

Subject: Financial Monitoring

Status: For Publication

Report to: Cabinet

Date: 19th March 2008

Report of: Head of Financial Services

Portfolio

Holder: A Well Managed Council

Key Decision:

No

NO/YES (Please delete)

Forward Plan
Relevant Box

General Exception

Special Urgency

"X" In

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:	Expectations	Received	Surplus / (Deficit)
Land & Property Sales	1,085	135	(950)
GVH - RTB	1,676	143	(1,533)
GVH - Vat Shelter	428	0	(428)
Insurance	50	144	94
	3,239	422	(2,817)

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 With regard to VAT shelter receipts Officers have recently agreed with the Audit Commission that these receipts should be treated as revenue for 2007/08 and beyond. This approach gives the Council greater flexibility in the use of its cash resources.

4.1.4 As at 29th February 2008 of the £135k useable capital receipts noted above £125k was above the deminimus level of £10k. Amounts received below £10k total £10k. 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.

4.1.5 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 has stalled, due to a lack of response from the highest bidder, officers will now be seeking acceptance from the second highest bidder. Various officer negotiations are in progress regarding other assets which involve varying degrees of complexity. As part of the drive to bring transactions within the pipeline to a conclusion more quickly, at maximum value, a job advertisement has been published for the appointment of a Disposals Surveyor.

4.1.6 Actual Capital Expenditure to 30th January 2008 compared to budget is as follows:

Expenditure:	Approved Expenditure	Expenditure to date	Balance outstanding	% Balance outstanding
Customer Services & e-Government	382	254	128	34%
SS&L	1,086	546	540	50%
Communities & Partnership	130	122	8	6%
Regeneration & Economic Dev	34	22	12	35%
Corporate	986	403	583	59%
Housing	4,314	2,289	2,025	47%
	6,932	3,636	3,296	48%

4.1.7 Spending continues to be behind on a straight line profile, with 48% of the programme still outstanding and only 1 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).

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 adverse variance of £16k (this compares to a favourable variance previously reported of £60k) [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	568.1	528.3	39.8	45.0
Customer Services and e Government	2,805.9	2,787.3	18.6	18.1
Regeneration	552.7	583.1	(30.4)	(20.4)
Regulatory Services	697.5	730.4	(32.9)	(19.7)
Street Scene and Neighbourhood Services	4,805.3	4,787.2	18.1	39.0
Support Services				
Finance & Property Services	203.3	378.2	(174.9)	(145.9)
Democratic Services	811.3	825.2	(13.9)	(18.9)
Policy and Performance	137.8	134.1	3.7	3.7
Corporate Management	495.8	519.2	(23.4)	(23.4)
People and Organisational Development	194.0	194.0	0.0	0.0
Non Distributed Costs	655.2	697.5	(42.3)	(42.4)
Financing and Reserves				
Capital Financing and Interest	(522.7)	(750.3)	227.6	230.7
Transfer to/(from) Reserves	0.0	6.0	(6.0)	(6.0)
Transfers to/(from) Earmarked Reserves	(141.0)	(141.0)	0.0	0.0
Total	11,263.2	11,279.1	(15.9)	59.8

NB - re the variance column, figures in RED and BRACKETS are ADVERSE variances, those in BLACK and WITHOUT BRACKETS are FAVOURABLE variances

4.2.3 The movement in the variance is detailed as follows:

- 4.2.3.1 Community & Partnership (Favourable variance overall - no significant movement)
- 4.2.3.2 Customer Services & e-Government (No significant movement)
*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 of this reserve to support the forecast of an increase in the cost of concessionary travel.
(The final outcome is now likely to be in the region of £120k with the final transfers from the budget volatility reserve being made at the end of the financial year)*
- 4.2.3.3 Regeneration (adverse variance increased by £10k.) Being a reduction in Car Parks income. *In addition as reported last period the Council faces a potential claw back of grants previously claimed – this is due to the exclusion of third party non-cash matched contributions previously claimed. Potential risk:£14k – further audit commission clarification is anticipated during March 08.*

