ITEM NO. E1

Subject:	Draft Out-turn 2014/15 and Financial Monitoring Report	**Status:**	For Publication
Report to:	Cabinet Agenda Setting Cabinet	**Date:**	17th June 2015 8th July 2015
Report of:	Finance Manager	**Portfolio Holder:**	Resources & Performance
Key Decision:	☐ Forward Plan ☒	General Exception ☐	Special Urgency ☐
Equality Impact Assessment: Required:	~~Yes~~/No	Attached:	~~Yes~~/No
Biodiversity Impact Assessment Required:	~~Yes~~/No	Attached:	~~Yes~~/No
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1.	**RECOMMENDATION(S)**
1.1	The Members note the contents of the Draft Out-turn and Q4 monitoring report.
1.2	Members are asked to recommend that Full Council approve an amendment to the Treasury Management Strategy to include the potential to invest in Money Market Funds.

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 a brief update report covering changes identified during October.

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 £1.4m by 2019/20. 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 strategy and practices are managed within the Council's Treasury Management Strategy and Treasury Management Practices documents.
- 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 Draft Out-turn

The Budget for 2014/15 was set back in February 2014 at a net £8,905k. the Draft Out-turn is now predicting that there will be a net favourable variance of £450k, a £195k favourable change during quarter 4. Further details on the main movements this quarter can be found in the full Financial Monitoring Report at Appendix 1, pages 4 and 5.

5.2 Reserves

Officers continue to recommend that the overall favourable variance at the year-end is transferred to the Transitional Reserve to help meet the MTFS pressures in future years. Along with contributions from additional New Homes Bonus, additional Licensing income and the favourable variance arising from the recovery of prior year Council Tax Benefit overpayments (page 6 of Appendix 1), this is likely to bring the Transitional Reserve up to £2,682k at the end of the year. This will therefore cover the requirement for £2,208k to support the revenue budgets up to 2019/20, as quoted in the Medium Term Financial Strategy reported to Council back in February.

The Business Rates Retention Reserve now reflects the in-year variances explained in Appendix 1 page 32, including receipt of £524k Section 31 grants, less payment of the levy to central government of £428k.

Net contribution to the Empty Homes Strategy Reserve during the year has been £301k, this includes £579k of new recycled scheme loans from loans repaid by property owners, less the application of £278k during 2014/15 to support the ongoing net operational impact. Further details can be found on pages 12 & 13 of Appendix 1.

The predicted total balance of cash-backed Earmarked Reserves at the year-end is now £9,800k.

5.3 Staffing

There has been no change to the Council's establishment during Q4, though 4.8 FTEs have been removed during the year so that in March the Council's total staffing level was 158.2 FTEs. The reduction in staff and the number of vacant post during the year has contributed to cash savings of £216k. The ongoing impacts of these savings have already been reflected in the original budgets for 2015/16 as approved back in February.

5.4 **Treasury Management**

Interest rates on the Council's bank accounts continue to be a concern with forecasts that any increase in base rates will be deferred until at least spring of 2016. With this in mind, officers placed £4m with Lloyds for 364 days to earn 1% interest during January. The Council's average rate of return at the end of March was 0.61%, but the overall average for the full year was 0.55%.

The impact of the investments above will help to maintain interest income during 2015/16, but officers have been advised by Capita Treasury Management specialists to consider the use of Money Market Funds over the coming months to help boost returns. In order to begin this process members are asked to consider an amendment to the Council's Treasury Management Strategy at item 5.8 below.

Collection rates for current year debts continues to perform well with 97.2% of all debts raised up to the end of February having been collected by the end of March. Though the year-end debt position had risen to £424k, 59% of this was under 30 days old and so not yet overdue. By the end of the year the value of debts issued were up over 40% on the same time last year, partly due to the invoices being issued now for rental incomes due on properties brought back into use through the HCA scheme.

Officers considered the value of doubtful debts at the end of the year and made a specific provision of £74k in relation to the Empty Homes Scheme debts, bringing the overall bad debt provision up to £162k against a doubtful value of £160k. No further sundry debt provision was therefore deemed necessary.

