

**Subject:** Financial Monitoring

**Status:** For Publication

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**Report to:** Cabinet

**Date:** 19<sup>th</sup> September 2007

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**Report of:** Head of Financial Services

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**Portfolio**

**Holder:** A Well Managed Council

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**Key Decision:**

No

NO/YES (Please delete)

Forward Plan  
Relevant Box

General Exception

Special Urgency

"X" In

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**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 priority:
- o *A Well Managed Council: strong financial management and the delivery of value for money services (Customers, 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.

## 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	113	(972)
GVH - RTB	1,676	0	(1,676)
GVH - Vat Shelter	428	0	(428)
Insurance	50	59	9
	3,239	172	(3,067)

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 5<sup>th</sup> Sept of the useable capital receipts noted above £110k was above the deminimus level of £10k. Amounts received below £10k total £3k. This is in addition to £59k received in connection with insurance claims.

4.1.4 The disposal programme has been identified and a number of major items have already been approved by Members. The Executive Director of Resources continues to chair 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 with an expectation that a total of at least £750k will be achieved by Christmas

4.1.5 Actual Capital Expenditure to 28<sup>th</sup> Aug 2007 compared to budget is as follows:

Expenditure:	Approved Expenditure	Expenditure to date	Balance outstanding
Customer Services & e-Government	253	133	120
SS&L	1,085	136	949
Communities & Partnership	130	51	79
Regeneration & Economic Dev	34	8	26
Corporate	988	282	706
Housing	4,464	845	3,619
	6,954	1,455	5,499

4.1.6 It is common for capital expenditure schemes to “slip” between financial years. This has no effect on the level of resources required to finance investment but does have an effect on the Council's cash flow and Treasury Management position. Current estimates of net slippage are:

	£000's
<i>Slippage to 2008/09:</i>	
Housing Programme (based on previous years)	(150)
Cemeteries	(30)
Vehicle replacement programme	(50)
Environmental improvements	(49)
	<u>(279)</u>
<i>Brought forward from 2008/09:</i>	
Bacup Culvert (see below)	<u>125</u>
Net change in 07/08 payment phasing	(154)

4.1.7 The above figures will be factored into both the monitoring process for the individual schemes and the cash flow forecast.

4.1.8 Bacup Culvert – the three year programme anticipated £250k capital expenditure being incurred during 2008/09, this would be matched expenditure alongside Lancashire County Council for works required on the culvert. This work is now scheduled to commence September 2007. Members are asked to approve this change to the phasing of payments (see 4.1.6)

## 4.2 Forecast Net Revenue Expenditure

4.2.2 The current revenue spend forecast compared to budget for 2007/08 indicates some cost pressures but overall a net favourable variance of £47k (compared to a favourable variance previously reported of £28k) [see shaded area below] and is detailed by service area as follows:

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4.2.3 The movement in the variance is detailed as follows:

- 4.2.3.1 Community & Partnership (favourable variance increased by £3k) – additional salary savings due to resignation of the Head of Service.
- 4.2.3.2 Customer Services & e-Government (favourable variance decreased by £46k) – the key area is a further increase in the forecast cost of concessionary travel of £51k  
*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 includes the use of £116k of this reserve to support the forecast of an increase in the cost of concessionary travel.*
- 4.2.3.3 Economic Regeneration (Favourable variance decreased by £6k). This is due to a necessary IT software upgrade in relation to street naming.
- 4.2.3.4 Spatial Development (adverse variance increased by £21k) – The main change is a result of the increased cost within Development Control. The Service will be seeking to breakeven overall for the full year. The forecast currently assumes that the full year income target will be met. *However, revenue is currently on budget, the first 5 months have benefited from a one off and unique major application relating to the Rawtenstall Valley Centre redevelopment. Development Control revenues will always remain difficult to forecast*
- 4.2.3.5 Street Scene & Liveability (now a favourable variance having increased by £59k) – The current forecast now includes the DEFRA grant for 07/08 of £57k. However:
- Manpower costs have increases by £51k; this is due to a previously assumed salary saving now being required to meet the cost of external support. In addition previous anticipated savings on agency costs have been revised downwards.
  - Anticipated changes to trade waste, in particular, the recycling requirements have resulted in a further downgrade of revenues (£13k)
- To offset this increase in cost:
- Capital expenditure previously approved by members will reduce side waste implementation costs by at least a similar amount (£45k)
- 4.2.3.6 Street Scene have identified the need to create a number of additional bring sites. 2 are planned at a cost of £25k (This cost is not included in the above forecast but based on the current forecast can be accommodated within current year net costs). On going maintenance can be accommodated within the existing cost base. This policy change requires specific Member approval. At this stage its is suggested that approval in principle is given to this expenditure, subject to sign off of the detailed business case by the Deputy Chief Executive in consultation with the relevant portfolio holder.
- 4.2.3.7 Financial Services remains an adverse variance of £55k as previously reported (see July 2007).

