

# CABINET

## Provisional Revenue, Capital and Treasury Management Outturn 2015/16 28 June 2016 Chief Officer (Resources)

PURPOSE OF REPORT				
This report provides summary information regarding the provisional outturn for 2015/16, including treasury management. It also sets out information regarding the carry forward of capital slippage and other matters for Members' consideration.				
Key Decision	X	Non-Key Decision	Referral from Cabinet Member	
Date of Notice of Forthcoming Key Decision			27 May 2016	
This report is public.				

### RECOMMENDATIONS:

1. That the provisional outturn for 2015/16 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 and the adjustments to reflect accelerated capital spending on projects 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 for information.
4. That the implications of renewable energy business rate income be noted, with them being fed into the next update of the Council's Medium Term Financial Strategy (MTFS).

### 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 2015/16 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 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 £000	Provisional Outturn £000	Variance (Favourable) / Adverse £000
Housing Revenue Account (HRA) – relates to Council Housing services	(303)	(651)	(348)
General Fund Council Tax Requirement – covers all other Council services (but excludes parish precepts)	7,853	7,522	(331)

## 3 HOUSING REVENUE ACCOUNT (HRA)

3.1 The Housing Revenue Account was underspent in last year by approximately £348K net (2014/15 comparative: £536K underspend).

3.2 A summary of the HRA provisional outturn is included at **Appendix A**. Discounting any notional and presentational variances, the main items of interest are as follows:

- reduced revenue funding requirement for capital, mainly shown as a lower call on the Major Repairs Reserve (£47K net saving overall);
- reduced spend on repairs and maintenance of £242K;
- additional contribution to bad debt provision of £20K;
- a variety of underspendings on supervision and management, amounting to £79K. These include salaries and reduced flood recovery costs relating to Cable Street, plus additional income from fees and charges.

3.3 With regard to repair and maintenance, Members will be aware that various actions are underway to understand and improve the service's performance and management reporting. Budget and Performance Panel are due to consider a recent external review (undertaken by APSE) and it is intended that proposals for further commissioning of external advice will be brought forward for Cabinet's consideration in due course.

3.4 At outturn the HRA's financial standing remains sound. As at 31 March its Balances stood at £1.692M, this being £348K higher than budgeted. A summary of all its Balances, reserves and provisions is included at **Appendix D**.

## 4 GENERAL FUND

### 4.1 Revenue Outturn

4.1.1 The 2015/16 financial year saw further substantial reductions in Government funding, amounting to around £1.7M or 16%. The outturn for General Fund should be considered in this context.

4.1.2 After allowing for various year-end adjustments, there has been a net underspending of £331K against the Revised Budget for 2015/16 and a summary statement is included at **Appendix B**. The underspending represents 1.9% of the Council's net revenue budget (2014/15 comparative: £553K underspend, 3% of budget) or 4.2% of the council tax requirement (i.e. the amount raised from council tax; this measure is growing in prominence). If compared with the Council's gross budget, however, which is in the region of £100M+, the level of net underspending is very minor.

4.1.3 Variance analysis is provided at **Appendix C**, the key elements of which are summarised below:

<b>Main Areas for variances</b>	<b>Gross Budget (For comparison) £'000</b>	<b>Value (Favourable) / Adverse £'000</b>
<b>Operational:</b>		
Employee Related	19,599	(79)
Premises Related	9,677	(95)
Transport and other Supplies and Services	14,170	(15)
General Income	(16,185)	(164)
Other minor variances		19
<b>Other Areas:</b>		
Capital Financing Costs		(57)
Extra Contributions to Provisions		60
<b>Net Total</b>		<b>(331)</b>

4.1.4 Underspending is encouraged where it does not damage performance; indeed current financial strategy is still 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. This will be undertaken as normal alongside monitoring arrangements, with the aim of drawing 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 2017/18 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 is attached at **Appendix D** and the main issues and transfers regarding General Fund are highlighted specifically below:

- An additional contribution of £60K 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 £1.9M remain outstanding (cumulatively, covering many previous years) and the Bad Debts provision now provides cover for 70% of this, as well as covering other sundry debts.
- Following the outcome of appeals regarding Luneside East, the Council must recognise any estimated income due to it in relation to the recovery of costs, but the associated risks of recovery also need to be recognised and therefore the net estimated income of £544K has been used to increase the Bad Debts provision for the time being. As these items offset each other, there is no bottom-line impact on the outturn position. This does not reflect the outcome of recovery action, however, as this has not yet been concluded.

