

# CABINET

## Provisional Revenue and Capital Outturn 2007/08 31 July 2008

### Report of Head of Financial Services

PURPOSE OF REPORT			
This report provides summary information regarding the provisional outturn for 2007/08 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	<input checked="" type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>
			Referral from Cabinet Member
Date Included in Forward Plan	July 2008		
This report is public.			

#### RECOMMENDATIONS OF COUNCILLOR MACE:

1. That the provisional outturn, funding and variance analysis for 2007/08 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 6 of the report, and that Cabinet makes any further recommendations as appropriate.
7. That the Prudential Indicators as at 31 March 2008 as set out at Appendix K be approved for referral on to Council, as part of the Annual Treasury Management Report for 2007/08.

## 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 200708 accounts has now been completed and the Statement of Accounts were approved by Audit Committee on 25 June 2008; a briefing for Members of Audit Committee, Cabinet and Budget and Performance Panel was also held on 23 June. A summary of the revenue outturn position of the main accounts of the Authority is set out below.

	Revised Budget	Provisional Outturn	Variance (Favourable) / Adverse
	£000	£000	£000
Housing Revenue Account (HRA) Deficit – relates to Council Housing Services	409	42	(367)
General Fund Budget Requirement – includes all other Council services	22,580	22,124	(456)

### 1.2 Housing Revenue Account (HRA)

- 1.2.1 The Housing Revenue Account was underspent in last year by approximately £367K (2006/07 comparative: £408K 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 higher than estimated. This was due to a number of factors including shorter re-let times on properties becoming vacant during the year. Also additional investment interest was generated, as a result of interest rates and cashflow being better than expected.
- Capital spending was lower than budgeted, due to a combination of savings being achieved and also slippage being incurred on schemes. This resulted in a lower call on the Major Repairs Reserve in last year.

- 1.2.2 The section on carry forward requests later in this report includes a number of items relating to the Housing Revenue Account and these relate to various specific areas of underspending in the main.

## 1.3 General Fund

- 1.3.1 After allowing for various year end adjustments, there has been a net underspending of £456K during 2007/08 and again a summary statement is included at **Appendix C**; the underspending represents 2% of the Council's net budget requirement (2006/07 comparative: c£381K underspend, 1.8% of budget).
- 1.3.2 A summary of the variances analysed primarily by service is included at **Appendix D**. The main underspends relate to items such as extra Government grants being received in connection with the Local Authority Business Growth Incentive Scheme (LABGI) and net savings have been generated on many areas within City Contract (Direct) Services.
- 1.3.3 In addition there are several areas of net overspending including energy costs, and several areas where income shortfalls have been experienced. 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. It can be seen that whilst there are a fair number of items that have previously been reported, there are also a significant proportion that were not. It is envisaged that this is an area that Budget and Performance Panel may wish to review in more detail, to draw out the reasons for this. It may well be that improvements to future PRT financial reporting, or the closure of accounts or budget processes, will follow as a result. Individual Cabinet Members are also requested to draw on this, as part of the current year's Quarter 1 reporting, and Service Heads have been advised accordingly.
- 1.3.5 As a result of closing the accounts earlier it has again been possible to provide more meaningful variance analysis based on true 'cash' variances, i.e. eliminating the impact of various notional charges such as depreciation and pension costs. Further work is still required to ascertain whether any variances will continue into the current year, however, and this will be picked up as part of the Corporate Monitoring Process and the Performance Review Team meetings. This is covered in more detail in section 6 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:
- A new provision of £300K has been established in respect of equal pay claims; a report elsewhere on the agenda deals specifically with this issue and makes recommendations regarding its application.
  - A total of £102K of revenue financing for capital remained unspent in last year, because of slippage on capital schemes. On the basis that Members approve the capital slippage requests as set out in section 4, the unspent funding has been transferred into the capital support reserve, in order that it can be used to help fund the resulting capital expenditure in 2008/09.

