

# CABINET

## Provisional Revenue and Capital Outturn 2009/10 27 July 2010

### Report of Head of Financial Services

PURPOSE OF REPORT				
This report provides summary information regarding the provisional outturn for 2009/10 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 2010			
This report is public.				

#### RECOMMENDATIONS OF COUNCILLOR LANGHORN:

1. That the provisional outturn for 2009/10 be noted.
2. That Cabinet notes the transfers to provisions and reserves actioned by the Head of Financial Services as set out in section 3 of the report.
3. That Cabinet approves the recommendations regarding carry forward of overspendings as set out at Appendix F, and that:
  - Cabinet portfolio holders ensure that the necessary budget savings are achieved during the current year, with monitoring through Performance Review Team (PRT) meetings;
  - Budget and Performance Panel be requested to include a review of the Housing Revenue Account responsive repairs overspending within their work programme for 2010/11.
4. That Cabinet approves the requests for carry forward of underspent General Fund revenue budgets as set out at Appendix G, with referral on to Council where appropriate.
5. That the Council Housing requests for carry forwards be deferred, pending consideration of the capital financing position and any implications arising.

6. That in order to strengthen current and future years' budget forecasting, Cabinet portfolio holders review all outturn variances, through Quarter 1 PRT meetings where possible, and that the outcome of this be included in the Corporate Financial Monitoring and Medium Term Financial Strategy mid-year update reports for Cabinet's later consideration.
7. That Cabinet approves the requests for capital slippage as set out at Appendix J.
8. That the timetable for completion and reporting of the closure of accounts be noted, as set out in section 8 of the report.
9. That the Prudential Indicators as at 31 March 2010 as set out at Appendix K be approved for referral on to Council, as part of the Annual Treasury Management Report for 2009/10.

## 1 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.

## 2 PROVISIONAL REVENUE OUTTURN

- 2.1 The work required to close the 2009/10 accounts has now been completed and the Statement of Accounts were approved by Audit Committee on 30 June 2010. Information on the key points arising has already been circulated to various Members and it is freely available on the Council's website. A summary of the revenue outturn position for 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	144	(29)	(173)
General Fund Budget Requirement – includes all other Council services	24,514	24,269	(245)

### 2.2 Housing Revenue Account (HRA)

- 2.2.1 The Housing Revenue Account was underspent in last year by approximately £173K (2008/09 comparative: £144K 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:

- An increase in the number of void properties and the repairs needed to bring them up to the required standard has led to additional costs, as have unrecovered or

unrecoverable insurance and rechargeable repairs. That said, more in-depth work is being undertaken to determine and address the reasons behind the scale of the overspending; the total overspend on responsive repairs amounts to £355K, i.e. 18% over budget. The outturn on responsive repairs will be raised specifically with Budget and Performance Panel for consideration as part of their Work Plan.

- Slippage on the capital programme resulted in a lower revenue financing contribution, although this results in further pressure in the current year.
- Provisions for Bad Debts have been increased, mainly due to an increase in the level of write-off following a joint review of unrecoverable debt with Legal Services.
- Savings were achieved on planned maintenance partly due to contract savings, but also because of delays in the procurement arrangements for scheduled electrical works.
- Additional grant income was received in respect of Choice Based Lettings.

2.2.2 Overall therefore, whilst in simple terms the outturn position for the HRA appears favourable, this is only as a result of delaying or deferring some cost pressures. Without these delays, the HRA would have been overspent by just over £300K. Linked to this, the sections on carry forward requests and capital slippage later in this report includes a number of items relating to this Account.

## 2.3 General Fund

2.3.1 After allowing for various year end adjustments, there has been a net underspending of £245K during 2009/10 and a summary statement is included at **Appendix C**; the underspending represents less than 1% of the Council's net budget requirement (*2008/09 comparative: c£209K underspend, 1% of budget*). This position is after providing for £1.3M of additional net contributions to reserves though, more details of which are included in section 3 below. Before these net contributions, the underspending was around £1.5M or 6% of the budget (*2008/09 comparative: £859K underspend, 4% of budget*).

2.3.2 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 £346K under budget. This was the largest variance for the previous year too, but there are still many unresolved issues regarding concessionary travel, not least future responsibilities, and at present unfortunately there is little more that can be done to strengthen future forecasting in this area.

2.3.3 On the other hand, there are also a few areas of net overspending and some areas where income shortfalls have been experienced.

