

# CABINET

## Provisional Revenue, Capital and Treasury Management Outturn 2012/13 23 July 2013 Report of Head of Resources

### PURPOSE OF REPORT

This report provides summary information regarding the provisional outturn for 2012/13. It sets out information regarding the carry forward of revenue budgets and capital slippage for Members' consideration. It also incorporates the treasury management outturn report and related matters.

Key Decision

X

Non-Key Decision

Referral from  
Cabinet Member

Date of Notice of Forthcoming Key Decision

24 June 2013

This report is public, with the exception of Appendix K, which is exempt from publication by virtue of paragraph 3, of Schedule 12a of the Local Government Act 1972.

### RECOMMENDATIONS OF COUNCILLOR BRYNING:

1. That the provisional outturn for 2012/13 be noted, including the transfers to provisions and reserves actioned by the Head of Resources.
2. That Cabinet approves that no overspendings be carried forward, as reflected in Appendix E.
3. That Cabinet approves the requests to carry forward underspent revenue budgets as set out in Appendix F, for referral on to Council where appropriate.
4. That Cabinet approves the requests for capital slippage as set out at Appendix H.
5. That the Annual Treasury Management report and Prudential Indicators as set out at Appendix J and be noted and referred on to Council.
6. That Cabinet endorses the actions of the Head of Resources, as set out in exempt Appendix K.

## 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 2012/13 accounts has now been completed and the draft Statement of Accounts were signed off (by the Head of Resources) on 28 June, to meet the statutory deadline. The draft 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. A report elsewhere on the agenda provides an overview of the Council's performance during 2012/13.

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<br/>Position</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) – relates to Council Housing services                        | 854                                    | 428                            | (426)  |
| General Fund Net Budget – covers all other Council services (but excludes parish precepts) | 20,190                                 | 19,643                         | (547)  |

## 3 HOUSING REVENUE ACCOUNT (HRA)

- 3.1 The Housing Revenue Account was underspent in last year by approximately £426K (2011/12 comparative: £502K underspend).
- 3.2 A summary of the HRA provisional outturn is included at **Appendix A**. Discounting any notional variances, the main reasons for underspending are as follows:
- The level of arrears as at 31 March has resulted in an £80K lower contribution to the bad debt provision in last year. This is encouraging, although any impact from the recent welfare reforms will become apparent in the current year and so it is too early to form any view on future expectations.
  - Savings in capital investment have resulted in £280K less revenue financing being needed.
- 3.3 Overall therefore, the outturn position for the HRA is favourable and as at 31 March, its Balances stood at £776K, or £426K higher than budgeted.

## 4 GENERAL FUND

### 4.1 Revenue Outturn

4.1.1 The 2012/13 financial year was the second in which the Council experienced significant reductions in Government support, as well as a second freeze in City Council tax rates. The outturn for General Fund should be considered in this context.

4.1.2 Nonetheless, after allowing for various year end adjustments, there has been a net underspending of £547K during 2012/13 and a summary statement is included at **Appendix B**. The underspending represents 2.7% of the Council's net budget requirement (2011/12 comparative: £653K underspend, 3% of budget).

4.1.3 On closer analysis, however, the bulk of the net underspending can be attributed to a small number of key variances, most of which are one-off and/or relate to circumstances arising after setting the Revised Budget. Variance analysis is provided at **Appendix C**, the key points of which are summarised below:

| <b>Main variances</b>                                 | <b>Value<br/>(Favourable)<br/>/ Adverse<br/>£'000</b> |
|---|---|
| Employee savings                                      | (123)   |
| Leasing costs (new vehicles acquired outright)        | (190)   |
| Recoveries due from Housing Benefits Overpayments     | (145)   |
| Additional Planning Application Fees                  | (143)   |
| General Supplies & Services (materials, software etc) | (147)   |
| Delayed spending (carry forward requests submitted)   | (65)  |
| Additional contribution to Bad Debt Provision         | 338   |
| Other minor variances                                 | (72)  |
| <b>Net Total</b>                                      | <b>(547)</b>  |

4.1.4 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.

4.1.5 This process will lead into the 2014/15 budget and planning process, for which the timetable and other arrangements are due to be considered by Cabinet at its September meeting.

### 4.2 Provisions and Reserves

4.2.1 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 March. A full statement for General Fund and HRA is attached at **Appendix D** and the main issues and transfers regarding General Fund are highlighted specifically below:

- For insurance, an amount of £51K has been transferred into a new insurance reserve. This represents the initial levy in respect of very old claims administered under the former Municipal Mutual arrangements (prior to 1992). A provisional sum of £155K was included in the insurance provision as part of the 2011/12 closedown.
  - For bad debts, an additional contribution of £338K has been made to cover extra calls on the provision following a reassessment of sundry debts and in particular, housing benefit overpayment recoveries. Part of this increase is directly linked to the higher than estimated income receivable from overpayments in last year.
- 4.2.2 The transfers have already been reflected in the General Fund summary position outlined earlier, hence 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 E**. 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 F**. In total, they amount to

£101K for General Fund with none for the Housing Revenue Account; this is much lower than in recent years. 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 2014: |   |                              | Basic Minimum Balances Level<br>£'000 |
|-------------------------|---|---|------------------------------|---------------------------------------|
|                         | Per Approved Budget<br>£'000            | Assuming all requests approved<br>£'000 | Variance (Fav'rble)<br>£'000 |                                       |
| Housing Revenue Account | 350                                     | 776                                     | (426)                        | 350                                   |
| General Fund            | 3,002                                   | 3,448                                   | (446)                        | 1,000                                 |

- 5.6 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, Cabinet should be mindful of the Council's overall financial position and its prospects, as well as the impact on service delivery and what the request would achieve. It is also highlighted that because of their value, some bids would still need to be referred on to Council for final approval.

