

## BABERGH DISTRICT COUNCIL

<b>From: Director of Finance</b>	<b>Report Number: L41</b>
<b>To: STRATEGY COMMITTEE</b>	<b>Date of meeting: 7 July 2011</b>

### **FINANCIAL OUTTURN FOR 2010/11**

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

- 1.1 To advise Members on the likely financial outturn for 2010/11 compared to the approved budget and provide other key financial information, as follows:
- General Fund – After allowing for proposed budget carry forwards, and subject to the final review of the Statement of Accounts, net expenditure is expected to be approximately £0.2m lower than the revised budget
  - Council Housing – Broadly in line with the revised budget, with the surplus for the year being around £0.2m, which is £0.1m more than anticipated
  - Capital Investment – Nearly £5.4m spent, which was 87% of the revised budget.
- 1.2 To seek Member approval to proposals on a change in the use of earmarked reserves and on a number of proposed Budget carry forwards.
- 1.3 To explain the new arrangements for approving the Statement of Accounts.

#### **2. Recommendations**

- 2.1 That the Committee notes the likely financial outturn for 2010/11 and the new arrangements for approving the Statement of Accounts.
- 2.2 That the Committee approves the proposed Budget carry forwards as set out in section 8.5 and 8.7 of the report and Appendix A.
- 2.3 That the Committee approves the proposed change in the use of earmarked reserves for integration costs and 'Invest to Save' initiatives, as outlined in section 8.11 of the report.

The Committee is able to resolve these matters.

#### **3. Financial Implications**

- 3.1 The lower General Fund revenue outturn of £0.2m, after allowing for the total proposed budget carry forwards, will result in there being approximately £1.7m in general reserves (i.e. working balance) at the end of the year.

- 3.2 The proposed change to financing last year's General Fund capital programme compared to the revised budget, by using more borrowing instead of earmarked reserves, is seen as the best overall approach for the Council. Whilst the change results in a modest annual revenue cost, it provides the maximum flexibility in relation to the future use of earmarked reserves and the Council's integration with Mid Suffolk.
- 3.3 On Council Housing, the HRA revenue outturn for the year was a £0.2m surplus, which was £0.1m better than the revised budget. After allowing for budget carry forward requests, HRA reserves will stand at £1.35m, which is slightly higher than anticipated. Any proposed additional use of these reserves, in the light of the minimum prudent HRA working balance of £0.5m, will be considered further as part of the proposed HRA Council Housing financial reforms.
- 3.4 Allowing for the proposed Budget carry forwards, capital programme investment for the year of nearly £5.4m was in accordance with the revised budget and this reflects the effective planning and delivery of key priorities and outcomes.

#### 4. Risk Management

- 4.1 This report is most closely linked with the Council's Corporate/ Significant Business Risk Nos.2 and 6 – Efficiencies and Savings and Performance and Cost Management. Key risks are set out below:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation Measures</b>
The Accounts – material misstatements or non-compliance with accounting requirements, resulting in a 'qualified' audit opinion.	Low	Marginal	Clear arrangements in place for ensuring compliance with accounting requirements. Analytical review of outturn against previous year and the Budget by officers. Joint working with MSDC and other Councils. Discussion on key issues with the auditors.
Shortfall in identifying future savings and efficiencies.	Significant	Critical	Discussions with Heads of Service and Managers to ensure any key Budget variations are properly addressed in relation to future Budgets and savings requirements.

#### 5. Consultations

- 5.1 No external consultations required. Internal discussions are taking place with Heads of Service and Managers on reasons for variations in the 2010/11 outturn on specific services, the outcomes of which will be fed into the Budget formulation process for future years.

#### 6. Equality and Diversity Impact

- 6.1 None.

## 7. Shared Service / Partnership Implications

- 7.1 The proposed change in earmarked reserves will ensure there is maximum flexibility on funding the transitional costs of integration with Mid Suffolk (including redundancies). Mid Suffolk have set aside a similar reserve.
- 7.2 In future years, officers will look at whether a joint approach with Mid Suffolk in presenting outturn and other financial information as part of the integrated processes of both Councils would be beneficial.