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 £331K has been transferred into Balances by the Chief Officer (Resources). This means that as at 31 March 2016 Balances amount to £4.459M, as compared with the budgeted figure of £4.128M. Similar to the HRA, the General Fund's financial standing is currently sound but as Members know, General Fund still has big challenges and much uncertainty 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, there are no requests for Cabinet to consider.

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 £219K in relation to council tax, which is less than the £500K estimated surplus declared in January earlier this year. This has resulted from a reduction of approximately 177 chargeable dwellings (*0.5% of the estimated Tax Base*) from when the estimate was set to the end of March. As the City Council retains 13% of the surplus this would mean a potential shortfall of £32K in 2016/17 from the budgeted position. This will be monitored and reported to Members as part of the quarterly financial monitoring process.

### 6.3 **Retained Business Rates**

6.3.1 The position for business rates is again somewhat more complicated. A further major appeal has been made together with increases in estimated settlements on other appeals. This has meant that the overall position has gone from an estimated surplus of £8M to a deficit of £35M at the end of 2015/16.

6.3.2 Of the £35M deficit, the City Council's share is £14M. 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.

6.3.3 In terms of the 2015/16 General Fund outturn therefore, fortunately there is no bottom-line impact as the City Council is now due £9.8M back from the Government to bring net income back up to the safety net. Unfortunately, however, the settlement of the appeals does mean that the City Council has again lost the opportunity to retain growth in other business rate income, originally estimated to be £459K in last year.

6.3.4 Furthermore, an increase of £288K to the tariff payment to the Government has had to be allowed for.

- 6.3.5 On a much more positive note, however, last year's outturn has seen the realisation of some renewable energy business rate income from 2014/15, amounting to £662K. For renewable energy schemes approved by the Council as planning authority, the current regulatory framework provides for the City Council retaining 100% of such business rate income, outside of the operation of the main rates retention system and the safety net. The realisation of income regarding 2014/15 (albeit with a year's delay before recognition, as required by the accounting framework) is very important, as it should also feed into subsequent years for the medium term at least.
- 6.3.6 With regard to 2015/16, renewable energy rates income of over £900K has been identified, and subject to the provisional outturn being confirmed and there being no successful rating appeals coming through, this income should become available for use during the current financial year, as flagged within the latest Medium Term Financial Strategy (MTFS).
- 6.3.7 Furthermore, subject to the same caveats and Government not changing the current regulatory framework, this income stream should remain until at least 2020 and this would help significantly with addressing the Council's budget gap. Beyond 2020, it is not known whether the current renewable energy scheme provisions will still apply under the wider reforms regarding full business rates retention. From a professional viewpoint it is difficult to envisage that they will be retained fully in their current form, but clearly this is an area to keep under close review. Whatever the longer term position, the scheme should deliver significant financial benefits for the medium term. Cabinet is recommended to note this positive development.
- 6.3.8 In summary, the main business rate transactions are presented below.

	<b>2015/16 Estimate £'000</b>	<b>2015/16 Outturn £'000</b>	<b>Variance £'000</b>
Retained Business Rates	(24,480)	(24,480)	0
Central Government Tariff	19,763	20,051	288
<b>Net Retained Business Rates</b>	<b>(4,717)</b>	<b>(4,429)</b>	<b>288</b>
Small Business Rate Relief Grant	(1,408)	(1,240)	168
2015/16 Estimated Surplus	(3,123)	(3,123)	0
2015/16 Actual Deficit (in total)	-	14,008	14,008
Transfer Estimated Surplus & Growth to Reserves	3,582	0	(3,582)
2014/15 Renewable Energy realised in 2015/16	0	(662)	(662)
Growth Levy payable to Central Government	459	0	(459)
Safety Net Payment from Central Government	0	(9,766)	(9,766)
<b>Net Revenue Funding from Business Rates</b>	<b>(5,207)</b>	<b>(5,212)</b>	<b>(5)</b>

- 6.3.9 The upshot from all of the above is that whilst the Council had budgeted for business rate income at the higher baseline level, even though that income has fallen to safety net, it has not had to draw on the Business Rates Retention Reserve in order to cover the shortfall (of approaching £400K).

## 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	4,831	4,875	44	0.9
General Fund	7,695	7,522	(173)	(2.2)
Total Programme	12,526	12,397	(129)	1.0

### 7.2 Capital Slippage

7.2.1 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.

