

BUDGET SCRUTINY COMMITTEE 16<sup>TH</sup> SEPTEMBER 2013

COPY OF FINANCIAL OUTTURN 2012/2013 REPORT  
PRESENTED TO EXECUTIVE ON 5<sup>TH</sup> AUGUST 2013

Committee:	Executive	Agenda Item No.:	10
Date:	5 <sup>th</sup> August 2013	Status	Open
Category	2. Decision within the functions of Executive		
Subject:	Financial Outturn 2012/13		
Report by:	Assistant Director of Financial Services		
Other Officers Involved	Chief Accountant		
Director	Director of Corporate Resources		
Relevant Portfolio Holder	Councillor E. Watts, Leader of the Council		

### **RELEVANT CORPORATE AIMS**

STRATEGIC ORGANISATIONAL DEVELOPMENT – to continually improve the efficiency and effectiveness of all Council Services by maximising the potential use of Council resources

### **TARGETS**

All

### **VALUE FOR MONEY**

Good financial management and reporting is essential to securing Value for Money.

## **THE REPORT**

### **1. Purpose of Report**

- 1.1 To inform Cabinet of the outturn position in respect of the 2012/13 financial year and to undertake a detailed assessment of the impact of that outturn upon the Council's financial position and in particular the Medium Term Financial Plan 2013 – 2016.

### **2. Background Information**

- 2.1 The Council has closed its financial accounts for 2012/13 in line with the required deadline of 30 June 2013. The Draft Statement of Accounts is now subject to independent audit by the Council's external auditors, KPMG. Until the accounts have been agreed by our external auditors - which will take place before 30 September 2013 - there remains the possibility that they will be subject to amendment.
- 2.2 Members should note that the Council's Draft Statement of Accounts in respect of 2012/13 was signed as complete by the Council's Chief Financial Officer (Director of Corporate Resources) at the end of June

2013. The final audited accounts will be reported to and approved by the Audit Committee at its meeting of 26th September 2013.

- 2.3 With the introduction of the International Financial Reporting Standards (IFRS) the main focus of the Statement of Accounts is on reporting to the public in a format which is directly comparable with every country that has adopted IFRS i.e. not just UK or even other local authorities. In contrast the focus of this report is on providing management information to Members and other stakeholders to assist in the financial management of the Council.
- 2.4 The following sections of this report will consider the 2012/13 outturn position in respect of the General Fund Revenue Account, the Housing Revenue Account (HRA), the Council's Capital Investment Programme and Treasury Management activities. Within the report consideration is given to the level of balances at the year end, to any impact on the Council's Medium Term Financial Plan of the outturn position, together with an assessment of the impact which the closing position has upon the Council's budgets in respect of the current financial year.

## **ISSUES/OPTIONS FOR CONSIDERATION**

### **3. General Fund Revenue Account**

- 3.1 The position in respect of the General Fund outturn is outlined in **Appendix A** attached to this report. In summary there has been an under spend in the year on the net cost of services of £910,727 (column E). After taking into account the variances on capital financing transactions the under spend is reduced to £796,292 (column E). This overall position has arisen from under spending on budgets, additional income and efficiency savings. **Appendix A** shows that the incidence of the under spend is spread across all Directorates of the Council.
- 3.2 To present a clearer outturn position to Members it has been necessary to make an adjustment to the revised budget for expenditure that was planned to have been financed from resources held in grant accounts, from holding accounts and from certain reserves. The adjustments reflect where this expenditure has not been incurred and therefore the use of the associated financing is not required. While these variances do not impact on the bottom line for the Council if these adjustments were not made then the underlying variance position would be distorted. Officers in Accountancy are seeking to improve the controls in place over the use of such resources and would recommend the following approach to Executive:
- That for 2013/14 and future years budget managers are required to seek approval from SAMT to use any resources held in grants unapplied accounts or holding accounts. The budget manager would be required to complete a standard form and submit their proposal for approval to SAMT. In this way there is a transparent approval process that ensures that the Directors and Chief

Executive are aware of the proposal and can evaluate it against the Original Approval, the Corporate Aims of the Council, the resources available and the needs of the relevant Section. The approvals concerned will be reported to Executive within a summary appendix as part of the Quarterly Budget Monitoring process.

