ROSSENDALE ALIVE BOROUGH COUNCIL

ITEM NO. E1

Subject:	Q2 Financial Monitoring Report 2016/17		**Status:**	For Publication	
Report to:	Cabinet		**Date:**	19th October 2016	
Report of:	Finance Manager		**Portfolio Holder:**	Resources & Performance	
Key Decision: ☐	Forward Plan ☒		General Exception ☐	Special Urgency ☐	
Community 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	That Members note the contents of the report.

2. PURPOSE OF REPORT

2.1 The purpose of the report is to update Members on:

- the Q2 financial monitoring report for 2016/17 as at the end of September 2016.

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 reflected in the 2017/18 budget working papers.

- The budget-setting exercise back in February identified a further reduction in resources over the medium term producing a future in-year deficit at the time totalling up to £600k by 2020/21. Though these figures are continually being reviewed, Members, collectively, still continue to face some difficult choices in order to balance expenditure with available resources over the medium term.
- Any continued austerity planning by Central Government resulting in a further reduction of central government resources and the implications of Brexit.
- The pending results of the intervention by The Secretary of State in relation to the Scout Moor wind turbine expansion.
- At the October 2015 Cabinet meeting the Council's risk register score for the alignment of financial resources and expenditure was updated from E3 to C1(moderate likelihood and catastrophic impact).
- The former Chancellor's spring 2016 announcement with regard to the 100% future retention of local business rates.

5. BACKGROUND AND OPTIONS

5.1 2016/17 Q2 Monitoring Report

Appendix 1 is the Q2 financial monitoring update for 2016/17 covering July to September and the forecast adverse variance for the full year has increased from £476k at Q1 to £708k. The movements in Q2 have been a mix of favourable and adverse items as follows:

<u>Favourable variances</u>

- An improvement of £27.5k in the forecast variance on the housing benefit subsidy
- Settlement of the Mount Pleasant HMO costs, resulting in income of £59.6k
- VAT Shelter receipts accrued for at the end of 2015/16 were on the prudent side. The actual received is £79.6k about that anticipated in March.
- The Council has billed Rossendale Transport Ltd for prior year management fees totalling £91k
- Internal Audit Fees accrued for at the end of 2015/16 also look to have erred on the cautious side, the actual bills being around £10k less than expected.

<u>Adverse variances</u>

- Incomes are experiencing mixed results at the moment with gains in Building Control but adverse movements in Trade Waste, Recycling, Planning and Licensing. The net is £38.5k adverse shift.
- Vehicle maintenance and hire in showing an adverse movement of £40k, but officers have yet to determine the profile of new vehicles to be purchased. Once these decisions have been made there is likely to be a saving in the MRP charge for 2016/17 which could offset this overspend.
- The annual cost of the new Environmental Insurance Policy to cover the former Council houses transferred to Green Vale Homes back in March 2006 is £15.9k. This will be an annual cost for the duration of this 10-year policy.
- The drop in interest rates to 0.25% (and a further drop predicted before Christmas) has virtually wiped out the favourable variance for interest income predicted back at Q2, but the current expectation is that interest will just about hit the original budget target.
- The running costs of the Empty Homes Scheme continue to grow prior to the Council's

exit. The adverse movement of £285.2k this quarter includes a bad debt provision of £108k to cover former tenant rents not collected. The costs anticipated here are dependent on properties transferring to the new third-party managing agent, Calico, by the end the calendar year.

Most of the adverse variance relates to the Empty Homes Scheme and officers are now in the process of gradually transferring properties to the new third party management agent, Calico Housing Association. This is one of the final measures ongoing to exit the scheme and minimise future costs to the Council.

5.2 Earmarked Reserves

The opening balances on Earmarked Reserves were £8,796k and in the original budget members approved the use of £514k to support the 2016/17 revenue service costs.

To date the net adverse variance above includes £875k on the Empty Homes Scheme, but savings in other areas are reducing the net variance to £708k. Over the next few months officers will consider the best possible combination of funding options for these additional costs and the capital renovation costs, given the balance of the HCA grant still to be applied, the balance of £1,252k on the Empty Homes Reserve, owner contributions and the potential for using internal borrowing. However, for now the net £708k has been assumed to be funded from the Empty Homes Reserve.

The overall Earmarked Reserve balance is therefore expected to be £7,478k by March 2017, though this is likely to reduce to £2,943k by March 2021.

5.3 Government Grants Unapplied

For the first time in many years officers did not manage to utilise the full DFG grants received in 2015/16 and so £153k of the Better Care Funding for that year has been carried forward. Confirmations have been received that the Green Vale Homes grant has now ceased, however, Better Care Funding grant for 2016/17 has risen from £424k to £791k, so additional staffing resources have been secured to ensure that the service delivery can meet these expectations. At the end of Q2 the works committed or paid for total £382k, some 40% of the revised DFG programme of £944k.

