

CABINET

Provisional Revenue, Capital and Treasury Management Outturn 2014/15 23 June 2015 Chief Officer (Resources)

PURPOSE OF REPORT				
This report provides summary information regarding the provisional outturn for 2014/15. It sets out information regarding the carry forward of 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			22 May 2015	
This report is public.				

RECOMMENDATIONS:

1. That the provisional outturn for 2014/15 be endorsed, including the transfers to provisions and Balances actioned by the Chief Officer (Resources), and the position regarding overspendings.
2. That the requests for capital slippage as set out at Appendix G be approved.
3. That the Annual Treasury Management report and Prudential Indicators as set out at Appendix H be noted and referred on to Council.

1 BACKGROUND

- 1.1 All local authorities have a legal duty to produce annual accounts, in support of openness and accountability. By the time of the Cabinet meeting, the work required to close the Council's 2014/15 accounts will be substantially complete and the draft Statement of Accounts is expected to be signed off by the Chief Officer (Resources) on 30 June, to meet the statutory deadline. The draft Statement will be freely available on the Council's website.
- 1.2 This report provides Cabinet with an update on issues arising from the provisional outturn, including treasury management, and seeks approval for certain matters. If there are any further updates to the position, these will be fed into the Cabinet meeting. The Council's financial performance is integral to its service performance overall and Members are advised to consider this report in that context.
- 1.3 Note that larger copies of the appendices are available on request.

2 PROVISIONAL REVENUE OUTTURN: SUMMARY

- 2.1 A summary of the revenue outturn position for the main service accounts of the Authority is set out below.

	Revised Budget Position	Provisional Outturn	Variance (Favourable) / Adverse
	£000	£000	£000
Housing Revenue Account (HRA) – relates to Council Housing services	(104)	(640)	(536)
General Fund Council Tax Requirement – covers all other Council services (but excludes parish precepts)	7,599	7,046	(553)

3 HOUSING REVENUE ACCOUNT (HRA)

- 3.1 The Housing Revenue Account was underspent in last year by approximately £536K net (2013/14 comparative: £51K underspend).
- 3.2 A summary of the HRA provisional outturn is included at **Appendix A**. Discounting any notional and presentational variances, the three main items behind the net underspending are as follows:
- reduced revenue funding requirement for capital, mainly shown as a lower call on the Major Repairs Reserve (£381K saving);
 - reduced spend on repairs and maintenance of £172K;
 - a variety of underspendings on supervision and management, amounting to £100K. These include salaries and energy charges, plus additional income from fees and charges.
- 3.3 Overall therefore, the outturn position for the HRA is favourable and as at 31 March its Balances stood at £1.041M, this being £536K higher than budgeted.
- 3.4 Taken at face value this is a good result, but the first two specific variances are significant and they have not previously been reported through monitoring; furthermore there is no clear picture of whether or how service performance has been affected. At the start of 2014/15 a programme of work was initiated to develop and strengthen the business practices and financial management underpinning the Repairs and Maintenance Service (RMS). These are particularly relevant given the Council's ethos of being a direct service provider, in order to deliver value for money. Overall progress against the programme has been slower than anticipated, however, as a result of other work priorities. The programme is to be picked up again in this year and the capacity to complete it will need to be reappraised; it is likely that capacity will need to be increased somehow. Drawing on the outturn, the main aims are to improve management information and monitoring, and to address any implications for future operations, support services and budgeting. Similarly, specific updates on RMS were planned for 2014/15 as part of the usual quarterly financial monitoring reports, but these too were delayed and will commence in Quarter 1 of 2015/16.

3.5 Notwithstanding the above, at outturn the HRA's financial standing remains sound. A summary of its Balances, reserves and provisions is included at **Appendix D**.

4 GENERAL FUND

4.1 Revenue Outturn

4.1.1 The 2014/15 financial year saw further substantial reductions in Government funding, amounting to around £1.8M or almost 14%. 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 £553K against the Revised Budget for 2014/15 and a summary statement is included at **Appendix B**. The underspending represents 3% of the Council's net revenue budget (2013/14 comparative: £277K underspend, 1.4% of budget), or 7.3% of the council tax requirement (i.e. the amount raised from council tax; this measure is growing in prominence).

