Rossendale
BOROUGH COUNCIL

ITEM NO. E1

Subject:	Financial Monitoring Report 2018/19 Q2	**Status:**	For Publication		
Report to:	Cabinet	**Date:**	28th November 2018		
Report of:	Finance Manager	**Portfolio Holder:**	Resources		
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 quarter of the financial year, compared to the original budget set back in February.

2.2 Members approve the renaming of the Employment & Transport Reserve to the Innovation & Regeneration Reserve.

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 2019/20 budgets in the coming months.
- The Council must explore ways of bridging its forecast c.£1m annual 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, plans for the local retention of 75% of the business rates by 2020/21, the current fair funding review and any potential implications of Brexit.

- Implications from the Government's latest consultation on the 2019/20 finance settlement: https://www.gov.uk/government/consultations/local-government-finance-settlement-2019-to-2020-technical-consultation

5. BACKGROUND AND OPTIONS

5.1 2018/19 Q2 Monitoring Report as at the end of September 2018 (see Appendix 1)

This second report of the financial year 2018/19, is showing an expected favourable variance of £117k, compared to the original budget of £10,032k. The most notable changes so far are shown in the table on page 5 of the report. The main changes being:

5.1.1 Favourable one-off variances

- Planning fee income is up £34k.
- Additional Burdens admin grants from the Department of Work & Pensions £18k
- Housing Benefit subsidy - although this report is forecasting a favourable £20k for 2018/19 this is a highly volatile area for the council and to predict such variances in the future would be unwise.

5.1.2 Adverse one-off variances

- Operational property running costs now look to be costing £20k more than the budget, but £14k of this is one-off in nature, relating to refurbishments and treatment of Japanese Knotweed.

5.1.3 Favourable recurring variances which will impact upon the MTFS

- On the grounds that 2017/18 returned a favourable £75k for the collection of court costs on Council Tax and Business Rates, the original budget for 2018/19 was increased by £40k. During Q2 the trend has continued, leading officers to expect the 2018/19 variance will increase to another £40k favourable.
- Historical pension commitments are decreasing year-on-year, so the £27k favourable being reported now for 2018/19 should continue, although some allowance for inflation will reduce this in future years.
- Interest income rates are rising again, with another base rate increase in August. This will improve the rates being earned in future years, but the use of reserves will mean that the impact is not as high as this year's favourable £6k forecast.

5.1.4 Adverse recurring variances which will impact upon the MTFS

- IT security and penetration testing costs are forecast to be £15k above the current budgets. With the increased emphasis on data protection and anti-fraud efforts, this is likely to lead to an increase in the 2019/20 budgets.
- Markets income continues to fall, with the adverse variance increasing to £27k.
- The 2018/19 income budget for licensing was reduced by over £210k following the policy decisions during 2016/17. Officers predict that the 2018/19 adverse variance will rise to £114k but most of this is being covered by staff savings.

5.2 Earmarked Reserves

The total cash-backed Earmarked Reserves brought forward at 1st April 2018 were £6,164k.

At the moment the £117k favourable variance on the General Fund would be transferred back into the Transitional Reserve, leaving a net balance of £3181k after the planned MTFS support up to 2020/21.

The closing balance at the 31st March 2019 is now predicted to be £5,201k, but planned usage, particularly of the Transitional Reserve through the life of the MTFS, will reduce this to £3,168k by March 2022. With these reserves being cash-backed, this reduction will impact upon bank interest receipts in future years.

5.3 **Government Grants**

The opening value of Government Grants Unapplied at the 1st April 2018 was £889k, including £708k of Disabled Facilities Grant carried forward into 2018/19. The allocation of Better Care funding for DFGs in 2018/19 is £947k, giving total resources for 2018/19 of almost £1,656k.

All grants are planned to be used during 2018/19, so the balance of unapplied Grants at March 2019 is expected to be £nil.

5.4 **Staff Monitoring**

The table on page 20 shows the cash saved on salaries at Q2 has been £106k, however, the table on page 4 is a more complete picture of the net projected savings for the year. Departments are anticipating a saving of £92.5k for the year plus £24k of additional leave purchased by staff. The target for staff savings built into the original budget was £150k, so there is still £33k to find.

5.5 **Treasury and Cash Management**

As the tables on page 21 show, the bank balances at the end of September were £13,337k.

At the end of Q2 there had been some small change in the individual interest rates on the bank accounts, with a further update on the NatWest current accounts coming into force on the 1st October. During Q2 another £2m was placed on 6-month deposit with the NatWest earning 0.71%. This means that the effective overall interest rate has increased slightly to 0.48%. Following the rise in August, bank base interest rates are now expected to remain static at 0.75% until summer next year.

The improvement in the effective interest rate, as well as the higher balances, has increased the forecast interest income by £9k to a net favourable £5k for the year.

