

CABINET

Provisional Revenue and Capital Outturn 2011/12 03 July 2012 Report of Head of Financial Services

PURPOSE OF REPORT

This report provides summary information regarding the provisional outturn for 2011/12. It sets out information regarding the carry forward of underspent/overspent revenue budgets and capital slippage for Members' consideration. It also incorporates the treasury management outturn report 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 2012

This report is public.

RECOMMENDATIONS OF COUNCILLOR BRYNING

1. That the provisional outturn for 2011/12 be noted, including the transfers to provisions and reserves actioned by the Head of Financial Services as set out in section 4.2 of the report.
2. That Cabinet considers the recommendations regarding carry forward of overspendings as set out at Appendix F.
3. That Cabinet considers the requests to carry forward underspent revenue budgets as set out in Appendix G.
4. That Cabinet approves the requests for capital slippage as set out at Appendix J.
5. That the Annual Treasury Management report as set out at Appendix K be noted and referred on to Council.
6. That the Prudential Indicators as at 31 March 2012 as set out at Appendix L be approved for referral on to Council.

1 BACKGROUND

All local authorities have a legal duty to produce annual accounts, in support of openness and accountability. The work required to close the 2011/12 accounts has now been completed and the draft Statement of Accounts will be signed off by 30 June to meet the statutory deadline. The Statement will be freely available on the Council's website.

This report provides Cabinet with an update on issues arising from the outturn, including treasury management, and seeks Cabinet approval for various matters. Councils' financial performance is integral to its service performance overall and Members are advised to consider this report in that context.

Please note that larger copies of the appendices are available on request.

2 PROVISIONAL REVENUE OUTTURN

- 2.1 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	(251)	(753)	(502)
General Fund Net Budget – covers all other Council services (but excludes parish precepts)	21,481	20,828	(653)

3 HOUSING REVENUE ACCOUNT (HRA)

- 3.1.1 The Housing Revenue Account was underspent in last year by approximately £502K (2010/11 comparative: £102K underspend). A summary of the HRA provisional outturn is included at **Appendix A** and outline variance analysis is attached at **Appendix B**. Points to note include the following:

- The bulk of smaller operational variances were picked up through quarterly monitoring. Significant savings were made on repair and maintenance, but these were not previously forecast. This is an area that is being addressed for future monitoring.
- A reduction in the level of arrears has resulted in a lower contribution to the bad debt provision. Finally, technical changes to the calculation of the Council's capital financing requirement have resulted in a lower interest recharge to the HRA.

3.1.2 Overall therefore, the outturn position for the HRA is favourable. Linked to this, the sections later in this report on carry forward requests and capital slippage include items relating to council housing.

4 GENERAL FUND

4.1 Revenue Outturn

4.1.1 After allowing for various year end adjustments, there has been a net underspending of £653K during 2011/12 and a summary statement is included at **Appendix C**. The underspending represents 3% of the Council's net budget requirement (2010/11 comparative: £1.087M underspend, 4.4% of budget).

4.1.2 This position is after providing for additional net contributions of £145K to provisions, more details of which are included in section 4.2 below. Before these contributions, the underspending was around £798K or 3.7% of the budget (2010/11 comparative: £1.6M underspend, 6% of budget; in last year extra contributions of around £500K were transferred into earmarked reserves).

4.1.3 A summary of the variances analysed primarily by service is included at **Appendix D**. The appendix also highlights the variances that were reported in Performance Review Team (PRT) meetings, and provides the following summary of the main factors behind the outturn position:

Factors influencing Outturn	Value (Favourable) / Adverse £'000
One-off windfalls and unforeseeable savings	(159)
Demand led variances	(581)
Efficiency savings	(139)
Service changes and reductions (including delays)	64
Budget setting issues / errors	1
Other variances (including where reasons are being clarified)	161
Net Total	(653)

4.1.4 The outturn is tighter than in previous years, although it is still felt there is some scope to strengthen budgeting still further.

4.1.5 All Service Heads have again committed to undertaking a full review of their underspendings over the summer, primarily as part of the current year's Quarter 1 reporting. The aim is still to draw out further savings and any service performance or financial improvements needed. Any budgetary matters arising will be reported through corporate monitoring and incorporated into the half-yearly Medium Term Financial Strategy (MTFS) review.