## 8. Key Information

### The Statement of Accounts

- 8.1 The Government have changed the approach to approving these. The new arrangements for Babergh are summarised below. These have been agreed by the Overview and Scrutiny (Stewardship) Committee:

<b>Previous</b>	<b>Now</b>
Accounts approved by Council by 30 June following scrutiny by Overview and Scrutiny (Stewardship) Committee but before external audit.	Accounts approved by Director of Finance (as Chief Financial Officer) by 30 June. Overview and Scrutiny (Stewardship) Committee to scrutinise in July.
External Audit opinion on the accounts and the Annual Governance Report, highlighting any proposed changes to the accounts, reported to Overview and Scrutiny (Stewardship) Committee by 30 September.	No change.
Report (if necessary) to Council if any significant/material changes.	Audited Accounts presented to Council for approval by 30 September.

- 8.2 This is a very sensible and welcome change. It is in line with arrangements in the private sector and avoids unnecessary consideration of the draft accounts in June by Members.

### Financial Outturn

- 8.3 Further significant savings were achieved on staffing costs in 2010/11 as a result of the rigorous vacancy management arrangements that are in place, both across the council and jointly with Mid Suffolk. A further saving of £90k has been achieved against the revised budget. This is in addition to the £300k+ reduction reflected in the revised budget compared to the original budget for the year. Other operational expenditure was around £60k lower than the revised budget.

8.4 There were a range of other expenditure and income variations on General Fund services, the most significant aspects being as follows:

- Areas where income was higher than anticipated in the revised budget, totalling around £60k - green waste income (more subscribers) and slightly more land charges/industrial estates and starter units income
- Areas where income was lower than anticipated in the revised budget, totalling approximately £170k – car parking, planning and building control fees, licensing and trade waste (although the latter was in line with the original budget)
- Lower expenditure or savings on a variety of other services, which offsets the reduction in income referred to above, excluding budget carry forward requests (see below)
- Lower net expenditure on revenues and benefits of around £350k – this is, however, still being reviewed and it is proposed that some of this saving is carried forward into 2011/12.

8.5 In terms of General Fund budget carry forwards requested these are currently estimated at £395k, as reported to the Overview and Scrutiny (Stewardship) Committee on the 14 June (Paper L23: Appendix D). Only items over £20k require Strategy Committee approval and these are listed below:

Service/area	Amount £000	Reasons
Revenues and Benefits: - Staff savings - Govt. Grant	78 60	Retained as a cushion for any additional transitional costs of the Shared Revenues Partnership (SRP) that could arise in 2011/12
CRED (Carbon Reduction Partnership)	22	Agreed contribution towards climate change initiatives
Mid Suffolk Integration	83	Transitional costs that will arise on integration in 2011/12
<b>Total</b>	<b>243</b>	

8.6 In relation to the HRA, overall revenue expenditure and income was £107k less than the revised budget. Key variations are summarised below:

- Responsive repairs and planned maintenance, void repairs and an increased focus of resources to improve voids management has resulted in increased costs compared to the revised budget of £63k
- However, non-programmed repairs costs were underspent by £38k and the cost of managing tenancies was £107k less than the budget
- An additional £53k became payable to the government in relation to Housing subsidy, including a prior year adjustment
- Energy costs were £20k less than the budget
- Interest received and Community alarm income were £21k more than the budget.

8.7 Proposed HRA Budget carry forward requests are summarised below, after these are taken into account, the HRA working balance will stand at £1.35m, which is £48k higher than anticipated in the revised budget:

- £55k for potential costs on housing integration and the council housing reforms
- £10k for redundancy payments and £4k insurance excess provision for claims in progress.

Strategy Committee approval is required for the first item above.