New grants also carried forward into 2016/17 included the Clean Bus Technology Fund at £486k which began to be utilised in early July to upgrade Rossendale Transport buses over the summer months. By the end of Q2 this scheme was 80% complete with just 7 buses remaining.

Given the high level of DFG grants being received at the moment it is unlikely that the Housing Capital Pot grant will be required to top-up the funds available for the foreseeable future, therefore the level of unapplied grants predicted at March 2017 is £515k.

5.4 Staffing

The re-structure of the Finance Team has increased the establishment by 1 FTE to bring the total current establishment up to 171.7 FTEs, against which there were 12 vacant posts at the end of September. The whole of the £150k of vacancy savings have now been allocated out across the departments (figures for that distribution can be seen on page 24 of Appendix 1. In addition to this departments are showing a further net saving anticipated for the year of

£35.7k as shown below. Therefore, although some sections might be reporting an adverse staffing variance in Appendix 1, this is after the £150k target has been removed, and overall the picture is still favourable.

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5.5 Treasury and Cash Management

At the end of September the total balances had returned to £12.8m from £10.1m at beginning of the year, and a high of £16.8m in the middle of September. The main treasury management concern is the interest rates forecasts. Base rates fell to 0.25% in August and the impact of this has reversed virtually all of the favourable variance reported on interest income back in Q1. Our Treasury Management advisors are forecasting a further cut to 0.1% before Christmas which could last until 2018, therefore officers have been quite prudent with the forecast on the level of interest available in January when the 364-day deposits of £4m are up for renewal.

To date £2,491k of new invoices have been raised, including £791k for the Better Care DFG grant in April which was received very promptly. Of the £716k of general debt outstanding, 60% was under 30 days old. Where specific concerns have been raised, provision for doubtful debt has already been charged into the General Fund, and the current doubtful debt provision balance is £106k to meet the doubtful debts value of £119k. Officers will monitor the need for additional doubtful debt contributions.

The above debts exclude the rent on Empty Homes Scheme properties, which continue to be a concern with a Q2 arrears balance of £312k (of which £156k was former tenants). Against this there was a £146k doubtful debt provision brought forward and a £107k contribution expected during this financial year.

5.6 Capital Receipts and the Capital Expenditure Programme

There have been no further capital receipts during Q1, but overall officers still expect to achieve the target of £75k.

The capital programme started the year at £955k, to which £4,945k of slippage was added. New projects during 2016/17 now total £1,370k, including an additional £291k DFG grant (making £944k in total for DFGs this year) and around £1m of Flood Resilience Grants to support over 240 local properties. This brings the revised capital programme up to £7,270k.

Activity in Q2 includes the installation of solar panels at Marl Pits and Whitworth Civic Hall, completion of Fallbarn Play Area. The revised DFG programme is now 40% spent/committed.

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

Council Tax collection rates at the end of September are marginally below those of previous years, but the Council Tax element of the Collection Fund is showing a forecast surplus of £630k (up from £470k at Q1) with the Council's share being £96k (up from £72k at Q1).

Meanwhile current collection rates for Business Rates (NNDR) are behind the previous year. Officers suspect that there has been a shift for some business to opt for 12 payments rather than 10. Although officers are forecasting an overall full year deficit on collection of £572k, members should note that this is more than made up for in the precept surplus, Section 31 grants and £216k due solely to RBC from renewable energy. The final table on page 32 shows this gives an overall gain for RBC of £775k, just above the MTFS target of £760k.

5.8 **Medium Term Financial Strategy (MTFS)**

The last MTFS was presented to Members in February 2016. Based on a number of assumptions and risks an underlying future funding gap of c.£600k per annum was forecast Since February 2016 there have been no significant changes in the assumptions.

5.9 One of the biggest risks in the MTFS, outside the control of Council, is the Secretary of State's determination of the Scout Moor wind farm expansion, scheduled to commence October 2016, although a final date for completion is unknown. The Council's latest MTFS assumes a positive determination leading to a development and therefore a future income source to Council (commencing October 2019) of c £600k pa. Should this not be the case the Council's future funding deficit will be in excess of £1.2m pa.

5.10 The key pressures remaining for Council and its MTFS are:

- The future Rate of Council Tax
- Renewable energy income
- Continuing to optimise the value of New Homes Bonus
- Securing an exit strategy for the Empty Homes programme
- Maximising the returns from local business rates
- Renewing the provision of the Revenues and Benefits service on a similar cost base
- Mitigating the negative impact of the end of "Cost Share"

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. Staffing issues have been discussed with colleagues in the People & Policy section.

9. CONSULTATION CARRIED OUT

9.1 Directors, Heads of Services and Budget Holders

9.2 Capita Asset Services specialist treasury management advisors

10. CONCLUSION

10.1 Robust monitoring of the General Fund and MTFS 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. 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.
Capita Asset Services "Citywatch" report for June 2016 and subsequently July 2016	Financial Services
2016/17 Corporate Priorities, Budget, Council Tax and The Medium Term Financial Strategy.	RBC website - Full Council 24/02/2016