- 4.2.3.4 Regulatory Services (adverse variance increased by £13k) – Main area being a fall in DC income (£12k) expectations and the cost of document scanning (£11k), less some sundry savings
- 4.2.3.5 Street Scene & Liveability (Favourable variance overall but a reduction of £21k). The service has allocated service previous under spend in order to commence the first stages of the play strategy (and the ROSPA requirements) £53k and £14k re summer bedding plants, some other gains from income and grants.
- 4.2.3.6 Financial & Property Services (adverse variance has increased by £29k) being increased energy costs over the winter quarter.
- 4.2.3.7 Democratic Services (No significant movement),
- 4.2.3.8 Corporate Management (No significant movement)
- 4.2.3.9 People & Organisational Development (No significant movement)
- 4.2.3.10 Non- distributed costs (No significant movement)
- 4.2.3.11 Capital Financing and interest – (No significant movement)
- 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 (see 4.2.5 below). 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 – previously reported at £20k negative) is currently forecast to be an negative impact of:

	£000
Services where net costs are below budget (less saving retained within the service)	258
Services where costs are above budget	(299)
Net transfer to reserves	0
(Negative)/Favourable Impact on General Reserves	(41)

4.2.4 Given this and as part of 4.2.3.3 above it is anticipated that the General Reserves will be £41k below its maximum level at the year end. However, this is not a material sum in the context of the overall budget in addition further variances are likely to emerge prior to the year end.

4.2.5 That said, following the engagement of Capita the finance team have been monitoring closely the complexity of the Housing Benefits subsidy claim and its associated costs. Traditionally this area has been in the hands of the Revenues and Benefits service though of late the finance team have undertook to monitor more closely this area of volatility. In 2006/07 there was a significant budget variance which arose from changes in the previous year to funding and a lack of clarity within the new subsidy regulations - a more prudent approach was therefore taken for the 2007/08 budget setting. Our current understanding, which is not yet reflected in the above forecasts, is indicating a potential favourable variance of at least £100,000 (0.6% of budget).

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 11 (February 08) for total employment costs.

Employment Costs - Period 11 - February 2008	2007/08		2007/08	Movement since December Adv/(Fav) £000	Budgeted Staff FTEs
	YTD Budget £000	2007/08 YTD Actual £000	Variance (Adv)/Fav (£000)		
Operational Services					
Community and Partnerships	108	84	24	1	3.0
Customer Services and e Government	455	416	39	3	16.2
Economic Regeneration & Strategic Housing	475	530	(55)	(1)	14.0
Regulatory Services	1,015	1,004	11	(13)	34.4
Street Scene and Neighbourhood Services	2,951	2,910	41	(18)	126.4
Support Services					
Finance & Property Services	668	665	3	1	22.5
Democratic Services	236	223	13	1	8.2
Policy and Performance	84	83	1	0	2.0
Corporate Management	327	328	(1)	1	7.0
People & Operational Development	316	304	12	16	6.5
Total	6,635	6,547	88	(9)	240.2

NB - re the variance column, figures in brackets are adverse variances, those without brackets are favourable 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. The impact of the 2007/08 2.5% pay award has been included and therefore absorbed in the above service forecasts; therefore the whole of the 0.95% budget is available for transfer 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.

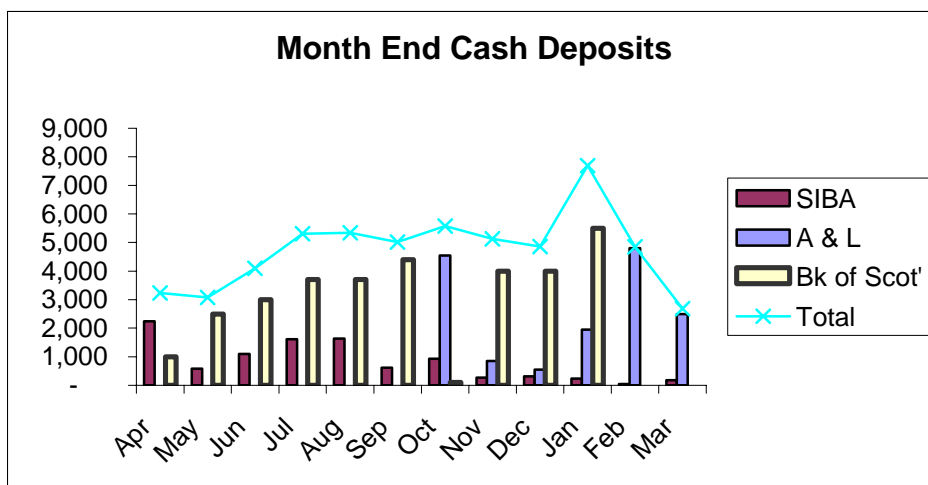
4.6 Treasury Management

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)	(352)	(142)
Total Cost / (surplus)	(95)	(328)	(233)

