

Subject: Financial Monitoring

Status: For Publication

Report to: Cabinet

Date: 21st February 2007

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 continue to update Members on the General Fund estimates for 2006/07, the Capital Programme and Treasury matters; as well as progress with delivering budget savings and growth.

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 in 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 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 Strategy to support the Council's change / improvement programme, potential impact from Single Status and potentially increasing general reserves.

4. BACKGROUND AND OPTIONS

4.1 Capital

4.1.1 Capital Receipts: the current forecast indicates a current surplus on capital receipts of £675k. However this assumes the following receipts before the end of year some of which have already been mentioned in 4.1.2 above:

	£000
○ GVH – Right to Buy, Vat shelter & Affordable housing	2,210
○ Capital receipts from land and property sales	1,197
Total	3,407

4.1.2 As at 31st January, we continue to see £105k of useable capital receipts, from the disposal of assets, above the deminimus level (£10k) being generated. Amounts received below £10k total £61k. In addition as last report £91k has been generated as a result of the recent SS&L surplus vehicles disposal.

4.1.3 As previously reported the disposal programme in relation to the accommodation strategy has commenced. The council has recently accepted offers on Haslingden Neighbourhood Office, we await a response from the buyers. Roberts Street Depot and land in Whitworth have recently received Member approval for disposal and should now be actively addressed. Rawtenstall Cemetery Lodge, previously approved for disposal, has been delayed and is awaiting land registry resolutions. A new initiative has now commenced on the marketing and disposal of other vacant properties, involving the appointment of a property agent. The push to raise capital receipts from the disposal of surplus land and buildings must remain a priority.

4.1.4 Actual Capital Expenditure to 31st January 2007 is as follows:

Value	Detail
£1,060k	Whitworth Civic Hall
£1,406 k	Housing Investment Programme
£194k	DDA Works
£320k	SS&L – Kerb Sider (LEF Grant adjustment), vehicle lease buy out and slippage from 2005/06
£334k	Accommodation Strategy – slippage from 2005/06
£61k	ICT
£87k	Restructuring Costs
£18k	Swinnel Brook Culvert
£44k	Regeneration – Futures park

£218k	LSVT – slippage from 2005/06
£25k	Car Parks
£20k	Panopticon
£3,787k	Total

4.1.5 New Capital Request – Henrietta Street Depot: Recent condition survey work has highlighted the need to ensure that the Depot remains fit for purpose within the term of its Waste Disposal Licence. Capital investment is therefore required to complete urgent environmental works to a total of £135k.

4.2 Revenue

4.2.2 Overall a full year adverse variance of £26k is currently forecast. This is a prudent position and is explained below. Each service Department forecast summary compared to original budget is as follows:

General Fund Service Area	Full Yr Budget * 2006/2007 £000	Full Yr Forecast 2006/2007 £000	Variance £000
Streetscene & Liveability	4,432	4,411	22
Spatial Develop	602	537	65
Customer Services & E-govt	1,915	2,130	(215)
Community & Partnerships	1,241	1,227	14
Regeneration & Strategic Housing	388	475	(87)
Homelessness	109	110	(1)
Finance	454	394	60
Policy & Change Management	162	163	(1)
Legal & Democratic Services	2,240	2,269	(29)
Human Resources	221	220	0
Non-distributed Costs	(651)	(768)	118
Corporate Resources	(308)	(391)	83
Risk Items	0	55	(55)
Total	10,806	10,832	(26)

* *adjusted for previously agreed virements*

1 - £55K, in the "Risk Items" above, is included in the forecast as a means of increasing the legal fees reserve.

4.2.3 The forecast follows detailed work in preparation for the 2007/08 budget. Net forecast costs compare to previous forecast prepared in November reporting a adverse variance of £16k.

4.2.4 The major changes being:

- SS& L provision - cost

55k

- Risk Items legal provisions - saving (45k)

- Non distributed cost have remained neutral though there has been a gain on grant funded revenue cost offset with a mark down in interest anticipated.

4.2.5 Previous forecasts anticipated a net saving to SS&L of £77k, however current forecasts predict savings of £22k. Given the level of current spend, it is still reasonable to expect that final savings within SS&L will be in excess of this figure.

4.2.6 We have taken a prudent view regarding the favourable impact from staff vacancies. At the end of the first 10 months, total actual staff costs incurred compared to budget continue to make savings and were as follows:

Staff Costs 10 months to 31.1.07	Estimate 2006/2007 £000	Actual to date 2006/2007 £000	Variance £000
Streetscene & Liveability	2,496	2,355	141
Spatial Develop	611	507	104
Customer Services & E-govt	743	792	(49)
Community & Partnerships	57	57	0
Regeneration & Strategic Housing	428	429	(2)
Finance	414	417	(3)
Policy & Change Management	82	72	10
Legal & Democratic Services	942	937	5
Human Resources	197	193	4
Total	5,970	5,759	211

Some of the staff savings achieved to date have been earmarked for use during 2006/07, in particular SSL; however it would be reasonable to estimate that additional manpower savings may be available at the end of the financial year over and above those included in the above forecast. Members of the executive team will be considering carefully with Heads of Service the process for utilising any saving which has occurred and for filling posts which become vacant.

