Rossendalealive BOROUGH COUNCIL

ITEM NO. D2

Subject:	Financial Monitoring 2009/10: Month 2 – end May 2009	**Status:**	For Publication
Report to:	Cabinet	**Date:**	22nd July 2009
Report of:	Finance Manager		
Portfolio Holder:	Finance and Resources		
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 budget monitoring for 2009/10, the Capital Programme and Treasury matters.

2. CORPORATE PRIORITIES

2.1 The matters discussed in this report impact directly on the following corporate priorities:-

- Providing 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:

3.2 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.

3.3 The delivery of capital receipts continues to be a prime area of focus for the Council in supporting is corporate priorities.

4. BACKGROUND AND OPTIONS

4.1 Capital

4.1.1 Capital Receipts as at 31st May compared to full year expectations were as follows:

Major Receipts:	Original Expectations £000	Received £000	Surplus / (Deficit) £000
Capital Receipts			
Land & Property Sales	100	0	(100)
Equity Release & Elevate		0	0
GVH - RTB	200	2	(198)
Revenue Receipts			
GVH - Vat Shelter	560	8	(552)
	860	10	(850)

4.1.2 No funds have yet been received from either the sale of Council assets or from the retained right-to-buy entitlements. Projected right-to-buy receipts for 2009/10 are only £200k, though the out-turn for 2008/09 was slightly higher at £286k. This area will be reported more accurately each quarter-end.

4.1.3 Projected quarter 4 VAT Shelter receipts for 2008/09 have come in at £7.7k above estimates, this now sets off the 2009/10 receipts. Of the prudent budget shown above of £560k, there is a requirement to transfer the first £350k to the Pension Fund earmarked reserve for payments required to LCC Pension Fund in respect of ex-housing staff transferred to Green Vale Homes. The balance can be used to support capital spend.

4.1.4 Actual Capital Expenditure to 31st May 2009 compared to budget is as follows:

SERVICE AREA	2009/10 Budget including slippage	Period 2 MONITORING		Full YR Forecast	% spend	Funding Arrangements				
	Total £000	Spend £	Committ £	Forcast £	to date	Grants/ Insurance	RBC Cap Receipts	RBC RCCO	RBC Int Borrow	MRP Effect
Place Directorate										
Place Operations	737	118	0	800	16%	0	692	108	0	0
Customer Services and e Governme	0	0	0	0	0%	0	0	0	0	0
Communities	336	15	0	336	4%	284	0	37	15	0
Regeneration	2,788	26	0	2,788	1%	2,758	0	0	30	1
Corporate Support Services										
Finance & Property Services	341	33	0	397	10%	52	5	0	340	11
Housing	3,121	182	0	3,121	6%	2,691	430	0	0	0
	7,323	**373**	**0**	**7,442**	**5%**	**5,785**	**1,127**	**145**	**385**	**13**

4.1.5 The differences between the forecast spend and budget is due to insurance receipts and contributions from service revenue budgets

4.1.6 The 2009/10 capital programme has commenced with 5% was completed by the 31st May 2009, which compares to 3% by the same time in 2008/09.

4.1.7 Where capital projects relate to Council fixed assets with a comparatively long life, e.g. buildings, 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 in 2009/10 was £82.5k. The value brought forward from previous year capital programmes was £60.6k. This means there is a remaining balance of MRP built into the revenue budget of £29.1k which can be applied to help finance the capital programme in 2009/10 and the years ahead. To date the 2009/10 programme is expected to use £13k of this available balance, but this depends very much on capital receipts available in the year.

4.1.8 The useable capital receipts reserve brought forward into 2009/10 to fund the remaining capital projects was £1,388k. With the in-year receipts predicted above and the spending programme requirements, the expected balance of Useable Capital Receipts at 31st March 2010 is £560k as shown below.

	£ 000
Useable Capital Receipts B'fwd 01/04/09	1,138
Capital Receipts expected in 2009/10	300
VAT Shelter RCCO expected	210
RCCO from SSL	39
Useable Capital Receipts Available	1,687
Capital Prog Capital Receipts used	1,127
Capital Prog RCCO required	145
Useable Capital Receipts C'fwd	560

4.2 **S.106 (Town & Planning Act 1990)** – The only movement in 2009/10 to the end of month 2 was the application of £10k to fund CCTV in Rawtenstall.

4.3 Net Revenue Expenditure Forecast

4.3.1 Based upon experience to the 31st May 2009, the estimated revenue spend compared to the original budget is £318.1k favourable. We must however state a note of caution in that we have some way to go over the rest of the year. Indeed, the previous year did forecast a significant favourable forecast variance which was to some degree eroded during the course of the remaining financial period.