5.5 **Capital Receipts and Minimum Revenue Provision (MRP)**

By the end of the year the level of capital receipts from asset sales had increased to £547k. Property sales accounted for £245k of this, well above the original budget of £100k. Also, during quarter 4 the obsolete refuse vehicle fleet was sold at auction in separate lots over several months which successfully achieved an income of £302k, again well above the pre-sale estimate of £200k required to contribute towards the costs of the new fleet.

5.6 **Capital Programme**

The only new capital project during quarter 4 was the £45k approved for Whitaker Park Museum refurbishment project, which brought the total programme up to £4,817k, funded from a mixture of capital grants and other contributions as well as some internal borrowing which will be repaid by increased MRP from 2016/17 onwards once these projects have been completed.

During the last three months of the year Western Park play area works were almost completed, the Veterans in Communities team purchased a mini-bus with their MoD grant and the new refuse vehicle fleet were received over a number of weeks to coincide with the old fleet being sent to auctions. DFGs completed during the year were valued at £595k which was 67% of the total programme.

Page 29 of the monitoring report at Appendix 1 gives a list of the slippage items where works are being carried forward into 2015/16, along with the approved funding streams. Slippage this year totals £1,901k, of which £943k is to be funded from capital receipts that will now appear on the balance sheet at the year-end and £403k of which will be funded from grants to be received when the projects begin.

5.7 **Collection Fund – Council Tax and Business Rates**

Collection rate for Council Tax and Business rates have both recovered slightly during February and March, but Council Tax has ended the year below the 2013/14 level.

Council Tax has seen policy changes on empty properties and a slow-down in rating appeals which look set to return a surplus of £122k for the Council.

Business Rates, as explained in detail on page 32, are showing around £235k operational surplus for this council, but these funds cannot be accessed until 2015/16. Section 31 grants and localism reliefs the council has accrued for £519k, but central government will require £344k of this to be paid back over in March in the form of a levy. This means a net £410k benefit for this council.

5.8 **Treasury Management Strategy – consideration of an amendment**

Back in February Full Council approved the annual Treasury Management Strategy and Treasury Management Practices. These focused the Council's investment strategy on high street banks but, given the poor performance of these accounts and deposits during 2014/15, officers have been advised by Capita Asset Services treasury management specialists to consider some investment in Money Market Funds. In order to do this the Strategy will need to be amended.

Money Market Funds are a pool of cash managed by an independent fund management company. Frequently these are well known banks or investment houses investments whose objective is to earn interest for shareholders while maintaining a net asset value (NAV). A money market fund's purpose is to provide investors with a safe place to invest easily accessible, cash-equivalent assets. It is a type of mutual fund characterized as a low-risk, low-return investment and local authorities are permitted to invest in sterling denominated funds with a AAA credit rating and domiciled in the EU. UK-based Funds are regulated by the Financial Services Authority.

A money market fund's portfolio is comprised of short-term (less than one year) securities representing high-quality, liquid debt and monetary instruments. Shares can be purchased and sold on the same day if necessary and without penalty. Unlike stocks, money market fund shares are always worth £1. What changes is the rate of interest those shares earn, called "yield."

As a client of its Asset Services division, the council could purchase shares of money market funds through Capita's brokerage system, benefiting from their professional credit worthiness reports and yield analysis comparisons. For members information the CCLA money market fund which is a unique, specialist property fund available only to Local Authority Investors has recently been running at a gross dividend yield of 4.72%.

Members are asked to consider the following amendment to the Treasury Management Strategy to include Money Market Funds in the list of approved investment counterparties.

- Money Market Funds - using only those with AAA long-term rating backed up with lowest volatility rating (MR1+)

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. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

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

8.2 Directors, Heads of Services and Budget Holders

8.3 Capita Asset Services specialist treasury management advisors

9. CONCLUSION

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

9.2 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.

9.3 With the MTFS challenges in mind officers are seeking members views on the potential of investing in Money Market Funds and a recommendation that Full Council approve an amendment to the Treasury Management Strategy and Practices to allow such dealings in the future.

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