

Subject: Financial Monitoring

Status: For Publication

Report to: Cabinet

Date: 17th October 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 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	128	(957)
GVH - RTB	1,676	0	(1,676)
GVH - Vat Shelter	428	0	(428)
Insurance	50	59	9
	3,239	187	(3,052)

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 24th Sept of the useable capital receipts noted above £125k 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 still be achieved by Christmas

4.1.5 Actual Capital Expenditure to 28th Sept 2007 compared to budget is as follows:

Expenditure:	Approved Expenditure	Expenditure to date	Balance outstanding
Customer Services & e-Government	382	140	242
SS&L	1,086	209	878
Communities & Partnership	130	51	79
Regeneration & Economic Dev	34	27	7
Corporate	986	339	647
Housing	4,314	1,172	3,142
	6,932	1,937	4,995

4.1.6 An opportunity has arisen to reduce the annual cost of ICT contracts by c. £28k pa by using capital receipts, earmarked from the stock transfer to support the ICT strategy, to buy out the lease element of existing contracts. A capital payment of c. £86.5k on 31st December 2007 will save c. £95.5k in revenue costs over the following 3.25 years.

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 £24k (compared to a favourable variance previously reported of £48k) [see shaded area below] and is detailed by service area as follows:

Service Area	2007/08 Base Budget £000	2007/08 Forecast £000	2007/08 Variance Adv/(Fav) £000	Variance last reported £000
Operational Services				
Community and Partnerships	1,392	1,351	(41)	(29)
Customer Services and e Government	1,955	1,958	3	(3)
Regeneration	573	561	(12)	(19)
Spatial Development	567	577	10	5
Street Scene and Neighbourhood Services	4,756	4,752	(4)	(26)
Support Services				
Financial Services	165	297	132	108
Legal and Democratic Services	783	802	19	19
Policy and Performance	141	141	0	0
Corporate Management	627	643	16	0
People and Organisational Development	108	108	0	0
Non Distributed Costs	655	698	43	43
Financing and Reserves				
Capital Financing and Interest	(523)	(687)	(164)	(121)
Transfer to/(from) Reserves	0	(25)	(25)	(25)
Transfers to/(from) Earmarked Reserves	64	64	0	
Total	11,263	11,239	(24)	(48)

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

4.2.3 The movement in the variance is detailed as follows:

- 4.2.3.1 Community & Partnership (favourable variance increased by £17k) – being in the main reductions in the anticipated cost of support functions and further savings as a result of changes in structures.
- 4.2.3.2 Customer Services & e-Government (favourable variance decreased by £6k) – being a number of minor adjustment / forecast corrections.
NB The Council has previously set aside £261k (after changes to the 06/07 Minimum Revenue Provision) as a budget volatility reserve to absorb such demand led costs should Members so approve. The above transfer from reserves includes the use of £117k of this reserve to support the forecast of an increase in the cost of concessionary travel. Of late based on a straight pro-rata if the first 5 periods, the above forecast may be excessive by £30k.
- 4.2.3.3 Regeneration (Favourable variance decreased by £7k). This is due to a necessary IT software upgrade in relation to street naming. The forecast assumes that restructure cost of £43k will be met from Change Management Reserve.
- 4.2.3.4 Spatial Development (adverse variance increased by £5k) – The main change is a result of a £20k forecast of reduced income. This has been

previously identified as a risk area. This has been off set to a degree by favourable revisions in a number of cost areas.

- 4.2.3.5 Street Scene & Liveability (a favourable variance though having decreased by £22k). In the main this is due to Members previous approval of the “Bring Site” expenditure. .
- 4.2.3.6 Financial Services (now incorporating facilities management, following the changes in management arrangements, previously within Legal) increases an adverse variance to £132k as a result of further facilities costs (amongst others: additional costs incurred with Waterfoot Neighbourhood Office, external refuse collection at Markets)
- 4.2.3.7 Capital Financing and interest (see 4.5.1 below)
- 4.2.3.8 All other service areas remain as previously reported
- 4.2.3.9 Transfer to/(from) reserves are analysed as follows:

Transfer to/(from) reserves	£000
Budget Volatility re Concessionary Travel	(116)
Change Management re MRP	91
	(25)

- 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 currently forecast to be marginally above budget:

	£000
Services where net costs are below budget (less saving retained within the service)	(192)
Services where costs are above budget	222
Use of volatility reserve	(25)
Negative/(Favourable) Impact on General Reserves	5

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 6 for total employment costs.

