

CABINET

Provisional Revenue, Capital and Treasury Management Outturn 2017/18 26 June 2018 Chief Officer (Resources)

| PURPOSE OF REPORT | | | | |
|---|--------------------------|------------------|--------------------------|--|
| This report provides summary information regarding the provisional outturn for 2017/18, including treasury management. It also sets out information regarding the carry forward of capital slippage and other matters for Members' consideration. | | | | |
| Key Decision | <input type="checkbox"/> | Non-Key Decision | <input type="checkbox"/> | Officer Referral <input checked="" type="checkbox"/> |
| Date of Notice of Forthcoming Key Decision | | N/A | | |
| This report is public. | | | | |

RECOMMENDATIONS OF COUNCILLOR WHITEHEAD:

1. That the provisional outturn for 2017/18 be endorsed, including the transfers and amendments to Provisions, Reserves and Balances actioned by the Chief Officer (Resources), and the position regarding overspendings.
2. That Cabinet approves the requests to carry forward underspent revenue budgets as set out in section 5.2.
3. That the requests for capital slippage and the adjustments to reflect accelerated capital spending on projects as set out at Appendix H be endorsed, with the Capital Programme being updated accordingly.
4. That the Annual Treasury Management report and Prudential Indicators as set out at Appendix J be noted and referred on to Council for information.

1 BACKGROUND

- 1.1 All local authorities have a legal duty to produce annual accounts, in support of openness and accountability. It is pleasing to report that the new statutory deadline of 31 May was met and the Statement of Accounts were completed and signed off by the Chief Officer (Resources) on that date. The audit of accounts by KPMG is currently underway and for information the draft Statement itself is 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. The Council's financial performance is integral to its service performance overall, which is included elsewhere on this agenda, 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 | 221 | (80) | (301) |
| General Fund Council Tax Requirement – covers all other Council services (but excludes parish precepts) | 8,623 | 8,224 | (399) |

3 HOUSING REVENUE ACCOUNT (HRA)

- 3.1 The Housing Revenue Account was underspent in last year by approximately £301K net (2016/17 comparative: £112K 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:
- a reduced revenue funding requirement for capital, mainly shown as a lower call on the Major Repairs Reserve (£282K net saving overall);
 - an increased depreciation charge of £38K;
 - increased income from rents due to carrying fewer void properties - £78K;
 - a number of other net overspendings amounting to £21K.
- 3.3 Improvements have been made to void turnaround times during 2017/18 resulting in the increased rental income. At the start of the year there were 83 void properties reducing to 37 by the end of the year, which is the lowest level since 2012/13.
- 3.4 At outturn the HRA's financial standing still remains sound. As at 31 March its Balances stood at £2.018M, this being £301K higher than budgeted. A summary of all its Balances, reserves and provisions is included at **Appendix E**.

4 GENERAL FUND

4.1 Revenue Outturn

- 4.1.1 The 2017/18 financial year saw further substantial reductions in Government funding, amounting to around £0.940M or 12%. 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 £399K against the overall Revised Budget for 2017/18 and a summary statement is included at **Appendix B**. The underspending represents 2.5% of the Council's net revenue budget (2016/17 comparative: £249K underspend, 1.5% of budget) or 4.6% 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 | 22,467 | (41) |
| Premises Related | 9,464 | (242) |
| Transport and other Supplies and Services | 14,749 | (39) |
| General Income (including Grants) | (20,226) | (230) |
| Other minor variances | | (32) |
| Other Areas: | | |
| Additional Contribution to Welfare Reserve | | 130 |
| Net Additional Contribution to Provisions | | 55 |
| Net Total | | (399) |

- 4.1.4 Underspends have again occurred on repair and maintenance of property and sea and river defences totalling £203K. These are due to a variety of reasons such as vacancies within the Coast Protection team meaning works could not progress. As a result, work will be rescheduled in 2018/19.
- 4.1.5 Additional income of £160K has been generated across the Council and it is anticipated that the majority of this will continue in the future. Key areas are DFG administration charges (£24K), Off-street car parking income (£48K) and Commercial Property rents (£46K).
- 4.1.6 In contrast there have also been reductions in income of £95K, relating to Salt Ayre (£27K) Legal Fees recovered (£25K) and Planning Fee income (£28K). Further work is underway to ascertain any ongoing impact in these areas.
- 4.1.7 Additional government grants have also been received in respect of Universal Credit (£130K) and New Burdens and Transparency (£35K), of which the £130K has been transferred into the Welfare Reforms Reserve (see 4.2.1 below).