4.5.2 The above table shows a current favourable variance on capital financing of £233k (no change on previous reports). 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 29th February 2008 was £4,846k – the banks would refer to this as available cleared balances. The graph below shows our month end cleared balances over the first 11 months and the forecast cash flow for the final period (analysed by our different investment accounts). The final 2 months of the year are the low months regarding cash as the majority of Council Tax is collected over the first 10 months of the year:



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 +	5.35	5.25	Quarterly
£1M - £1.5 M	5.30	5.20	Quarterly
Alliance & Leicester			
£500 +	5.70	5.56	Monthly
Bank of Scotland			
£1 M +	5.64	5.50	Monthly
£500k - £1 M	5.33	5.20	Monthly
£0 - £500k	3.30	3.25	Monthly
<i>(as at 28/02/08)</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. Members can see from the above that rates offered by The Alliance & Leicester are now marginally more attractive than Bank of Scotland with the added advantage that they are on immediate call.

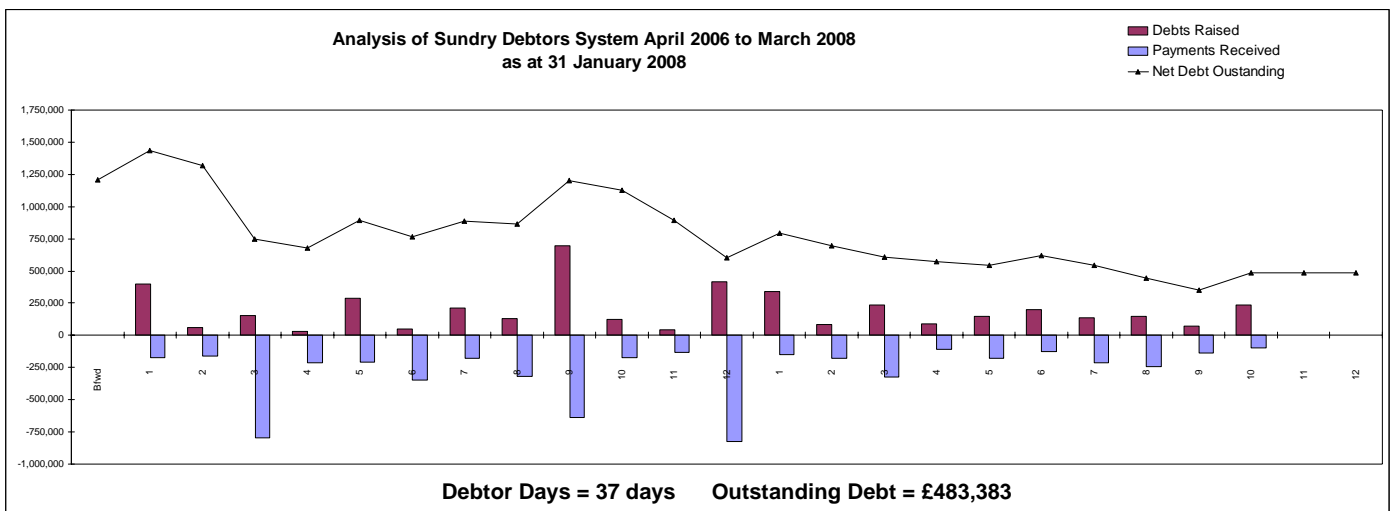
4.5.7 February saw a 25 basis points fall in the bank base rate. At the March meeting of the MPC rates were left unchanged, this decision was in line with the majority of analyst and market short term expectations.

4.5.8 Our advisors (SECTOR) latest forecast, published 29/02/08, is as follows:

	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009
Base Rate	5.25%	5.00%	4.75%	4.75%	4.75%	4.75%
25yr PWLB	4.55%	4.55%	4.50%	4.50%	4.55%	4.65%

as at 29/02/08

4.5.8 The following chart re sundry debtor balances is presented for Members benefit and goes some way to explaining strong cash flow over the past year. In particular debtor days for January now standing at 37 compared to 85 as at March 07. Debtors outstanding are £640k lower than the same period last year.



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 Council's 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

Contact Officer	
Name	Philip Seddon
Position	Head of Financial Services
Service / Team	Financial Services
Telephone	01706 252465
Email address	philseddon@rossendalebc.gov.uk

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