Employment Costs - Period 6	2007/08 Actual £000	2007/08 Budget £000	2007/08 Variance £000
Operational Services			
Community and Partnerships	55	58	(3)
Customer Services and e Government	222	243	(21)
Regeneration	283	266	17
Spatial Development	368	390	(22)
Street Scene and Neighbourhood Services	1,546	1,580	(34)
Support Services			
Financial Services	244	250	(6)
Legal and Democratic Services	395	408	(13)
Policy and Performance	46	47	(1)
Corporate Management	179	176	3
People & Operational Development	164	160	4
Total	3,503	3,578	(76)

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 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 1st 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.

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. There are no further changes to those reported in previous months.

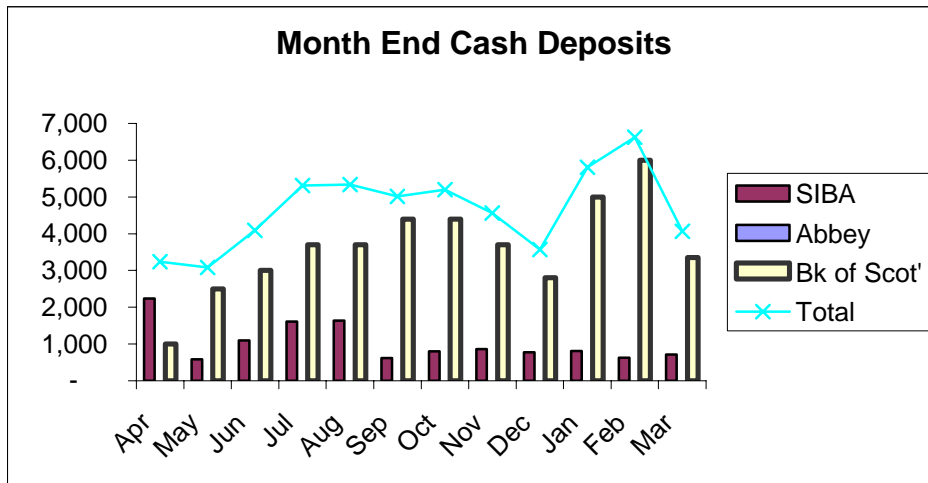
4.5 Treasury Management

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)	(264)	(73)
Total Cost / (surplus)	(68)	(234)	(166)

4.5.2 The above table shows a current favourable variance on capital financing of £166k (a gain on last reports of £45k, now that we are aware of the first 6 months actual figures), 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 30th Sept was £5,015k – the banks would refer to this as available cleared balances. The graph below shows our month end cleared balances over the first 6 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:

	%		Interest Paid
	AER Gross Rate		
SIBA			
£1.5 M +	5.88	5.75	Quarterly
£1M - £1.5 M	5.82	5.70	Quarterly
Bank of Scotland			
£1 M +	6.01	5.85	Monthly
£500k - £1 M	5.69	5.55	Monthly
£0 - £500k	3.82	3.75	Monthly
<i>(as at 28/09/07)</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 be amongst the most favourable rates (ahead of bank base rate) within the required risk parameters. However the rate has reduced from those seen a month ago therefore, new accounts are being explored.

4.5.7 Base rates remained static at the Money Policy Committee meeting of 4th October. The recent turmoil in the money markets followed by the recent injection of £10Bn by the Bank of England, inflation in line with targets and the Federal Reserves latest 0.5% cut in rates, have a number of forecasters predicting that base rates have now reached their peak. Our treasury advisors Sector, concur with this view and have revised their forecast as follows:

	Q/E3 2007	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008
Base Rate	5.75%	5.75%	5.75%	5.75%	5.75%
25yr PWLB	4.90%	4.85%	4.80%	4.70%	4.65%

as at 24/09/07

4.5.8 Latest inflation reports (August) show CPI at 1.8 (down 0.1%) which is below the target of 2.0%. Headline inflation however rose to 4.1% in August (up 0.3%) mainly due to an increase average mortgage interest payments.

4.5.9 The forecast used for interest gains assumes the current base rate (5.75%) for the rest of the financial year.

5. COMMENTS OF THE HEAD OF FINANCIAL SERVICES

5.1 Financial matters are dealt with within the report.

6. COMMENTS OF THE EXECUTIVE DIRECTOR OF REGULATORY SERVICES

6.1 Unless specifically commented upon within the report, there are no specific legal implications.

7. COMMENTS OF THE HEAD OF PEOPLE AND ORGANISATIONAL DEVELOPMENT

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