Rossendale
BOROUGH COUNCIL

ITEM NO. D1

Subject:	Financial Monitoring Report 2017/18 as at end July 2017		**Status:**	For Publication			
Report to:	Cabinet		**Date:**	13th September 2017			
Report of:	Finance Manager		**Portfolio Holder:**	Portfolio Holder for Resources and Customer Services			
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	That Members note the contents of the report.
1.2	That Members approve the write-off of the East Lancs into Employment debts and the subsequent additional £20k contribution to the doubtful debts reserve.

2. PURPOSE OF REPORT

2.1 The purpose of the report is to update Members on the financial performance in the first four months of the year compared to the original budget set back in February.

3. CORPORATE PRIORITIES

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

- **A clean and green Rossendale:** our priority is to keep Rossendale clean and green for all of Rossendale's residents and visitors, and to take available opportunities to recycle and use energy from renewable sources more efficiently.
- **A connected and successful Rossendale that welcomes sustainable growth:** our priority is to ensure that we are well connected to our residents, key partners and stakeholders. We want to make the most of every pound we spend and we are always looking for new and innovative ways to make the resources we do have, work harder for us.
- **A proud, healthy and vibrant Rossendale:** our priority is to ensure that we are creating and maintaining a healthy and vibrant place for people to live and visit.

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 and the impact of variances being reported here will be assessed when officers are considering the detailed 2018/19 budgets in the coming months.
- Progress in identifying and implementing further savings to meet the challenges in the Medium Term Financial Strategy (MTFS) are being reflected in the 2018/19 budget working papers.

- Members will be aware that the recent decision by the Secretary of State in the wind farm extension appeal puts an added pressure of £600k per annum on the MTFS.
- In light of this the Council's risk register score for the alignment of financial resources and expenditure will need to be updated from its current rating of C1(moderate likelihood and catastrophic impact)
- The Council must explore ways of bridging its forecast funding gap. Amongst other things this may include becoming more commercially aware, aiming to grow its resources alongside the challenges to its cost base.
- Any continued austerity planning by Central Government resulting in a further reduction of central government resources and any potential implications of Brexit.

5. BACKGROUND AND OPTIONS

5.1 2017/18 Financial Monitoring as at the end of July 2017 (see Appendix 1)

This first monitoring report in 2017/18 covers actual activity in the four months from April to July and forecasts the full-year impact to be a favourable variance of £233.7k, driven in the main by fortuitous one-off gains or changes in support of the MTFS. The most notable changes shown below:

5.1.1 Favourable one-off variances

- NNDR refund of £111k on the old Town Hall and OSS going back for several years
- Management fee charged to Rosso of £53.5k

5.1.2 Recurring variances which will impact upon the MTFS

- The implications of policy changes to taxi licensing are having a greater impact on the income (and to some extent the costs) in 2017/18 that was expected. This impact was slower than expected in 2016/17, but now seems to have caught up with the original predictions made when the policy was reviewed.
- Savings arising from the advance payment of the pensions liability are expected to be £99.8k in 2017/18 and similar savings can now be built into the budgets for the next 2 years.
- Reviewing the operational life of assets and any residual values applicable has decreased the MRP payable over the remaining years by £54.5k.

5.1.3 Other in-year variances

- Housing Benefits - a net £52k adverse prediction on the subsidy calculations and the reimbursement of discretionary housing grants. This is countered by favourable variances of £39.9k on recovery of overpaid benefits and £15.9k Council Tax support grants
- Greater emphasis on collecting Council Tax and NNDR, combined with slightly slower progress in actual collections to date, have resulted in more cases being taken to court and so more income from the recovery of court costs, leading to a favourable prediction of £25.3k for the year.
- Increases in fuel and vehicle maintenance costs are likely to amount to £61k, but these are being partly offset by a reduction of £20.5k in the contribution to the replacement reserve and parks operational savings of £20.7k. Future costs are dependent upon a robust replacement schedule to balance the maintenance costs v. renewal costs.

5.2 **Earmarked Reserves**

The total cash-backed Earmarked Reserves brought forward at 1st April 2017 were £6,229k (excluding the Transport Reserve).

Officers recommend the allocation of the first £20k of surplus in 2017/18 to balance the Directorate Investment Reserve, and then the remaining £213.7k could be transferred into the Transitional Budgetary Reserve, to leave an anticipated balance of £2,660k at the end of 2017/18 to support the future requirements of the MTFS.