8.8 The position on the General Fund capital programme is summarised below, which has also been scrutinised by the Overview and Scrutiny (Stewardship) Committee :

### General Fund Capital

<b>Expenditure Area</b>	<b>Revised Budget £'000</b>	<b>Outturn £'000</b>	<b>Variation £'000</b>
ICT / Information Management	238	202	-36
Contract & Asset Management	727	545	-182
Community Development	656	627	-29
Private Sector Housing	586	459	-127
Natural & Built Environment	246	11	-235
Capitalised Redundancy Costs (integration mainly)	186	179	-7
<b>TOTAL PROGRAMME</b>	<b>2,639</b>	<b>2,023</b>	<b>-616</b>

8.9 The final percentage of capital expenditure achieved on the General Fund was 77% of the revised budget. The main variances for each expenditure area are shown below:

- ICT / Information Management: LAMP Project – total expenditure to complete the project was £12k less than anticipated; £10k for Finance System upgrade (if appropriate) would now take place in 2011/12; Integration with Mid Suffolk – expenditure of £14k postponed until requirements defined
- Contract & Asset Management: Car Parks - £73k less spent due to issues around purchasing additional land adjacent to the station in Sudbury to be used for car parking; A number of variations on other areas of asset management totalling £109k, including: Kingfisher Leisure Centre planned maintenance and enhancements (27k); Street Parking Improvements (21k); Waste Transfer Station (19k); Carbon Reduction projects (18k)

- Community Development: Community grants - £61k less paid out than the budget of £142k due to delays in the planning permission stage for applicants. Also some grant recipients have experienced difficulties in raising the necessary match funding but all the allocated funding will be spent during 2011/12 and allocations for this year's funding are underway. The completed Hadleigh Swimming Pool Enhancement Work exceeded the budget by £33k. Virement of budget from other areas of the capital programme have been identified and a report on this is on today's agenda.
  - Private Sector Housing: A payment of £150k to a housing association towards the cost of an affordable housing project in Sudbury was delayed as the units were not complete by the year end. The payment has now been made; Private Sector Renewal grants were overspent by £27k and this requires the earlier utilisation of the 2011/12 budget.
  - Natural & Built Environment: Green Waste Enhancement, £135k – a grant from Suffolk CC to fund the purchase of the green waste vehicle was not received until the final quarter of 2010/11. The vehicle is to be purchased during 2011/12; Sudbury Town Centre Redevelopment - £64k not spent as so far it has not been possible to purchase the additional land needed for the scheme to progress. The scheme is being funded by the Haven Gateway Partnership.
- 8.10 In terms of financing the capital programme, this is mainly in accordance with the Budget, but with more expenditure financed by borrowing (rather than earmarked reserves). This amounts to £400k compared to the Budget assumption of £57k and this approach does not add to the 2010/11 revenue costs but will cost £25k in a full year. That cost is likely to be reduced though by borrowing less in 2011/12.
- 8.11 The main reason for adopting this approach is to retain more earmarked reserves in case these are needed for integration (including redundancy) costs. That will protect general reserves/the working balance against dropping below minimum/prudent levels. Member approval is sought in principle, therefore, to the following:
- Transferring the balance on the capital projects reserve of £512k to an earmarked Mid Suffolk Integration Reserve
  - Transferring the £107k transitional Formula Grant (relating to the year 2011/12) into this Reserve.

These reserves would then be available to meet integration redundancy costs and 'Invest to Save' initiatives. Members to also note that, in relation to 2011/12, the first year of the Government's New Homes Bonus of £295k will be put into the Capital Projects Reserve.

## HRA Capital

8.12 The percentage of capital expenditure achieved on the HRA was 94% of the revised budget, a substantial achievement. The table below sets out further details of actual expenditure compared to Budget:

<b>Expenditure Area</b>	<b>Revised Budget £'000</b>	<b>Outturn £'000</b>	<b>Variation £'000</b>
Heating	985	944	-41
Kitchens / Bathrooms	677	798	+121
Disabled Adaptations	358	326	-32
Doors and Windows	231	111	-120
Other Planned Maintenance	471	460	-11
<b>Total</b>	<b>2,722</b>	<b>2,639</b>	<b>-83</b>
Insulation Improvements	148	161	+13
Major Refurbishments	149	128	-21
Structural Works	100	40	-60
Other Programmes	414	362	-52
<b>TOTAL PROGRAMME</b>	<b>3,533</b>	<b>3,330</b>	<b>-203</b>

8.13 Further details on the key budget variations are provided below:

- Heating - Expenditure was £41k less, but this is only 4% less than the budget of £985k. Fewer air source heat pumps were installed than planned due to issues around planning permission for the outside air units and with obtaining agreement from power supply companies for the installation. In some cases, tenants are reluctant to have the heat pumps installed
- Bathrooms and Kitchens - Budget of £121k was brought forward from 2011/12 to enable more installations than originally planned in the revised budget
- Doors and Windows - Expenditure is taking place later than originally planned resulting in £120k less expenditure last year against the revised budget of £231k. This is because a new contract was tendered but not in place until December 2011. As some of the new installations were to be carried out in sheltered accommodation, it was not considered appropriate to carry out this work during the winter months.

