CABINET

Provisional Revenue and Capital Outturn 2008/09
28 July 2009

Report of Head of Financial Services

PURPOSE OF REPORT					
This report provides summary information regarding the provisional outturn for 2008/09 and the timetable for completion of the closure of accounts process. It also sets out information regarding the carry forward of underspent/overspent revenue budgets and capital slippage for Members' consideration, and seeks approval of various Prudential Indicators for last year for referral on to Council.					
Key Decision	X	**Non-Key Decision**		**Referral from Cabinet Member**	
Date Included in Forward Plan	July 2008				
This report is public.					

RECOMMENDATIONS:

1. **That the provisional outturn, funding and variance analysis for 2008/09 be noted.**

2. **That Cabinet notes the transfers to provisions and reserves actioned by the Head of Financial Services as set out in section 2 of the report.**

3. **That Cabinet consider the carry forward of overspends on controllable budgets as set out at Appendix F.**

4. **That Cabinet considers the requests for carry forward of underspent revenue budgets as set out at Appendix G.**

5. **That Cabinet considers the requests for capital slippage as set out at Appendix J.**

6. **That the timetable for completion and reporting of the closure of accounts be noted, as set out in section 7 of the report.**

7. **That the Prudential Indicators as at 31 March 2009 as set out at Appendix K be approved for referral on to Council, as part of the Annual Treasury Management Report for 2008/09.**

Background

All local authorities have a statutory duty to produce annual accounts in accordance with various regulations and professional practice. This report provides an update on the issues arising and seeks Cabinet approval for various matters. Please note that larger copies of the appendices are available on request.

Proposal Details

1 Provisional Revenue Outturn

1.1 The work required to close the 2008/09 accounts has now been completed and the Statement of Accounts were approved by Audit Committee on 30 June 2009; all Members were invited to attend the meeting. A summary of the revenue outturn position for the main accounts of the Authority is set out below.

	Revised Budget **£000**	**Provisional Outturn** **£000**	**Variance (Favourable) / Adverse** **£000**
Housing Revenue Account (HRA) Deficit – relates to Council Housing Services	367	223	(144)
General Fund Budget Requirement– includes all other Council services	23,496	23,287	(209)

1.2 <u>Housing Revenue Account (HRA)</u>

1.2.1 The Housing Revenue Account was underspent in last year by approximately £144K *(2007/08 comparative: £367K underspend).* A summary of the HRA provisional outturn is set out at ***Appendix A*** and outline variance analysis is attached at ***Appendix B***. Points to note include the following:

– Income was slightly higher than budgeted, overall. Although service charge income was significantly higher, rental income was lower because of a one-off adjustment in respect of previous years and also investment income was much lower, due to a reassessment of the HRA's share of interest, in line with latest guidance.

– Provisions for Bad Debts have been increased, mainly due to non-recoverable rechargeable repairs, but also because of the need to make provision for court costs.

– Significant variances were experienced on repair and maintenance (overspent on responsive, underspent on planned works). Whilst the net position is not material, there are carry forward requests relating to delayed planned maintenance and therefore there may well be implications for the programme overall.

– Contributions into the Major Repairs Reserve were significantly lower than budgeted. This was in recognition of the pressure on the revenue outturn from the points mentioned above, but also that further savings have been generated on the Capital Programme. There is still the need to address the longer term financial prospects associated with the 30-year business plan, however – this piece of work has been deferred for the last couple of years or so but it is now underway. Reducing the 2008/09 contribution into the MRR could prove to be a short-term gain giving rise to more financial pressure in future, depending on the results of the business plan review.

1.2.2 Overall therefore, whilst in simple terms the outturn position for the HRA appears favourable, this may prove to be as a result of delaying or deferring some cost pressures. Linked to this, the sections on carry forward requests and capital slippage later in this report includes a number of items relating to the Housing Revenue Account.

1.3 <u>General Fund</u>

1.3.1 After allowing for various year end adjustments, there has been a net underspending of £209K during 2008/09 and a summary statement is included at ***Appendix C***; the underspending represents less than 1% of the Council's net budget requirement *(2007/08 comparative: c£456K underspend, 2% of budget)*.