The Business Rates Retention Reserve now reflects the in-year variances discussed in detail on page 32, including the renewable energy income of £153k for the year. Members may recall that the amount received in 2016/17 was £241k, but this represented over 18 months of entitlement.

The Planning Reserve is expected to be called upon to support £164k of costs in 2017/18, leaving just £21.7k for future costs. The last time that funds were transferred into this Reserve was in 2014/15, followed by a £200k transfer from the Employment and Transport Reserve ins 2016/17. There are no plans at present re-commence contributions into this Reserve to fund future District Plan costs.

The forecast closing balance at the 31st March 2018 is now £6,063k, but planned usage through the life of the MTFS of the Local Business Rates Retention Reserve and the Transitional Reserve, will reduce this to £2,302k by March 2021.

5.3 **Government Grants**

The opening value of Government Grants Unapplied at the 1st April 2017 was £566k, including £392k of DFG slippage. Better Care Funding for DFG grants in 2017/18 has been received now at £869k, leading to a total funding available in 2017/18 of £1,261k.

The Homelessness grant of £82k is the balance of funding received by Rossendale as administrator of the young persons homelessness grant, its usage is undetermined.

The Transforming Lives and Hoarding Grants are a joint project with the PCC to tackle problems early and these funds are expected to be spent during 2017/18.

The forecast balance at March 2018 is £82.1k.

5.4 **Staff Monitoring**

Members will recall that the original budget set a vacancy saving target of £150k. The table on page 4 of the attached report shows a current forecast of £114.4k net savings across all departments. Officers will now work with managers to determine a robust allocation of the original target. As the table on page 24 shows, £29k has been achieved in cash terms in the first four months of the year.

5.5 **Treasury and Cash Management**

As noted at 5.1.2 above, the savings arising from the advance payment of the pensions liability are expected to be £99.8k in 2017/18 and similar savings can now be built into the budgets for the next 2 years. This represents an effective interest rate of around 2% per annum compared to the current running average on banking investments of 0.35%.

The Council's current banking portfolio performance of 0.35% which cannot compare with the Capita model at 0.58% as that is driven by investments in foreign banks which the Council's Treasury Management Strategy considers too risky. However, when combined with interest from the Rosso mortgage investment of £1.05m which is earning 2.8% interest per annum, the total average interest rate rises to 0.48%, giving a net adverse variance of £6.7k.

Though the Council's advisors do not see the bank base rate rising until summer 2019, they are still predicting a sharp rise in the PWLB borrowing rates in the next couple of months. Officers and Members need to develop a clear understanding of any future borrowing requirements if the current low rates are to be taken advantage of.

5.6 **Debt Monitoring**

Four months after the end of the year, the collection rates for 2016/17 sundry debts has risen to a commendable 99.98%. However, members may recall that the East Lancs into Employment organisation went into administration earlier this year owing the Council £18.3k. Officers have now written this balance off against the doubtful debt provision already made during 2016/17, hence the reduction in debts prior to 2014/15 in the table on page 27, but now seek retrospective formal approval for this action.

New debts in 2017/18 are also being targeted and virtually all of the balance outstanding from April relates to invoices which are collected in instalments throughout the year. To date £1,936k has been raised, of which 87.7% has already been collected, including £869k of DFG grant.

Given the focus on collecting debt wherever possible, officers have identified £99.1k as potentially doubtful. Against this the balance of the doubtful debt provision is now £78.8k, therefore officers recommend a further doubtful debt contribution of £20k and this has been built into the current forecasts on page 20/21.

5.7 **Capital Resources and the Capital Programme**

Though there has been very little activity in selling Council assets so far this year, officers are optimistic that the target of £50k will be reached. As part of the MTFS development officers will be reviewing the deminimis level for receipts during Q2 and report their findings in the next report.

The Capital Programme approved back in February was £885k, principally £500k of DFGs, £130k of CPOs, £135k of building maintenance works and £130k of operational spend on parks, playing fields and vehicles.