4.1.6 This process will lead into the 2013/14 budget and planning process, for which the timetable and other arrangements are due to be considered by Cabinet at its

September meeting. It will also allow other spending pressures or potential investment matters to be picked up, such as the Highways Partnership, Chatsworth Gardens, Lancaster Indoor Market, etc.

4.2 Provisions and Reserves

4.3 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 March. A full statement for General Fund is attached at **Appendix E** and the main issues and transfers are highlighted specifically below:

- For insurance, an additional contribution of £155K has been made in the provision, to ensure that the closing balance covers the estimated settlement values for claims outstanding as at 31 March. The increase is needed as a result of very old claims, administered under the former Municipal Mutual arrangements (prior to 1992).
- For bad debts, an additional contribution of £82K has been made to cover extra calls on the provision following a higher than anticipated level of housing benefit write offs.
- The balance on the Williamson Park provision of £92K is no longer required, as the company has now been wound up. This provision has therefore been closed.
- Budgeted revenue financing of £320K for Williamson Park steps and Lancaster Town Hall boiler replacement has been transferred into the Capital Support reserve as the schemes have been delayed until 2012/13.
- One new reserve has been established for Highways with the 2011/12 (unbudgeted) surplus of £45K transferred in, to provide support for anticipated additional cost pressures arising from the new Highways Partnership contract. This follows the recent decisions taken by Cabinet and Council and the last budget exercise.

4.4 In total the net transfers amount to £510K, with the related net impact on the budget being £145K (in respect of the first three items). All transfers have already been reflected in the General Fund summary position outlined earlier, hence at this stage Cabinet is asked only to note them.

5 CARRY FORWARD OF UNDERSPENDS AND OVERSPENDS

5.1 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.

5.2 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

services 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). That said, budgets exist for specific plans and purposes and the carry forward scheme is also designed to support this.

5.3 In view of the above, in previous years Cabinet has 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 sought to approve only those 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.

5.4 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**. As background, the determination of whether a budget is 'controllable' is not wholly objective, e.g. with income budgets, whilst the setting of fees and charges are controlled by the council the demand for those services is not controllable. That is why there is a need to consider each case on its merits.

5.5 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 £310K for General Fund and £29K 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 2013:			Basic Minimum Balances Level £'000
	Per Approved Budget £'000	Assuming all requests approved £'000	Variance (Fav'rble) £'000	
Housing Revenue Account	452	1,016	(564)	350
General Fund	2,021	2,364	(343)	1,000

5.6 With regard to the HRA, there is also the need to provide some revenue financing for capital slippage (£160K), as covered in section 6 below, which will be met from the HRA balance and has been reflected in the above figures.

5.7 Cabinet could support all carry forward requests as set out in the Appendix 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, 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, and some are requesting either a change in use of the budget underspend or for it to be applied to

new schemes or anticipated commitments. It is also highlighted that because of their high value, some bids would still need to be referred on to Council for final approval.

6 CAPITAL OUTTURN

- 6.1 In last year as in previous years, there is a sizeable net underspending 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. Members should note that the revised budget has been updated to reflect the decision to acquire vehicles and waste receptacles and fund them through unsupported borrowing rather than through sale and lease back arrangements, on value for money grounds. The update is in accordance with the delegated authority given to the Section 151 Officer as set out in the MTFs.
- 6.2 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	4,493	3,575	(918)	20
General Fund	7,445	5,190	(2,255)	30
Total Programme	11,938	8,765	(3,173)	27

- 6.3 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.
- 6.4 Information on recent years' slippage is also included below for comparison. Last year goes against the trend of reducing slippage and so the current year's monitoring will need to address this.

	2011/12 £'000	2010/11 £'000	2009/10 £'000	2008/09 £'000	2007/08 £'000
Council Housing	160	82	384	478	480
General Fund	<u>1,828</u>	<u>899</u>	<u>2,303</u>	<u>1,952</u>	<u>4,235</u>
Total Slippage Requested	<u>1,988</u>	<u>981</u>	<u>2,687</u>	<u>2,430</u>	<u>4,715</u>

- 6.5 The table below pulls together the position after allowing for slippage. The impact on resources for both the HRA and General Fund is still favourable and relates mainly to the photo voltaic cells scheme, with less call on various reserves (such as Invest to Save). Again, any implications for current or future years will be picked up as part of the mid-year review for the Medium Term Financial Strategy.

