

<b>Subject:</b>	Financial Monitoring 2014/15 Update - Quarter 2	<b>Status:</b>	For Publication
<b>Report to:</b>	Cabinet	<b>Date:</b>	22 <sup>nd</sup> October 2014
<b>Report of:</b>	Finance Manager	<b>Portfolio Holder:</b>	Finance and Resources
<b>Key Decision:</b>	<input type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	<b>General Exception</b>	<input type="checkbox"/> <b>Special Urgency</b> <input type="checkbox"/>
<b>Community Impact Assessment:</b>	Required:	<del>Yes</del> /No	Attached: <del>Yes</del> /No
<b>Biodiversity Impact Assessment</b>	Required:	<del>Yes</del> /No	Attached: <del>Yes</del> /No
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<b>1.</b>	<b>RECOMMENDATION(S)</b>
1.1	The Members note the contents of the report.

## 2. PURPOSE OF REPORT

- 2.1 As reported previously to Members, Officers are now publishing the full reporting pack on a quarterly basis. This is the second report for 2014/15 covering April to September.

## 3. CORPORATE PRIORITIES

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

- **Regenerating Rossendale:** This priority focuses on regeneration in its broadest sense, so it means supporting communities that get on well together, attracting investment, promoting Rossendale, as well as working as an enabler to promote the physical regeneration of Rossendale.
- **Responsive Value for Money Services:** This priority is about the Council working collaboratively, being a provider, procurer and a commissioner of services that are efficient and that meet the needs of local people.
- **Clean Green Rossendale:** This priority focuses on clean streets and town centres and well managed open spaces, whilst recognising that the Council has to work with communities and as a partner to deliver this ambition.

The primary focus of the Council's budget setting is to support its Corporate priorities.

## 4. RISK ASSESSMENT IMPLICATIONS

- 4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:

- Financial monitoring of General Fund service departments focuses on the key risk areas of employee costs, income, implementation of agreed budget savings, emerging issues and opportunities and in particular service department net expenditure.
- Budget setting for future years is now treated as an integral part of financial monitoring during the current year. Progress in identifying and implementing further savings to meet the challenges in the Medium Term Financial Strategy (MTFS) are being reported as they begin to impact upon the 2014/15 out-turn.
- The budget-setting exercise for 2015/16 and beyond identified a further reduction in resources over the medium term producing a future in-year deficit now totalling up to

£1.7m by 2018/19. Members, collectively, continue to face some difficult choices in order to balance expenditure with available resources over the medium term.

- Risks associated with treasury management practices are managed within the Council's Treasury Management Strategy and Treasury Management Practices documents (latest approved in February 2014).
- The delivery of capital receipts continues to be a prime area of focus for the Council in supporting its corporate priorities, both in 2014/15 and in the years to come.

## **5. BACKGROUND AND OPTIONS**

### **5.1 2014/15 Forecast**

The Budget for 2014/15 was set back in February at a net £8,905k. At the end of September officers are now predicting that there will be a net favourable variance of £106k, but this after the following proposed transfers to Reserves:

- Additional £189k of New Homes Bonus transferred to the Transitional Reserve.
- Additional licensing income of £493k transferred to the Transitional Reserve.
- Additional £100k transferred to the Vehicle Reserve.

Given that the General Fund Reserve has already reached the MTFs target of £1m officers propose to transfer any net variance for the year to the Transitional Reserve. This would mean a predicted total on that Reserve at the year-end of £2,007k.

The main variances being reported are in Appendix 1 on pages 4 and 5, these include savings on staff costs within Operations and vehicle repairs plus additional income from LCC regarding the Children's Trust summer fun work, but adverse variances on fee income from planning applications, building inspections, cemeteries and markets.

At this stage there are no significant variances on savings included within the original budget and the MTFs plans that are not reported in Appendix 1.

### **5.2 Reserves**

In line with the Medium Term Financial Strategy reported to Cabinet in June, the Transitional Reserve is being built up to provide General Fund support from 2015/16 onwards. The report to Cabinet back in June showed a requirement for £1,992k to support the revenue budgets up to 2017/18 and this looks set to be achieved now with the anticipated contribution of £106k from general budget underspend.

The total reserves at the beginning of the financial year were £7,180k, and this is expected to increase to £7,904k by the end of the year. Anticipated future variances on the business rates scheme mean that by the end of March 2019 the total reserves could be £7,130k.

### **5.3 Government Grants Unapplied**

The opening value of Government Grants Unapplied at the 1<sup>st</sup> April 2014 was £683k. This included £376k of Housing Capital Pot and £270k of Homes and Communities Agency (HCA) Grants.

Rossendale is administering the Homes and Communities Agency Grant from East Lancashire. A further £1,966k has been received in the year to date and £1,255k has been invested in homes across Rossendale and its neighbouring authorities. This brings the total number of properties brought back into use up to 368, with 78 (21%) within Rossendale.

The only other active grant is the Disabled Facilities Grant and the 2014/15 grant was received in early April, along with an indicative level for 2015/16. Similar funds beyond 2015/16 are not guaranteed, so the balance of housing capital pot grants will be directed to support these works beyond April 2016.

The forecast balance at March 2015 is now revised to £1,219k, which is expected to reduce to £25.2k by March 2017.

