

# CABINET

## Provisional Revenue, Capital and Treasury Management Outturn 2010/11 26 July 2011 Report of Head of Financial Services

### PURPOSE OF REPORT

This report provides summary information regarding the provisional outturn for 2010/11 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. It also incorporates the Treasury Management Outturn report (previously this has been reported separately).

Key Decision

X

Non-Key Decision

Referral from  
Cabinet Member

Date Included in Forward Plan

July 2011

This report is public.

### RECOMMENDATIONS OF COUNCILLOR BRYNING

1. That the provisional outturn for 2010/11 be noted.
2. That Cabinet notes the transfers to provisions and reserves actioned by the Head of Financial Services as set out in section 4.2 of the report.
3. That Cabinet approves the recommendations regarding carry forward of overspendings as set out at Appendix F.
4. That Cabinet approves the requests to carry forward underspent General Fund revenue budgets numbered 1 to 14 and the Housing Revenue Account request numbered 19 all as set out at Appendix G, with referral on to Council where appropriate.
5. That Cabinet considers the remaining General Fund carry forward requests numbered 15 to 18, which involve some change of use from the original budget purpose, and makes recommendations as appropriate.
6. That Cabinet approves the requests for capital slippage as set out at Appendix J.
7. That the timetable for completion and reporting of the closure of accounts be noted, as set out in section 8 of the report.

8. That the Annual Treasury Management report as set out at Appendix K be noted and referred on to Council.
9. That the Prudential Indicators as at 31 March 2011 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 accordance with various regulations and professional practice. The work required to close the 2010/11 accounts has now been completed and the draft Statement of Accounts was signed off on 30 June 2011, in line with the statutory deadline. The full Statement is freely available on the Council's website.

For 2010/11, councils were required to adopt International Financial Reporting Standards (IFRS) and whilst this introduces greater comparability with private sector reporting, it does mean that the accounts are now more complex. To help with interpretation the 'foreword' section of the Accounts is presented in a less prescribed, simpler manner than the full Statement.

This report draws on information outlined in the foreword to provide 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.

|  | <b>Revised<br/>Budget</b> | <b>Provisional<br/>Outturn</b> | <b>Variance<br/>(Favourable) /<br/>Adverse</b> |
|--|---------------------------|--------------------------------|--|
|  | <b>£000</b>               | <b>£000</b>                    | <b>£000</b>                                    |
| Housing Revenue Account (HRA)<br>Deficit – relates to Council Housing<br>services                | 173                       | 71                             | (102)  |
| General Fund Net Budget – covers<br>all other Council services (but<br>excludes parish precepts) | 24,740                    | 23,653                         | (1,087)  |

## 3 HOUSING REVENUE ACCOUNT (HRA)

- 3.1.1 The Housing Revenue Account was underspent in last year by approximately £102K (2009/10 comparative: £173K 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 significant operational variances were picked up through quarterly monitoring.
- Significant efficiency and other savings were achieved but these were offset in part by the need to increase provisions to cover potential bad debts on rechargeable repairs and former tenant arrears. Improvements to the recovery arrangements are currently being implemented.
- Some minor slippage was experienced in planned maintenance and also slippage on the capital programme resulted in a lower revenue financing contribution, although these will require financing in the current year.

3.1.2 Overall therefore, the outturn position for the HRA is favourable, albeit that this has been influenced by some comparatively minor spending delays. 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 £1.087M during 2010/11 and a summary statement is included at **Appendix C**; the underspending represents 4.4% of the Council's net budget requirement (*2009/10 comparative: £245K underspend, 1% of budget*).

4.1.2 This position is after providing a little over £500K of additional contributions to provisions and reserves, more details of which are included in section 4.2 below. Before these contributions, the underspending was around £1.6M or 6% of the budget (*2009/10 comparative: £1.5M underspend, 6% of budget; in last year extra contributions of around £1.3M 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:

| <b>Factors influencing Outturn</b>                            | <b>Value<br/>£'000</b> |
|---|------------------------|
| One-off windfalls and unforeseeable savings                   | (328)                  |
| Demand led variances  | (138)                  |
| Efficiency savings  | (369)                  |
| Service changes and reductions (including delays)             | (659)                  |
| Budget setting issues / errors                                | (63)                   |
| Year end adjustments  | 524                    |
| Other variances (including where reasons are being clarified) | (54)                   |
| <b>Net Total</b>  | <b>(1,087)</b>         |

- 4.1.4 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 gives 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.
- 4.1.5 In addition to there being a comparatively high value of unforeseen variances that would not reasonably have been budgeted for, there are also some fairly major spending delays, which link to the carry forward requests set out in section 5, and also some fairly high efficiency savings achieved. The variances are too wide ranging to comment further but even allowing for all carry forward requests, a major net underspending still results.
- 4.1.6 Appendix D also gives preliminary indications from services on which variances may reasonably be expected to continue into current and future years. At present this has focused mainly on adverse areas where income levels are expected to fall, but given the scale and nature of the overall underspending, it is fully expected that overall, ongoing net savings should be identifiable from the outturn.
- 4.1.7 All Service Heads have therefore 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 to draw out any savings and 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. This should improve financial and service planning for the future – and assist in balancing the budget.

## 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 £153K has been made, to ensure that the closing balance covers the estimated settlement values for claims outstanding as at 31 March. The expected need to make an extra contribution at year end was reported in the last financial monitoring report.
  - An additional £350K has been added to the Capital Support Reserve, to cover contractual liabilities existing at 31 March attached to West End properties and also additional legal costs associated with the ongoing tribunal for Luneside East compensation claims.
  - Some minor reserves have not yet been closed as there is still spending to be financed from them.
- 4.4 All the additional contributions outlined above relate to financial obligations that existed at 31 March rather than them supporting future policies or new spending commitments. This is in line with the current provisions and reserves policy.

