



## AGENDA ITEM:

### SUMMARY

<b>Report for:</b>	<b>Finance and Resources Overview and Scrutiny Committee</b>
<b>Date of meeting:</b>	<b>12 June 2012</b>
<b>PART:</b>	<b>1</b>
If Part II, reason:	

<b>Title of report:</b>	<b>PROVISIONAL REVENUE OUTTURN 2011/12</b>
Contact:	<p>Cllr Nicholas Tiley, Portfolio Holder Finance &amp; Resources          Sally Marshall, Corporate Director (Finance &amp; Governance)          Author: James Deane, Group Manager (Financial Services)</p>
Purpose of report:	To provide details of the provisional outturn position for the Finance and Resources Overview and Scrutiny Committee
Recommendation:	That Committee note the provisional outturn position for the Council.
Consultees:	Budget managers
Glossary of acronyms and any other abbreviations used in this report:	<p>OSC – Overview and Scrutiny Committee          F&amp;R – Finance &amp; Resources          SPE – Strategic planning &amp; Environment          H&amp;C – Housing &amp; Communities          GF – General Fund          HRA – Housing Revenue Account</p>

## **1. Introduction**

1.1 The purpose of this report is to update the Finance and Resources (F&R) Overview and Scrutiny Committee (OSC) on the Council's 2011/12 provisional outturn position for:

- General Fund
- Housing Revenue Account (HRA)
- Capital Programme

The report also presents proposed movements to and from earmarked reserves.

## **2. General Fund Revenue Account**

2.1 The General Fund (GF) revenue account records the income and expenditure associated with all Council functions except management of the Council's own housing stock, which is accounted for within the Housing Revenue Account (HRA) (see Section 5).

2.2 A summary of the GF provisional outturn position, including a breakdown of how net expenditure has been financed by government grants, reserves, and income from taxpayers, is shown in Appendix A.

2.3 The analysis in this report is based on the variance between outturn and the revised budget, which was reported to Members in February 2012 as part of the 2012/13 budget report. The original budget is included in Appendix A for information.

2.4 The key figure to note in Appendix A is the £948k Contribution to Working Balance in the Provisional Outturn column. This represents the net final underspend for the Council after all accounting adjustments have been made.

2.5 If there were no further contributions to earmarked reserves, this £948k would increase the Council's Working Balance to £3.93m compared to a target balance of £2.854m approved in the Medium Term Financial Strategy (MTFS). A review of the working balance has been undertaken with reference to the MTFS, and a decision taken to maintain the target balance and recommend additional transfers to earmarked reserves totalling £1.074m. The proposed transfers are outlined in Section 7 and were recommended by Cabinet to Full Council, at its meeting of 29 May 2012. If approved, these additional transfers will be reflected in the final outturn position reported to Cabinet in June 2012.

### **Controllable and non-controllable variances**

2.6 The majority of the Council's income and expenditure relates directly to the Council's three Scrutiny Committee areas. In Appendix A this expenditure is shown as General Fund Service Expenditure, with a total favourable variance of £4.121m.

2.7 In order to help understand the causes of this variance, Appendix A separates expenditure into controllable and non-controllable categories (see columns A and B respectively). This helps to focus scrutiny on those areas where Officers are able to influence the outturn position, i.e. the controllable. Much of the variance analysis in this report focuses on the controllable variance of £1.017m.

2.8 The non-controllable variance of £3.104m shown in Column B is primarily the result of accounting adjustments which will not affect the Council Tax-payer, and are beyond the influence of Officers. The following material variances contributed to this variance:

- (£2.353m) arising from the upwards revaluation of the Council's Investment Property (no impact on taxpayer);
- (£862k) arising from accounting adjustments for pensions (no impact on taxpayer); and,
- £98k arising from a reduced recharge from the GF to the HRA – reduced rechargeable expenditure within the GF will necessarily result in a reduced recharge to the HRA.

2.9 The following sections provide an analysis by Scrutiny area of the controllable budget variances that contributed £1.017m to the General Fund Service Expenditure total variance of £4.121m.

### 3. Finance & Resources

3.1 The table below shows the provisional outturn position for the F&R OSC by type of expenditure/income:

	Revised Budget £'000	Provisional Outturn £'000	Variance £'000
<b>Finance &amp; Resources OSC</b>			
Employees	11,326	11,366	40
Premises	2,924	2,654	(270)
Transport	82	69	(12)
Supplies & Services	4,817	4,239	(578)
Supplies & Services (Contributions to Provisions)	425	411	(14)
Third-Parties	309	323	14
Transfer Payments	52,990	52,627	(363)
Support Services	10,840	10,840	0
Holding Accounts	(0)	2	2
Capital Charges	2,060	2,060	0
Income	(78,147)	(77,388)	759
	<b>7,626</b>	<b>7,205</b>	<b>(421)</b>

3.2 The net provisional outturn position for F&R is £421k (5.5%) under budget. This £421k underspend represents around 40% of the Council's total controllable underspend of £1.017m (see Column A in Appendix A). This is slightly over the 37% F&R allocation of the Council's total revised budget.

3.3 Material variances within each category of expenditure are as follows:

#### **Employees – £40k over budget (0.4%)**

- £57k overspend in Benefits Administration due to additional resources required to clear benefits claims processing backlog; partially offset by

- £22k underspend in the Customer Service Unit due to slippage in recruiting to two positions, and maternity leave left uncovered.

#### **Premises – £270k under budget (9%)**

- £82k net underspend on Building Works. An increase in the number of unavoidable responsive repairs diverted resources away from, the more expensive, planned maintenance tasks.
- £47k underspend on insurance due to reduced charges following a retendering exercise.
- £90k underspend on utilities.
- £35k underspend on the project to update car park signs and machines to reflect new tariffs.

