

CABINET

Provisional Revenue, Capital and Treasury Management Outturn 2016/17 26 June 2017 Chief Officer (Resources)

PURPOSE OF REPORT			
This report provides summary information regarding the provisional outturn for 2016/17, including treasury management. It also sets out information regarding the carry forward of capital slippage and other matters for Members' consideration.			
Key Decision		Non-Key Decision	Officer Referral
			X
Date of Notice of Forthcoming Key Decision		N/A	
This report is public.			

RECOMMENDATIONS OF COUNCILLOR WHITEHEAD:

1. That the provisional outturn for 2016/17 be endorsed, including the transfers to Provisions, Reserves 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 endorsed, with the Capital Programme being updated accordingly.
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 business rate growth 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 2016/17 accounts is expected to be complete, in support of the Statement of Accounts being signed off by the Chief Officer (Resources) by the statutory deadline (30 June for this year). The draft Statement itself 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 endorsement 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	(133)	(245)	(112)
General Fund Council Tax Requirement – covers all other Council services (but excludes parish precepts)	8,296	8,047	(249)

3 HOUSING REVENUE ACCOUNT (HRA)

3.1 The Housing Revenue Account was underspent in last year by approximately £112K net (2015/16 comparative: £348K 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:

- overspending on repair and maintenance of £134K;
- a reduced revenue funding requirement for capital, mainly shown as a lower call on the Major Repairs Reserve (£485K net saving overall);
- an increased depreciation charge of £249K;
- a variety of other net underspendings amounting to £10K.

3.3 With regard to repair and maintenance services (RMS), a number of factors have resulted in the overspending. The following explanations have been provided by the service:

- The number of voids increased beyond expectation during the last quarter of the year, and more specifically major work voids.
- Increased pressure to improved void turn-around times have increased costs, as well as changes to legislative and regulatory requirements relating to health and safety. Overall void property costs have increased by 24% since 2015/16.
- The incidence of sickness has required the use of more external contractors, in addition to other in-house capacity issues resulting again in the use of external contractors.

- 3.4 As reported previously, RMS remains an area under review, and the above outturn performance will feed into that review, with the aim of securing improvements in financial management and reporting.
- 3.5 The increased depreciation charge resulted from an upward revaluation of property values which is undertaken at year end but applied from 01 April 2016. As such this could not have been anticipated when the budget was set. However, as depreciation is transferred into the Major Repairs Reserve and then used to finance the capital programme this has simply meant a reduced call on revenue to fund the remainder of the programme – the overall impact is therefore neutral.
- 3.6 At outturn the HRA's financial standing still remains sound. As at 31 March its Balances stood at £1.938M, this being £112K 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 2016/17 financial year saw further substantial reductions in Government funding, amounting to around £1.166M or 13%. The outturn for General Fund should be considered in that context.
- 4.1.2 After allowing for various year-end adjustments, there has been a net underspending of £249K against the overall Revised Budget for 2016/17 and a summary statement is included at **Appendix B**. The underspending represents 1.5% of the Council's net revenue budget (*2015/16 comparative: £331K underspend, 1.9% of budget*) or 3% 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:

Main Areas for net variances	Gross Budget (For comparison) £'000	Value (Favourable) / Adverse £'000
Operational:		
Employee Related	20,328	(109)
Premises Related	9,282	(236)
Transport and other Supplies and Services	14,594	65
General Income	(16,007)	(91)
Other minor variances		(35)
Other Areas:		
Extra Contribution to Reserves		50
Extra Contribution to Provisions		107
Net Total		(249)