4.1.3 On closer analysis, the bulk of the net underspending can be attributed to a fairly small number of key variances, some of which are one-off and/or relate to circumstances arising after setting the Revised Budget, which was finalised in operational terms last November. Variance analysis is provided at **Appendix C**, the key elements of which are summarised below:

Main Areas for variances	Gross Budget (For comparison) £'000	Value (Favourable) / Adverse £'000
Operational:		
Employee Related	19,515	(261)
Premises Related	9,682	(118)
Transport and other Supplies and Services	1,773	(37)
General Income	(16,700)	(336)
Other minor variances		(46)
Other Areas:		
Capital Financing Costs		(68)
Extra Contributions to Provisions		140
Extra Treasury Management Costs (Icelandic)		173
Net Total		(553)

4.1.4 Underspending is encouraged where it does not damage performance; indeed current financial strategy is based on taking proactive management decisions to save money during the year. Other reasons for underspending do occur though and so it is important that appropriate analysis is undertaken. All Chief Officers 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 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 2016/17 budget and planning process, for which the timetable and other arrangements are due to be considered by Cabinet over the summer.

4.2 Provisions, Reserves and Balances

4.2.1 In closing the accounts for last year the Council's reserves and provisions 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:

- An additional contribution of £100K has been made into the Bad Debts provision following a reassessment of sundry debts – particularly those in relation to housing benefit (HB) overpayment recoveries. Typically the Council deals with HB recoveries in excess of £1.2M per year, not all of which prove collectable. Currently £1.8M remain outstanding (cumulatively, covering many previous years) and the Bad Debts provision now provides cover for 60% of this, as well as covering other sundry debts.
- An additional £40K has been added to the Insurance provision following a review of the current insurance claims outstanding and their likely settlement values. In particular the increase relates to very old liabilities (pre-1990).

4.2.2 The transfers have already been reflected in the General Fund summary position outlined earlier, hence Cabinet is asked to endorse them.

4.2.3 After allowing for these transfers, the General Fund net underspending of £553K has been transferred into Balances by the Chief Officer (Resources). This means that as at 31 March 2015, Balances amount to £4.625M, as compared with the budgeted figure of £4.072M. Similar to the HRA, the General Fund's financial standing is currently sound but General Fund has far bigger challenges ahead.

5 'CARRY FORWARD' OF UNDERSPENDINGS AND OVERSPENDINGS

5.1 Under the financial strategy, provisions exist to adjust budgets between years by carrying forward under- or over-spending. These arrangements help 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 With regard to the carry forward of revenue underspend, only one potential need has been identified, with a total value of £27K. This related to the Townscape Heritage Initiative (THI) 2 Scheme in Morecambe. This scheme has suffered from various delays in implementation and it is therefore planned that Officers report back to Cabinet on the progress and proposed future for the scheme overall, with any financial matters being addressed at that time.

5.3 With regard to overspendings, arrangements require that:

- any overspending on any expenditure budget, or shortfall on any income budget, under the control of a Chief Officer (or their nominated representative) will be automatically carried forward to the following year as part of the closure of accounts process except where the relevant Chief Officer and the s151 Officer

agree that it does not make operational sense to do so, or where the overspending is trifling in value.

- The s151 Officer will report to Cabinet on overspendings and their treatment as part of year-end reporting. Such reporting will also include the reasons for any overspendings occurring and details of any actions taken to prevent the situation recurring.

5.4 There are only a small number of revenue overspendings occurring and given their nature, Officers have agreed that there is no case for carrying these forward to reduce the current year's budgets. **Appendix E** sets out the relevant details, for Cabinet's consideration and endorsement.

5.5 Capital related carry forward matters are covered later in section 7 of this report.

6 **COLLECTION FUND**

6.1 The Collection Fund deals with local taxation matters and as such, its performance has a direct bearing on General Fund services. For this reason, a high level review of its outturn is presented for Members' information.