7.2.2 Information on recent years' slippage is also included below for comparison. It is pleasing to note that slippage has significantly reduced when compared to the previous two years.

	2015/16 £'000	2014/15 £'000	2013/14 £'000	2012/13 £'000	2011/12 £'000
Council Housing	36	95	0	16	160
General Fund	<u>576</u>	<u>2,526</u>	<u>1,706</u>	<u>438</u>	<u>1,828</u>
Total Slippage Requested	<u>612</u>	<u>2,621</u>	<u>1,706</u>	<u>454</u>	<u>1,988</u>

### 7.3 Capital Overspends / Accelerated Spending

7.3.1 The requirements relating to revenue overspends (as set out in section 5) also apply to capital overspends. At the end of 2015/16 there were two HRA schemes and three General Fund schemes where overspends exceeded £10K:

Housing Revenue Account	
– External Refurbishments	£31K
– Fire Precaution Works	£29K

General Fund	
– Salt Ayre Sports Centre	£255K
– Wave Reflection Wall	£126K
– Corporate Property Works	£55K

- 7.3.2 The HRA overspends are due to slippage from 2014/15 schemes being removed (in error) from last year's revised budget. This has been addressed in terms of monitoring arrangements, but other than that no further budget adjustments are warranted.
- 7.3.3 The Salt Ayre Sports Centre apparent overspending is actually accelerated spending (ahead of schedule) on the main £5M redevelopment project, which therefore needs a corresponding reduction in the 2016/17 budget. The same applies to the Wave Reflection Wall and again a corresponding reduction will be made to the 2016/17 budget. Other than these adjustments, which are reflected in Appendix G, no further action is required.
- 7.3.4 The overspending on corporate property works is reflective of the fact that the estimates are based on surveys undertaken in 2012. As a result, there will inevitably be changes in pricing and further deterioration and/or further works required following more intrusive surveys being undertaken. Given this and the comparatively small scale of overspending against the overall budget of £1.843M, no further action is recommended.

#### 7.4 Summary Position

- 7.4.1 The following table pulls together the financing position after allowing for slippage and budget adjustments in respect of accelerated spending. Overall, the overspendings are minor when compared with the programme as a whole.

Capital Programme	Revised Estimate	Comparative Adjusted Expenditure	Overspend Or (Underspend) - Rounded
	£'000	£'000	£'000
Council Housing	4,831	4,911	80
General Fund	7,695	7,717	22

### 8 TREASURY MANAGEMENT

- 8.1 The annual treasury management report is attached at **Appendix H** and sets out the performance of treasury operations for 2015/16 in terms of long and short term borrowing, investment activities and relevant borrowing limits and prudential indicators. This must be referred on to Council for information.
- 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:

Friday 01 July	Commencement of 30 working day period for public inspection, questioning and objecting to unaudited accounts (change to previous requirements).
Monday 11 July	Audit of accounts commences.
Tuesday 12 July	Budget and Performance Panel: consideration of outturn.
Wednesday 13 July	Council: annual Treasury Management report for information.
Wednesday 07 September	Audit Committee: consideration of audited accounts.

During July the first quarterly monitoring report for 2016/17 will be produced. This will draw on the outturn for last year, to identify any implications for current and future years.

## 10 DETAILS OF CONSULTATION

10.1 As reflected in section 9 above, the statutory arrangements regarding the public's rights in relation to the accounts have now changed. Legislation now requires a fixed 30 working day period, to commence on 01 July for this year.

## 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 revenue overspending, capital slippage and other budget adjustment matters. 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 The Officer preferred options are as set out in the recommendations, on the assumption that Members continue to support their previously approved spending plans.

## 13 CONCLUSION

- 13.1 Although the General Fund budget and associated Government funding reduced again in 2015/16, the Council continued to manage the financial pressures well, and has again improved the Fund's overall financial standing as at 31 March 2016. Similarly, the HRA's standing is sound. Whilst net revenue underspendings were experienced on both General Fund and HRA, their scale was lower than in previous years, perhaps reflecting the much tighter financial environment within which the Council is working. Although various actions have been outlined in the report, there are no wholly new matters arising that have not previously been reported or highlighted in some form, and this should give some comfort with regard to the Council's financial planning and monitoring arrangements. This is especially so, given that local government finance appears to be getting more complex. It will be important that capacity is in place to address the various actions highlighted, however, and this is becoming increasingly difficult given the resource pressures that exist.

### **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**

There are no legal implications directly arising.

### **MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments to add.

### **BACKGROUND PAPERS**

None.

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