

Subject: Financial Monitoring

Status: For Publication

Report to: Cabinet

Date: 2nd August 2006

Report of: Head of Financial Services

Portfolio

Holder: Finance & Risk Management

Key Decision: No

Forward Plan General Exception Special Urgency

1. PURPOSE OF REPORT

1.1 The purpose of the report is to update Members on the General Fund estimates for 2006/07, the Capital Programme and Treasury matters

2. CORPORATE PRIORITIES

2.1 The matters discussed in this report are linked to and support the following corporate priorities:

- Financial Management: *embedding financial management throughout the organization.*

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 has previously concentrated on the key risk areas of: Employment costs, Income, agreed budget savings and emerging issues and opportunities. The current monitoring analysis now focuses on service department costs as part of the 06/07 budget exercise.

3.1.2 The councils' investment into new financial systems and the restructure within the Financial Services department has now begun to assist the Council in developing more robust forecasting techniques, which will allow potential financial risks to be identified and addressed earlier in the year.

4. BACKGROUND AND OPTIONS

4.1 Capital

4.1.1 No capital receipts, from the disposal of assets, above the deminimus level (£10k) have been generated in the first quarter.

4.1.2 The disposal programme in relation to the accommodation strategy has commenced with mixed success:

Property	Status
Haslingden N.O.	Offer received above Council Valuation and now subject to contract
Waterfoot N.O.	Offer received below Council Valuation – therefore declined
Whitworth Town Hall	No offers received
Roberts Street	Offers under consideration prior to recommendation to Cabinet

4.1.3 Capital Expenditure in the first quarter is as follows

Value	Detail
£204k	Whitworth Civic Hall
£246k	Housing Investment Programme
£82k	DDA Works
£72k	SS&L – Kerb Sider (LEF Grant adjustment) and slippage from 2005/06
£26k	Accommodation Strategy – slippage from 2005/06
£8k	ITC
£26k	Restructuring Costs
£664	Total

4.2 Revenue

4.2.1 Overall at the end of quarter forecasts a full year favourable variance of £78k. The main areas of movements within each service area are detailed in Appendix 1 The total forecast variance by service department, based on quarter 1 information is as follows (note figures in brackets represent overspends):

General Fund Service Area	Full Yr Budget 2006/2007 £000	Full Yr Forecast 2006/2007 £000	Variance £000
Streetscene & Liveability	4,303	4,412	(109)
Spatial Develop	602	547	55
Customer Services & E-govt	1,915	1,975	(60)
Gen Fund Housing	243	243	0
Community & Partnerships Regeneration	1,194	1,241	(47)
Finance	274	275	(1)
Policy & Change Management	454	401	53
Legal & Democratic Services	132	132	0
Human Resources	2,234	2,240	(6)
Non-distributed Costs	221	221	0
Corporate Resources	(459)	(459)	0
Risk Items	(308)	(596)	288
	0	95	(95)
Total	10,806	10,728	78

4.2.2 One further area of risk relates to housing benefits subsidy claim. This is a particularly volatile budget and the outturn for 2005/06 indicates that there is potential for an adverse variance on this budget. The total scale of such a variance cannot be quantified until completion of the mid year subsidy estimate in September. As the budget housing benefits subsidy is £16m even a small percentage change in the mix and/or volume of benefits activity can have a material financial impact (positive or negative) on the Council.

4.2.3 **Earmarked Reserves:** the position with regard to earmarked reserves is as follows:

	Change Manag't	CCTV	Legal
Balance as at 31st March 2006	725	17	100
Transfer (to) / from revenue		(17)	
Commitments made	(625)		
Balance as at 30th June 2006	100	0	100

4.2.4 At this stage in the year its is proposed not to accept further calls on the Councils Change Management resources in order to ensure that resources remain available to deal with issues such as a likely CPA later in the year.

4.2.5 It is proposed to utilise a portion of the recurrent under spend on capital financing, discussed more fully below, to address recurring issues within the following budgets by virement, which given that they are between services require member approval.

- Street Scene and Liveability – Issues relating to the budget for summer temporary staff and double counting of DEFRA grant income £109k
- Legal and Democratic Services – Issues relating to a mix of Driver cover and other miscellaneous items amounting to £6k
- Community and Partnerships – Historic under budgeting for contractual commitments £47k.

4.2.6 In addition to the firmly identified variances set out in Appendix 1 there are a number of areas, particularly in the Street Scene and Liveability Service where potential variances have been identified but where further work is necessary to confirm the likelihood of the variance occurring or to confirm the scale of the variance is necessary. The current best estimate of these items is £95k and details of whether or not they have materialized will be contained in the next monitoring report.

