

Subject: Financial Monitoring

Status: For Publication

Report to: Cabinet

Date: 23rd January 2008

Report of: Head of Finance

Portfolio

Holder: A Well Managed Council

Key Decision: No

Forward Plan General Exception Special Urgency

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:

- *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	133	(952)
GVH - RTB	1,676	143	(1,533)
GVH - Vat Shelter	428	0	(428)
Insurance	50	144	94
	3,239	420	(2,819)

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 14th January 2008 of the £133k useable capital receipts noted above £125k was above the deminimus level of £10k. Amounts received below £10k total £8k. This is in addition to £144k received in connection with insurance claims (in particular Haslingden Sports Centre) and £143k from GVH, being an additional payment in relation to 06/07.

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. In addition the legal team have a separate weekly meeting to pursue outstanding matters and opportunities. Whitworth Neighbourhood office is in the process of completion. Various officer negotiations are in progress regarding other assets and involve varying degrees of complexity.

4.1.5 Officers are currently estimating the cost of repair work to the Rochdale Road, Bacup car park which has recently suffered the collapse of a retaining wall. Additional capital resources will be required to make good the damage caused. The cost of this work is likely to be substantial and the works contract will need to be tendered. Appropriate budgetary provision is being recommended as a 2008/09 capital item.

4.1.6 Actual Capital Expenditure to 24th December 2007 compared to budget is as follows:

Expenditure:	Approved Expenditure	Expenditure to date	Balance outstanding	% Balance outstanding
Customer Services & e-Government	382	78	304	80%
SS&L	1,086	201	885	81%
Communities & Partnership	130	57	73	56%
Regeneration & Economic Dev	34	9	26	75%
Corporate	986	376	610	62%
Housing	4,314	1,891	2,423	56%
	6,932	2,611	4,320	62%

4.1.7 Spending continues to be behind on a straight line profile, with 62% of the programme still outstanding and only 3 months of the financial year remaining. Future expenditure to be deferred into 08/09 is likely to total at least £600k (this includes £350k earmarked towards pension deficits – Officers are currently in positive talks with Green Vale Homes on this matter).

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 £107k (this compares to a similar 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	1,350	(42)	(43)
Customer Services and e Government	1,955	1,938	(17)	(1)
Regeneration	573	555	(18)	(18)
Regulatory Services	567	582	15	7
Street Scene and Neighbourhood Services	4,756	4,714	(42)	(16)
Support Services				
Finance & Property Services	165	296	131	136
Democratic Services	783	802	19	19
Policy and Performance	141	137	(4)	(2)
Corporate Management	627	650	23	22
People and Organisational Development	108	108	0	0
Non Distributed Costs	655	706	51	43
Financing and Reserves				
Capital Financing and Interest	(523)	(754)	(231)	(215)
Transfer to/(from) Reserves	0	6	6	19
Transfers to/(from) Earmarked Reserves	64	64	0	0
Total	11,263	11,156	(107)	(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 (No significant movement)

4.2.3.2 Customer Services & e-Government (now favourable variance increased by £16k) – being in the main a more favourable forecast court cost income and the IT contract, less an adverse movement on Concessionary travel costs
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 £85k (previously £72k) of this reserve to support the forecast of an increase in the cost of concessionary travel.

4.2.3.3 Regeneration (no significant change). The forecast assumes that restructure cost of £43k will be met from Change Management Reserve. In addition to this forecast the Council faces a potential clawback of grants previously claimed – this is due to the exclusion of third party non-cash matched contributions previously claimed. Potential risk:£14k.

4.2.3.4 Regulatory Services (adverse variance increased by £8k) – being additional costs within Forward Planning.

4.2.3.5 Street Scene & Liveability (favourable variance increased by £26k). Various favourable movements, amongst others: revised cost of the “no side waste”

policy, increased trade refuse income, less additional costs associated with playground safety works.

4.2.3.6 Financial & Property Services – no material change to previous forecasts

4.2.3.7 Democratic Services – no material changes,

4.2.3.8 Corporate Management – no material change

4.2.3.9 People & Organisational Development – no material changes

4.2.3.10 Non- distributed costs – (adverse variance increased by £8k) being overstatement of a year end debtor

4.2.3.11 Capital Financing and interest – (favourable variance increased by £16k) reflecting a strong performance in treasury management over the last quarter.

4.2.3.12 Transfer to/(from) reserves are analysed as follows:

Transfer to/(from) reserves	
Budget Volatility re Concessionary Travel	(85)
Change Management re MRP	91
	6

4.2.4 *Impact of variances on Service Departments* – As previously reported 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 under budget:

	£000
Services where net costs are below budget (less saving retained within the service)	(284)
Services where costs are above budget	223
Net transfer to reserves	6
Negative/(Favourable) Impact on General Reserves	(55)

4.2.5 Given that this would take the General Reserve over it recommended level it is likely that Officers will recommend that the sum be added to the Change Management Reserve to ensure that resources continue to be available to support change initiatives.

4.4 Employment Costs

4.4.1 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 9 (December) for total employment costs.

Employment Costs - Period 9 - December 07	2007/08	2007/08	2007/08
	Actual	Budget	Variance
	£000	£000	Adv/(Fav) £000
Operational Services			
Community and Partnerships	70	89	(19)
Customer Services and e Government	342	374	(32)
Regeneration	447	391	56
Regulatory Services	565	583	(18)
Street Scene and Neighbourhood Services	2,356	2,454	(98)
Support Services			
Financial Services	371	382	(11)
Democratic Services	596	608	(12)
Policy and Performance	69	70	(1)
Corporate Management	271	268	3
People & Operational Development	273	264	9
Total	5,360	5,483	(123)

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

4.4.2 The 2007/08 pay award (2.5%) has now been paid to staff.

4.4.3 The Council retained the equivalent of 0.95% (£61k) of the Councils salaries and wages budget. It is proposed that the surplus generated (c. £33k) will be added to the Single Status Reserve.

