

**Subject:** Financial Monitoring for 2008/09: Full Year Out-Turn **Status:** For Publication

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**Report to:** Cabinet **Date:** 17<sup>th</sup> June 2009

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**Report of:** Head of Financial Services

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**Portfolio**

**Holder:** Finance and Resources

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**Key Decision:** No

Forward Plan  General Exception  Special Urgency

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**1. PURPOSE OF REPORT**

1.1 The purpose of the report is to update Members on the General Fund estimates monitoring and draft out-turn for 2008/09, the Capital Programme and Treasury matters.

**2. CORPORATE PRIORITIES**

2.1 The matters discussed in this report are linked to and support each of the Council's priority areas however in particular they impact on following:

- *Providing value for money services* - Effective and strong Financial Management ensures the effective management of the Council's resources which then enables the provision and delivery of value for money services

**3. RISK ASSESSMENT IMPLICATIONS**

3.1 All the issues raised and the recommendations in this report have involved risk considerations as set out below:

3.1.1 Financial monitoring focuses on the key risk areas of: Employment costs, Income, agreed budget savings, emerging issues and opportunities and in particular service department net costs.

3.1.2 The delivery of capital receipts is now emerging as a prime area of focus for the Council in supporting its corporate priorities.

## 4. BACKGROUND AND OPTIONS

### 4.1 Capital

4.1.1 Capital Receipts as at 31<sup>st</sup> March compared to full year expectations were as follows:

Major Receipts:	Original	Received	Surplus/
	Expectations	£000	(Deficit)
	£000	£000	£000
<b>Capital Receipts</b>			
Land & Property Sales	1,100	467	(633)
Equity Release & Elevate		96	96
GVH - RTB	1,438	286	(1,152)
<b>Revenue Receipts</b>			
GVH - Vat Shelter	560	809	249
	3,098	1,658	(1,440)

4.1.2 The above Land & Property original expectations included a pre contractual figure of £1M in relation to the Council's assets within and associated with the Valley Centre redevelopment. Monies budgeted in relation to Green Vale Homes (GVH) were based on previous years experience prior to the current decline in the property market.

4.1.3 The receipts figures above include expected Right to Buy receipts from Green Vale Homes right up to the year-end and a projection for the quarter 4 VAT Shelter receipts.

4.1.4 Actual Capital Expenditure to 31<sup>st</sup> March 2009 compared to budget is as follows:

SERVICE AREA	2008'9 BUD	Period 12 MONITORING		FULL YR	% spend	Funding Arrangements					
	INCLUDE	Spend	Committ	FORECAST		Grants/	RBC Cap	RBC	RBC Int	MRP	
	SLIPPAGE	£	£	£	to date	Insurance	Receipts	RCCO	Borrow	Effect	
	Total	£000	£	£	£						
<b>Place Directorate</b>											
Place Operations		1,429	738	0	1,007	52%	102	446	190	0	0
Customer Services and e Government		105	131	0	131	124%	0	0	131	0	0
Communities		399	371	0	370	93%	284	0	14	73	2
Regeneration		1,079	17	0	144	2%	0	0	1	16	1
<b>Corporate Support Services</b>											
Finance & Property Services		732	712	0	828	97%	0	140	138	434	15
<b>Housing</b>											
		3,036	3,037	0	2,882	100%	2,920	77	40	0	0
		<b>6,780</b>	<b>5,006</b>	<b>0</b>	<b>5,362</b>	<b>74%</b>	<b>3,306</b>	<b>663</b>	<b>514</b>	<b>523</b>	<b>17</b>

4.1.5 The overspend on Customer Services relates to a required upgrade on electronic banking systems. This non-budget item is being financed from savings made within Treasury Management (see below, para 4.5).