- 4.2.3.8 Legal & Democratic Services, Policy & Change Management, Corporate Management and Human Resources (adverse variance increased by £12k) – as a result of recently announced by-elections and the costs associated with the electoral register.
- 4.2.3.9 Non Distributed Costs remains an adverse variance increase of £43k as previously reported.
- 4.2.3.10 Capital Financing (no further changes to forecast, however its is thought that the forecast remains a prudent one)
- 4.2.3.11 Transfer to/(from) reserves are analysed as follows:

Transfer to/(from) reserves	
Budget Volatility re Concessionary Travel	(116)
Change Management re MRP	91
	<b>(25)</b>

- 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, 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 year's budget resources. The impact of the above on Council reserves is therefore shown below, on the worst case assumption that all overspends are written off to general reserves. Overall the net Council spend (and impact on reserves) is forecast to be marginally within budget:

	£000
Services where net costs are below budget (less saving retained within the service)	(161)
Services where costs are above budget	176
Use of volatility reserve	(25)
Negative/(Favourable) Impact on General Reserves	<b>(10)</b>

### 4.3 Employment Costs

- 4.3.1 The above forecast includes, amongst other things, some anticipated saving on salary costs. To put the above net expenditure in context the following table shows the current net saving position as at period 5 for total employment costs.

<b>Employment Costs - Period 5</b>	<b>2007/08 Actual £000</b>	<b>2007/08 Budget £000</b>	<b>2007/08 Variance £000</b>
<b>Operational Services</b>			
Community and Partnerships	42	49	(6)
Customer Services and e Government	183	203	(20)
Economic Regeneration and Strategic Housing	238	257	(19)
Spatial Development	308	327	(19)
Street Scene and Liveability	1,293	1,326	(33)
			0
<b>Support Services</b>			0
Finance	204	210	(6)
Legal and Democratic Services	331	337	(6)
Policy and Performance	39	40	(1)
Corporate Management	152	152	0
Human Resources	134	134	(0)
<b>Total</b>	<b>2,926</b>	<b>3,035</b>	<b>(109)</b>

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

4.3.2 The 2007/08 pay award has not yet been finalised. The table above includes the original budget figure, less the 2% pay award budget, in order to show a realistic underlying position.

4.3.3 Latest development in the National pay award (10<sup>th</sup> Sept 2007) are that the Employers side of the National Joint Council have offered 2.457% on spinal column points five and above with effect from the 1<sup>st</sup> April 2007 with a further increase in spinal column point 4 to take it to £6.00 an hour. The Unison National Joint Council Committee have agreed to ballot for industrial action over the above offer and Unison's Industrial Action Committee will meet next week to decide whether to authorise such a ballot.

#### 4.4 Reserves, Provisions & Grants

4.4.1 Appendix 1 illustrates the most significant Reserves, Provisions & Grants available to the Council less amounts already committed

4.4.2 The Council has recently been notified of an additional grant (£36k) in relation to the Local Authority Business Growth Incentive Scheme (LABGIS). As with previous LABGIS grants the proposal is to allocate this second payment to the Economic Regeneration Reserve. Detailed proposals as to the use of this additional grant will be brought forward in due course.

4.4.3 Additional proposals for use of the Change Management Reserve, in addition to that already authorised are as follows:

- Restructuring costs within the leisure trust - £36k redundancy and pension strain which will generate future savings equivalent to £40k pa, to be reinvested into leisure provision.

- Post CPA staff morale initiatives - £4k

4.4.4 If these proposals are approved the balance on this reserve at 31<sup>st</sup> March 2008 is currently estimated at £429k.

4.4.5 In completing the audit of the accounts for 2006/07 the Audit Commission have identified that the Council took an overly prudent view of the Minimum Revenue Provision. This results in a further £61k being available which it is recommended is added to the Budget Volatility Reserve in order to mitigate risks in this area

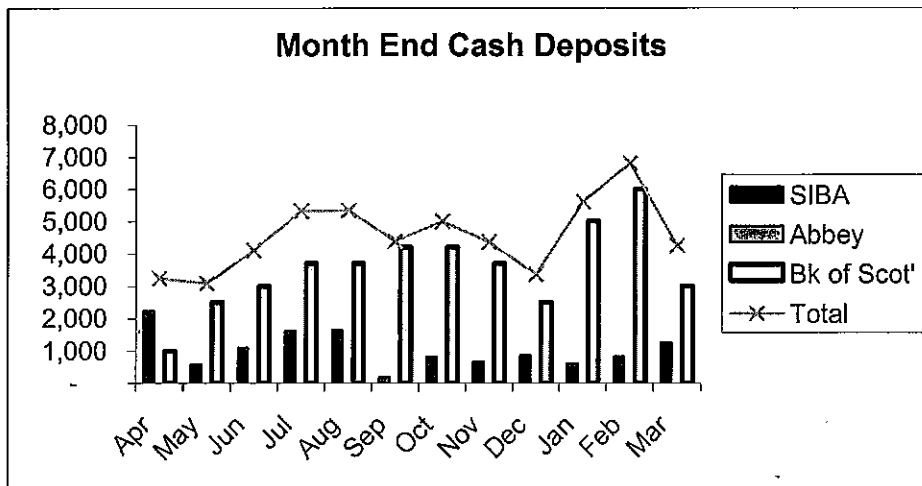
#### 4.5 Treasury Management

4.5.1 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	19	(91)
Treasury Costs	8	6	(2)
Interest Paid	5	5	0
Interest Received	(191)	(222)	(31)
<b>Total Cost / (surplus)</b>	<b>(68)</b>	<b>(192)</b>	<b>(124)</b>

4.5.2 The above table shows a current favourable variance on capital financing of £124k (a marginal gain on last reports of £1k), this has been generated due to interest rates being above budget assumptions plus the implementation of a technical change noted in the previous month resulting in a one off gain of £91k. This gain (previously reported) has been transferred initially to the Change Management Reserve.

