

Subject: Financial Monitoring

Status: For Publication

Report to: Cabinet

Date: 4th July 2007

Report of: Head of Financial Services

Portfolio

Holder: A Well Managed Council

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 update Members on the General Fund estimates for 2007/08, 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:

- *Strong financial management and the delivery of value for money services (Improvement)* – Effective and strong Financial Management ensures the effective management of the Council's resources which then enables the provision of value for money services

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 07/08 budget exercise.

3.1.2 As from 1st April 2007 a further £1,150k, currently within the Housing Revenue Account, will become available for General fund use. This one off funding source has been earmarked as follows:

- General Reserves £125k
- Single Status £400k
- Volatility Reserve £100k
- Change Management £525k (see 4.3.2 below)

4. BACKGROUND AND OPTIONS

4.1 Capital

4.1.1 Capital Receipts to date compared to full year expectations are as follows:

Receipts:	Budget Expectations	Received	Surplus / (Deficit)
Land & Property Sales	1,085	112	(973)
GVH - RTB	1,676	0	(1,676)
GVH - Vat Shelter	428	0	(428)
Insurance	50	0	(50)
	3,239	112	(3,127)

4.1.2 Receipts from GVH are due, under the terms of the transfer contract, at the end of the financial year.

4.1.3 As at 13th June 2007, of the useable capital receipts noted above £110k was above the deminimus level of £10k. Amounts received below £10k total £2k.

4.1.4 The disposal programme has been identified, with a view to various different schemes coming to Members for individual approval. Rawtenstall Cemetery Lodge previously approved for disposal has now been completed and funds received. The Executive Director of Resources is chairing a regular meeting with the Property Services and Legal Teams in order to monitor the progress of the disposal programme. The current disposal programme has identified values in excess of the above budget expectations and pressure is being applied to complete transactions as quickly as possible.

4.1.5 Actual Capital Expenditure to 14th June 2007 compared to budget is as follows:

Expenditure:	Approved Expenditure	Expenditure to date	Balance outstanding
Customer Services & e-Government	231	41	190
SS&L	1,227	145	1,083
Communities & Partnership	130	11	119
Regeneration & Economic Dev	34	3	31
Corporate	1,411	197	1,214
Housing	4,164	118	4,046
	7,197	515	6,683

4.2 **Forecast Net Revenue Expenditure**

4.2.1 The current revenue spend forecast compared to budget for 2007/08 indicates some cost pressures but overall a net favourable balance of £18k (0.2% of net budget) in total and is detailed by service area as follows:

Service Area	2007/08 Base Budget £000	2007/08 Forecast £000	2007/08 Variance £000
Operational Services			
Community and Partnerships	1,392	1,371	(21)
Customer Services and e Government	1,955	1,976	21
Economic Regeneration and Strategic Housing	573	548	(25)
Spatial Development	567	534	(33)
Street Scene and Liveability	4,756	4,831	75
Support Services			
Finance	165	165	0
Legal and Democratic Services	783	834	51
Policy and Performance	141	141	0
Corporate Management	627	627	0
Human Resources	108	108	0
Non Distributed Costs	655	680	25
Financing and Reserves			
Capital Financing and Interest	(523)	(532)	(9)
Transfer to/(from) Reserves	0	(65)	(65)
Transfers to/(from) Earmarked Reserves	64	64	0
Total	11,263	11,281	18

NB - re the variance column, figures in brackets are favourable variances, those without brackets are adverse variances

4.2.2 The various variances are detailed as follows:

- 4.2.2.1 Community & Partnership (favourable variance £21k) – being in the main surplus grant budgets and other sundry items. This service area has also absorbed a contractual payment for the costs of the Museum which came to light after budget preparation and after protracted negotiations.
- 4.2.2.2 Customer Services & e-Government (negative variance £21k) – The service area continues to both drive ICT cost down and seek revenue opportunities. In addition the service is forecast to generate employee cost savings. However, as noted in a previous report to Members the cost of concessionary travel is currently forecast to be in excess of budget provisions by £65k offsetting the ICT gains.
NB The Council has previously set aside £200k as a budget volatility reserve to absorb such demand led costs should Members so approve. The above transfer from reserves of £65k represents the partial use of this reserve.
- 4.2.2.3 Economic Regeneration (favourable variance £25k) – some budget saving has been identified along side some additional grant funding contributions.
- 4.2.2.4 Spatial Development (favourable variance £33k) – this is a mix of forecast cost savings across the service area. No reforecast has been made for either income gains or deficits. Caution should always be given to this latter area, in particular of the £52k income generated in the first 2 months £37k came from one application.
- 4.2.2.5 Street Scene & Liveability (negative variance £75k) – The service area has identified a number potential changes to staffing and agency requirements which produce a saving overall. However this has been offset due to prudent estimates being made on the implementation of the “side waste” policy, in particular the purchase of additional blue bins, publicity and administrative costs.
- 4.2.2.6 Legal & Democratic service (negative variance £51k) – the allowances for empty properties in relation to National Non-Domestic Rates have been overstated in the service budget this is combined with other cost pressures within property costs. .
- 4.2.2.7 Non Distributed Costs (negative variance £25k) – being the impact of ex-Housing pension costs now falling on general fund.
- 4.2.4 *Impact of variances on Service Departments* - We need to be aware, as we look towards the end of the financial year, that Members have previously agreed that where departments are able to make savings then, unless there are other corporate pressure, the service area can carry forward into future years 50% of the saving to fund non-recurrent local investment initiatives. At the same time those departments that incur expenditure above agreed budgets are required to recover that overspend (unless agreed by Members) from future years resources. The impact of the above on Council reserves is therefore as shown below, on the worst case assumption that all overspends are written off to general reserves:

	£000
Services where net costs are below budget (less saving retained within the service)	(49)
Services where costs are above budget	172
Use of volatility reserve	(65)
Negative/(Favourable) Impact on General Reserves	58

4.3 Change Management Reserve

4.3.1 The available balance on the change management reserve as at 1st April (after allowing for the distribution of Housing Revenue Account balances and previously agreed commitments is) is £587k.

