.

At the end of Q3 there had been some small change in the individual interest rates on the bank accounts, with a further update on the Lloyds current accounts coming into force on the 18th January. During Q3 the £1.5m deposit with Lloyds matured and the funds were reinvested for another 364-day period to earn 1.1% interest. Following the rise in August, bank base interest rates are now expected to remain static at 0.75% until summer 2019.

The improvement in the effective interest rate, as well as the higher balances, has increased the forecast interest income by another £5k to a net favourable £9.5k for the year.

5.6 Debt Monitoring

Of the £518k 2017/18 sundry debtor invoices outstanding at the end of March 2018, only £77k remains outstanding at the end of Q3. This now represents a collection rate of 98.2% for sundry debts in the last financial year.

New debts raised in 2018/19 now total £2,547k, including the £947k invoice to LCC in June for the Disabled Facilities Grants which was received in July. This gives an outstanding debt at balance at the end of December 2018 of £373k. Officers are pursuing legal recovery of £78k of these debts, most of which originated during 2017/18.

Officers have identified that £152k of the debts outstanding are potentially doubtful, excluding £20k due to be collected by instalments in Q4. The provision for doubtful debts began the year at £87k, leading officers to forecast a further provision contribution requirement of £20k which is built into the variances shown on page 16 & 17. Dependent upon the outcome of the current legal action, there may be a requirement to increase the doubtful debt provision further at the year-end.

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 £7,495k, including the additional allocation of £116k from the Better Care Fund in January 2019 for Disabled Facilities Grants.

Members will recall that the Q1 report requested approval to applying around £660k of the available capital receipts to make an additional Voluntary Revenue Payment (VRP). Following approval, this exercise has been concluded and £657k of one-off payments in 2018/19 will result in initial savings in 2019/20 MRP costs of £150k.

The original Capital Programme for 2018/19 was £1,443k, 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. Additional projects so far in 2018/19 have added £589k, most of which relates to the increased DFG grant.

The revised capital programme for 2018/19 at the end of Q3 is £9,471k against which £6,992k has either been spent or committed to date, equating to 74%.

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.

As item 5.7 above describes, an additional one-off £657k of MRP (now known as Voluntary Revenue Payments, or VRP) in 2018/19 will reduce the 2019/20 MRP costs by £150k, representing an initial return of 22.9%.

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 Q3, there is £129k 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 £223k 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

While collection rates for council tax are slightly down on this time last year, those for business rates show an improvement of 0.38%, which could equate to an extra £46k being collected in the year.

The current projection for the overall council tax collection fund is a surplus of £205k (down from £266k in the Q2 report), of which this Council will keep £30k.

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 £390k favourable, the main features of the Q3 activity including

- a further reduction of £123k in the net liability for the year
- reduction of £300k in the planned 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. The changes in reliefs will net off against the reduction in S31 grants, meaning that the net surplus for levy calculations is now forecast as £1,004k. The existing Lancashire pooling arrangement will allow the retention of this money, less a 10% share of £100k going to LCC through the pool.

Therefore, the table at the foot of page 28 see an increase in the prediction of an overall gain on business rates for 2018/19 to £1,063k, 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 in 2019/20.

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 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 to 2021/22 will see the use of £1,163k of reserves in order to balance costs and income. Such a strategy is not sustainable in the long term.

Background Papers	
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