2.3.4 The appendix also highlights the variances that were reported in Quarter 4 Performance Review Team (PRT) meetings, and provides a summary to date of the main factors behind the outturn position. So far, these can be analysed broadly as follows; a similar approach will be adopted for HRA:

<b>Factors influencing Outturn</b>	<b>Value £'000</b>
One-off windfalls and unforeseeable savings	(609)
Demand led variances	(267)
Efficiency savings	(383)
Service changes and reductions (including delays)	(158)
Budget setting issues / errors	(230)
Year end adjustments	1,494
Other variances (including where reasons are being clarified)	(92)
<b>Net Total</b>	<b>(245)</b>

2.3.5 It should be appreciated that the above analysis is not perfect; there are many budget variances that are influenced by a variety of factors and where this is so, a view has been taken on what is most relevant. Nonetheless, the above starts to give a useful picture on which to focus further work. This is with the aim of strengthening budgeting and forecasting, as well as identifying ongoing savings or actions to avoid future overspending. It clearly fits well with the planned work to define further standards of statutory and non-statutory service provision and will be used accordingly. It also helps more generally to reinforce consideration of the linkages between performance and spending/income generation.

2.3.6 Appendix D also shows that at least £100K of the General Fund underspends / savings will continue into current and future years. Major variances will be reviewed in more detail as part of the current year's Quarter 1 reporting where possible and Portfolio Holders are advised to focus on these accordingly. The aim is to draw out any savings, service performance or financial improvements needed; any changes arising will be incorporated into the corporate monitoring reports for the period. In turn this would improve financial and service planning for the future – and assist in balancing the budget.

### 3 PROVISIONS AND RESERVES

3.1 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 Impairment reserve of £1.363M has been established to cover further potential losses associated with the Icelandic investments; most of the revised budget provision of £945K has gone some way to help finance this, but section 4 below provides more details on this issue.
- New reserves have also been created where the Council received grants towards certain schemes or initiatives/activities that the Council had committed to as at 31 March, but the monies had not been used as at that date. These include the revenue element of Performance Reward Grant (received under the Local Area Agreement), Vacant Shops Funding and Connecting Communities. Whilst they increase the total contributions to reserves, they have no net impact on the outturn overall.

- In view of the increasing financial pressures on Local Government, a contribution of £800K has been made into the Revenue Support reserve to provide funding to facilitate future cost reduction programmes; these may include efficiency savings or service reductions. In light of this, use of the reserve will require the approval of Cabinet (or through the individual Cabinet Member for any non-key decisions, although this unlikely given its purpose). The reserve will be reviewed through quarterly monitoring and during budget and outturn and will be managed by Financial Services. It is highlighted that the restructuring reserve is expected to be fully utilised by the end of 2010//11. Its original balance of £943K will have enabled annual savings of well over £600K to be generated for future years.

In total the additional net transfers to provisions and reserves (excluding those relating to the various grant streams) amount to around £1.3M 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.

#### 4 **OUTTURN POSITION REGARDING ICELANDIC INVESTMENTS**

- 4.1 In revising the 2009/10 budget, £945K was provided to cover potential losses arising in connection with Icelandic investments and approval to capitalise up to a further £2.1M was gained from Government. These measures were taken in response to the decision by Glitnir’s Winding Up Board (WUB) to treat all local authority claims as non-priority, whereas Landsbanki WUB treated such claims as having priority. The ranking of claims has a significant bearing on expected recoveries.
- 4.2 In terms of these two investments, little has changed. Whilst legal advice remains that priority status should be gained for both Landsbanki and Glitnir, ultimately this will be determined through the Icelandic courts and indications are that it may well be up to a year before this is completed. This makes it more difficult to reach an informed view of the most likely outcome.
- 4.3 With regard to Kaupthing Singer & Friedlander (KSF) the position is clearer. Recovery prospects have improved of late and £717K (i.e. 35%) of the £2.048M claim, which includes interest, had been repaid to the end of March.
- 4.4 Taking account of the above information and relevant accounting guidance, provisions have been made on the basis that there is an even chance of the Glitnir and Landsbanki claims being classified as priority or non-priority. This equates to the following assumed recoveries:

Bank	2009/10 Revised Budget	2009/10 Outturn
Glitnir	30%	65%
Landsbanki	88%	67%
KSF	68%	71%

- 4.5 In line with the above, provisions of £2.189M have been set aside to cover potential losses. Of this amount, in very simple terms it may be viewed that around £1.96M relates to the original £6M invested, with the remaining £229K relating to interest adjustments. The capitalisation direction of £2.1M has been applied, with the balance of £89K being met from the revenue budget provision.
- 4.6 Given the uncertainties though, a further £1.363M has been set aside in a reserve, as referred to earlier. As only £856K was still available within the revised budget to help

fund this, this has resulted in a variance of £507K at outturn. That said, the changes mean that the Council has set aside sufficient funding to cover all potential currently estimated losses, should the outcome of the Icelandic litigation prove unfavourable.