4.3.2 Additional proposals for use of the change management reserve, in addition to that already authorised are as follows:

- Job Evaluation Project, extension of secondment - £20k
- Health & Safety project work in operational services – staff appointment 12 month - £29k

4.4 Treasury Management

4.4.1 Interest received less capital financing costs compared to budget are anticipated to as follows:

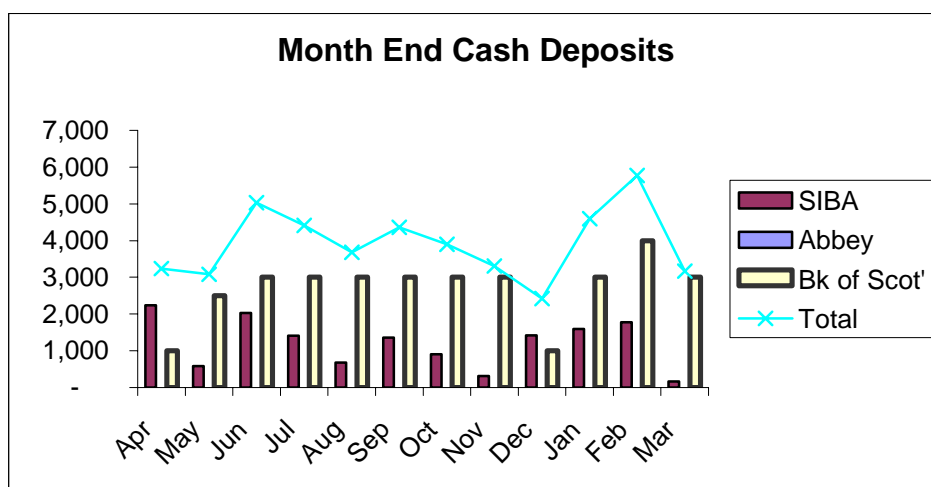
	Budget 07/08	F'cst 07/08	Variance () = Fav
Minimum Revenue Prov'n	110	110	0
Treasury Costs	8	6	(2)
Interest Paid	5	5	0
Interest Received	(191)	(198)	(7)
Total Cost / (surplus)	(68)	(77)	(9)

4.4.2 The above table shows a current favourable variance on capital financing of £9k, this has been generated due to interest rates being above budget assumptions less reduced cash balances available as a result of additional capital approvals.

4.4.3 In addition Officers are investigating whether technical measures could be taken which would have a significant one off benefit to the Capital Financing position. The results of these investigations will be reported when completed.

4.4.4 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 12th June 2007 was £3,831k – the banks would refer to this

as available cleared balances. The graph below shows our month end cleared balances over the first 2 months and the forecast cash flow for the remainder of the year (analysed by our different investment accounts):



4.4.5 The above graph shows the available cleared balances in each of the investment accounts, both historical and forecast. The peaks in June 2007 and January 2008 are due in the main to the months being free from precepts being paid to County, Police and Fire authorities.

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

	AER	% Gross Rate	Interest Paid
SIBA			
£1.5 M +	5.61	5.50	Quarterly
£1M - £1.5 M	5.09	5.00	Quarterly
Bank of Scotland			
£1 M +	5.79	5.64	Monthly
£500k - £1 M	5.53	5.39	Monthly
£0 - £500k	3.56	3.50	Monthly

4.4.7 The Council's current account banking arrangements ensure that any surplus funds are automatically transferred into a Special Investment Bank Account (SIBA) on a daily basis or transferred back as funds are required.

4.4.8 The rise in Bank Rate in the early part of May by 25 basis points to 5.50% remained unchanged at the June 07 meeting of the Monetary Policy Committee (MPC). The expectation is however for a further rise or rises in the short term. Current market expectations are for that rise to take place in August The next meeting of the MPC takes place

4.4.9 Below is Sector's latest interest rate forecast. Sector is now forecasting further two rises in Bank Rate in the course of this financial year. First one as early as

Q3 to 5.75% and then another in Q4 taking rates to 6.00% at year end, with a downside risk. The forecast has been revised taking into account concerns about inflation and higher borrowing costs which have dominated the financial market of late.

	Q/E2 2007	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008
Base Rate	5.50%	5.75%	6.00%	6.00%	5.75%	5.75%
25yr PWLB	5.15%	5.00%	5.00%	4.90%	4.70%	4.65%

Sector (14th June 2007)

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 deficit against the original net revenue budget and includes provision for Council's current know risk areas.

9. RECOMMENDATIONS

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

9.2 That Members approve the further use of the Change Management Reserve as detailed in 4.3.2

10. CONSULTATION CARRIED OUT

10.1 Executive Director of Resources

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Background Papers	
Document	Place of Inspection
2007/08 Budget (revenue and capital)	Full Council papers – Feb 07
2007/08 Additional capital authorisations	