Rossendalealive BOROUGH COUNCIL

ITEM NO. E1

Subject:	Financial Monitoring Report 2016/17		**Status:**	For Publication	
Report to:	Cabinet		**Date:**	30th November 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.
1.2	That Members approve the use of £200k from the Transport & Infrastructure reserves to support the anticipated future costs of the Local Plan.

2. PURPOSE OF REPORT

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

- Current financial monitoring report for 2016/17
- The latest position regarding the Council's Medium Term Financial Strategy.

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. Given the potential lifetime financial value to the Council Officers will consider the options available should the Secretary of State not endorse the locally determined planning decision.
- 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 Monitoring Update

The November Cabinet meeting is outside the quarterly monitoring cycle given that the October Cabinet updated Members as at Q2 September 2016. The last update indicated an in-year adverse budget variance of £707k. A revised forecast is not presented, however, following key areas are likely to change:

- Empty Homes - the transfer of properties to the managing agent, Calico, is now well under way. So far the financial risk of 84 properties have been transferred and a further 45 properties have been passed across for renovation works to commence. This leaves 131 properties still to transfer in the coming weeks and an additional 45 where the Council is seeking to return the properties to the owners. Officers will be closer to finalising the costs of the Empty Homes operations at the end of December when all the properties which as due to transfer to Calico have been completed and refurbished where required..
- Licensing - the impacts of the policy changes appear to be having less of an impact on the income than first expected, especially in the case of the vehicle licenses. As the year goes on the income forecasts will continue to be clarified, but for now officers anticipate a £50k improvement on the Q2 forecasts.
- Operations - in Q2 the costs of vehicle hire and maintenance were showing an overspend of £22k and £32k respectively as officers delayed replacing some vehicles while a full assessment of ongoing needs and safety requirements were undertaken. It is unlikely that the replacement light vehicles will be in place until the new financial year and whilst this has increased the above costs by a further £12k, there will now be an offset saving on Minimum Revenue Provision until the new vehicles are in place. The MRP saving is c £89k, of which £55k can be netted off against the Operational overspends above and £34k can offset other General Fund variances.
- In accordance with the decision at Full Council in September officers have now

concluded the re-mortgage of the Rossendale Transport Ltd building and the Rossendale Leisure Trust loan. This will result in a saving from the Council of £28.3k in 2016/17 and £68k per annum in future years. The Transport re-mortgage will improve the interest income for the Council by around £4k in 2016/17 and £9.5k per annum from 2017/18 onwards.

Following the above changes, the overall forecast for the General Fund variance has improved by c. £170k to a c. £540k overspend.

5.2 **Earmarked Reserves**

The Q2 September monitoring report noted in the reserves section that c £200k of budget resources were likely to be required in order to finance the remaining costs of the Local Plan. The Transport & Infrastructure reserve was identified as a funding source. Cabinet are asked to approve this recommendation.

5.3 **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 a number of changes have materialised to change the MTFS which has therefore been updated in order to assist, amongst other things, the Council's 2017/18 budget planning.

5.4 As always the MTFS is based on a number of core assumptions which are as follows:

- Staff pay will increase by 1% each year
- Council Tax will increase by the 1.9 % each year being the maximum allowed before triggering rights to a referendum
- The Councils share of Business Rates, net of the annual tariff will increase by 2% per annum and that the Council will continue to ne part of the Lancashire "Pool" .
- Central Government general funding will end in 2018/19.
- All New Homes Bonus receipts continue to form part of the Council's core budget
- Revenue from the Scout Moor renewable energy will commence in 2019/20.

5.5 The Current financial forecast is as follows:

	2016-17 £000	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £001	2021-22 £000
Budget Estimates	**8,610**	**8,275**	**8,344**	**8,535**	**8,678**	**8,809**
2015/16 forecast savings						
Estimated Funding:						
Council Tax	4,986	5,168	5,271	5,376	5,483	5,592
Council Tax Base Growth		-	39	78	119	160
RSG	1,086	503	189	-	-	-
NNDR	1,924	2,034	2,094	2,000	2,040	2,081
Transitional Grant	33	-	-	-	-	-
Collection Fund Surplus - Council Tax	66	-	-	-	-	-
NNDR Retained	254	624	880	880	880	880
Resources	**8,349**	**8,330**	**8,473**	**8,334**	**8,522**	**8,713**
Surplus / (further savings required)	***(261)***	***55***	***130***	***(200)***	***(157)***	***(96)***
Potential cost pressures - A		(130)	(770)	(800)	(830)	(830)
Potential savings - B		75	75	409	743	453
Surplus / (further savings required)	***(261)***	***(0)***	***(565)***	***(592)***	***(244)***	***(473)***
Use of Reserves	261	0	565	592	244	473
Surplus / (further savings required)	**0**	**0**	**0**	**0**	**0**	**0**