4.2.7 Impact on General Fund Reserves

- The Council has recently received a claim for an historical incident for which the Council is unlikely to be able to pass on to its insurers. The latest estimate of the liability is around £150k. An incidence of this kind is a legitimate use of reserves.
- The Councils Change Management Reserve (CMR) resources as a result of recent redundancies and the impact of pension strain costs are forecast to be overcommitted by c. £30k. This is in essence a timing issue as paragraph 3.1.3 indicates that the reserve will be replenished after the turn of the financial year.

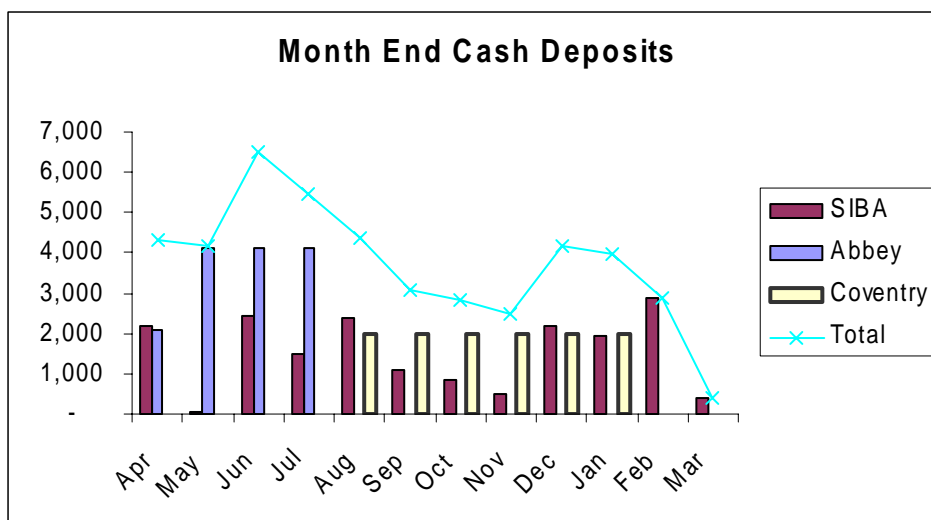
4.3 Treasury Management

4.3.2 As previously reported the transfer of the Council's housing stock on 27th March 2006 to Green Vale Homes resulted in all the Councils External debt being repaid, a more favourable position that 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)	(190)	150
Total Cost / (surplus)	189	(63)	251

4.3.3 The above table shows a current favourable variance on capital financing of £251k, this is marginally below previous reports, partly as a result of delayed capital receipts.

4.3.4 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 January was £3,948k – the banks would refer to this as available cleared balances. The graph below shows our month end cleared balances over the first 10 months and the forecast cash flow for the remainder of the year:



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 Cash balances in March may be higher than anticipated depending upon receipts from Green Vale Homes (GVH) through the VAT shelter and the “Right to Buy” sharing agreement, although this will only have a marginal effect on in year investment returns. These figures are currently being agreed with GVH.
- 4.3.7 The current interest terms for the accounts which the Council regularly uses are:

	%		Interest Paid
	AER Gross Rate		
SIBA			
£1.5 M +	5.12	5.25	Quarterly
£1M - £1.5 M	5.28	5.20	Quarterly
Coventry BS			
£2 M	5.07	5.01	6 Months

- 4.3.8 The rise in Bank Rate in the early part of January by 25 basis points to 5.25% was a surprise to the markets and a majority of economic forecasters. To some the surprise was in the timing, to others in the fact that rates rose at all. There are many reasons being put forward as to why the Monetary Policy Committee moved when it did.
- 4.3.9 Sector Treasury has therefore adjusted its interest rate forecast in light of the interest rate rise to:

	Q/E1 2007	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008
Base Rate	5.50%	5.50%	5.25%	5.00%	5.00%	5.00%	4.75%
25yr PWLB	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

Sector (January 2007)

5. COMMENTS OF THE HEAD OF FINANCIAL SERVICES

- 5.1 Financial Matters are dealt within the report. In particular the Council will have to assess the level of its General Reserves.

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 deficit of £26k and includes provision for Council's current know risk areas.

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

9. RECOMMENDATION(S)

9.1 The Members note and consider the contents of the report.

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