4.3.2 The forecast below includes an assumption that the results of the national pay negotiations will not vary significantly from the 2.5% predicted in the original budget. These national negotiations have yet to reach an agreement.

4.3.3 The following table shows the main forecast variances to date.

Service Area	2009/10 Org Budget £000	2009/10 Forecast £000	2009/10 Variance (Adv)/Fav £000	Variance last reported £000	Change in April & May (Adv)/Fav £000
Place Directorate					
Communities	1,254.0	1,215.8	38.2	0.0	38.2
Customer Services and e Government	2,842.0	2,670.1	171.9	0.0	171.9
Regeneration	598.3	542.0	56.0	0.0	56.0
Place Operations	3,765.0	3,738.1	26.9	0.0	26.9
Business Directorate					
Building Control Services	154.7	165.1	(10.4)	0.0	(10.4)
Environmental Services	781.0	743.6	37.4	0.0	37.4
Legal & Democratic Services	1,124.6	1,085.1	39.5	0.0	39.5
Planning Services	547.6	644.2	(96.6)	0.0	(96.6)
Local Land Charges	72.8	69.6	3.2	0.0	3.2
Corporate Support Services					
Corporate Management	540.4	538.2	2.2	0.0	2.2
Finance & Property Services	238.0	329.8	(91.8)	0.0	(91.8)
People and Policy	253.4	211.1	42.3	0.0	42.3
Non Distributed Costs	467.0	362.5	104.5	0.0	104.5
Capital Financing and Interest	(812.0)	(806.8)	(5.2)	0.0	(5.2)
Favourable impact on General Fund	**11,826.8**	**11,508.4**	**318.1**	**0.0**	**318.1**

4.3.4 The variances are detailed as follows:

4.3.5 Place Directorate - Total forecast gain of £293k

4.3.5.1 *Communities* - forecast gain of £38.2k. This includes £31.5k reduction in staffing costs due to vacant posts and £7k favourable expected on second homes income.

4.3.5.2 *Customer Services & e-Government* forecast gain of £171.9k. Savings from the IT contract are expected to reduce the spending by £124k and lower inflation should result in a gain of £12k, whilst court costs recovered are also likely to give a favourable variance of £31k. Conversely software licenses are expected to cost £25k more than the original budget.

4.3.5.3 *Regeneration* - forecast gain of £56k. The favourable forecast has resulted from staff savings, increased fee incomes and other sundry savings.

4.3.5.4 *Place Operations* - forecast gain of £26.9k. Gains are expected from the vehicle leasing budget (£53k), recycled paper income of £18k and reduced staffing/agency costs of £23k. This is reduced by adverse variances expected on tipping fees for glass, cans & plastics of £32k, onward transportation of recyclates costing £31k and fuel increases expected to cost £8k more than budget.

4.3.6 Business Directorate – Total forecast adverse £26.8k

4.3.6.1 *Building Control* - forecast adverse variance of £10.4k. The significant news is that the Trading Account of the Building Control function is estimated to end the year at a deficit of £20.3k (6.4k adverse). However, this compares to a 2008/09 trading deficit of over £60k and is a testament to the efforts of the managers and finance staff to drive out efficiencies in order to move closer toward the requirement to break-even. At the same time, however, the statutory elements of the section's workload are expected to increase £12.2k over budget. The cost of street signs continues the favourable variances seen in 2008/09 with £8.1k expected savings over the full year.

4.3.6.2 *Environmental Services* - forecast gain of £37.4k. Majority of this relates to staffing savings.

4.3.6.3 *Legal & Democratic Services* - forecast gain of £39.5k. Variances due to vacant posts in both sections are expected to provide a favourable out-turn of £63k, but agency staff has been sought to cover for some of the roles.

4.3.6.4 *Planning Services* - adverse forecast to £96.6k for the year. The key adverse variance is planning income, which is currently expected to under achieve against target by £118k. This is balanced slightly by favourable variance of £31.3k in the forward planning team from vacant posts and reductions in consultancy.

4.3.6.5 *Land charges* - forecast favourable of £3.2k. Land Charges income remains fragile and therefore continues to be monitored very closely.

4.3.7 Corporate Support Services - Total forecast favourable variance of £52k

4.3.7.1 C*orporate Management* - forecast favourable £2.2k variance. Only minor variances from the budget. Of the £118k expected income from Team Lancashire recharges, £37k has either been spent or committed, leaving £81k still available to cover contingencies arising the year. However, the cost allocations of £37k are being reviewed to confirm that they should not have been allocated to service areas. Any future transfer will reduce the total favourable forecast by an equivalent amount.