- 3.3 With respect to the detailed variances behind the summary figures these are presented at **Appendix B**. Comments have been added to show the reasons for the main variances on each cost centre.
- 3.4 In a small number of service areas work that was planned to be undertaken in the 2012/13 financial year has been delayed and there has been a request from the cost centre managers to carry forward the approved budgets for this work into 2013/14. The total cost of these carry forward budget requests comes to £62,390. It is proposed that the carry forward requests are transferred from the “General” earmarked reserve and placed into a carry forward budget reserve so that the approved and committed work can be continued in 2013/14. The reserve will be managed by the Accountancy Section and be drawn down into the 2013/14 budget as the expenditure on these schemes is undertaken by the relevant cost centre manager.
- 3.5 Transition Grant – 2011/12  
The Council qualified to receive £2.311m of transition grant in 2011/12 in order to enable it to adjust to the impact of the Comprehensive Spending Review reductions in Government Grant. At the 31 March 2012 a balance of £0.527m remained available to support appropriate Council expenditure. During 2012/13 a total amount of £0.522m has been expended of which £0.059m was transferred to support capital expenditure and the balance £0.463m to support approved expenditure within the General Fund. Therefore the balance remaining from the 2011/12 grant allocation is £0.005m.
- 3.6 Transition Grant – 2012/13  
The Council also received a Transition Grant of £1.929m in 2012/13 to support transition arrangements within the Council. In setting the 2012/13 budget a sum of £0.521m was approved as General Fund support. However, the overall under spend position in 2012/13 has meant that no call has been made on the Transition Grant allocation in the year and as such the full allocation of £1.929m has been transferred to a separate reserve. There are some approved allocations from this balance that have not yet been drawn down – officers in Accountancy are currently assessing these individual approvals and holding discussions with the relevant budget manager to determine a clear picture of the likely commitment. These details will be reported back to a future meeting.
- 3.7 The improvement in the Council’s financial position was achieved by a combination of factors but principally by all budget managers exercising tight management control over their budgets. Expenditure has only been incurred where the services had a genuine need to incur the costs to

provide the services required. Other factors that may have contributed to the favourable outturn position is in relation to the significant changes brought about by the restructuring of the Assistant Directors in the organisation through the Strategic Alliance with the new officers obtaining an understanding of the previous spending patterns of each Directorate and also challenging these patterns when required. There is also the issue that the reduced managerial capacity within the Council has reduced the ability to deliver services at the same level as in previous years.

- 3.8 The total net expenditure position for the Council in the year shows a net gain of £77,953. This is offset by a net reduction from the revised budget in the level of funding streams of £24,470 (New Homes Bonus £25,178 less additional Council Tax Freeze Grant £708). The remainder provides a small gain to the General Fund of £53,483 which has been transferred to General Fund balances.
- 3.9 While the improvement in our balances and reserves is welcome the main feature of the 2012/13 financial year is that the Council successfully achieved in full savings that covered the savings target of £1.496m. These savings have served to reduce the underlying level of expenditure and will continue to benefit the Council in future financial years.
- 3.10 The position on the level of the Council's General Fund balances is set out in the table given below:

<b>GENERAL FUND</b>	<b>Revised Budget £,000</b>	<b>Outturn 2012/13 £,000</b>	<b>Variance £,000</b>
Opening Balance as at 1/04/12	1,389	1,389	0
Transfer in year	0	53	0
<b>Closing Balance as at 31/03/13</b>	<b>1,389</b>	<b>1,442</b>	<b>0</b>

- 3.11 The level of General Fund Reserves has improved by £0.053m which clearly represents an improved financial position for the Council. This position is welcome but Members should note that the balances are now considered to be at a more appropriate level for a District Council rather than at a generous level. It needs to be recognised that the current level of balances needs to be set against the background of ongoing reductions in the level of Government funding. Against this background it is crucial that the Council continues to maintain robust budgetary control while securing its ongoing savings targets.
- 3.12 Given the current level of balances should either an over spend or an under achievement of income occur then the Council would have a period of time in which to recover the situation. By contrast in a situation in which the Council were operating with the minimum level of balances and an overspend or an under achievement of income occurred which took balances to below minimum level then immediate 'crisis' remedial action would need to be considered. Such a response would not be conducive to sound financial management but more importantly would have a significant detrimental impact upon the Council's ability to deliver

the planned and agreed level of services to local residents. The continued gradual improvement in the level of balances needs to be welcomed as providing the Council with the financial resilience necessary to safeguard services to local residents against a background of ongoing reductions in Government grant funding. However, Executive will recognise that given a level of General Fund balances of £1.442m, against a requirement to secure some £0.832m of financial savings for 2014/15 (next year) that there is effectively no other option for the Council other than to continue to tackle the underlying budget deficit that it is facing in future financial years.

3.13 With regard to the general under spend throughout the Directorates in 2012/13 officers in the Accountancy Section have carefully examined every cost centre of the General Fund and looked at the outturn position of 2012/13 to determine if the under spend is a “one off” or is a saving of an ongoing nature. In conjunction with the service managers a number of ongoing budget reductions are proposed to the budgets in respect of 2013/14 and future years. These budget savings are detailed in a separate column of **Appendix B**. This exercise has determined that a net budget reduction of £178,210 should be achievable in 2013/14. A recommendation is made to Members to approve these budget changes in 2013/14 and the MTFP for future years. This adjustment will clearly help to address the shortfall in respect of 2013/14 and future years.