5.6 The cost pressure and savings are as follows:

Cost pressures - A	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'001	2021/22 £'001
DWP Admin Subsidy	30	60	90	120	120
LCC Cost Share & Recycling Income	0	610	610	610	610
Volume & Technical	100	100	100	100	100
	130	**770**	**800**	**830**	**830**

Possible savings - B	2017-18 £000	2018-19 £000	2019-20 £000	2020-21 £001	2021-22 £000
Local Business Rates (Renewable Energy)	0	0	217	434	434
Rental income (Renewable Energy)	0	0	117	233	233
NHB	0	0	0	0	(290)
Net RLT Grant saving	75	75	75	75	75
	75	**75**	**409**	**743**	**453**

Clearly some of the above have been agreed by Members and will now feed into the core budgets for 2017/18 and beyond:

- Cost share
- Leisure Trust savings

NB - The negative impact from NHB (New Homes Bonus) is a result of an anticipated reduction in the current six year arrangement to a new four year proposal.

5.7 Since February 2016 a number of changes have been made to the MTFS as a result of the following adjustments (see 2020-21):

Budget Estimates (reduced by £804k)

- New Homes Bonus now part of core budget £586k (previously agreed by Members)
- Staff Turnover £150k (previously agreed by members)
- Professional fees and grants (previous forecast error corrected) £85k
- Increase in future years pension contribution from 14.1% to 15.5% (cost c £64k) less a reduction in the deficit contribution (£159k) – Net £95k
- Director of Communities costs – c. £90k

Resources (increased by £561k)

- Increased of £81k from Council Tax income
- Lancashire pooling and local renewable business rates £480k

5.8 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. Following a public enquiry the inspector will submit his report on or before the 28th February 2017. 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 and a lifetime value of c £20m. Should this not be the case the Council's future funding deficit will be back to c £1m

5.9 **2016 Pensions Valuation**

The preliminary indications from the actuary indicate a reduction in the pension deficit of c.£159k which is factored into the above MTFS. Officers will give consideration to a proposal to make an additional voluntary contribution (c £500k) in excess of those suggested by the actuary. The advantage of making an additional voluntary contribution is that it will reduce future contributions further following the publication of the next pension valuation in 2019.

Should members wish to reinvest this saving into the pension deficit the future years deficit payment saving will increase by an average £60k per annum over the remaining 16years.

In addition, Lancashire Finance Officers are proposing to the actuary that they retain the current repayment deficit period of 19 years, rather than reducing it by 3 years as previously planned. It is estimated that should a 19 year period be retained an additional £140k pa saving can be attained.

5.10 Subject to the core assumptions above, the key tactics for bridging the above deficit are:

- Charging for green waste in order to mitigate the cost of a non-statutory service
- 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
- Consider increasing the annual vacancy control target (currently £150k)
- Consider recycling the 2017 pensions savings into the pensions deficit in order to further reduce 20/21 contributions and/or retaining the current 19 year deficit recovery period (subject to decision of the pension fund).
- Renewing the provision of the Revenues and Benefits service on a reduced cost

basis

- Working with grant receiving partners to attain financial independence
- Annually increasing fees and charges by the higher of inflation (CPI) or 1% each year. Not increasing fees in any one year is a missed opportunity and cause operational difficulties in future years if the Council tries to implement a price increase in excess of inflation rates..

Clearly, the sooner any of the above can be introduced the sooner savings can be achieved, therefore, placing less reliance on the Transitional Reserve and making additional funds available for other initiatives such as that noted in para 5.9 re voluntary pension contributions.

A prudent estimate of the value of the above bridging tactics must be a minimal c. £500k pa.

6. SECTION 151 OFFICER

6.1 Financial matters are noted in the report attached.

6.2 The Council's MTFS is in a reasonable state but the Council cannot be complacent until it finally balances future expenditure with available resources. Members must continue to look beyond the next 12 months and focus on the longer term.

6.3 Given the financial value to the Council and its MTFS, the Council should consider its options should the Secretary of States final decision regarding Scout Moor not go in favour of the applicant.

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

9.3 The annual budget consultation will now commence seeking the public's views on:

- the Council priorities
- the Council's 2017/18 Budget expenditure,
- the level of Council Tax for 2017/18
- Fees & Charges
- any other suggestions or measures for bridging the anticipated future funding gap

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.
2016/17 Corporate Priorities, Budget, Council Tax and The Medium Term Financial Strategy.	RBC website - Full Council 24/02/2016