- 4.7 If the outcome is favourable, however, the Council would have between £0.6M to £1.4M of reserves available for other purposes, as well as avoiding all or part of the £105K budgeted annual charge arising from using the capitalisation direction.

## 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 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). 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, 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.

- 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**. 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. 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 £109K for General Fund and £110K 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 2011:			Basic Minimum Balances Level
	Per Approved Budget £'000	Assuming all requests approved £'000	Variance (Surplus) / Shortfall £'000	
				£'000
Housing Revenue Account	350	49	301	350
General Fund	1,070	1,206	(136)	1,000

5.6 It should be noted that with regard to the HRA, there is also the need to provide revenue financing for the bulk of capital slippage, including any net overspendings, as covered in section 6 below. As a result, an adjustment of £364K has been made in the above table, but this would push HRA balances well below their minimum level in the current year, and effectively it would prevent Cabinet from approving any of the HRA carry forward requests. An alternative solution would be to consider whether the Major Repairs Reserve could be used to finance capital slippage, but the implications of this need further consideration.

5.7 With regard to General Fund, 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, 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. 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. Arrangements to remove this need have not yet been considered by Audit Committee.

## 6 CAPITAL OUTTURN

6.1 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	3,848	3,508	(340)	9
General Fund	11,990	9,465	(2,525)	21
Total Programme	15,838	12,973	(2,865)	18

6.2 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.

- 6.3 Information on recent years' slippage is also included below for comparison. This shows that whilst 2009/10 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 Corporate Programmes Working Group.

	2009/10	2008/09	2007/08	2006/07	2005/06
	£'000	£'000	£'000	£'000	£'000
Council Housing	384	478	480	157	1,118
General Fund	<u>2,303</u>	<u>1,952</u>	<u>4,235</u>	<u>2,554</u>	<u>2,513</u>
Total Slippage Requested	<u>2,687</u>	<u>2,430</u>	<u>4,715</u>	<u>2,711</u>	<u>3,701</u>

- 6.4 As well as slippage, the General Fund housing programme has incurred expenditure in 2009/10 in advance of external funding being received. To compensate, the relevant budgets will be reduced accordingly in the current year and these adjustments are also included at **Appendix J**.

- 6.5 The table below pulls together the position after allowing for slippage, external funding adjustments and any early spending on 2010/11 schemes. The impact on resources for the HRA is adverse, and will require additional financing in 2010/11, whilst for the General Fund the position is slightly favourable. 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. 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	Forecast Expenditure (including slippage)	Overspend Or (Underspend) - Rounded	Impact on Council Resources (Fav) / Adv
	£'000	£'000	£'000	£'000
Council Housing	3,848	3,892	44	44
General Fund	11,990	11,768	(222)	(5)

## 7 PRUDENTIAL INDICATORS

- 7.1 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.

7.2 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.

## 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 19 July	Commencement of audit of Accounts
Tuesday 27 July	4 weeks public inspection period of Accounts ends
Monday 28 July	Public access to Auditor commences
Tuesday 27 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,
07 September	Budget and Performance Panel: Quarter 1 report and any further detailed outturn consideration as required
15 September	Council: referral of any issues as may be required, including carry forward requests and annual Treasury Management report.
22 September	Audit Committee: outcome of audit of accounts
October / November	Cabinet: MTFS update (including the Capital Investment Strategy), & reporting of any further matters arising

8.2 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.

## 9 DETAILS OF CONSULTATION

As shown in section 8 above, the public inspection period for the accounts ends on the same date as the Cabinet meeting; information on the public's rights have been made available as part of this process. With regard to the Member recommendations in respect of the specific items relating to the Housing Revenue Account, consultation is underway with the portfolio holder.

## 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

The Council continues to maintain financial stability in a time of increasing financial pressure; whilst there are uncertainties surrounding the recovery prospects for Icelandic investments, the Council has ensured that all potential losses are now fully covered.

Although the reported financial outturn position is positive with balances higher than expected, the level of underspending is again high and it is imperative that the Council gains a full understanding of why this is, and takes any action as necessary, to ensure that future budget projections are as robust as they can be to avoid any unnecessary impact on future service delivery. Future budget setting will prove challenging enough.

<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>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> Legal Services have been consulted and have no comments to add.	
<b>MONITORING OFFICER'S COMMENTS</b> The Monitoring Officer has been consulted and has no 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