4.5.3 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 31<sup>st</sup> August was £4,334k – 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 (analysed by our different investment accounts):



4.5.4 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.

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

			%	
	AER	Gross Rate		Interest Paid
<b>SIBA</b>				
£1.5 M +	5.88	5.75		Quarterly
£1M - £1.5 M	5.82	5.70		Quarterly
<b>Bank of Scotland</b>				
£1 M +	6.64	6.45		Monthly
£500k - £1 M	6.33	6.15		Monthly
£0 - £500k	3.82	3.75		Monthly
<i>(as at 16/08/07)</i>				

4.5.6 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 to the current account as funds are required. Other accounts are regularly considered however the Bank of Scotland's seven day notice account continues to offer the most favourable rates (significantly ahead of bank base rate) within the required risk parameters.

4.5.7 Base rates remained static at the Money Policy Committee meeting of 6<sup>th</sup> September. This was as anticipated though the prediction from our advisors of a further increase at the end of the year remains unchanged. Other commentators are suggesting that the recent reported problems in the financial markets are making a further rise less likely. Sector forecast is as follows:



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

*Sector (July 2007)*

4.5.8 Latest inflation reports (July) show CPI at 1.9 (down 0.5%) which is below the target of 2.0%. Headline inflation also fell to 3.8% in July from the previously reported 4.4%.

4.5.9 The forecast used for interest gains takes a more prudent approach by calculating future interest earned at the current base rate (5.75%).

## **5. COMMENTS OF THE HEAD OF FINANCIAL SERVICES**

5.1 Financial matters are dealt with 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 specific legal implications.

## **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 to be in line with the Councils 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 expenditure on new bring sites as per 4.2.3.6.

9.3 That Members approve the further use of the Change Management Reserve as detailed in 4.4.2 and the addition of year end gains resulting from audit changes to the Budget Volatility Reserve as detailed in 4.4.6

9.4 Members are asked to approve the revision to the capital programme as per 4.1.6.

**10. CONSULTATION CARRIED OUT**

10.1 Executive Director of Resources

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

	Reserves, Provisions & Key Grants												Total
	General	HRA	Volatility	Change Manag't	Legal	Econ' Regen'	Single Status	Local District Plan	Building Control	LPSA	LAA	PDG	
<b>Balance as at 31.03.07</b>	<b>625</b>	<b>1,150</b>	<b>100</b>	<b>141</b>	<b>100</b>	<b>661</b>		<b>105</b>	<b>54</b>		<b>0</b>	<b>101</b>	<b>3,037</b>
Transfer of HRA Balances at 01.04.07	125	(1,150)	100	525				400					0
<b>Revised Balance at 01.04.07</b>	<b>750</b>	<b>0</b>	<b>200</b>	<b>666</b>	<b>100</b>	<b>661</b>	<b>400</b>	<b>105</b>	<b>54</b>	<b>0</b>	<b>0</b>	<b>101</b>	<b>3,037</b>
2007/08 Grants Rec'd / Due						36				21	199	211	467
Transfer from Revenue (MRP)			61	91									152
Commitments B'fwd from 06/07				(122)								(72)	(194)
2007/08 Budget Proposals *				(65)		(92)							(157)
<i>New Commitments:</i>													
Job Evaluation				(20)									(20)
H & S				(29)									(29)
Job Evaluation - Pay Modelling				(15)									
HR Restructuring				(37)									
Concessionary travel			(116)										(116)
SPAA									(21)				(21)
Contribution to Side waste implementation											(57)		(57)
Contrib to Police Officer Post (P'ship Development Officer)											(21)		(21)
Various Community Safety Projects across RBC											(86)		(86)
Positive start - Targeted Intervention to prevent extremism											(35)		(35)
Contribution to 2007-08 Revenue Budgets									(39)				(39)
Partnership joint working									(3)				(3)
Various planning related expenditure **												(385)	(385)
Contribution to core strategy examination costs								(105)				105	0
<b>Current available balances</b>	<b>750</b>	<b>0</b>	<b>145</b>	<b>469</b>	<b>100</b>	<b>605</b>	<b>400</b>	<b>0</b>	<b>12</b>	<b>0</b>	<b>0</b>	<b>(41)</b>	<b>2,493</b>

\* The use of the Economic Regeneration reserve reflects the first year only. Future reports will include the commitment over the life of the programme.

\*\* Use of the Planning Delivery Grant requires formal approval and prioritising in order to balance against available resources.