5.6 **Debt Monitoring**

Of the £518k 2017/18 sundry debtor invoices outstanding at the end of March 2018, only £194k remains outstanding at the end of Q2. The £81k relating to 2017/18 activity represents a collection rate of 98.1% for the last financial year.

New debts raised in 2018/19 now total £2,267k, including the £947k invoice to LCC in June for the Disabled Facilities Grants which was received in July. This gives an outstanding debt at balance at the end of September 2018 of £523k.

Officers have identified that £103k of those debts outstanding as potentially doubtful, excluding £80k being collected by instalments throughout the year. The provision for doubtful debts began the year at £87k, leading officers to forecast a further provision contribution requirement of £20k which is built into the variances shown on page 16 & 17.

At least £34k 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

The Usable Capital Receipts brought forward at the 1st April 2018 totalled £2,625k of which £649k was required for projects carried over into 2018/19.

Capital Grants due for projects in 2018/19 are expected to total £7,379k of which £5,146k has already been received, including the allocation of £947k from the Better Care Fund in 2018/19 for Disabled Facilities Grants.

Members will recall that the Q1 report requested approval to applying around £660k of the available capital receipts to make an additional Minimum Revenue Payment (MRP). Following approval, this exercise has been concluded and £657k of one-off payments in 2018/19 will result in initial savings in 2019/20 MRP costs of £150k.

The original Capital Programme for 2018/19 was £1,443k, including £500k for DFGs and £693k for replacement operational vehicles. The slippage from 2017/18 was £7,489k, the bulk relating to the ongoing Bacup THI, Spinning Point Phase 1 and the DFGs. Additional projects so far in 2018/19 have added £473k, though £447k of this relates to the increased DFG grant.

The revised capital programme for 2018/19 at the end of Q2 is £9,355k against which £6,600k has either been spent or committed to date, equating to 71%.

5.8 Minimum Revenue Provision (MRP)

Given delays in replacing some operational vehicles & equipment, the total one-off savings on MRP costs for 2018/19 are predicted to be £75k, of which is being used to offset the rising costs of vehicle maintenance, as noted on page 8 of the report.

As item 5.7 above describes, an additional one-off £657k of MRP payments in 2018/19 will reduce the 2019/20 MRP costs by £150k, representing an initial return of 22.9%.

5.9 Section 106 Agreements

The tables on page 26 of Appendix 1 show the current S106 agreements in force which are available for Rossendale Council projects, with the balance of funds and any deadline dates.

At Q2, there is £132k available for revenue projects, principally from the Douglas Rd / Tong Lane development which has no time limit specified in the agreement, from which £10k is being transferred to the revenue account each year to support grounds maintenance costs.

There is also £208k 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 £14k from the Cloughfold development.

5.10 Collection Fund

While collection rates for council tax are slightly down on this time last year, those for business rates show an improvement of 0.83%, which could equate to an extra £100k being collected in the year.

The current projection for the overall council tax collection fund is a surplus of £266k (up from £105k in the Q1 report), of which this Council will keep £40k.

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 forecast as £224k favourable, the main features of the Q2 activity including

- in Q1 officers reported an increase of £592k in the net opening liability, but this looks to have been too optimistic and a more likely figure of £423k is being forecast now at Q2
- an increase in reliefs awarded of £62k
- a further reduction of £18k in the Doubtful Debt Provision, and
- maintaining the planned £600k contribution to the Appeals Provision.

The second area of variance occurs in the General Fund 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. the increases in reliefs have netted off against the reduction in opening debit, meaning that the net surplus for levy calculations remains largely unchanged from the Q1k forecast at £974k. The Lancashire pooling arrangement will allow the retention of this money, less a 10% share going to LCC through the pool.

Therefore, the table at the foot of page 28 maintains the prediction of an overall gain on business rates for 2018/19 of £1,037k, compared to the MTFS target of £800k, which bodes well for the MTFS. All things being equal, a prudent estimate would be to anticipate an additional £200k on-going annual surplus from the Council's share of NNDR.

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 above.

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.

9.3 With the MTFS challenges in mind, officers recommend the option to reduce the revenue impact of MRP in 2018/19 and future years through the one-off application of £660k of Capital Receipts in order to reduce revenue costs by £143k per annum. This would give an immediate return of 22% in the first year, averaging 7% over the MTFS.

9.4 Council should not get complacent following this prediction for a small net favourable variance in 2018/19, but remember the forthcoming significant reductions in external income sources: Rate Support Grant and New Homes Bonus. The MTFS plans for 2019/20 will see the use of £1,194k of reserves in order to balance costs and income. Such a strategy is not sustainable in the long term.

Background Papers	
Document	Place of Inspection
Service monitoring statements.	Financial Services.
2018/19 Corporate Priorities, Budget, Council Tax and The Medium Term Financial Strategy.	RBC website - Full Council 28/02/2018