1.3.2 A summary of the variances analysed primarily by service is included at ***Appendix D**.* There are many areas of relatively minor underspending on service provision but the largest item relates to concessionary travel, which was £104K or 3.5% under budget.

1.3.3 In addition there are several areas of net overspending and some areas where income shortfalls have been experienced. By far the largest adverse variance relates to investment interest; this is explained in more detail in the separate section on Icelandic investments included later in this report. Furthermore the outturn position takes account of the review of provisions and reserves and more details are provided in the section below.

1.3.4 The appendix also highlights the variances that were reported in Quarter 4 Performance Review Team (PRT) meetings. Year on year, the match between Quarter 4 reporting and outturn is improving but it is felt that there is still further room for improvement. Major variances will be reviewed in more detail as part of the current year's Quarter 1 reporting and Portfolio Holders and Budget and Performance Panel are advised to focus on these accordingly, and their possible implications for current and future years. The aim is to test out and challenge spending variances, to draw out any savings, or service or financial improvements needed. Also it may well be that further improvements to future financial reporting, or the closure of accounts or budget processes, will follow as a result.

1.3.5 In light of the above work, it is too early to gauge to what extent any variances will continue into the current year, but this will be picked up (for both General Fund and HRA) as part of the Corporate Monitoring Process and the Performance Review Team meetings as mentioned. The timescales for this are covered in section 7 of this report.

2 Provisions and Reserves

2.1 In closing the accounts for last year the Council's reserves and provision balances have been reviewed; this is in accordance with the policy and schedule approved by

Council back in February. A full statement is attached at ***Appendix E*** and the main issues and transfers are highlighted specifically below:

- The provision for Equal Pay Claims has been reduced by £200K. This reflects that it is now possible to make some reasonable estimates of known liabilities as at 31 March, although there is still scope for liabilities to change and so the provision needs to be kept under further review.

- The Bad Debts provision has been increased by £50K, to keep it in line with previous years when compared with the age analysis of debts.

- The Capital Support Reserve has been increased by £800K. This is primarily to provide cover for estimated potential losses in connection with Icelandic investments (see below) or other liabilities arising in connection with existing schemes. In this regard, a report on the Luneside Regeneration scheme is included elsewhere on the agenda. The level of reserve will be reviewed again later in the year, linked to the mid-year reviews of the Medium Term Financial Strategy / Capital Investment Strategy.

In total the additional net transfers to provisions and reserves amount to around £650K and they have already been reflected in the General Fund summary position outlined earlier, hence at this stage Cabinet is asked only to note them. It is stressed, however, that the balances on such funds will be reviewed again during the budget exercise. If circumstances improve and some of these financial pressures are alleviated, then any surplus balances can be reallocated to help support Council Tax targets or other spending priorities, in line with the Financial Strategy. The reverse would also apply, however.

3 Outturn Position regarding Icelandic Investments

3.1 Members may recall that for setting the 2009/10 budget, the need to make any provision for potential losses on Icelandic investments was effectively deferred, through the application of Government Regulations. At that time there was no real information on which to make any reasonable estimates for recovery prospects. In terms of interest, the budget was based on the assumption that no interest would be receivable on the £6M invested, from early October onwards. (Interest accrued up to that date was budgeted for, however, and will be built into the claims against the banks.)

3.2 In terms of the outturn and producing the accounts, the position is different. Recent guidance has indicated that the following recovery rates for each bank should be assumed, to support the accounting statements:

Glitnir	100%
Landsbanki	95%
KSF	50%

3.3 In essence, these reflect that currently the Council is ranked as a preferential creditor of Glitnir and Landsbanki and also that the Administrator of KSF has so far estimated that minimum total returns should be in the region of 50%.

3.4 Furthermore, the accounting guidance requires that the accounts (i.e. outturn) be based on the following:

- The assumption that interest would be receivable at the original investment rates (of around 6%), until all monies recoverable have been received.

- Full provision for all estimated losses (of both principal and assumed interest at the original investment rates, taking account of future years).