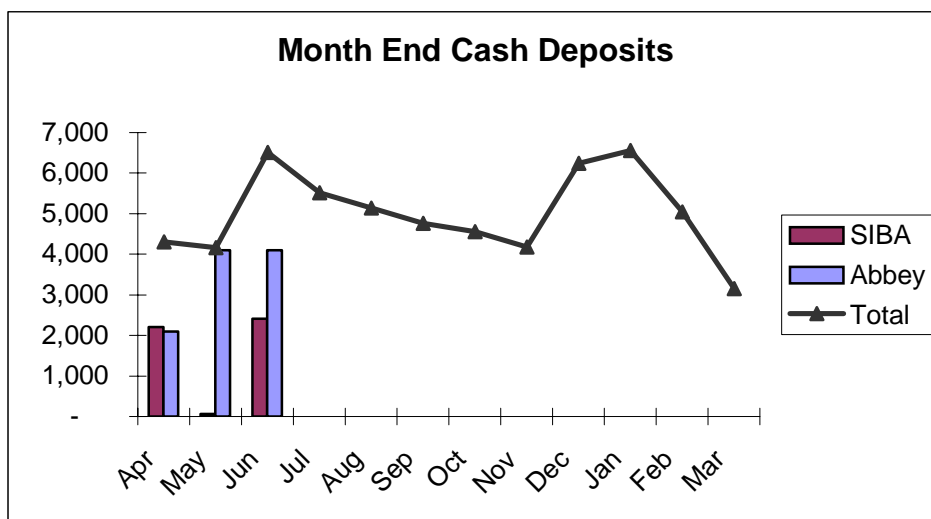
4.3 Treasury Management

4.3.1 The transfer of the housing stock on 27th March 2006 to Green Vale Homes resulted in all the Councils External debt being repaid. At the time of the budget preparation the assumption had been that the Council would still have some external debt remaining. The change in circumstances means that the net budget capital financing cost is now anticipated to be a net surplus as follows:

	Budget 06/076	F'cast 06/076	Variance
Minimum Revenue Prov'n	153	115	39
Treasury Costs	10	10	0
Interest Paid	66	10	56
Interest Received	(40)	(233)	193
Total Cost / (surplus)	189	(98)	287

4.3.2 The above table shows a favorable variance on capital financing of £287k. The reduction in the Minimum Revenue Provision (MRP) is a consequence of technical changes following the housing stock transfer.

4.3.3 Members will recall that the Draft financial statements as at 31st March 2006 showed total cash and investments of £2,847k. This figure is stated after all for all bank cost commitments (in the main cheques written but not yet presented for payment to the bank). This allows the Council to not only earn interest on the balance sheet figure but on funds committed but not yet paid out. The total balances on which the council was earning interest at 31st March 2006 was therefore £3,956k – the banks would refer to this as available cleared balances. The graph below shows or month end cleared balances over the first 3 months and the forecast cash flow for the remainder of the year:



4.3.4 The above graph therefore shows the available cleared balances in each of the two investment accounts, National Westminster SIBA (Special Interest Bearing Account) and Abbey Life, together with the total amounts invested. The peaks in June 2006 and to a lesser extent January 2007 are due in the main to no precepts being paid in those months.

4.3.5 The interest terms for the two accounts are:

	AER	% Gross Rate	Interest Paid
SIBA			
£1.5 M +	4.58	4.50	Quarterly
£1M - £1.5 M	4.52	4.45	Quarterly
£500k - £1M	4.47	4.40	Quarterly
Abbey National			
£3 M +	4.59	4.59	Annually
£500k - £3 M	4.49	4.49	Annually
£250k - £500k	4.25	4.25	Annually

4.3.6 Bank base rate is still 4.5% and has remained unchanged for 12 months (0.25% reduction 4th August 2005). Sector Treasury Management forecast future rates to increase in the medium term as follows:

	Q/E3 2006	Q/E4 2006	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008
Base Rate	4.50%	4.50%	4.50%	4.75%	4.75%	4.75%	4.75%
25yr PWLB	4.50%	4.25%	4.50%	4.50%	4.50%	4.75%	4.75%

4.3.7 Sector's rationale for the above, amongst other things being:

- The economy is balanced and GDP marginally below recent trends
- Inflation targets being met
- Housing Market is firmer
- Manufacturing and Service sectors are picking up

- Sterling is strengthening

5. COMMENTS OF THE HEAD OF FINANCIAL SERVICES

5.1 Financial Matters are dealt within the report.

6. COMMENTS OF THE HEAD OF LEGAL AND DEMOCRATIC SERVICES

6.1 Unless specifically commented upon within the report, there are no implications for Legal and Democratic service matters.

7. COMMENTS OF THE HEAD OF HUMAN RESOURCES

7.1 Unless specifically commented upon within the report, there are no implications for Human Resource matters.

8. CONCLUSION

8.1 Overall the forecast is showing a full year surplus of £78k, however there remains some risk in the areas of: Street Scene & Liveability, Housing Benefits subsidy claims and Job Evaluation costs.

9. RECOMMENDATION(S)

9.1 The Members note and consider the contents of the report

9.2 Members approve the following virements from Corporate Resources (specifically gains on capital financing charges):

9.2.1	Street Scene and Liveability	£109k
9.2.2	Legal & Democratic Services	£ 6k
9.2.3	Community & Partnerships	£ 47k

10. CONSULTATION CARRIED OUT

10.1 Heads of Service

10.2 Executive Director of Resources

Contact Officer	
Name	Philip Seddon
Position	Head of Financial Services
Service / Team	Financial Services
Telephone	01706 252465
Email address	philseddon@rossendalebc.gov.uk

Background Papers	
Document	Place of Inspection
2006/07 Budget	Full Council papers – Feb 06