At the end of 2016/17 there was £8,873k committed to ongoing capital projects, known as slippage. These projects included £5,241k for Spinning Point Phase 1, £1,601k for the ongoing Bacup THI scheme and £391k balance of DFG grants and a full list is shown on page 29 of the attached report. Of the £1,762k capital receipts brought forward at 1st April, £635k was already committed to funding these slippage projects.

By the end of July a further £627k has been added to the programme, £369k from the increase in Better Care Fund for additional DFGs and £258k for various parks and playground projects along with £52k of grant received for CCTV upgrades.

This brings the total revised Capital Programme up to £10,385k with three major schemes being the Bacup THI, Spinning Point Phase 1 and the DFG grants.

- Bacup THI has incurred £434k to the end of July, 27% of the scheme for the year.
- Spinning Point has received the £3.4m grant from LCC and incurred £368k to date on the demolition phase of the works.
- On DFGs £280k has been spent or committed, which represents 22% of the new scheme total for the year of £1,260k.

5.8 **Minimum Revenue Provision**

Officers have reviewed the operational life of some of the assets renovated/extended using internal borrowing with a view to reducing the annual MRP pressure on the Council's revenue account. There is potentially £82k of savings, but at the moment only £56k has been included in this quarter's monitoring report.

The remainder of the potential savings relate mainly to operational vehicles and equipment which are undergoing a full renewal review at the moment. When that review is concluded the MRP impact for 2017/18, and future years, will be more certain and it can then be incorporated into a future monitoring report.

5.9 **Section 106 Agreements**

The tables on page 29 of Appendix 1 show the current agreements in force which are available for Rossendale Council projects, with the balance of funds and any deadline dates.

At the moment there is £157.6k available for revenue projects, principally from the Douglas Rd/ Tong Lane development which has no time limit specified in the agreement.

There is also £228.7k for capital projects, including agreements from developments at Cowm Park Way, Holmefield House and Mytholme House. Funds received from the Eastgate development have been spent by the end of July deadline on the Healey Dell Woodlands and Pump Track projects noted on page 29. The next known expiry deadline is July 2020 for the £110k Cown Park Way agreement monies to be spent on public open spaces projects.

5.10 **Collection Fund**

The collection rates for council tax are marginally down on the same time last year at 37.91% whilst the business rate collections are ahead of 2016/17 at 36.85%. With a strong focus on collecting funds promptly there has been an increase in court cost recharges for both council tax and business rates, leading to a favourable forecast of £25.3k on page 7 of Appendix 1.

The current projection for the overall council tax collection fund is a surplus of £469k, of which this Council would keep £72k. This represents just over 15% of the total, with the majority going to Lancashire County Council

Under the new business rates scheme, variances from the original budgets fall into two categories – those arising from changes to the collection fund and those arising from grants and levies received or charged to the General Fund. Changes to the Collection Fund are currently forecast at a surplus of £475k, of which Rossendale keeps £190k (40%). However, this is subject to volatile areas such as rateable value changes by the Valuation Office, and therefore the level of appeals provision, and the level of doubtful debt provision required. The surplus above takes into account a reduction of £184k in the valuation decisions to July, plus a further provision of £700k for the remainder of the year and £279k doubtful debt provision.

The second area of variance occurs in the revenue accounts based upon the entitlement for this Council year-on-year, renewable energy income and the S31 grants made available to cover central government relief decisions. At present officers predict a favourable variance of £861k, of which Rossendale would always have been able to keep £431k (or 50%). The Lancashire pooling arrangement will allow the retention of a further £388k, with £43k going into the pool.

Therefore, the overall gain on business rates is predicted to be £892k, compared to the MTFS target of £800k.

COMMENTS FROM STATUTORY OFFICERS:

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. CONCLUSION

9.1 Robust monitoring of the General Fund and MTFS 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. Members, collectively, continue to face difficult choices in order to balance expenditure with available resources over the medium term, especially in light of the wind farms adverse decision.

9.3 Council should not get complacent following this 2017/18 favourable variance forecast, but remember the forthcoming significant reductions in income: Rate Support Grant, waste cost share and renewable energy.

9.4 Members are asked to give formal retrospective approval for the writing off of the East Lancs into Employment debt of £18.3k

Background Papers	
Document	Place of Inspection
Financial monitoring statements for each service area.	Financial Services.
2017/18 Corporate Priorities, Budget, Council Tax and The Medium Term Financial Strategy.	RBC website - Full Council 1/03/2017