- Furthermore in June Cabinet approved the provisional transfer of any additional Local Authority Business Growth Incentive to the Capital Support Reserve, in order to fund extra costs associated with Luneside East Regeneration, subject to this being considered in more detail as part of the 2007/08 outturn (minute no. 14 refers). In line with this resolution, £843K was duly transferred into the reserve as at 31 March, based on the provisional grant notification received from Government. It is pleasing to report that very recently Government has confirmed this allocation and the money has now been received.

With regard to the Luneside project itself, in addition to the compensation matters that were considered by Cabinet last month, Members will be aware that the main developer has not been able to meet certain funding conditions and this gives rise to a potential default under the building agreement. The difficulties are primarily as a result of the difficult economic conditions currently being experienced.

The Council's balance sheet includes debtors of £1.7M that would not be receivable if, in due course, the developer does default on the agreement and other alternative external funding arrangements are not secured. This would then mean that the Council would have to provide the financing from within its own resources. The Council has also accounted for European Regional Development funding of £2.5M, for which clawback liabilities may arise if the scheme does not achieve its planned outcomes. These 'contingent' liabilities were highlighted in the recently approved Statement of Accounts for 2007/08.

Given the commitment of partners to progress this project, however, and the specific market conditions giving rise to the current position, it seems probable that a positive outcome will be forthcoming, thereby avoiding any material liabilities falling on the Council. Negotiations are currently underway regarding the existing funding and building agreements and a further report on the outcome will be presented to Cabinet as soon as possible. In the interim, however, the Council continues to incur expenditure of approximately £10,000 per month for site costs and an estimated £8,600 in respect of 'lost' interest. These costs are unavoidable in the current circumstances, and therefore it is assumed that they also be funded from the Capital Support Reserve initially – although ultimately some of the lost interest may be offset through other cash flow and interest rate changes.

In view of these points, the level of reserve will be reviewed again once the outcome of the Luneside negotiations is known, linked to the mid-year reviews of the Medium Term Financial Strategy / Capital Investment Strategy.

- The existing Modernisation budget of £21,500 has been transferred into a new Modernisation Reserve, on the basis that expenditure does not fall in a regular annual pattern. Future years' budgets would be treated similarly, subject to the budget process.
- A new reserve of £9,500 has also been created in respect of Kellet Road Industrial Units to meet repair and maintenance obligations under the existing lease, which should have been provided for within previous years' budgets.
- A further £200K has been allocated to general Project Implementation Support, to provide funding for various corporate programmes and projects in support of the Council's objectives. In particular, these may include planning for accommodation related projects, electronic document management, and regeneration programmes. Once planning work has progressed on these areas, it should give

better information regarding financial appraisals and costings, which can then be incorporated into the Council's financial planning and budgeting arrangements as appropriate.

- Bad Debts provisions amounting to around £439K were held in connection with General Fund services (but excluding parking enforcement as this is now dealt with separately). The Head of Financial Services advises that in her view, these provisions are adequate and they are also comparable with the previous year, taking into account the age analysis of debts.

In total the additional net transfers to provisions and reserves amount to around £500K and they have already been reflected in the general 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 change or if decisions are taken that help alleviate some of these financial pressures, then any surplus balances can be reallocated to help support Council Tax targets or other spending priorities, in line with the Financial Strategy.

### 3 Position on Carry Forward of Underspends and Overspends

3.1 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.

3.2 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).

3.3 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.

3.4 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**; in total these amount to £237K. This also includes the comments received from Service Managers. It can be seen that some items relate to statutory functions, and known pressures such as energy costs. As such, the Head of Financial Services has given her views on suggested actions. In some cases, 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.