- For authorities applying the Regulation to defer the impact of such estimated losses, the full net loss should be deferred, after allowing for interest to 31 March.

3.5 The above requirements have quite a complex impact on the accounts of the authority, and its budgets in future years. The table below summarises that impact:

Changes In Icelandic Investments position, compared to Budget:	**2008/09 £'000**	**2009/10 £'000**	**2010/11-2012/13 £'000**	**Total £'000**
Increase in assumed interest receivable	(169)	(271)	(137)	(577)
Provision for estimated losses (incl. interest)	1,634			1,634
Deferment of losses, under Govt. Regulation	(1,201)			(1,201)
Net Impact - Variance from Budget (Favourable) / Adverse	**264**	**(271)**	**(137)**	**(144)**

3.6 In effect, of the total £1.6M potential loss, around £400K has been provided for in 2008/09 but £1.2M has been deferred, with no specific provision being made. That said, there is £800K available within the capital support Reserve as reported above. Furthermore, based on the assumed recovery rates, additional interest of £400K would be receivable over the next few years. If, in broad terms, recovery prospects remain unchanged, these amounts could be used to fund the total losses.

3.7 As mentioned earlier though, there may be other liabilities for the Council to address, in addition to Icelandic investments. There will be the need to keep the funding options for such matters flexible and under regular review. This is particularly so, given that the Government position regarding any flexibility on addressing any investment losses remains unclear, and prospects for recovery could change significantly.

4 Position on Carry Forward of Underspends and Overspends

4.1 As set out in the Financial Regulations the aims of the Carry Forward Scheme are to:

– provide some flexibility in delivering the Council's stated objectives
– remove the incentive to spend up budgets unnecessarily by year end, and
– promote good financial management.

4.2 Under the Scheme, the carry forward of overspends on controllable budgets is generally automatic. Requests for the carry forward of underspends is subject to Member approval, however. Whilst there is a need to protect the overall financial position of the Council, it is recognised that there is also the need to be fair to Service Managers in dealing with carry forwards and to ensure that the process does not act as a disincentive to sound financial management (i.e. does not encourage managers simply to spend up, to avoid 'losing' budgets).

4.3 In view of the above, last year Cabinet adopted the following approach to achieve a reasonable balance:

– Carry forwards of overspends were considered in view of the circumstance and level, but Cabinet exercised its discretion in waiving the carry forward requirement where the aggregate overspending of any service was less than £5,000.

– Cabinet considered certain requests for carrying forward underspendings but only where there were clear existing commitments against the appropriate budget and it was demonstrated that there was no scope for meeting such commitments from current year's allocations.

4.4 On the basis that Cabinet chooses to follow a similar approach for this year, details of overspends on controllable budgets (or net overspends, where applicable) are set out at ***Appendix F.*** This also incorporates the comments received from Service Managers. It can be seen that some items relate to known pressures such as energy costs. For many, actions have already been identified and therefore no further recommendations are made. As background, the determination of whether a budget is 'controllable' is not wholly objective. E.g. with energy costs, there may be some scope to control usage but energy prices will not be fully controllable. This is why there is a need to consider each case on its merits.

4.5 With regard to the carry forward of underspends, Service Heads have submitted various proposals and these are attached at ***Appendix G***. In total, they amount to £161K for General Fund and £52K for the Housing Revenue Account. If all requests were approved, it would have the following effect on revenue balances at the end of the current year. This makes no allowance for the impact of any decisions regarding overspends, however:

Fund	**Estimated Balances as at 31 March 2010:**			**Basic Minimum Balances Level**
	Per Approved Budget £'000	**Assuming all requests approved £'000**	**Variance (Surplus Balances) £'000**	**£'000**
Housing Revenue Account	350	442	(92)	350
General Fund	1,000	1,048	(48)	1,000

4.6 In essence, as the total value of carry forwards is less than the extent of net underspending, Cabinet could support all requests and still stay within the approved budget framework. In considering each bid, however, Cabinet should be mindful of the overall financial position and the MTFS/HRA Business Plan, as well as the impact on service delivery and what the request would achieve. Some items are clearly tied in with existing contractual or statutory commitments; others are not. It is also highlighted that because of their high value, some bids would need to be referred on to Council for final approval. This would be done in September.