Capital Programme	Revised Estimate	Forecast Expenditure (including slippage)	Overspend Or (Underspend) - Rounded	Impact on Council Resources (Fav) / Adv
	£'000	£'000	£'000	£'000
Council Housing	4,493	3,735	(758)	(758)
General Fund	7,445	7,018	(427)	(527)

7 TREASURY MANAGEMENT

7.1 Annual Report

- 7.1.1 The annual treasury management report is attached at **Appendix K** and sets out the performance of treasury operations for 2011/12 in terms of long and short term borrowing, investment activities and relevant borrowing limits and prudential indicators. This must be referred on to Council.

7.2 Outturn Position Regarding Icelandic Investments

- 7.2.1 During 2011/12 the Council received favourable judgements in respect of preferential creditor status and as a result further distributions have been made. In very simple terms, by the end of 2011/12 the Council had received £4.125M of its claims (the original £6M invested plus around £300K interest) and anticipates receiving around £5.9M back in total. More details are included in the attached treasury report.

7.3 HRA Self Financing

- 7.3.1 At the end of the financial year, the HRA self financing transactions took place; the Council took on additional long term PWLB debt of £31.241M to fund the payment (of an equal amount) and so buying out of the Council Housing subsidy system..

7.4 Prudential Indicators

- 7.5 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 L** and their basic definitions are as follows:

Affordability: Actual ratio of financing costs to net revenue stream

This is basically total interest payments during the year, expressed as a percentage of the budget requirement.

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

Actual Capital Financing Requirement
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.

Actual External Debt
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.

7.6 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 also be referred onto Council as part of the wider Treasury Management annual report.

8 **TIMETABLE FOR COMPLETION OF ACCOUNTS AND ASSOCIATED MATTERS**

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

Monday 16 July	Commencement of audit of Accounts
Wednesday 18 July	Council: referral of any issues as may be required, including carry forward requests and annual Treasury Management report
July (date to be confirmed)	Budget and Performance Panel: Consideration of outturn
Friday 10 August	4 week period for public inspection of Accounts ends
Monday 13 August	Public access to Auditor commences
July – August	Quarter 1 Performance Review – to include consideration on services' final outturn and implications for current and future years (in particular, identification of ongoing savings)
Tuesday 11 September	Budget and Performance Panel; further detailed consideration of outturn in light of Quarter 1 monitoring, as appropriate
Wednesday 19 September	Audit Committee: consideration of audited accounts
October / November	Cabinet and referral on to Council: Medium Term Financial Strategy update, incorporating impact of outturn and current year's monitoring to date

8.2 It can be seen that various aspects of the outturn will be reported through to Members for their due consideration:

9 **DETAILS OF CONSULTATION**

As reflected in section 8 above, the statutory 4 week public inspection period will be underway soon. Information on the public's rights will be made available as part of this process.

10 **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. With regard to reserves contributions, there will be opportunities for these to be amended during the current financial year, as part of the usual arrangements.

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.

11 **OFFICER PREFERRED OPTION AND JUSTIFICATION**

Officer recommendations regarding any carry forward of overspendings are set out in Appendix F, as referred to earlier. Where there are alternative options for other aspects of the outturn, in view of the comments made above there are no specific officer preferred options put forward.

12 **CONCLUSION**

As at 31 March the Council has improved its financial standing overall by generating net efficiency savings and through other underspendings. Balances are again higher than forecast and this gives the Council some flexibility and comfort for addressing future challenges. Efforts to draw out ongoing efficiencies and other budget savings should be taken wherever possible, to improve value for money as well as 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.

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 comments to add.

BACKGROUND PAPERS

Financial Regulations, MTFS

Contact Officer: Nadine Muschamp

Telephone: 01524 582117

E-mail: nmuschamp@lancaster.gov.uk