- 4.1.6 The table above now also shows how this capital programme is being financed.
- 4.1.6.1 £3.3m has been received in grant towards capital projects, mainly from the Elevate programme.
- 4.1.6.2 The revenue account will be contributing £514k. Most of this will be funded from VAT Shelter receipts (over and above the £350k required for the Pension Reserve). In addition 3 operational areas have earmarked specific savings or extra income to be applied to fund capital programme – these are £16k from Operations in relation to the cost of vehicle replacements, £15.5k from Finance salary savings to fund the security upgrade of the receipting system and £40k from increased Private Sector Renewals fees to top up the spending on the Disabled Facilities Grants.
- 4.1.6.3 There have been several projects (totalling £523k) identified which related to Council fixed assets, where the long life of the building means that the best way of funding the costs is to use internal borrowing, which is then paid back through the Revenue account over the life of the asset. The use of internal borrowing alleviates the pressure caused due to lower than expected capital receipts. The revenue payment is known as the Minimum Revenue Provision (MRP) and the original budget for this was £87.5k. The value brought forward from previous year capital programmes was £43k and the impact of the projects identified in 2008/09 will add a further £17k to this, resulting in a saving to the revenue account of £27.5k. This remaining level of MRP built into the revenue budget can be applied to help finance the capital programme in the years ahead.
- 4.1.6.4 All other capital projects, £663k, are to be funded from the Council's useable capital receipts. This will leave an estimated £1,320k in the Useable Capital Receipts Reserve at the 31<sup>st</sup> March 2009 to fund the future capital programme.
- 4.1.7 **S.106 (Town & Planning Act 1990)** – Finance, Legal and Planning Officers have recently been working to review the processes and monitoring of S.106 planning monies with a view maximising value. Current available resources are noted below in the following table. The activity in the year includes £37k received in relation to Scout Moor Wind Farm which has been subsequently paid out to partners as per the arrangement.

<b>Section 106 resources</b>	<b>08/09 &amp; Previous £000</b>
<b>Section 106 invoices paid</b>	719
<b>Section 106 monies released (liable) to 3rd parties</b>	395
<b>Section 106 monies available for RBC</b>	323

## 4.2 Net Revenue Expenditure Forecast

4.2.2 The estimated revenue spend outturn compared to budget for 2008/09 is £224.5k favourable (compared to £108.4k reported in February). The following table shows the changes in March:

### General Fund Summary - March 2009 (Period 12)

Service Area	2008/09 Org Budget (adj for JE & org review) £000	2008/09 Forecast £000	2008/09 Variance (Adv)/Fav £000	Variance last reported £000	Change in March (Adv)/Fav £000
<b>Place Directorate</b>					
Place Operations	3,929.1	3,933.8	(4.7)	14.0	(18.7)
Customer Services and e Government	2,779.1	2,795.1	(16.0)	14.0	(30.0)
Communities	1,228.8	1,118.2	110.5	102.4	8.1
Regeneration	652.1	604.2	47.8	9.4	38.4
<b>Business Directorate</b>					
Building Control Services	133.7	129.3	4.5	9.3	(4.8)
Environmental Services	739.4	683.5	55.9	39.2	16.7
Legal & Democratic Services	1,131.3	1,092.1	39.2	45.0	(5.8)
Planning Services	532.3	596.6	(64.3)	(80.0)	15.7
Local Land Charges	(3.8)	64.9	(68.7)	(71.0)	2.3
<b>Corporate Support Services</b>					
Finance & Property Services	220.7	359.9	(139.2)	(141.4)	2.2
Corporate Management	541.2	492.1	49.2	(0.9)	50.1
People and Policy (incl P&P & Comm)	301.3	277.1	24.2	22.5	1.7
Non Distributed Costs	481.5	544.5	(63.0)	(6.4)	(56.6)
Capital Financing and Interest	(902.4)	(1,151.5)	249.2	152.3	96.9
<b>Favourable impact on General Fund</b>	<b>11,764.2</b>	<b>11,539.7</b>	<b>224.5</b>	<b>108.4</b>	<b>116.1</b>

4.2.3 The variances are detailed as follows:

4.2.4 Place Directorate (Total forecast gain of £137.7k , February reported £139.8k)

4.2.4.1 *Place Operations* (forecast loss of £4.7k, compares to the previous month gain of £14k). This includes £26k invested in reviews of operational rounds to potentially identify efficiencies. This is partly matched by fuel savings of £14k.

4.2.4.2 *Customer Services & e-Government* (forecast adverse variance of £16k, compares to a gain of £14k in the previous month). Benefits Subsidy income is expected to be £16k lower than budget, Concessionary travel card administration has cost £10k extra and new IT equipment has cost £10k.

4.2.4.3 *Communities* (forecast gain of £110.5k, previous month £102.4k) – Includes £5k reduction in costs of community development initiatives and £5k favourable on Markets income.