5 **Capital Outturn**

5.1 In last year as in previous years, there have been some significant underspendings on the Capital Programme before the effects of slippage are taken into account. ***Appendix H*** includes a provisional capital expenditure and financing statement for the year, which is summarised in the table below. In considering the position Members should bear in mind the processes in place to ensure that schemes progress only when funding is available.

Capital Programme	**Revised Budget**	**Expenditure (before slippage)**	**Overspend or (Underspend)**	
	£'000	**£'000**	**£'000**	**%**
Council Housing	3,585	3,034	(551)	15
General Fund	11,578	10,517	(1,061)	9
Total Programme	15,163	13,551	(1,612)	11

5.2 Details of individual slippage requests from services have been received, a schedule of which is attached at ***Appendix J****.* In considering these, Cabinet is asked to note that many of the associated capital schemes are already underway and expenditure may already have been incurred in this year – the actual approval of slippage can be a formality. If Members have any questions on particular requests and/or are minded to refuse any, it would be useful to know prior to the meeting, to ensure that sufficient detailed information is available.

5.3 Information on recent years' slippage is also included below for comparison. This shows that whilst 2008/09 slippage is still significant, it has reduced from the abnormally high levels experienced in 2007/08. Any key issues will be analysed in more detail by the Officer Working Group.

	2008/09	**2007/08**	**2006/07**	**2005/06**
	£'000	**£'000**	**£'000**	**£'000**
Council Housing	478	480	157	1,118
General Fund	1,952	4,235	2,554	2,513
Total Slippage Requested	2,430	4,715	2,711	3,701

5.4 As well as slippage, it is clear from the outturn that a relatively small number of schemes have overspent in 2008/09 due to spending early, i.e. in advance of their 2009/10 Programme allocation. To compensate, their budgets will be reduced accordingly in the current year and these adjustments are also included at ***Appendix J***. It should be noted that for one such adjustment (West End Public Realm Works), the circumstances are different in that the completed scheme has overspent but has no further specific budget allocation for 2009/10, so a compensating adjustment has been assumed against the overall Housing Programme (funded by Grant) instead.

5.5 The table below pulls together the position after allowing for slippage, external funding adjustments and any early spending on 2009/10 schemes. The impact on resources for both the HRA and General Fund is favourable, resulting in additional resources being available. Again, any implications for current or future years will be picked up as part of the mid-year review for the Capital Investment Strategy. This review will also include a report on the overall performance against delivering the programme, as considering by the Officer Working Group.

Capital Programme	Revised Estimate £'000	Forecast Expenditure (including slippage) £'000	Overspend Or (Underspend) - Rounded £'000	Impact on Council Resources (Fav) / Adv £'000
Council Housing	3,585	3,512	(73)	(73)
General Fund	11,578	12,469	891	(43)

6 Prudential Indicators

6.1 Following the introduction of the Prudential Code for Capital Finance under the Local Government Act 2003, certain year end indicators must be produced for approval by Council. These are set out in ***Appendix K*** and their basic definitions are as follows:

Affordability: <u>Actual ratio of financing costs to net revenue stream</u>
This is basically total interest payments during the year, expressed as a percentage of the budget requirement.

Prudence: <u>Actual Capital Expenditure</u>
As set out in previous section – the spend incurred during the year excluding capital creditors brought forward.

<u>Actual Capital Financing Requirement</u>
Essentially this is the cumulative value of assets / capital expenditure that has not already been financed from cash resources such as capital receipts, revenue, etc. or covered by monies put aside for debt repayment.

<u>Actual External Debt</u>
In broad terms this is mainly debt outstanding that has been used to support previous years' capital expenditure but some other fairly minor long term liabilities are included.

6.2 The Indicators reflect the basis on which the budget was prepared; the final accounts have also been prepared on the same basis. The Prudential Indicators will be referred onto Council as part of the wider Treasury Management Annual report.