- 4.1.8 In terms of the 2017/18 approved savings for 2017/18, of the total £103K budgeted net savings £89K has been achieved, leaving a shortfall of £14K. The two main areas where income has not been achieved as expected relate to the Kingsway overspill car park (£7K shortfall) and Planning pre-application advice income (£9K shortfall). Full details are set out at **Appendix D**.
- 4.1.9 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.
- 4.1.10 This process will lead into the 2019/20 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 E** and the main issues and transfers regarding General Fund are highlighted specifically below:
- A new Back Pay Provision has been created and £100K set aside in it. This follows a ruling by the Employment Appeal Tribunal in 2017, whereby employers must now include overtime in the calculation for holiday pay. The provision has been created to cover the potential cost of backdated payments.
 - An additional £45K was received from Government in respect of previous Legal claims which have now been settled. This money has been transferred into revenue and the provision closed.
 - As mentioned above, the Universal Credit grant of £130K has been transferred into the Welfare Reform Reserve to help manage the cost of current and future administrative pressures of welfare reforms.
 - Use of the AONB Reserve is currently limited to replacement of vehicles and machinery. However, it is proposed to widen this now to allow the transfer in of additional income or underspends, and to allow the reserve to be used to fund specific projects and plans that arise. The Arnside and Silverdale AONB is jointly funded by four councils as well as receiving grants from DEFRA.
- 4.2.2 The transfers have already been reflected in the General Fund summary position outlined earlier, hence Cabinet is asked to endorse them and the change in use of the AONB Reserve.
- 4.2.3 After allowing for these transfers, the General Fund net underspending of £399K has been transferred into Balances by the Chief Officer (Resources). This means that as at 31 March 2018 Balances amount to £5.067M, as compared with the budgeted figure of £4.668M. 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 exists to adjust budgets between years by carrying forward under- or over-spendings. 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 two specific requests for Cabinet to consider.

5.2.1 The first relates to the Community Governance Review which was scheduled to start in 2017/18 and continue into 2018/19. However, due to unforeseen delays work has not commenced until April 2018. The request is to carry forward the £10,000 budget originally allocated in 2017/18. It should be noted that the Council is statutorily required to carry the review.

5.2.2 The second request is to carry forward £11,400 of unspent budget relating to Townscape Heritage Initiative 2. Progress on some of the Heritage Skills and Business Support programme were delayed due to difficulties finding suitable trainers to deliver the heritage skills programme and delays by third parties in delivering accredited schemes. The carry forward represents the Council's matched funding contribution to the HLF grant which is being provided for this initiative, and which has to be completed before the end of 2018/19.

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 F** 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 £94K 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 47 chargeable Band D dwellings (*0.1% 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 £12K in 2019/20. The Fund's movements will continue to be monitored and reported to Members as part of the quarterly financial monitoring process.

6.3 Business Rates

- 6.3.1 On 01 April 2017 the latest revaluation by the Valuation Office Agency came into effect, which for Lancaster saw an increase in Rateable Value of 4% from £153.637M (2010 List) to £159.981M (2017 List). However, since the new list became effective no appeals have been made yet against it for Lancaster – and it is not known how many might be in the pipeline. This has made estimating the provision for appeals very difficult; as a result an historic average loss of 5.7% has been assumed for 2017/18 appeals.
- 6.3.2 Allowing for that provision for appeals, and from a Collection Fund perspective, the overall Fund position has moved from an opening deficit of £1.8M to a final surplus of £9.3M at the end of 2017/18. Of that £9.3M surplus, the City Council's share is £3.7M (40%) but this figure is subject to changes arising from the current year onwards. Any surplus remaining could not be realised as growth for some time (and certainly not in the current year); it will therefore not immediately impact directly on the Council's budget.
- 6.3.3 Separately however, £2.6M of business rate growth is expected to be realised in 2018/19, in line with the expectations reported during the budget. Assuming no changes, this will be transferred into the Budget Support Reserve later this year.
- 6.3.4 In addition, the City Council continues to benefit from renewable energy income amounting to £954K in last year (£917K in 2016/17). 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.

