Rossendale
BOROUGH COUNCIL

ITEM NO. E1

Subject:	Financial Monitoring Report 2017/18 as at end Dec 2017		**Status:**	For Publication	
Report to:	Cabinet		**Date:**	21st February 2018	
Report of:	Finance Manager		**Portfolio Holder:**	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.

2. PURPOSE OF REPORT

2.1 The purpose of the report is to update Members on the financial performance in the first nine 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) have been 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 December 2017 (see Appendix 1)

This second monitoring report covers actual activity from April to the end of December and forecasts the full-year impact to be a favourable variance of £199.1k. The most notable changes from the £233.6k favourable variance forecast back in September are shown below:

5.1.1 Favourable one-off variances

- Legal costs of £12.3k reported in previous months as an adverse variance in relation to a Business Rates court case, can be recovered from the Collection Fund.
- Income of £9.5k has been received towards the costs incurred in previous years on a domestic homicide review.
- Grant of £30k has been received towards the costs of creating the Custom Build Register.
- Delays in filling vacancies in Health, Housing & Regen and Corporate Management have resulted in £43.4k of savings in 2017/18, contributing towards the £150k target saving for the year.

5.1.2 Adverse one-off variances

- Refurbishment of a Rawtenstall property has cost £14k

5.1.3 Favourable recurring variances which will impact upon the MTFS

- Recovery of court costs awarded for the collection of Council Tax and Business Rates has increased another £11.8k, bringing the annual favourable variance above £37k.

5.1.4 Adverse recurring variances which will impact upon the MTFS

- Following conclusion of the Licencing team restructure, staffing costs have increased by £49.2k, offsetting the staffing savings noted at 5.1.1 above.

5.2 Earmarked Reserves

The total cash-backed Earmarked Reserves brought forward at 1st April 2017 were £6,228k (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 £123.7k could be transferred back into the Transitional Budgetary Reserve, to leave an anticipated balance of £2,549k 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 £157k for the year.

The Planning Reserve is expected to be called upon to support £111k of costs in 2017/18, and a further £97k in 2018/19.

The forecast closing balance at the 31st March 2018 is now £5,970k, but planned usage of the Transitional Reserve through the life of the MTFS will reduce this to £2,930k by March 2021.

5.3 **Government Grants**

The opening value of Government Grants Unapplied at the 1st April 2017 was £591k. The DFG grant for 2017/18 was £869k, leading to total funds available in 2017/18 of £1,261k. Following slow referrals from the LCC Occupational Health team, officers now expect to complete around 65 grants in 2017/18 and carry forward around £438k (35% of the total available).

The Homelessness grant of £82k is the balance of funding received by Rossendale as administrator of the young persons homelessness grant but its usage has not yet been determined.

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. Of the £91k brought forward, £38k has been spent by the end of Q3.

With the carry forward of DFGs, the forecast balance at March 2018 has now risen to £545k.

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 £118.8k net savings across all departments. As the table on page 24 shows, £93k has been achieved in cash terms in the first nine months of the year.

5.5 **Treasury and Cash Management**

As the tables on page 25 show, the bank balances this year have been around £2m less than the 2016/17. This has been the combined result of the following strategic activities

- the £4.6m pre-payment of pensions costs,
- the receipt of the £3.4m LCC Spinning Point contribution,
- payment of Spinning Point demolition costs,
- payment of £770k flood resilience grants ahead of reimbursement from LCC.

Following the maturity of the one 364-day 1% deposit with Lloyds in December, and its replacement at only 0.85% interest rate, the average bank interest rate at the end of Q3 has dropped to 0.35%. Since the Bank of England base rate increase to 0.5% back in November, our average interest rate target has increased to 0.65%, but banks have been slow to increase their own account rates.

The balance in the NatWest accounts exceeded the £5m threshold in out Treasury Management Practices in the December on two occasions: when the 364-day deposit was being re-arranged and in the run up to the Christmas in order to meet payment commitments during the holidays.

Receipt of interest from the Rossendale Transport Mortgage occurred in April and October 2017, therefore there has been no change in the interest receivable following the sale of the company in January. However, the effects of the sale have been reflected in the interest income budget for 2018/19.

5.6 **Debt Monitoring**

New debts raised in 2017/18 now total £3,278k, of which 93.7% has already been collected.

Despite the focus on collecting debt wherever possible, officers have identified £113.6k as potentially doubtful. Against this the current balance on the doubtful debt provision is £99.6k, (including the additional provision of £20k approved in July and included on page 20/21). At the year-end officers will consider if a further provision is required, however at least £34.8k of the older outstanding debt is recorded on the Local Land Charges Register, so the cash should come in to the Council eventually.