7 Timetable for Completion of Accounts and Associated Matters

7.1 The timetable for completion and consideration of any issues arising as a result of the outturn is as follows, for Cabinet's information:

Monday 21 July	Commencement of audit of Accounts
Friday 24 July	4 week public inspection period of Accounts ends

Monday 27 July	'Public access to Auditor' day
Tuesday 28 July	Cabinet: consideration of this report
July – August	Quarter 1 Performance Review – to include consideration on services' final outturn as compared with last year's provisional Quarter 4 reporting, where appropriate,
08 September:	Budget and Performance Panel: Quarter 1 report and any further detailed outturn consideration as required
16 September:	Council: referral of any issues as may be required, including carry forward requests and annual Treasury Management report.
23 September	Audit Committee: outcome of audit of accounts
October / November	Cabinet: MTFS / Capital Investment Strategy Update, & reporting of any further matters arising

7.2 It can be seen from the above that various aspects of the outturn will be reported through to Cabinet, Council and Budget and Performance Panel:

– Cabinet will receive high level information in connection with the impact of the outturn on financial monitoring for this year and on future years' projections within the Financial Strategy. It will also provide a basis for Cabinet Members to consider any related specific performance issues if required, through PRTs as appropriate.

– Certain matters such as the Treasury Management Annual Report and Budget Carry Forward requests above £10,000 require Council approval.

– Budget and Performance Panel will consider Cabinet reports and recommendations, and request more detailed information regarding individual service financial performance as appropriate, to hold the Executive (Members and Officers) to account.

8 OPTIONS AND OPTIONS ANALYSIS

The City Council has a legal requirement to ensure that its expenditure is fully funded and to produce a Statement of Accounts in accordance with proper accounting practice. In addition, the Prudential Indicators are a statutory requirement linked to the budgetary framework. For these aspects, therefore, there are no alternative options for Cabinet to consider. Members are being asked to endorse certain actions taken by the Head of Financial Services, however. Cabinet should consider whether it has sufficient information to do so or whether it requires any further justification.

The report requests Cabinet to consider a number of revenue budget carry forward matters and capital slippage. The framework for considering these is set out in the report but basically Cabinet may:

- Approve any number of the items / requests, in full or part.
- Refuse any number of the requests and if commitments have already been incurred, require alternative funding options to be identified. Cabinet should note, however, that this may impact on other areas of service delivery.
- Request further information regarding them, if appropriate. Cabinet is asked to bear in mind any work required against the value of the individual bids.

9 OFFICER PREFERRED OPTION AND JUSTIFICATION

The recommendations of this report are as currently set out.

10 CONCLUSION

2008/09 has been a difficult financial year for the Council. In particular, the downturn in the global economy has affected the Council both in terms of its investments and investment interest generated from cash flows. On a more local level income receipts from some Council activities have also fallen, but savings have been generated in other areas. The Council's reported financial position has improved overall, with balances slightly higher than expected – but this should be considered in context of deferring the majority of currently estimated losses in connection with Icelandic investments, and other potential liabilities facing the Council.

In due course the scrutiny of the financial outturn, in context of ongoing service delivery, will inform the review of the Council's 2009/10 corporate financial monitoring processes and its strategic financial planning.

RELATIONSHIP TO POLICY FRAMEWORK **The Outturn and Statement of Accounts report on all the financial resources generated and/or used by the Council in providing services or undertaking other activities under the Policy Framework.**	
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) **None directly identifiable, due to the high level nature of this report.**	
FINANCIAL IMPLICATIONS **As set out in the report.**	
DEPUTY SECTION 151 OFFICER'S COMMENTS **This report forms part of the section 151 officer responsibilities; clearly the outturn is also subject to external audit.**	
LEGAL IMPLICATIONS **Legal Services have been consulted and have no comments to add.**	
MONITORING OFFICER'S COMMENTS **The Monitoring Officer has been consulted and has no further comments.**	
BACKGROUND PAPERS **Financial Regulations, MTFS, LGA 2003**	**Contact Officer: Nadine Muschamp** **Telephone: 01524 582117** **E-mail: nmuschamp@lancaster.gov.uk**