4.2.4.4 *Regeneration* (forecast gain of £47.8k previous month £9.4k) – a mix of minor adverse costs (including recruitment costs & tourism)

4.2.5 Business Directorate (Total forecast adverse £33.5k compared to February reports of an adverse of £57.5k)

- 4.2.5.1 *Building Control* (forecast gain of £4.5k compared to previous month £9.3k) – Cost of street signs has increased by £5k but this has been partly met by works undertaken for another authority which brought in £3.5k income.
- 4.2.5.2 As a result of the current economic downturn Building Control income in 2008-09 is significantly down (£125k in 2008-09 vs. £168k in 2007-08). In order to mitigate the loss in income an admin post has been frozen resulting in an annual saving of £25k. Furthermore the Building Control service has undertaken cover for long term sickness on behalf of Ribble Valley which has generated an additional £3.7k in 2008-09. In the financial year 2009-10 it is anticipated that Building Control will carry out the Clerk of Works function for several Elevate funded scheme and thus generate additional income in the region of £10k.
- 4.2.5.3 *Environmental Services* (forecast gain of £55.9k compared to previous £39.2k) – Variances include increased licensing income for taxis and gambling of £6k and various other minor items.
- 4.2.5.4 *Legal & Democratic Services* (forecast gain of £39.2k previously £45k) – Variances in March include a £4k increase in elections software costs. Annual gain is due largely to staff savings and decisions taken by the Director to absorb the impact of the loss of land charges income, equating to 1.5 posts.
- 4.2.5.5 *Planning Services* (improvement in the adverse forecast to £64.3k for the year compared to £80k adverse previously reported)
- Planning income has improved slightly by £2k to an overall adverse of £45.7k for the year (£304.5k original budget to forecast of £258.8k).
  - The adverse variance on Planning is mainly due to a fall in major planning applications due to the downturn in the economic climate. Numbers of minor and other applications have remained high.
  - The Planning Manager, in conjunction with the Finance department, has identified savings of circa £40k (staff & scanning) in the financial year 2009-10 to mitigate some of the impact of the continuing economic downturn on planning income.
  - The Service also this year spent £13k on Conservation officer advice for which there was no allocated budget . Due to successful applications for funding with English Heritage these costs will now be covered. This will assist the overall budget position.
  - The Service also this year spent £20k on arboricultural advice for which there was no allocated budget.
  - Both the above contributed £33k towards the overall negative budget position of £64k

- During March further savings have been made on operational costs to offset this expenditure as follows - savings on staff of £5k (due to a restructure), savings on consultants of £9k and on other running costs of £9k.

- 4.2.5.6 *Land charges* (forecast adverse of 68.7k compared to adverse of £71k previously). Land Charges income was originally budgeted at £150k – the March forecast out-turn is £67.9k, an adverse of £82k. This has been mitigated by cost savings such as £11k in search fees. In addition spare staffing capacity has been used to support savings in other areas of the Directorate such as elections, planning and the Leisure Review.
- 4.2.6 Corporate Support Services (Total forecast favourable variance of £120.3k previously favourable £26.1k)
- 4.2.6.1 *Finance & Property* (forecast adverse of £139.2k previous month £141.4k) – Salary savings from Finance mini restructure are set to contribute a further £15.5k, LCC Audit fees have reduced by £24.5k but the new electricity and gas contracts are now costing a further £28k over the adverse £15k predicted previously. Rates, water rates, phones and other building running costs have also risen by over £20.2k. Conversely Industrial estates income has improved by £14k.
- 4.2.6.2 *Corporate Management* (forecast favourable £49.2k, previously adverse of £1k) – The income from recharges to Team Lancashire was intended to fund potential corporate projects, however some of these have not materialised as yet and so resulted in a £49k favourable variance at year-end.
- 4.2.6.3 *People & Policy* (forecast favourable £24.2k previously £22.5k) – No significant changes.
- 4.2.6.4 *Non Distributed Costs* (forecast adverse £63k previously adverse of £6.4k) – Provision has been made generally here for the extra 0.3% pay rise totalling £17.5k and pension strain costs have reduced by £13.2k on expected levels. Provision has also been made to repay £73k into the Disabled Facilities Grant income account – this should have been separated from the HRA housing subsidies account in March 2006, but instead got swept into the General Fund Reserve when the HRA account was closed.
- 4.2.6.5 *Capital Financing* (forecast gain of £249.2k previous month £152.3k) – interest income has performed better than the Sector model portfolio to return a further £73k when car loan interest, mortgage interest and other charges are included. Reduction in MRP as explained in paragraph 4.1.6.3., has saved £27.5k
- 4.2.7 **Under spend carry forward rules** – Members will recall that service areas are allowed to carry forward under spends for use on non recurrent budgets. Therefore the following table shows the forecast impact on General Fund reserves at the year end:

	<b>£000</b>
<b>General Reserves Variance forecast</b>	<b>225</b>
Less 50% service under spend	
Place	52
Business	0
Corporate	0
<b>Favourable Impact on General Reserves</b>	<b>173</b>

### 4.3 Employment Costs

4.3.1 The above outturn includes, amongst other things, some saving on salary costs. To put the above net expenditure in context the following table shows the net salary saving position at the end of the year for total employment costs. The variance in Non-Distributed Costs includes pension strain incurred to be funded from Change Management Reserve as well as £17.5k provision for the back pay due on the 0.3% late pay rise agreement.