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 sale of one piece of land in January will more than meet the target for the year.

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 September a further £765k had been added to the programme, but officers acknowledged that around £722k of the Bacup THI works are due to occur in 2018/19. This adjustment has reduced the anticipated capital programme to £9,922k

This brings the total revised Capital Programme down to £9,922k with three major schemes still being the Bacup THI, Spinning Point Phase 1 and the DFG grants.

- Bacup THI has incurred £578k to the end of December, 58% of the scheme balance brought forward from 2016/17.
- Spinning Point is expected to cost £5.2m in total, of which £646k has been incurred to date on the demolition phase of the works.
- On DFGs £531k has been spent or committed, which represents 42% of the new scheme total for the year of £1,260k. Occupational Therapist referrals from LCC continue to limit the level of activity.

5.8 **Minimum Revenue Provision**

Given delays in replacing some operational vehicles & equipment, the total favourable variance on the MRP costs for 2017/18 has risen to £151k. Much of this is being used to offset the rising costs of vehicle maintenance, as noted on page 8 of Appendix 1.

Members are reminded that page 30 of the attached report explains that the net £20k adverse variance in Leisure investment MRP is more than repaid by Rossendale Leisure Trust Ltd under the arrangements put in place in November 2016 for the Haslingden Sports Centre equipment re-purchase.

5.9 **Section 106 Agreements**

The tables on page 30 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 £141.6k available for revenue projects, principally from the Douglas Rd/ Tong Lane development which has no time limit specified in the agreement.

There is also £199.2k for capital projects, including agreements from developments at Cowm Park Way, Holmefield House and Mytholme House. Members and officers are currently considering options for funding the Stubbylee Dell project, one option being the application of the remaining £13.7k from the Cloughfold development.

5.10 **Collection Fund**

The collection rates for both council tax and business rate collections are slightly above the 2016/17 positions at 84.03% and 82.46% respectively, an improvement since the Q2 report. 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 the favourable forecast of £37.1k on page 6 of Appendix 1.

The current projection for the overall council tax collection fund is a surplus of £659k, a drop of £124k since Q2, of which this Council would keep £82k. Rossendale keeps just over 15% of the total surplus, 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 have been revised downwards at Q3 to £208k (from £249k in July), of which Rossendale keeps £83k (40%). However, this is subject to volatile areas such as rateable value changes by the Valuation Office, and to the end of Q3 the borough's net rateable value has been reduced by £510k, compared with a forecast reduction of £451k back in September. However, as a result the downward decisions in Q3, the provision for future appeals is expected to reduce to £450k from £550k back in September.

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. In early January officers have been notified that the tariff for 2017/18 has been revised downwards to £2,534k, a favourable variance of £82k. At present officers predict a total favourable variance of £811k, of which Rossendale would in the past have paid over £405k to central government. The Lancashire pooling arrangement will allow the retention of this money, less a 10% share going to LCC through the pool.

Therefore, the overall gain on business rates is predicted to be £927k in 2017/18, compared to the MTFS target of £800k.

5.11 **Sale of Rossendale Transport Ltd**

When this report was being drawn together the Council was in the process of concluding the sale of Rossendale Transport Ltd, as decided by Members at Full Council on the 20th December 2017.

The full impacts of this sale have not yet been reflected in Appendix 1, but it will include a net cash gain of £1.3m, changes to the interest income in future years, and the acquisition of the Knowsley Road depot site. These transactions will be fully reflected in the Q4 report to Cabinet.

The depot represents an opportunity to attract a large business to the area and has been included in the MTFS as having the potential to earn a net income of £150k per annum.

Officers have been exploring this potential in the past few weeks and have begun to conclude that a business of the size requiring such a building as the depot is unlikely to lease, preferring the certainty of tenure and the capital growth that come with owning. Consequently retaining the depot may not be considered the best use of Council assets. In contrast, disposal of this asset could bring a new business into the borough with the associated jobs and economic development as well as generating a significant capital receipt, a proportion of which can be re-deployed into a more appropriate investment building that will generate a higher rental return.

Officers will continue to explore and assess both lease and disposal options and report back to Members as soon as possible.

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.

Background Papers	
Document	Place of Inspection
Financial monitoring statements for each service area.	Financial Services.
Full Council decision 20th December 2017	https://www.rossendale.gov.uk/meetings/meeting/1063/council
2017/18 Corporate Priorities, Budget, Council Tax and The Medium Term Financial Strategy.	RBC website - Full Council 1/03/2017