3.14 It should be noted that the proposed budget reductions do not relate to salary adjustments. This is because there are a number of changes being implemented throughout the Council in respect of joint secondment working or where reviews of working arrangements are underway or planned within the Directorates. It is planned that detailed budget monitoring of the salary budgets will be undertaken and reported on as part of the quarterly budget monitoring process.

#### **4 Housing Revenue Account (HRA)**

4.1 The Housing Revenue Account is summarised in **Appendix C** to this report. This shows overall expenditure was £0.249m below the revised budget (column C) and income some £0.101m better than anticipated, giving a net cost of services favourable variance of £0.350m. Further savings on interest costs and depreciation charges bring the net favourable variance on the account to £0.445m. The favourable variance position takes account of the approved transfer to balances of £0.752m indicating that the overall position would have been a surplus on the account of £1.197m. It is proposed to distribute the £1.197m as follows:

- An increase in the transfer to the Major Repairs Reserve of £0.445m from £1.118m to £1.563m. With this proposed transfer the Major Repairs reserve will have a balance of £1.885m at 31 March 2013. The transfer is proposed to provide the additional resources to address the anticipated repairs and refurbishment requirements that are identified following the full stock condition survey. This balance will effectively enable the Council to address

the works required without having to undertake any capital borrowing.

- The remainder will consist of a transfer to HRA balances of £0.752m as planned within the revised budget for 2012/13.

4.3 While the improving position is welcomed Members should note that the level of balances are now considered to be at an adequate level based on the level of financial risks facing the HRA following the HRA reform. The Council is continuing to work on delivering the HRA business plan to assist in the overall management of the Housing Revenue Account. Ensuring that the Council manages the resources within these plans will assist in protecting the underlying financial position in respect of future years.

#### 4.4 **Impact on Housing Revenue Account Balance**

The impact on the Housing Revenue Account balance is as follows:-

<b>HRA Balances</b>	<b>Budget</b>	<b>Outturn</b>	<b>Variance</b>
	<b>£,000</b>	<b>£,000</b>	<b>£,000</b>
Opening Balance as at 1/04/11	(1,023)	(1,023)	0
Surplus in year	(752)	(752)	0
Closing Balance as at 31/03/12	(1,775)	(1,775)	0

4.5 While that the level of balances held in respect of the HRA have increased as a result of the 2012/13 outturn the Chief Financial Officer remains of the view that they continue in line with the level of balances that is necessary for the financial stability of the HRA in the light of the HRA Financial Risk Register.

### 5 **Capital Investment Programme**

5.1 The capital expenditure incurred by the Council in 2012/13 is attached on a scheme by scheme basis in **Appendix D**. It can be seen from the appendix that the Council's capital spend in the financial year was £10.932m.

5.2 Overall expenditure was some £4.022m below the revised budget. There are many reasons for the under spend during the year:

- Tighter controls exercised on capital expenditure
- Impact of one major scheme (Project Horizon) on other smaller schemes.
- Timing delays on projects
- Capacity of staff
- Desire to ensure expenditure only committed where absolutely necessary

- Expenditure purposely delayed pending outcome of asset condition surveys
- Schemes held back pending receipt of income from sale of assets (capital receipts).
- Schemes delivered at a cost below the revised budget.

The impact of the under spend is that many of the schemes are included in the proposed carry forward budget requests which are detailed on **Appendix D**. The total of these requests is £3.006m. This is for individual schemes that are still in progress, where there are outstanding commitments or where the scheme has been delayed.

### **Capital Financing**

- 5.3 The Capital Programme financing is also detailed on **Appendix D**. In summary officers utilised the under spend to minimise the amount of prudential borrowing required by the Council. The end result is that prudential borrowing of £4.907m was undertaken which effectively meets the unfinanced costs from Project Horizon. In line with the position previously approved by Council this borrowing will be repaid as soon as the planned asset sales are completed in the current year and the capital receipt becomes available.

## **6 Reserves and Balances**

- 6.1 The summary position with respect to the level of Reserves and Balances at 31 March 2013 is set out in **Appendix E** to this report. The level of both General Fund and HRA balances have increased during the course of the 2012/13 financial year which has strengthened the Council's financial position. This position places the Council in a better position to continue to provide high quality services to local residents against a background of ongoing grant reductions as set out in the Comprehensive Spending Review of Autumn 2010. While the increase in the level of balances has improved the Council's financial resilience it needs to be recognised that ongoing efficiency and other savings will be necessary in order to protect the delivery of priority services to local residents.