## 6 CAPITAL OUTTURN

- 6.1 In last year net underspending on the Capital Programme was significantly less than in previous years, before the effects of slippage are taken into account. **Appendix G** includes a provisional capital expenditure and financing statement for the year, which is summarised in the following table:

| Capital Programme | Revised Budget | Expenditure (before slippage) | Overspend or (Underspend) |     |
|-------------------|----------------|-------------------------------|---------------------------|-----|
|                   | £'000          | £'000                         | £'000                     | %   |
| Council Housing   | 3,892          | 3,591                         | (301)                     | 7.7 |
| General Fund      | 5,698          | 5,323                         | (375)                     | 6.6 |
| Total Programme   | 9,590          | 8,914                         | (676)                     | 7.0 |

- 6.2 Details of individual slippage requests from services have been received, a schedule of which is attached at **Appendix H**. 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. Last year shows a significant reduction in slippage and work will continue in the current year to ensure this trend is maintained.

|                          | 2012/13<br>£'000 | 2011/12<br>£'000 | 2010/11<br>£'000 | 2009/10<br>£'000 | 2008/09<br>£'000 |
|--------------------------|------------------|------------------|------------------|------------------|------------------|
| Council Housing          | 16               | 160              | 82               | 384              | 478              |
| General Fund             | <u>438</u>       | <u>1,828</u>     | <u>899</u>       | <u>2,303</u>     | <u>1,952</u>     |
| Total Slippage Requested | <u>454</u>       | <u>1,988</u>     | <u>981</u>       | <u>2,687</u>     | <u>2,430</u>     |

6.4 The table below pulls together the financing position after allowing for slippage. The impact on resources for the HRA is favourable, whereas the General Fund is slightly adverse, although the latter would be funded from revenue and specific reserves. It should also be noted that due to lower capital receipts being received in last year, there has been an unbudgeted increase of £140K in the underlying borrowing need (or Capital Financing Requirement) for General Fund. 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, although it is expected that this increase can be offset in the current or future years, once scheduled land sales are completed.

| Capital Programme | Revised Estimate<br>£'000 | Forecast Expenditure (including slippage)<br>£'000 | Overspend Or (Underspend) - Rounded<br>£'000 | Impact on Council Resources (Fav) / Adv<br>£'000 |
|-------------------|---------------------------|--|--|--|
| Council Housing   | 3,892                     | 3,607  | (285)  | (285)  |
| General Fund      | 5,698                     | 5,761  | (63)   | 16   |

## 7 TREASURY MANAGEMENT

7.1 The annual treasury management report is attached at **Appendix J** and sets out the performance of treasury operations for 2012/13 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 The attached report also provides an update on the recovery of Icelandic investments. As set out, recovery is progressing well.

7.3 Nonetheless, legal matters continue, linked to exchange rate valuation of claims and prospects for future transfer of ISK out of Iceland. An exempt briefing note is set out at **Appendix K** for Cabinet's information. This outlines various recommendations and following consultation with the Portfolio Holder, these are considered to be positive way forward and the Head of Resources has responded accordingly; this is also included within the exempt Appendix. Cabinet is requested to endorse these actions.

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

8.1 As in previous years, key aspects of the outturn will be made available to Members and other stakeholders for their due consideration, in line with the following timetable:

|                        |  |
|------------------------|--|
| Monday 15 July         | Commencement of audit of Accounts and 4 week public inspection period  |
| Friday 09 August       | Public inspection ends and 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 10 September   | Budget and Performance Panel: consideration of outturn and Quarter 1 monitoring, as appropriate.   |
| Wednesday 11 September | Council: referral of any issues as may be required, including carry forward requests and annual Treasury Management report.  |
| Wednesday 18 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                                     |

## 9 **DETAILS OF CONSULTATION**

As reflected in section 8 above, the statutory 4 week public inspection period commences in July. Information on the public’s rights is 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 Resources, and 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.

**11 OFFICER PREFERRED OPTION AND JUSTIFICATION**

On the assumption that the Council continues to support its previously approved spending plans and the Connecting Communities Funding opportunity elsewhere on the agenda, then the Officer preferred options are to approve the revenue budget carry forward requests as well as capital slippage (Appendices F and H), but to require no carry forward of the overspendings (Appendix E).

**12 CONCLUSION**

Although the Council's General Fund budget and the associated Government funding reduced significantly in 2012/13, it managed these reductions well, and has again improved its financial standing as at 31 March 2013. Balances for both General Fund and the HRA are higher than forecast, and the Council has other substantial earmarked further reserves to help respond to the tough financial challenges expected over the coming years, in shaping and delivering against future corporate priorities.

|  |   |
|--|---|
| <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>   | <b>Contact Officer: Nadine Muschamp</b> |
| None.  | Telephone: 01524 582117                 |
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