- 3.5 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 £218K for the Housing Revenue Account and £280K for General Fund. 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 2009:			Basic Minimum Balances Level £'000
	Per Current Approved Projection £'000	Assuming all requests approved £'000	Variance (Surplus Balances) £'000	
Housing Revenue Account	350	499	(149)	350
General Fund	1,544	1,720	(176)	1,000

- 3.6 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. Indeed, some relate to the carry forward of extra income that has been generated during the year, and could, therefore, be viewed as opportunistic. 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.

#### 4 Capital Outturn

- 4.1 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 overleaf. In considering the position Members should bear in mind the processes in place to ensure that schemes progress only when funding is available, and the recent strengthening of project management arrangements.

Capital Programme	Revised Budget	Expenditure (before slippage)	Overspend or (Underspend)	
	£'000	£'000	£'000	%
Council Housing	3,542	2,879	(663)	19
General Fund	18,455	12,752	(5,703)	30
Total Programme	21,997	15,631	(6,366)	29

4.2 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.

4.3 Information on recent years' slippage is also included below for comparison:

	2007/08	2006/07	2005/06	2004/05
	£'000	£'000	£'000	£'000
Council Housing	480	157	1,118	1,493
General Fund	<u>4,235</u>	<u>2,554</u>	<u>2,513</u>	<u>10,822</u>
Total Slippage Requested	<u>4,715</u>	<u>2,711</u>	<u>3,701</u>	<u>12,315</u>

4.4 It is clear that slippage in both areas has increased significantly in comparison with last year, and the reasons for this are being analysed in more detail by the Officer Working Group.

4.5 The table below pulls together the position after allowing for slippage and external funding. The impact on resources for the HRA is favourable, resulting in additional resources being available. For the General Fund there is a relatively minor adverse variance overall impacting on the City Council's own resources. This is because the majority of any apparent scheme overspends or underspends have been offset by external funding adjustments. Again, any implications for current or future years will be picked up as part of the mid-year review for the Capital Investment 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	3,542	3,359	(183)	(183)
General Fund	18,455	16,987	(1,468)	15

## 5 Prudential Indicators

- 5.1 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: 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.

- 5.2 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.

## 6 Timetable for Completion of Accounts and Associated Matters

- 6.1 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
Tuesday 29 July:	Budget & Performance Panel: briefing on outturn 4 week public inspection period of Accounts ends
Thursday 31 July	Cabinet: consideration of this report 'Public access to Auditor' day
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,
09 September:	Budget and Performance Panel: Quarter 1 report and any further detailed outturn consideration as required
17 September:	Council: referral of any issues as may be required, including carry forward requests and annual Treasury Management report.



24 September	Audit Committee: outcome of audit of accounts
07 October	Cabinet: MTFS / Capital Investment Strategy Update, & reporting of any further matters arising

6.2 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.

## 7 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.

## 8 OFFICER PREFERRED OPTION AND JUSTIFICATION

The recommendations of this report are as currently set out.

9 **CONCLUSION**

In 2007/08, once again the Council has kept its overall net spending well within budget (before consideration of carry forward requests and slippage) but there are significant variances on certain areas of activity. This again highlights the need to review the financial outturn in context of ongoing service delivery and the MTFS.

<b>RELATIONSHIP TO POLICY FRAMEWORK</b> 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.	
<b>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc)</b> None directly identifiable, due to the high level nature of this report.	
<b>FINANCIAL IMPLICATIONS</b> As set out in the report.	
<b>DEPUTY SECTION 151 OFFICER'S COMMENTS</b> This report forms part of the section 151 officer responsibilities; clearly the outturn is also subject to external audit.	
<b>LEGAL IMPLICATIONS</b> There are no legal implications arising from this report.	
<b>MONITORING OFFICER'S COMMENTS</b> The Monitoring Officer has been consulted and has no further comments to add.	
<b>BACKGROUND PAPERS</b> Financial Regulations, MTFS, LGA 2003	<b>Contact Officer: Nadine Muschamp</b> Telephone: 01524 582117 E-mail: nmuschamp@lancaster.gov.uk