- 4.1.4 Employee savings continued to be generated after the revised budget had been set, and consideration will be given to applying an additional turnover target as part of the 2018/19 budget setting process.
- 4.1.5 Underspends have occurred on repair and maintenance of property and sea and river defences totalling £156K. These are due to a variety of reasons such as vacancies within the Coast Protection team meaning works could not progress. In addition, significant utility savings have also been generated either through on-off circumstances or reduced usage.
- 4.1.6 Additional income of £233K has been generated across the Council and it is anticipated that a large element of this will continue in the future. Key areas are Council Tax/NNDR legal and court costs recovered (£74K), DFG administration charges (£41K), Off-street car parking income (£36K).
- 4.1.7 In contrast there have also been reductions in income of £142K. The majority of this was a one-off back dated VAT refund to HMRC relating to Trade Waste (£100K). The reason for this is currently being investigated by Officers. One further point to note is that Green Waste income of £125K was generated in last year, this being only £5K below target. The current year's position is expected to be more challenging but this will be covered in future monitoring reports.
- 4.1.8 Overall the outturn position is positive, which is encouraging given the significant financial uncertainty and challenges ahead. Reducing net service costs will continue to be encouraged where it does not damage performance; indeed current financial strategy is still based on taking proactive management decisions to save money and maximise income 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.
- 4.1.9 This process will lead into the 2018/19 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 £50K has been made into the Corporate Property Reserve, it being funded from corporate property repair and maintenance budgets. The transfer will provide additional cover primarily for one-off maintenance issues that cannot be capitalised as part of the on-going capital programme of works.
 - An additional amount of £107K has been transferred into the Insurance Provision to provide increased cover against outstanding claims, in particular those relating 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 £249K has been transferred into Balances by the Chief Officer (Resources). This means that as at 31 March 2017 Balances amount to £4.725M, as compared with the budgeted figure of £4.476M. Similar to the HRA, the General Fund's financial standing is currently sound but as Members know, General Fund still has much uncertainty and major 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 underspends, 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 overspends 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 comparative small deficit of £197K in relation to council tax, whereas a balanced position was forecast back in January of this year. The deficit represents a net reduction of approximately 122 chargeable Band D dwellings (0.3% of the estimated Tax Base) over the period from when the estimate was set, to the end of March. As the City Council funds 13% of the deficit this would

mean an additional charge against the revenue budget of £26K in 2017/18. The Fund's movements will continue to 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 remains much more complicated and significant. At the end of 2016/17 the provision for appeals was reassessed down by £30M, mainly as a result of one major appeal being settled at a significantly lower value than originally estimated. Combined with in-year deficit recovery payments and other changes in gross rates payable, it gave an in-year surplus of £38.2M for 2016/17 (the Council's share being 40% or about £15.3M).
- 6.3.2 As result of that in-year movement, the opening deficit of £40M as at 01 April 2016 has been reduced to a closing deficit of £1.8M as at 31 March 2017. Of the £1.8M closing deficit, the City Council's share is £720K, but this will not be recouped for some time and it will not impact directly on the Council's budget.
- 6.3.3 The workings of the Business Rates Retention Scheme have meant, however, that despite there still being a deficit at year end, the significant in-year surplus has actually translated into additional business rates income being recognised, over and above that budgeted. In total that extra income amounts to £9.3M, of which 50% (£4.65M) will be paid over to the Government. The remaining 50% (£4.65M) is retained by the City Council, but it cannot be realised until 2018/19. In the meantime, it will be held within the Collection Fund Adjustment Account (as prescribed) and it could still be affected by further fluctuations in business rate appeals and other changes in the amount collectable.
- 6.3.4 Cabinet Members may recall that during the last budget, the expectation was that potentially, extra income of £3.7M may be retained. It is excellent news that the figure has risen to £4.65M, and it is hoped that nothing arises in the interim to offset that amount. The position will continue to be monitored and an update factored into the next MTFS review, as will current and future years' expectations. (Practically this work can be picked up only after outturn has been completed).
- 6.3.5 In addition, the City Council continues to benefit from renewable energy income amounting to £917K in last year (£622K in 2015/16). 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.

6.3.6 In summary, the main business rate transactions are presented as follows.

	2016/17 Estimate £'000	2016/17 Outturn £'000	Variance £'000
Retained Business Rates	(24,074)	(24,074)	0
Central Government Tariff	20,216	20,216	0
Net Retained Business Rates	(3,858)	(3,858)	0
Small Business Rate Relief Grant	(1,072)	(1,324)	(252)
2016/17 Estimated Deficit	5,733	5,733	0
2016/17 Actual Surplus	-	(15,300)	(15,300)
Transfer to/(from) Collection Fund Adj. Account	(5,375)	5,464	10,839
2015/16 Renewable Energy realised in 2016/17	(930)	(917)	13
Growth Levy payable to Central Government	0	4,703	4,703
Safety Net Payment from Central Government	(13)	(13)	0
Net Revenue Funding from Business Rates	(5,515)	(5,512)	3