6.2 **Council Tax**

6.2.1 At the end of the financial year there was a surplus of £1M in relation to council tax, which is in line with the £1M estimated surplus declared in January earlier this year. Of this 13% (£131K) is retained by the City Council and this has already been built into the approved budget for 2015/16. Essentially the surplus has arisen because of more properties becoming chargeable during the year for a variety of reasons (new builds, lower exemptions, discounts claimable by householders, etc).

6.3 **Retained Business Rates**

6.3.1 The position for business rates is somewhat more complicated. Two major appeals, which have been outstanding since the 2005 and 2010 valuations, have now been settled and reflected in the 2014/15 accounts. This has resulted in refunds of £23.7M becoming payable in total (some to business rate payers, but most of it to Central Government). This is £12.7M higher than the mid-year estimate calculated back in October 2014.

6.3.2 The settlement of appeals is undertaken by the Valuation Office Agency (VOA) and whilst there are regular liaison meetings between Officers and the Agency, they are unable to provide the Council with estimates of potential settlement values due to confidentiality. Officers therefore have to rely on historical settlements for similar hereditaments (i.e. rateable properties) to project the likely outcomes. In this case the reductions in rateable value awarded were significantly higher than historic averages.

6.3.3 As a result of the settlement, at the end of 2014/15 there was a deficit of £5.7M on the Collection Fund in respect of Business Rates, with the Council's share being £689K. The complexities of the Business Rates Retention Scheme mean that this will not be recouped for some time but very importantly, any adverse impact is restricted, through the operation of a 'Safety Net'. This guarantees a minimum level of rating income for General Fund services each year.

6.3.4 In terms of the 2014/15 General Fund outturn therefore, fortunately there is no bottom-line impact as the City Council is now due £3.6M back from the Government

to bring net income back up to the Safety Net, as budgeted. Unfortunately, however, the settlement of the appeals does mean that the City Council has lost the opportunity to retain growth in other business rate income, previously estimated at around £1.2M. The system is very complex; the following table summarises the position as far as possible.

	2014/15 Estimate £'000	2014/15 Outturn £'000	Variance £'000
Retained Business Rates	(25,317)	(25,317)	0
Central Government Tariff	19,392	19,392	0
Net Retained Business Rates	(5,925)	(5,925)	0
Small Business Rate Relief Grant	(919)	(919)	0
2014/15 Deficit (in total)	-	5,715	5,715
Transfer Growth to Business Rates Reserve	1,251	0	(1,251)
Growth Levy payable to Central Government	867	0	(867)
Safety Net Payment from Central Government	0	(3,597)	(3,597)
Net Revenue Funding from Business Rates (Safety Net Level)	4,726	4,726	0

6.3.5 Expectations going forward are still uncertain and more complicated, as there are still other rating appeals and various issues that have not yet been settled. Certainly, at this point, the Council has lost the opportunity to retain extra business rates income – and this could have reached over £1.5M per year in future, potentially, although at least that opportunity has not been budgeted for. On a more positive note, there are additional revenue streams coming in from renewable energy sites that will help to reduce that loss, to some degree.

6.3.6 Overall however, there is a very real chance that the business rate position will add pressure of around £400K to the City Council's General Fund revenue budget, if its retained business rate income continues at Safety Net levels, and this pressure could be ongoing. The Quarter 1 financial monitoring report will aim to provide a clearer picture, depending on what information is available then.

7 CAPITAL OUTTURN

7.1 **Appendix F** 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	4,861	4,709	(152)	3.1
General Fund	8,280	5,717	(2,563)	30.9
Total Programme	13,141	10,426	(2,715)	20.7

- 7.2 Details of individual slippage (i.e. carry forward) requests from services have been received, a schedule of which is attached at **Appendix G**. 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 carry forward 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.
- 7.3 Information on recent years' slippage is also included below for comparison. This is the second year slippage has been high. However, given the outline reasons for slippage requests shown in Appendix G, it is expected that some improvements can be made in future, in terms of budget profiling. That said, it must be recognised that there will always be some scope for slippage occurring.