4.3.7.2 *Finance & Property* - forecast adverse of £91.8k. Adverse variances apparent towards the end of 2008/09 are now expected to cost the property services function £85k more on gas and electricity, £22k on repairs and maintenance and £21k in lost rental incomes as estate properties lie empty. The utilities budget in particular was a budget error. A 70% price increase had been identified but not actioned. However, salary savings in the Finance team through a mini restructure (following a staff resignation) are set to contribute £24.9k towards this and external audit fees are expected to be reduced by £11.8k as a result of a reduction in the cost of average day rates.

4.3.7.3 *People & Policy* - forecast favourable £42.3k variance. Of this £37k relates to staff savings from a mini restructure of the team.

4.3.7.4 *Non Distributed Costs* - forecast gain of £104.5k. Of the favourable variances the bulk is additional saving of £103k on the total insurance premium renewal after a very thorough tendering process. In addition

£17.5k was brought forward from 2008/09 to fund the back-pay of inflation entitlement to staff in April. At present it appears departments are unlikely to require this ‘provision’, so it can be identified as a general fund saving which is required to pay for rises £19.5k in the pension fund contributions in relation to former staff.

4.3.7.5 *Capital Financing* - forecast minor net adverse of £5.2k. Interest income is highly unlikely to produce the same level of favourable variances in the year as in 2008/09, though at present the anticipated annual returns are £3k above the original budget (see 4.5.1 below). The present interest rates are shown on the following pages and they closely match the predictions used to calculate the annual interest income levels.

4.3.8 **Under spend carry forward rules** – Members will recall that service areas are allowed to carry forward under spends for use on non recurrent budgets. At 1st April 2009 £58k in the General Fund Reserve was brought forward under this principle to fund one-off projects in 2009/10 for the Place Directorate. Assuming neutral operational results in 2009/10 the balance at 31st March 2010 would then be £884k against a recommended maximum in the Medium Term Financial Strategy of £1m.

General Fund Reserves	£000
Balance at 1st April 2009	**942**
Less 50% service allowance	
Communities	(45)
Regeneration	(13)
Expected Balance 31st March 2010 *(excluding any surplus/deficit from operations during 2009/10*)	**884**

4.4 Employment Costs

4.4.1 The above outturn includes, amongst other things, some saving on salary costs.

Employment Costs Period 2 - May 2009	**2009/10 YTD Budget £000**	**2009/10 YTD Actual £000**	**2009/10 Variance (Adv)/Fav £000**	**Period 1 & 2 Movement (Adv)/Fav £000**	**Budgeted Staff FTEs**	**Current Vacant Posts**
Place Directorate						
Communities Service	93	78	15	15	16.5	0.0
Customer Services	91	89	2	2	14.2	0.0
Regeneration Service	85	83	2	2	13.0	0.0
Operations Service	398	380	18	18	87.5	0.0
Business Directorate						
Building Control Services	33	33	0	0	5.0	0.0
Environmental Services	120	87	33	33	16.8	0.0
Legal & Democratic Services	73	67	6	6	13.8	2.0
Planning Services	95	90	5	5	17.7	1.0
Corporate Services						
Corporate Management	74	65	9	9	7.0	2.0
Finance & Property Services	115	115	(0)	(0)	21.3	1.0
People & Organisational Performance	58	53	5	5	9.5	0.0
Total	1,235	1,139	96	96	222.3	6.0

4.5 Reserves, Provisions & Grants

4.5.1 Appendix 1 illustrates the most significant Reserves, Provisions & Grants available to the Council, as brought forward on the Balance Sheet at 31st March 2009, less amounts already committed. No new requests are made in this report.

4.6 **Treasury Management**

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

	Budget 09/10	F'cast 09/10	Variance ( ) = Neg'
Minimum Revenue Prov'n	(83)	(83)	0
Interest Paid	(18)	(12)	6
Interest Received	153	171	17
Total	37	76	23

4.6.2 The above table shows the year-end interest income as £156k, a favourable variance of just £3k in the year. Work is about to begin to predict cash flows in detail to determine if there is the possibility of some 3- to 6-month deposits in order to increase the level of interest income earned, however interest rates continue to be as low as expected.

