

Subject: Financial Monitoring

Status: For Publication

Report to: Cabinet

Date: 19th September 2006

Report of: Head of Financial Services

Portfolio

Holder: Finance & Risk Management

Key Decision: No NO/YES (Please delete)

Forward Plan General Exception Special Urgency "X" In
Relevant Box

1. PURPOSE OF REPORT

1.1 The purpose of the report is to continue 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 organisation.*

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 focuses on the key risk areas of: Employment costs, Income, agreed budget savings and emerging issues and opportunities. In addition 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.

3.1.3 The Council has available reserves as at 31st March £646k, being £146k in excess of its previous three year target figures. In addition as from 1st April 2007 a further £1,099k, currently within the Housing Revenue Account, will become available for General fund use. This one off funding source has been identified in the Medium Term Financial Plan to support the Council's change / improvement programme, potential impact from Single Status and General Reserves.

4. BACKGROUND AND OPTIONS

4.1 Capital

4.1.1 As at 31st August 2006, £45k of useable capital receipts, from the disposal of assets, above the deminimus level (£10k) have been generated. Amounts received below £10k total £27k, giving a total received so far of £72k against a Medium Term Financial Strategy of £100k.

4.1.2 As previously reported the disposal programme in relation to the accommodation strategy has commenced with mixed success. The Cabinet elsewhere on this agenda is considering offers on Hasligden Neighbourhood Office and the Roberts Street Depot. A new initiative is being undertaken on the marketing and disposal of other vacant properties, already declared surplus.

4.1.3 Pressure to raise capital receipts is rising. We have firm receipt commitments as a result of the LSVT and insurance received in relation to Whitworth Civic Hall. However, the absorbing of loan premia (£1,347k) as a result of LSVT into the 2005/06 capital programme clearly resulting in stronger balance sheet position with the elimination of external debt has diminished available capital receipts at the beginning of the year to only £115k. Therefore, additional capital receipts are required in order to avoid further borrowing.

4.1.4 Actual Capital Expenditure in the first quarter is as follows:

Value	Detail
£454k	Whitworth Civic Hall
£452k	Housing Investment Programme
£127k	DDA Works
£74k	SS&L – Kerb Sider (LEF Grant adjustment) and slippage from 2005/06
£283k	Accommodation Strategy – slippage from 2005/06
£14k	ICT
£26k	Restructuring Costs
£18k	Swinnel Brook Culvert
£12k	Regeneration – Futures park
£218k	LSVT – slippage from 2005/06
£1,678	Total

4.1.5 Changes to capital requirements:

Value	Detail
£100k (saving)	SS&L Vehicle lease buy outs – originally a budget of £278k had been allocated, this has now been reduced to £178k due to lease prepayments being made in 2005/06. These accounting treatments will be reviewed to ensure maximum benefit to the Council's overall financial position.

4.2 Revenue

4.2.1 Overall a full year favourable variance of £75k is currently forecast. The main areas of movements within each service area are detailed in Appendix 1. The total forecast variance by service department 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	4,412	4,412	0
Spatial Development	602	547	55
Customer Services & E-govt	1,915	1,975	(60)
Gen Fund Housing	243	243	0
Community & Partnerships Regeneration	1,241	1,241	0
Finance	274	275	(1)
Policy & Change Management	454	401	53
Legal & Democratic Services	132	162	(30)
Human Resources	2,240	2,240	0
Non-distributed Costs	221	221	0
Corporate Resources	(459)	(459)	0
Risk Items	(470)	(588)	118
	0	60	(60)
Total	10,806	10,731	75

* Includes agreed virements

4.2.2 No significant change has occurred since last reports however as the Council prepares itself for the impact of CPA an estimated £30k will be required to support this project, for which approval is requested. This additional cost is reflected in the above forecast.

4.2.3 As previously reported a 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 is difficult to quantify. 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 – eg a 1% movement equals £160k.

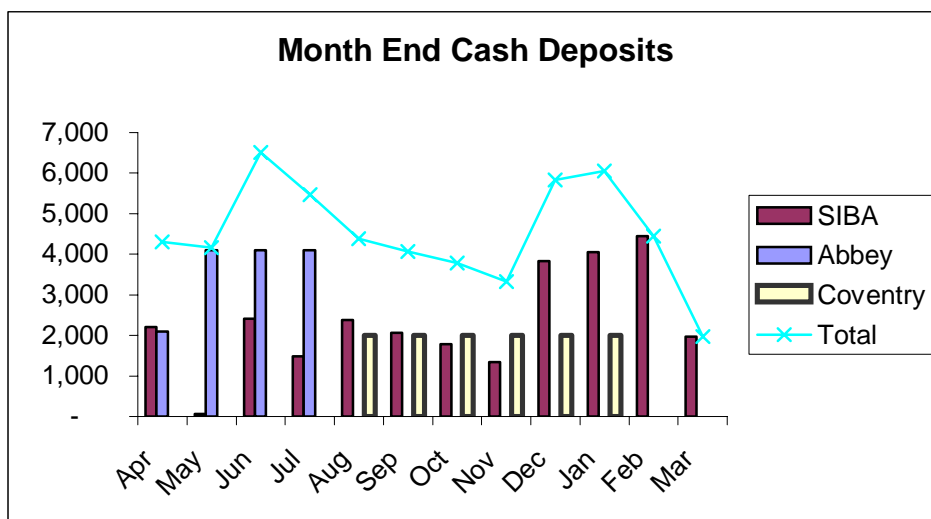
- 4.2.4 On the positive side we currently have taken a prudent view regarding the favourable impact from staff vacancies, which have been significant within Street scene, customer service, spatial development etc. Based on previous experience it would be reasonable to estimate at least £100k saving by the end of the year subject to further virement agreements or policy changes.