	2014/15 £'000	2013/14 £'000	2012/13 £'000	2011/12 £'000	2010/11 £'000
Council Housing	95	0	16	160	82
General Fund	<u>2,526</u>	<u>1,706</u>	<u>438</u>	<u>1,828</u>	<u>899</u>
Total Slippage Requested	<u>2,621</u>	<u>1,706</u>	<u>454</u>	<u>1,988</u>	<u>981</u>

- 7.4 The following table pulls together the financing position after allowing for slippage. The impact on resources is favourable for both Council Housing and 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.

Capital Programme	Revised Estimate	Forecast Expenditure (including slippage)	Overspend Or (Underspend) - Rounded	Impact on Council Resources (Fav) / Adv
	£'000	£'000	£'000	£'000
Council Housing	4,861	4,804	(57)	(57)
General Fund	8,280	8,243	(37)	(4)

- 7.5 The requirements relating to revenue overspends (as set out in section 5) also apply to capital overspends. At the end of 2014/15 there were two schemes where overspends exceeded £10K:

- Luneside East £10,525
- Adactus Top-Up Grants £11,336

- 7.6 Luneside East spend has been relatively difficult to predict as it relates to the litigation process associated with a previous compulsory purchase order. The process has been determined in the Council's favour, although it is possible that the Council may continue to incur costs, as the other party still seeks to continue with litigation. Given this, no action is possible regarding the outturn position. Separately, no assumptions have been made regarding recovery of the Council's costs.

- 7.7 The overspending on the Adactus Top-Up Grants relates to a commitment to repay grant following the sale of a property on Albert Road, Morecambe. The timing of this was uncertain, although funding had already been earmarked from the Capital Support Reserve to cover it. As a result no further action has been taken.

8 TREASURY MANAGEMENT

- 8.1 The annual treasury management report is attached at **Appendix H** and sets out the performance of treasury operations for 2014/15 in terms of long and short term borrowing, investment activities and relevant borrowing limits and prudential indicators. This must be referred on to Council.
- 8.2 Whilst the topic is complex, it does have strong linkages with other aspects of the outturn, for example the capital position and business rates income.

9 TIMETABLE FOR COMPLETION OF ACCOUNTS AND ASSOCIATED MATTERS

- 9.1 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 13 July	Commencement of audit of Accounts and 4 week public inspection period.
Wednesday 15 July	Council: referral of any issues as may be required, including the annual Treasury Management report.
Tuesday 21 July	Budget and Performance Panel: consideration of outturn.
Monday 10 August	Public access to Auditor commences.
Wednesday 16 September	Audit Committee: consideration of audited accounts.

During July the first quarterly monitoring report for the current year (2015/16) will be produced. This will draw on services' final outturn for last year, to identify any implications for current and future years - in particular, the identification of ongoing savings and any clarification of the business rates position, as mentioned earlier.

10 DETAILS OF CONSULTATION

- 10.1 As reflected in section 9 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.

11 OPTIONS AND OPTIONS ANALYSIS

- 11.1 The City Council has a legal requirement to ensure that its expenditure is fully funded and to produce 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 Chief Officer (Resources), and Cabinet should consider whether it has sufficient information to do so or whether it requires any further justification.
- 11.2 The report requests Cabinet to consider a number of capital slippage items. 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 various 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.

12 OFFICER PREFERRED OPTION AND JUSTIFICATION

- 12.1 On the assumption that the Council continues to support its previously approved spending plans, then the Officer preferred options are to approve the capital slippage requests (Appendix G).

13 CONCLUSION

- 13.1 Although the Council's General Fund budget and the associated Government funding reduced again in 2014/15, it continued to manage the financial pressure well, and has again improved its overall financial standing as at 31 March 2015. Similarly, the HRA's standing is sound. Balances for both General Fund and the HRA are higher than forecast, and the Council has other substantial earmarked reserves to help respond to the tough financial challenges now ahead. In itself however, the Council's financial standing will not withstand those challenges, without other decisive planning and action being taken.

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, with the outturn being 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 further comments to add.

BACKGROUND PAPERS

None.

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