8.14 The majority of these HRA capital budget variations will be carried forward to 2011/12, subject to further scrutiny and approval. Details of the capital budget carry forward requests of £619k for the General Fund and £224k for the HRA (net of bringing forward certain budgets from 2011/12) are set out in Appendix A. This shows only those projects over £20k that requires Strategy Committee approval.





CAPITAL YEAR END CARRY FORWARDS REQUESTED 2010/11			
	Carry Forward Approvals £000	Utilise 11/12 Budget £000	Reason
<b>GENERAL FUND</b>			
<b>Contract &amp; Asset Management</b>			
Street Parking Improvements	21		To cover additional costs re Hadleigh Pool Enhancement Works
2009/10 Car Parks - Planned Maintenance	70.1		Expenditure to be incurred in 2011/12
<b>Community Development</b>			
2009/10 Sports & Village Hall Grants	20		Two approved grants of £10K each to be paid in 2011/12
2010/11 Sports & Village Hall Grants	28.1		Profile of expenditure different from budget
<b>Private Sector Housing</b>			
Cats Lane, Sudbury	150		Delayed completion of affordable housing units (funded from S106 contributions)
Disabled Facilities Grants (2009/10 Approvals)	31.3		Grants approved but not paid in the year
Repair & Renovation Grants / Loans (2010/11 Approvals)		25.2	Grants originally profiled to be paid in 2011/12. Works completed earlier than anticipated and grant paid in 2010/11
Disabled Facilities Grants (2010/11 Approvals)		31.5	Grants originally profiled to be paid in 2011/12. Works completed earlier than anticipated and grant paid in 2010/11
<b>Natural &amp; Built Environment</b>			
Green Waste Scheme Enhancement	135		The grant funding was received from SCC late in 2010/11. It is anticipated that the purchase of this vehicle will occur in 2011/12.
Redevelopment of Sudbury Town Centre bus station (Haven Gateway)	63.6		Scheme delayed due to difficulties in purchasing land required.
<b>GENERAL FUND TOTAL</b>	<b>519.1</b>	<b>56.7</b>	
Other General Fund Projects (<£20k)	156.2		
<b>GF CARRY FORWARD REQUESTS</b>	<b>675.3</b>		
<b>UTILISATION OF 2011/12 BUDGET</b>		<b>56.7</b>	
<b>HOUSING REVENUE ACCOUNT</b>			
	£		
Window & Door Replacements	120.3		Not spent in 2010/11. Required in future year.
Central Heating	40.9		Not spent in 2010/11. Required in future year.
Kitchens / Bathrooms		119.9	2011/12 Budget utilised in 2010/11.
Disabled Adaptations	32.1		Not spent in 2010/11. Required in future year.
Sheltered Units - Gen Imps	36.6		Not spent in 2010/11. Required in future year.
Estate Improvements / Parking Areas		24.1	2011/12 Budget utilised in 2010/11.
Structural Works	59.4		Not spent in 2010/11. Required in future year.
Conversions & Adaptations	23.5		Not spent in 2010/11. Required in future year.
Street Parking Improvements		21.4	2011/12 Budget utilised in 2010/11.
Major Refurbishments	20.5		Not spent in 2010/11. Required in future year.
Software / Surveys	20.0		Not spent in 2010/11. Required in future year.
Regeneration Schemes	25.8		Not spent in 2010/11. Required in future year.
<b>HRA TOTAL</b>	<b>379.1</b>	<b>165.4</b>	
Other HRA Carry Forwards (<£20k)	10.3		
<b>HRA CARRY FORWARD REQUESTS</b>	<b>389.4</b>		
<b>UTILISATION OF 2011/12 BUDGET</b>		<b>165.4</b>	