4.3 Treasury Management

- 4.3.1 As previously reported the transfer of the Council's housing stock on 27th March 2006 to Green Vale Homes resulted in all the Council's External debt being repaid, a more favourable position than anticipated in the budget. 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	8	2
Interest Paid	66	5	61
Interest Received	(40)	(225)	185
Total Cost / (surplus)	189	(97)	286

- 4.3.2 The above table shows a current favourable variance on capital financing of £286k in line with previous reporting. The reduction in the Minimum Revenue Provision (MRP) is a consequence of technical changes following the housing stock transfer.
- 4.3.3 The Council is able not only to earn interest on its book figures but on funds committed but not yet paid out. The total balances on which the council was earning interest at 31st August 2006 was £4,388k – the banks would refer to this as available cleared balances. The graph below shows our month end cleared balances over the first 5 months and the forecast cash flow for the remainder of the year:



4.3.4 Members will note the introduction of a new investment account compared to previous reports. Officers have taken the opportunity to invest £2M with Coventry Building Society for 6 months at a gross rate of 5.01% (0.26% above current base rates – a gain of £2.6k). Coventry BS is the 5th largest building society in the country with assets of £11bn. As a result, all other available funds have been transferred to Nat West’s Special Interest Bearing Account (SIBA), earning 4.75% gross on funds above £1.5M.

4.3.5 The above graph shows the available cleared balances in each of the investment accounts, both historical and forecast. The peaks in June 2006 and January 2007 are due in the main to the months being free from precepts being paid to County, Police and Fire authorities.

4.3.6 The current interest terms for the accounts which the Council regularly uses are:

	%		Interest Paid
	AER Gross Rate		
SIBA			
£1.5 M +	4.84	4.75	Quarterly
£1M - £1.5 M	4.78	4.70	Quarterly
Abbey National			
£3 M +	4.84	4.74	Annually
£500k - £3 M	4.74	4.64	Annually
£250k - £500k	4.50	4.41	Annually
Coventry BS			
£2 M	5.07	5.01	6 Months

4.3.7 On 3rd August, bank base rate increased by 0.25% to 4.75% after remaining unchanged for 12 months (0.25% reduction 4th August 2005 to 4.50%). This was also the first increase in 2 years and took the markets by surprise, something the Bank of England has previously prided itself in not doing. The main issue surprising the markets was that there had been no significant new data published since the previous meeting of the Bank’s Monetary Policy Committee (MPC). However, the MPC did have available the August Inflation

Report (made public after the rate increase) which showed a more pessimistic scenario for future inflation growth.

4.3.8 There was no change on 7th September when the MPC last met but there is some rumour regarding a further interest rise in November, after the next Inflation Report. But this is pure speculation and will depend upon expectations regarding: growth in the economy, energy prices passing into wage settlements and strength of inflation expectations.

4.3.9 That said, Sector Treasury Management (the Council's treasury advisors) takes the view that future rates will 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	4.75%	5.00%	5.00%	5.00%	4.75%	4.75%	4.75%
25yr PWLB	4.50%	4.50%	4.50%	4.25%	4.25%	4.25%	4.50%

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 General Fund revenue forecast is showing a full year surplus of £75k, though there remains some risk in the areas of Housing Benefits subsidy claims however this is protected by the level of current unearmarked General Fund reserves and the future transfer of HRA funds to general fund.

8.2 Capital receipts in the pipeline need to be realised in order to avoid the Council incurring debt (either internal or external)

9. RECOMMENDATION(S)

9.1 That Members note and consider the contents of the report

9.2 That Members note changes to the capital programme as detailed in 4.1.5

9.2 That Members approve the following temporary virement from corporate resources:

9.2.1 - CPA Project Support - £30k

10. CONSULTATION CARRIED OUT

10.1 Executive Director of Resources

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Background Papers	
Document	Place of Inspection
2006/07 Budget (revenue and capital)	Full Council papers – Feb 06