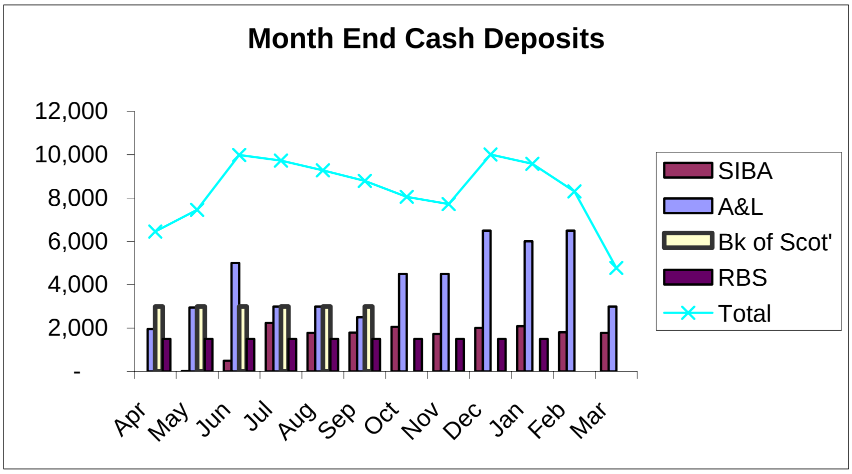
4.6.3 Through careful cash flow management the Council's Treasury Management activity is expected to at least match the Sector model portfolio during 2009/10.

4.6.4 The available Minimum Revenue Provision is explained above in paragraph 4.1.7. This budget monitoring exercise has assumed that the full amount will be required to support the 2009/10 capital programme as capital receipts continue to be depressed.

4.6.5 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 earns interest are likely to rise over the coming months to around January 2010, when the rate of Collection Fund receipts slows whilst capital spending rises towards the later months of the year and the Council repays £1.5m to the Public Works Loans Board (PWLB) in January 2009. The banks would refer to this as available cleared balances.

4.6.6 The following graph shows our month-end cleared balances over the coming year. At present they vary little from the original expectations, showing the typical rise in cash balances as income from Council Tax and NNDR flows inwards at different rates than the respective payments to precepting bodies. Further detailed analysis is planned at the end of quarter one to predict capital programme cash flows and housing benefit grant cash flows with greater accuracy.

The drop in cash balances in February 2010 is partly as a result of the completion of the £1.5m 1-year loan from the



4.6.7 The interest terms at the 31st March 2009 for the accounts which the Council operates were:

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

4.6.8 The two fixed-term deposits mature as follows: - Bank of Scotland matures in mid October and the Royal Bank of Scotland in early January.

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

4.6.10 The national inflation figures saw further reductions in the May publications. The Consumer Price Index fell again to 2.2% for the year to the end May 2009 (down from 2.9% in March) and the Retail Price Index remained negative for the year ended May 2009 at -1.1% (i.e. negative) compared to the -0.4% (negative) level in March.

4.6.11 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:

	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010
Base Rate	0.50%	0.50%	0.50%	0.50%	0.50%	1.00%	1.50%
25yr PWLB	4.15%	4.15%	4.15%	4.30%	4.40%	4.50%	4.60%

as at May 09

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

4.6.13 The value of sundry debts outstanding at the end of May 2009 was £441k, a drop of over £171.6k compared to May 2008. Of this £191.6k relates to debt raised in 2008/09 or earlier. The average debtor days at 31st May was 80, compared to 105 days in May 2008 and 89 days at the end of March 2009.

4.6.14 Of the sundry debts outstanding at the end of May 2009, recommendations for write-off have been made as part of a separate report to Cabinet. The value of the Bad Debt Provision brought forward at the 1st April 2009 was £171.7k. After the above write-off, this balance may require an increase of around £20k to fully provide for the experience level of bad debts. Only £3.5k has been included in the General Fund Revenue Budgets above. Any increase in the Bad Debt provision will be reported in future monitoring reports.

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 The General Fund continues to be monitored closely by finance staff and managed very carefully by departments throughout the Council. Despite the effects of the economic downturn, the 2009/10 forecast still looks favourable.

9. RECOMMENDATION(S)

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

10. CONSULTATION CARRIED OUT

10.1 Directors, Heads of Services and Budget Holders.

11. COMMUNITY IMPACT ASSESSMENT

Is a Community Impact Assessment required No

Is a Community Impact Assessment attached No

12. BIODIVIERSITY IMPACT ASSESSMENT

Is a Biodiversity Impact Assessment required No

Is a Biodiversity Impact Assessment attached No

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Background Papers	
Document	**Place of Inspection**
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