7 CAPITAL OUTTURN

- 7.1 **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 | 4,204 | 4,030 | (174) | (4.1) |
| General Fund | 12,146 | 11,642 | (504) | (4.1) |
| Total Programme | 16,350 | 15,672 | (678) | (4.1) |

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 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 carry forward of slippage can be a formality. If Members have any questions on particular requests and/or are minded 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 and shows that slippage has reduced significantly in 2017/18, which is a positive step. Overall it represents 4.6% of the overall £16.350M programme.

| | 2017/18 £'000 | 2016/17 £'000 | 2015/16 £'000 | 2014/15 £'000 | 2013/14 £'000 |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|
| Council Housing | 60 | 0 | 36 | 95 | 0 |
| General Fund | 695 | 2,410 | 576 | 2,526 | 1,706 |
| Total Slippage Requested | 755 | 2,410 | 612 | 2,621 | 1,706 |

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 2017/18 there were two HRA schemes where overspends exceeded £10K, however, there were none for General Fund.

| | Revised Budget £'000 | Actual Spend £'000 | Overspends/ Accelerated Spending £'000 |
|--------------------------------|----------------------------|--------------------------|---|
| OVERSPENDS | | | |
| Housing Revenue Account | | | |
| Disabled Adaptations | 350 | 365 | +15 (4.3%) |
| Environmental Improvements | 508 | 521 | +13 (2.6%) |
| ACCELERATED SPENDING | | | |
| General Fund | | | |
| Vehicle Renewals | 2,105 | 2,115 | +10 |
| Disabled Facilities Grants | 1,107 | 1,240 | +133 |
| Energy Efficiency Works | 393 | 430 | +37 |

- 7.3.2 The HRA overspending on disabled adaptations has resulted from additional referrals from Occupational Therapy requiring more adaptation works to be carried out. As this is a reactive budget it can sometimes be difficult to predict spend therefore no further action is required, other than to monitor future spend more closely.
- 7.3.3 The environmental improvements overspending is due to 2016/17 slippage not being requested which in turn had a knock on impact in 2017/18. Whilst efforts to address this were made by officers there still remains a small overspend. No further action is

required as the overspending is covered by underspending on other schemes. However, there is now much closer liaison between the Council Housing and Financial Services to ensure this does not occur in future.

- 7.3.4 The vehicle renewals accelerated spending (ahead of schedule) relates to stop safe mechanisms for four refuse collection vehicles and purchase of a new JCB. There will be a corresponding reduction in the 2018/19 budget, therefore no further action is required.
- 7.3.5 The Disabled Facilities Grants accelerated spending relates to grant payments. The additional cost is fully funded from the DFG grant allocation of £1.6M for 2017/18, and will need a corresponding reduction to the 2018/19 budget, but no other action is required.
- 7.3.6 The Energy Efficiency Works accelerated spending relates to the installation of a new combined heat and power unit at Salt Ayre Leisure Centre. There will therefore be a corresponding reduction in the 2018/19 budget. Other than this adjustment no further action is required.

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 | Comparative Adjusted Expenditure | Overspend Or (Underspend) |
|-------------------|------------------|----------------------------------|---------------------------|
| | £'000 | £'000 | £'000 |
| Council Housing | 4,204 | 4,090 | (114) |
| General Fund | 12,146 | 12,157 | 11 |

8 TREASURY MANAGEMENT

- 8.1 The annual treasury management report is attached at **Appendix J** and sets out the performance of treasury operations for 2017/18 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 June

Commencement of 30 working day period for public inspection, questioning and objecting to unaudited accounts.

| | |
|-------------------|---|
| Monday 11 June | Audit of accounts commences. |
| Tuesday 26 June | Cabinet: consideration of outturn |
| Tuesday 10 July | Budget and Performance Panel: consideration of outturn. |
| Wednesday 18 July | Council: annual Treasury Management report for information. |
| Wednesday 24 July | Audit Committee: consideration of audited accounts. |

During July the first quarterly monitoring report for 2018/19 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 June 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 2017/18, the Council continued to manage the financial pressures well and it has

again improved the Fund's overall financial standing as at 31 March 2018. Similarly, the HRA's standing is currently sound. 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.

| | |
|---|--|
| 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. | Contact Officer: Nadine Muschamp Telephone: 01524 582117 E-mail: nmuschamp@lancaster.gov.uk |