4.5 Reserves, Provisions & Grants

4.5.1 Appendix 1 illustrates the most significant Reserves, Provisions & Grants available to the Council less amounts already committed. The only change since last reports are to reflect the Volatility Reserve as per 4.2.3.2 & 12 above

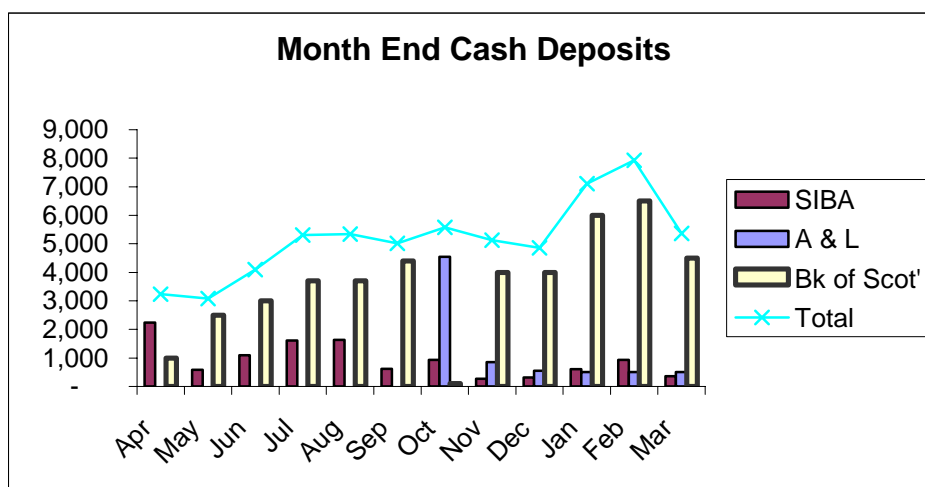
4.6 Treasury Management

4.6.1 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)
Interest Paid	5	5	0
Interest Received	(210)	(350)	(140)
Total Cost / (surplus)	(95)	(326)	(231)

4.5.2 The above table shows a current favourable variance on capital financing of £231k (an increase on previous reports, this reflects in the main a strong performance from the treasury management team over the last quarter. The forecast for the final quarter reflects a prudent approach. The technical gain (as previously reported re the Minimum Revenue Provision) has been transferred to the Change Management Reserve as previously approved.

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 31st December was £4,862k – the banks would refer to this as available cleared balances. The graph below shows our month end cleared balances over the first 9 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
SIBA			
£1.5 M +	5.61	5.50	Quarterly
£1M - £1.5 M	5.56	5.45	Quarterly
Alliance & Leisester			
£500 +	6.15	6.00	Monthly
Bank of Scotland			
£1 M +	6.41	6.23	Monthly
£500k - £1 M	6.10	5.94	Monthly
£0 - £500k	3.56	3.50	Monthly
<i>(as at 20/12/07)</i>			

4.5.6 The recent announcement by the world banks regarding an injection of funds into the money markets has resulted in rates offered being now much closer to bank base rates. The Bank of England has recently injected £10bn of three month cash, with a promise of a further £10bn during January. This means a fall in the rates the Council has previously benefited from on its surplus cash. Given the current climate there is likely to be a further downward movement in the rates on offer.

4.5.7 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 to the current account as funds are required. Members can see from the above that rates offered by The Bank of Scotland continue to be more competitive.

4.5.8 In their December 2007 meeting the MPC gave a clear indication that they consider further interest rate cuts necessary with the comment that there was "a substantial loosening in policy". Quite what constitutes "substantial" is open to question but clearly there are analysts that have taken that rather literally and have suggested that this could mean a trough in rates at around 4%. However, members have acknowledged that there could be a risk from rising inflation and that cutting rates too swiftly might compound any problem. Interest rates remained unchanged at the January 2008 meeting. Our advisors (SECTOR) latest forecast, published 24/12/07, has therefore been revised is as follows:

	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009
Base Rate	5.50%	5.25%	5.00%	5.00%	5.00%	5.00%
25yr PWLB	4.69%	4.60%	4.55%	4.50%	4.50%	4.55%

as at 24/12/07

COMMENTS FROM STATUTORY OFFICERS:

5. SECTION 151 OFFICER

5.1 Financial matters are dealt with within the report.

6. MONITORING OFFICER

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

7. HEAD OF PEOPLE AND ORGANISATIONAL DEVELOPMENT (ON BEHALF OF THE HEAD OF PAID SERVICE)

7.1 Unless specifically commented upon within the report, there are no implications for consideration.

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.

10. CONSULTATION CARRIED OUT

10.1 Executive Director of Resources

11. EQUALITY IMPACT ASSESSMENT

Is an Equality Impact Assessment required ~~Yes~~ / No

Is an Equality Impact Assessment attached ~~Yes~~ / No

12. BIODIVERSITY IMPACT ASSESSMENT

Is a Biodiversity Impact Assessment required ~~Yes~~ / No

Is a Biodiversity Impact Assessment attached ~~Yes~~ / No

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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	
Monthly detailed financial monitoring statements for each service area, including gross income and expenditure budget variances, in addition to the net service variance analysis detailed above.	Financial Services