Employment Costs Period 12 - March 2009	2008/09 YTD Budget £000	2008/09 YTD Actual £000	2008/09 Variance (Adv)/Fav £000	Period 12 Movement (Adv)/Fav £000	Budgeted Staff FTEs	Current Vacant Posts
<b>Place Directorate</b>						
Communities Service	542	483	59	7	3.0	3.0
Customer Services	375	394	(19)	(14)	10.8	0.0
Regeneration Service	494	422	72	2	13.0	3.0
Operations Service	2,414	2,357	57	1	114.9	1.0
<b>Business Directorate</b>						
Building Control Services	215	201	14	2	6.0	0.0
Environmental Services	603	524	79	8	12.0	1.0
Legal & Democratic Services	421	376	45	(0)	19.4	1.5
Planning Services	562	525	37	5	17.2	1.0
<b>Corporate Services</b>						
Corporate Management	466	469	(3)	(1)	7.0	0.0
Finance & Property Services	749	724	25	9	23.5	0.0
People & Organisational Performance	375	339	36	6	10.0	0.0
<b>Total</b>	<b>7,216</b>	<b>6,814</b>	<b>402</b>	<b>25</b>	<b>236.8</b>	<b>10.5</b>

### 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. No new requests are made in this report.

4.4.2 Issues raised during the closure of the 2008/09 accounts:-

- Council accumulated professional costs associated with potential regeneration and redevelopment projects, totalling £28k. In addition £34k has been included within the balance sheet as a stock value for refuse bins. Given that Refuse bins are now funded in the main through the capital programme, it is not now prudent to include stock values within the balance sheet.
- The Building Control Trading Account should breakeven over a three year period. Previous balance sheets included a surplus provision brought

forward in relation to Building Control fees. The original budget for 2008/09 expected the trading function to result in a net cost of £59.6k, but efforts within the section have resulted in an improvement of £4.5k (see 4.2.5.1 above). However, this final cost is still £42k above the level of the provision available in the balance sheet and it would not be prudent to carry forward a negative reserve.

- It is felt that, given the overall General Fund surplus generated above (4.2.2.), these amounts totalling £104k are best written off within 2008/09.

4.4.3 It is proposed that net surplus on 08/09 net budget (£173k) less £104k as per 4.4.2 be transferred to general reserves. Any further adjustments will be reported to the Audit Committee who will approve the Councils financial statements at their meeting on 30<sup>th</sup> June 2009.

## 4.5 Treasury Management

4.5.1 Interest received less capital financing costs compared to budget were as follows:

	<b>Budget 08/09</b>	<b>F'cast 08/09</b>	<b>Variance ( ) = Neg'</b>
Minimum Revenue Provn	(88)	(60)	28
Interest Paid	(5)	(11)	(6)
Interest Received	237	468	231
<b>Total</b>	<b>145</b>	<b>397</b>	<b>252</b>

4.5.2 The above table shows the year-end interest income as £468k, a favourable variance of £231k in the year. This now includes apportioned interest on the two ongoing 364 day deposits as well as interest on Car loans and other loans.

4.5.3 Through careful cash flow management the Council's Treasury Management activity has consistently outperformed the Sector model portfolio during 2008/09.

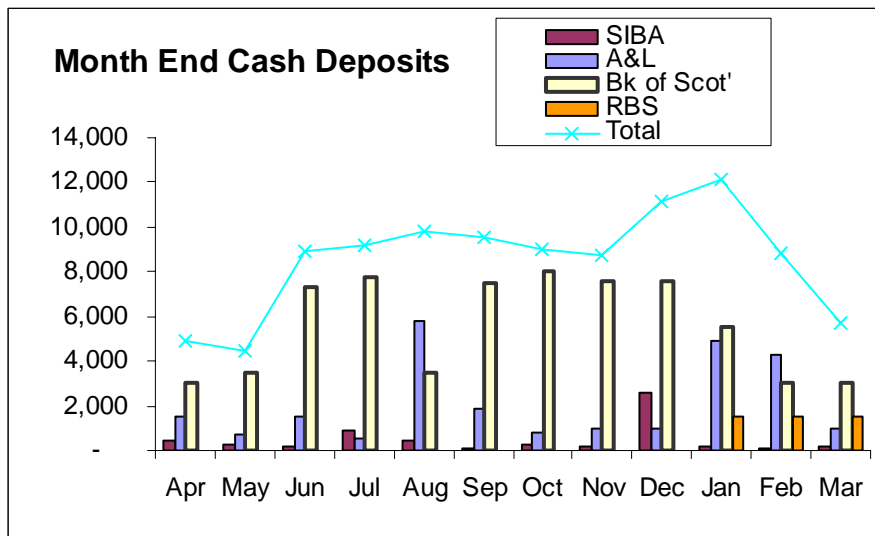
4.5.4 The reduction in the Minimum Revenue Provision is explained above in paragraph 4.1.6.3.