- 4.5 In total the additional transfers amount to £503K 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.

## 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**. This also incorporates the comments received from Service Managers. A number of the larger overspends relate to shortfall in income which have resulted from a reduction in demand for chargeable services and as such no further action is recommended. 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 £429K for General Fund and £30K 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 2012: |   |                             | Basic Minimum Balances Level<br>£'000 |
|-------------------------|---|---|-----------------------------|---------------------------------------|
|                         | Per Approved Budget<br>£'000            | Assuming all requests approved<br>£'000 | Variance (Surplus)<br>£'000 |                                       |
| Housing Revenue Account | 350                                     | 407                                     | (57)                        | 350                                   |
| General Fund            | 1,326                                   | 1,984                                   | (658)                       | 1,000                                 |

5.6 With regard to the HRA, there is also the need to provide some revenue financing for capital slippage (£67K) and capital retentions (£15K), as covered in section 6 below. The capital slippage will be met from an earmarked reserve whilst the HRA balance shown above has been adjusted for the financing of capital retentions.

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   | 4,274          | 4,185                         | (89)                      | 2 |
| General Fund      | 7,224          | 6,733                         | (491)                     | 7 |
| Total Programme   | 11,498         | 10,918                        | (580)                     | 5 |

- 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. This shows that it has reduced significantly in previous years – though clearly total levels of capital investment have reduced also.

|                          | 2010/11    | 2009/10      | 2008/09      | 2007/08      | 2006/07      |
|--------------------------|------------|--------------|--------------|--------------|--------------|
|                          | £'000      | £'000        | £'000        | £'000        | £'000        |
| Council Housing          | 82         | 384          | 478          | 480          | 157          |
| General Fund             | <u>899</u> | <u>2,303</u> | <u>1,952</u> | <u>4,235</u> | <u>2,554</u> |
| Total Slippage Requested | <u>981</u> | <u>2,687</u> | <u>2,430</u> | <u>4,715</u> | <u>2,711</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. 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   | 4,274            | 4,267                                     | (7)                                 | (7)                                     |
| General Fund      | 7,224            | 7,632                                     | 408                                 | (35)                                    |

## 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 2010/11 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 At the end of 2010/11, after taking account of principal repayments the Council still had £4.94M of investments outstanding with the three Icelandic banks that are in administration, excluding any interest (the original total value was £6M).
- 7.2.2 A decision by the Icelandic District Court effectively gives the Council preferred creditor status for £4M of the outstanding deposits (in Glitnir and Landsbanki) and if upheld, this status should improve recovery prospects significantly. The final

outcome is currently subject to appeal through the Icelandic Supreme Court, however, and therefore the provisions to cover estimated losses on the £4M have not been reduced; they still allow for a worse case scenario.

- 7.2.3 Unless circumstances warrant it, the provisions will only be reassessed when a final ruling has been received. This is not expected before September.
- 7.2.4 With regard to the other investment in Kaupthing, Singer and Friedlander (KSF), to 31 March 2011 the Council had received 53% of the original £2M outstanding. A further 5% repayment has been received so far this financial year. Overall, recovery prospects have improved by 11% on average from those a year ago. The Council now estimates it should recover 82% of the original investment (and relevant interest) and this has been reflected in last year's Accounts.
- 7.2.5 In line with the above, total impairment provisions of approximately £3.3M were in place as at 31 March 2011, of which almost £2M is capitalised (to be funded over future years) and over £1.3M is held as a cash backed Impairment Reserve.
- 7.2.6 If the final outcome of the Icelandic litigation for Glitnir and Landsbanki is favourable, however, then impairment provisions could be reduced by around £3M. This would mean that Council would have around £1M of the Impairment Reserve becoming available for other purposes, as well as avoiding the £105K budgeted annual charge arising from the capitalised amount.

### 7.3 Prudential Indicators

- 7.4 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.

- 7.5 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 18 July         | Commencement of audit of Accounts   |
| Friday 27 July         | 4 week period for public inspection of Accounts ends  |
| Monday 01 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 30 August      | Budget and Performance Panel: Consideration of Quarter 1 report and any detailed outturn consideration as required  |
| Wednesday 14 September | Council: referral of any issues as may be required, including carry forward requests and annual Treasury Management report.   |
| Wednesday 23 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 from the above that various aspects of the outturn will be reported through to Members for their due consideration:

- 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 Quarter 1 monitoring as appropriate.
- Certain matters such as the Treasury Management Annual Report require Council approval.
- Budget and Performance Panel will consider Cabinet reports and recommendations, and may request more detailed information regarding individual service financial performance as appropriate, to hold the Executive (Members and Officers) to account.
- Audit Committee now approve the Accounts only after they have been audited (previously they considered the draft version in June).

## 9 DETAILS OF CONSULTATION

As reflected in section 8 above, the statutory 4 week public inspection period is currently underway; information on the public's rights have been 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

Although 2010/11 has been an uncertain year financially, as at 31 March the Council has improved its financial standing overall by generating net efficiency savings and through other underspendings. Balances are significantly higher than forecast. Whilst there are still uncertainties surrounding the outcome of Icelandic investments, the Council has retained its provisions to cover 'worse case' estimated losses and therefore potentially there is scope for its financial position to improve further, should a positive ruling be forthcoming. Looking forward, the Council has earmarked further reserves to help respond to the ongoing financial challenges expected over the coming years. Given funding prospects the Council must continue to reduce costs wherever possible – substantially more efficiency and other savings initiatives will be needed in future in order to ensure a balanced annual budget and financial stability.

**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, LGA 2003

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