#### 5.4 **Staffing**

During the first four months 0.8 FTEs have been removed from the establishment. Of the remaining 162.2 FTEs, there are 5 vacant post at the end of September. These changes have contributed to cash savings on staff costs of £117k, projected to rise to £167k for the full year.

#### 5.5 **Treasury Management**

Interest rates fell in Q1 and instant access accounts are now only realising 0.25% (less than the Base Rate for the first time). To counteract two new accounts with Lloyds have opened - an instant access account which will earn 0.4% at the moment and a 32-day account which will earn 0.57%. Through these accounts, and maximising the use of the Handelsbanken 35-day notice account which is giving 0.6% for the £5m deposited, officers have improved the forecast interest income by £3k but this still leaves an adverse variance of £25k for the year.

Given that out treasury management advisors are predicting that interest rates will rise in the spring (page 26 of Appendix 1), officers have kept investments shorter than usual and the £2m deposit which matured at the beginning of July has only been rolled over for 6 months, but this has impacted upon the rate achievable of only 0.7%. This will mature on the 2<sup>nd</sup> January 2015 and officers will consider carefully how long this should be rolled over for again.

The Council is continuing to improve its sundry debt collection performance. Over £2m of new invoices have been issued since April, which is 26% higher than the first half of the previous year. Despite this increase, the council is collecting debts more promptly and the outstanding figure of £521k is 30% lower than the £769k outstanding at the end of September 2013. This comparison is also reflected in the debtor days performance indicator which has improved from 88 days back in July to 68 days in September, well below the target of 80 days and the 93 days reported this time last year.

Of the £521k outstanding at September 23% is under a month old and so not strictly overdue yet. The potential doubtful debts now stand at £101k, though this excludes one large invoice from August 2013 for which officers are in negotiations with a developer to resolve issues pertaining to a S106 agreement. With a doubtful debt provision of £88 there may be a need to make further bad debt provision by the year-end.

#### 5.6 **Capital Receipts and Minimum Revenue Provision (MRP)**

Receipts from asset sales have been slow in the first four months, but officers are still optimistic about achieving the original target of £100k. Officers are anticipating income of at least £200k from the auction of obsolete refuse vehicles in Q4 and this is being used as a contribution towards financing the replacement fleet due to arrive in December.

The available capital resources at the end of March 2015 are likely to be just £51k for general fund projects and income from the sale of assets in future years remains very

uncertain. This means that future capital activity is likely to require more use of internal borrowing than in recent years, which leads to charges of MRP on the general fund to repay this borrowing over the life of each asset.

The table at the top of page 30 shows that some Street Sweeping and Parks assets are about to reach the end of their anticipated useful life, and so reach the end of their requirement to make MRP contributions in 2015/16. Given the constraints on capital resources, officers recommend that the current budget levels of MRP are maintained for 2015/16 onwards at the moment so that any replacement equipment required can be funded from internal borrowing.

## 5.7 Capital Programme

The £896k of slippage on capital projects crossing the financial year-end has been added to the approved capital programme for the year of £910k. New projects have added a further £1,963k to date, the main Q2 change being the £1,581k replacement refuse fleet. This means that the revised capital programme for 2014/15 now totals £3,759k (see page 29 of Appendix 1).

In terms of capital activity, Marl Pits pavilion work is now complete, following the tender for the refuse fleet an order has now been placed to achieve delivery before Christmas. The DFG programme is 41% complete, including 4 new grants being funded directly by LCC one-off contributions.

## 5.8 Collection Fund – Council Tax and NNDR

Collection rates for Council Tax are marginally down on this time last year but Business Rates seems to be slightly ahead, however, both are predicting a year-end surplus at this stage.

Council Tax has seen policy changes for empty property reliefs and a slow-down in rating appeals which look set to return a surplus of £180k for the Council.

Business Rates is explained in detail on page 32 of the report. The collection fund for business rates is anticipated to return a surplus of £172 for this council, though these funds cannot be accessed until 2015/16 through the budget-setting process next February. Monies received in relation to S31 Grants and localism reliefs total £550k, though £257k of this is required to be repaid to central government in March. This means that the financial year will see an overall favourable movement of £465k and all this is recommended to be transferred to the Business Rates Retention Reserve the timing of which is noted on page 32 of the report at Appendix 1.

## 6. SECTION 151 OFFICER

6.1 Financial matters are noted in the report attached.

## 7. MONITORING OFFICER

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

## 8. HEAD OF PEOPLE AND POLICY (ON BEHALF OF THE HEAD OF PAID SERVICE)

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

**9. CONSULTATION CARRIED OUT**

9.1 Directors, Heads of Services and Budget Holders

**10. CONCLUSION**

10.1 Robust monitoring of the General Fund is essential to control risks expressed in section 4.

10.2 Despite a continued cost reduction programme, the challenge remains for Council to continue its efficiency agenda in order to realise its medium term saving target, which given recent consultation is likely to increase. Members, collectively, continue to face difficult choices in order to balance expenditure with available resources over the medium term.

Background Papers	
Documents	Place of Inspection
Financial monitoring statements for each service area.	Financial Services.
Banking sector credit reports	Financial Services