## **7 Treasury Management**

- 7.1 At **Appendix F** is a brief report on the Treasury Management activity of the Council for 2012/13. In summary the Council operated throughout 2012/13 within the Authorised Limit and Operational Boundary limits approved in the Treasury Management strategy approved by the Council in March 2012 and as updated in the report to Council on 15 February 2013.
- 7.2 The key facts from the brief report are:



- The overall borrowing requirement of the Council is £115.840m at 31 March 2013.
- The PWLB debt is £107.100m
- The finance lease debt is £0.173m
- Effective internal borrowing is £8.567m
- No new PWLB borrowing was undertaken in 2012/13
- The HRA headroom at 31 March 2013 is £12.845m
- PWLB interest in 2012/13 was £3.696m
- Interest received on investments was £0.034m

## **8 Legal Aspects**

- 8.1 The Statement of Accounts is required to be prepared by the 30 June each year. The Council has now completed the accounts and they have been signed off by the Chief Financial Officer as at the 30 June 2013 which secures compliance with the Council's legal obligations. There are no legal issues arising directly from this report.

## **9 Risk Management**

- 9.1 The issue of Financial Risk is covered throughout the report. The risk of not achieving a balanced budget, together with the risk that the Council's level of financial balances will be eroded are currently key corporate risks identified on the Council's Strategic Risk Register. The outturn report shows that the Council's approach to mitigating these risks during 2012/13 has been successful, with our budgets balanced and the level of financial reserves improved.
- 9.2 While the Council has effectively addressed its Strategic Financial Risks during 2012/13 it needs to be recognised that the Council will need to continue to meet a range of challenging savings targets if it is to operate effectively within the financial environment established by the Comprehensive Spending Review.

## **10 Policy and Performance**

- 10.1 This report is intended to monitor progress in achieving the objectives set out within the Medium Term Financial Plan, which in turn is linked to the full range of the Council's Corporate Strategies. The achievement of the targets set out in the Medium Term Financial Plan has therefore a key role in ensuring that the Council achieves its corporate priorities.

## **11 Financial Implications**

- 11.1 The financial implications are set out within the body of the report.
- 11.2 Members should note that the budgets against which we have monitored the 2012/13 provisional outturn were those agreed within the Council's Medium Term Financial Plan. The Medium Term Financial Plan gave careful consideration to both the affordability of the budgets that were approved, and to ensuring that the level of balances remained adequate for purposes of enabling sound financial management. The fact that the

outturn position for 2012/13 indicates that these financial targets have been achieved, gives the Council a firm foundation from which to achieve the service delivery and financial targets approved within the current Medium Term Financial Plan.

## **12 IMPLICATIONS**

- 12.1 Financial: As outlined in the report  
Legal: None  
Human Resources: None

## **13 RECOMMENDATIONS**

- 13.1 That Members note the report and in particular the financial outturn position in respect of 2012/13

### General Fund

- 13.2 It is recommended that for 2013/14 and future years that budget managers are required to seek approval from SAMT to use any resources held in earmarked reserves, grants unapplied accounts or holding accounts. The budget manager will be required to complete a standard form and submit their proposal for approval to the Strategic Alliance Management Team (SAMT). As part of each quarterly budget monitoring the amounts approved by SAMT will be reported to Executive in a summary appendix.
- 13.3 That the budget carry forward requests totalling £62,390 as detailed on Appendix B are approved as a transfer from the "General" earmarked reserve to a "budget carry forward" earmarked reserve and be drawn down into the 2013/14 budget by the Accountancy Section as required by the relevant budget manager.
- 13.4 That Executive agree and refer to Council for approval the proposed reductions set out in detail on Appendix B to the base budget in 2013/14 and future years of the current MTFP of £178,210 which reflects ongoing savings that may be made as identified from the outturn position of 2012/13.

### Housing Revenue Account

- 13.5 That Executive approves the proposed HRA transfers to earmarked reserves and balances:
- An increase in the transfer to the Major Repairs Reserve of £0.445m from £1.118m to £1.563m. With this proposed transfer the Major Repairs reserve will have a balance of £1.885m at 31 March 2013.
  - An amount of £0.752m is transferred to the HRA balances.

### Capital Programme

- 13.6 That Members approve the proposed carry forward of capital budgets detailed in Appendix D totalling £3.006m.

### Treasury Management

- 13.7 That Members note the prudential borrowing undertaken in 2012/13 of £4.907m to meet the temporary financing arrangements for Project Horizon and that the borrowing will be repaid as soon as the budgeted capital receipts are received in 2013/14.

### Further Reporting

- 13.8 That this report is forwarded to the Audit and Budget Scrutiny Committees for their consideration.

### **REASON FOR DECISION TO BE GIVEN IN ACCORDANCE WITH THE CONSTITUTION**

To inform Cabinet of the outturn position in respect of the 2012/13 financial year

ATTACHMENTS:           **Y – Appendices A to F**

FILE REFERENCE:

SOURCE DOCUMENT:   Held in Finance