4.5.5 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 followed the anticipated decline to the 31<sup>st</sup> March 2009 as income from Council Tax and NNDR slowed down in February and March. Closing balances were £5.7m (compared to £3.5m brought forward at 1<sup>st</sup> April 2008). The banks would refer to this as available cleared balances.

4.5.6 The graph below shows our month end cleared balances over the 12 months. Monthly and weekly forecasts had predicted a year-end balance between £4.5m and £5.5m depending upon the timing of the final housing benefits



payment file, which eventually left the Council's bank account on the 2<sup>nd</sup> of April.



4.5.7 In the last week of January the Council's Treasury Management advisers predicted that the rates on the Public Works Loans Board were approaching a level at which it would be prudent to borrow to support the up-coming capital programme. As previously reported a decision was made to borrow £1.5m for 364 days at 0.89%. Until they are called on to support spending these funds are held as part of the balances at 4.5.5 above.

4.5.8 The interest terms at the 31<sup>st</sup> March 2009 for the accounts which the Council regularly uses were:

		AER	% Gross Rate	Interest Paid
<b>SIBA</b>	£1M +	0.80	0.81	Quarterly
<b>Alliance &amp; Leicester</b>	£500 +	0.71	0.72	Monthly
<b>Bank of Scotland</b>	£1 +	0.51	0.52	Monthly
<b>Bank of Scotland</b>	364 days fixed		6.78	Maturity
<b>Royal Bank of Scotland</b>	364 days fixed		2.70	Maturity

4.5.9 The Bank of England's Monetary Policy Committee continues to hold the base rate at 0.5%.

4.5.10 The national inflation figures saw further reductions in the March publications. The Consumer Price Index fell again to 2.9% for the year to the end March 2009 (down from 3.2% in February) and the Retail Price Index turned negative for the year ended March 2009 at -0.4% compared to the 0.0% level in February. Expectation is of further reductions during 2009.

4.5.8 Our treasury advisors, Sector, are now forecasting that base rate will remain at 0.5% for a further financial quarter, until quarter 3 of 2010, though they predict that the PWLB interest rates will rise slightly in 2010 as follows:

<b>Sector Forecasts</b>	<b>Q/E2 2009</b>	<b>Q/E3 2009</b>	<b>Q/E4 2009</b>	<b>Q/E1 2010</b>	<b>Q/E2 2010</b>	<b>Q/E3 2010</b>
<b>Base Rate</b>	0.50%	0.50%	0.50%	0.50%	0.50%	1.00%
<b>25yr PWLB</b>	4.15%	4.15%	4.15%	4.30%	4.40%	4.50%

4.5.9 Capital Economics have published a forecast of 0.5% continuing throughout the whole of 2010.

4.5.10 The value of sundry debts outstanding at the year end was £505k, a rise of just £5k compared to March 2008. Total invoices raised in 2008/09 were £2,075k compared to £2,078k in 2007/08, of this £398k is still outstanding but only £103k of that is over 30 days old (ie 5% of total raised in 2008/09). The debtor days calculation was 89 days in at year-end compared to 87 days at the end of 2007/08.

## **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 POLICY (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 has performed well in 2008/09, despite the effects of the economic downturn.

8.2 Work is now ongoing to complete the accounts for the year.

### **9. RECOMMENDATIONS**

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

9.2 That Members approve the recommendations as per 4.4.3

**10. CONSULTATION CARRIED OUT**

10.1 Directors, Heads of Services and Budget Holders.

**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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<b>Background Papers</b>	
<b>Document</b>	<b>Place of Inspection</b>
2008/09 Budget (revenue and capital)	Full Council papers – Feb 08
Monthly detailed financial monitoring statements for each service area, including gross income and expenditure budget variances	Financial Services