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	%
Council Housing	4,314	4,077	(237)	(5.5)
General Fund	14,496	12,632	(1,864)	(12.9)
Total Programme	18,810	16,709	(2,101)	(11.2)

7.2 Capital Slippage

7.2.1 Details of individual slippage 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 not to endorse (and 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. Slippage has increased in 2016/17 mainly due to two schemes - Wave Reflection Wall (£642K) and the Salt Ayre Redevelopment (£786K). For the former, as mentioned earlier measures are in place to try to address recruitment issues and regarding the latter, the project remains on target, hence there are no specific concerns to highlight.

	2016/17 £'000	2015/16 £'000	2014/15 £'000	2013/14 £'000	2012/13 £'000
Council Housing	0	36	95	0	16
General Fund	2,410	576	2,526	1,706	438
Total Slippage Requested	2,410	612	2,621	1,706	454

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 2016/17 there was one HRA scheme and three General Fund schemes where overspends exceeded £10K:

	Revised Budget £'000	Actual Spend £'000	Overspend £'000
Housing Revenue Account			
Boiler Replacements	575	586	+11
General Fund			
Disabled Facilities Grants	850	997	+147
Energy Efficiency Works	40	379	+339
Application Systems Renewal – Salt Ayre	240	306	+66

7.3.2 The HRA overspending was due to increased cost of materials, such as copper, and boiler price increases. Future budgets will need to be reviewed in light of the increased costs, but no further action is required.

7.3.3 The Disabled Facilities Grants apparent overspend is actually accelerated spending (ahead of schedule) on grants. The additional cost is fully funded from the DFG grant allocation of £1.463M for 2016/17, and will need a corresponding adjustment to the 2017/18 budget, but no other action is required.

7.3.4 The Energy Efficiency Works apparent overspending is again actually accelerated spending on works at Salt Ayre Leisure Centre. There will therefore be a corresponding reduction in the 2017/18 budget. Other than this adjustment no further action is required.

7.3.5 The Salt Ayre ICT system replacement overspending was due to the new leisure management system needing to be "on premise" and not in the Cloud as originally envisaged. As a result, additional costs were incurred on enhancing the server room, providing extra resilience, and upgrading the power supply cabling. As the situation was unforeseen, with the preferred supplier not being able to provide a Cloud based

system, no further budgetary action is required, although actions are underway to help prevent such a situation occurring again.

7.4 Summary Position

7.4.1 The following table pulls together the financing position after allowing for slippage. Overall the under and overspendings are considered comparatively minor when viewed against the programmes as a whole.

Capital Programme	Revised Estimate £'000	Comparative Adjusted Expenditure £'000	Overspend Or (Underspend) £'000
Council Housing	4,314	4,077	(237)
General Fund	14,496	14,556	60

8 TREASURY MANAGEMENT

8.1 The annual treasury management report is attached at **Appendix H** and sets out the performance of treasury operations for 2016/17 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:

Monday 01 July	Commencement of 30 working day period for public inspection, questioning and objecting to unaudited accounts.
Monday 10 July	Audit of accounts commences.
Tuesday 11 July	Budget and Performance Panel: consideration of outturn.
Wednesday 19 July	Council: annual Treasury Management report for information.
Wednesday 06 September	Audit Committee: consideration of audited accounts.

During July the first quarterly monitoring report for 2017/18 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 provide for 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:
- Endorse 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 2016/17, the Council continued to manage the financial pressures well and it has again improved the Fund's overall financial standing as at 31 March 2017. Similarly, the HRA's standing is currently sound. Whilst net revenue underspendings were experienced on both General Fund and HRA, their scale is again lower than in previous years, 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 adequacy of the Council's financial planning and monitoring arrangements. This is especially so, given that local government finance appears to be getting more complex, as evidenced perhaps by the business rates outturn position for last year.

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. Accordingly the report is in her name (as Chief Officer (Resources)).

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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