#### **Supplies and Services – £578k under budget (12%)**

- £75k underspend following the correction of a duplicate employee budget relating to the administration of referendums.
- £25k saving on the budget provided to cover by-elections that were not required.
- £73k underspend on Financial Services reflecting reduced Audit Commission fees following their downgrading of the Dacorum audit risk (£25k), and the correction of a prior year error (£55k).
- £130k various underspends within Revenues & Benefits relating to reduced bailiff usage, reduced court fees, and underspends on IT relating to Northgate.
- £32k underspend in IT relating to incorrectly budgeted staffing costs.
- £17k underspend due to slippage in the Management Development programme.
- £25k underspend in the Improving Dacorum Programme due to delays in arranging IT consultancy services in advance of the AVDC partnership project.
- £96k underspend due to no expenditure on the Facilitating Change budget.

#### **Transfer Payments – £363k under budget (0.7%)**

- This underspend relates to the payment of benefits. The reduced amount of benefit paid explains part of the under-recovery of income within Finance & Governance – the amount of government grant received to make benefit payments was reduced in line with the payments made.

#### **Income – £759k under recovery (1%)**

- £363k reduced government grant income reflecting the reduced amount of benefits paid (see above).
- £328k reduction in income to reflect the audit opinion of the 2010/11 final benefit grant claim, which is likely to result in the Department for Work & Pensions (DWP) making a one-off reduction to future grant payments of £328k. This is an annual

adjustment and reflects systemic timing issues between the claiming of grant by the Council and the payment being made by DWP. It is prudent to recognise this adjustment in the current year, although the final position will not be confirmed until DWP respond to the audit opinion.

- £66k increase in rental income relating to a retrospective rent review of the ski slope at Jarmans Park.

#### 4. Strategic Planning & Environment

4.1 The table below shows the provisional outturn position for the SPE OSC by type of expenditure/income:

	<b>Revised Budget</b> £'000	<b>Provisional Outturn</b> £'000	<b>Variance</b> £'000
<b>Strategic Planning &amp; Environment OSC</b>			
Employees	7,965	7,889	(76)
Premises	1,615	1,617	2
Transport	3,258	3,206	(52)
Supplies & Services	2,511	2,276	(235)
Supplies & Services (Contributions to Provisions)	9	60	51
Third-Parties	92	107	15
Support Services	3,357	3,353	(4)
Capital Charges	1,094	1,094	0
Income	(10,488)	(10,731)	(243)
	<b>9,413</b>	<b>8,871</b>	<b>(542)</b>

4.2 The net provisional outturn position for SPE is £542k (5.8%) under budget. This £542k underspend represents around 53% of the Council's total controllable underspend of £1.017m (see Column A in Appendix A), which is slightly higher than the 45% SPE allocation of the Council's total revised budget.

4.3 Material variances within each category of expenditure are as follows:

##### **Employees – £76k under budget (0.9%)**

- £54k underspend in Waste & Recycling due to the release of a provision made in 2010/11 for an employee injury claim that was ultimately resolved at no cost to the Council.
- £30k underspend in Clean Safe and Green due to a combination of recruitment slippage and lower than anticipated agency costs.

### **Transport - £52k under budget (1.6%)**

- £50k underspend arising from various minor savings across Clean Safe and Green and Waste and Recycling primarily relating to fuel, and a reduction in the amount of uninsured losses.

### **Supplies and Services – £234k under budget (9.3%)**

- £231k underspend on the Local Development Framework (LDF) project. Primarily this is due to slippage on the overall master planning process (£170k) as the team's efforts were focused on furthering the Public Service Quarter (PSQ) project. In addition, a further £55k was saved as the Council opted not to print bound copies of the LDF plan, instead utilising discs.

These LDF project costs were to have been funded through reserves. However, the reserves will now be drawn down in future years to meet expenditure incurred in the delivery of the project as it occurs.

### **Contributions to Provisions - £50k over budget (560%)**

- £35k arising from a bad debt provision against an Economic Development loan made in 2009/10 which is now irrecoverable due to the recipient going out of business.
- £23k increase in general bad debt provision for Waste and Recycling.

### **Income – £243k over budget (2.3%)**

- £74k increase in income relating to an increase in the number of Penalty Charge Notices (PCNs) issued.
- £120k increase in car-parking income reflecting the fact that there was less snow this year than last, contributing to maintained steady usage.

## 5. Housing & Communities

5.1 The table below shows the provisional outturn position for the General Fund (GF) element of the H&C OSC by type of expenditure/income:

	<b>Revised Budget</b> £'000	<b>Provisional Outturn</b> £'000	<b>Variance</b> £'000
<b>Housing &amp; Communities OSC</b>			
Employees	2,684	2,674	(10)
Premises	1,749	1,748	(1)
Transport	80	67	(13)
Supplies & Services	677	641	(36)
Supplies & Services (Contributions to Provisions)	0	(7)	(7)
Transfer Payments	4	2	(2)
Support Services	1,196	1,201	5
Capital Charges	1,143	1,143	0
Income	(3,724)	(3,714)	10
	<b>3,809</b>	<b>3,755</b>	<b>(54)</b>

5.2 The net provisional outturn position for H&C is £54k (1.4%) under budget. This £54k underspend represents around 5% of the Council's total controllable underspend of £1.017m (see Column A in Appendix A), which is well below the 18% H&C allocation of the Council's total revised budget.

5.3 The GF variances reflect numerous minor variances across the Scrutiny area, none of which are noteworthy in amount.

### Housing Revenue Account (HRA)

5.4 The HRA is a ringfenced account relating to the Council's Landlord functions, which falls within the H&C Scrutiny area. A guiding principle of the HRA is that revenue raised from rents and service charges must be sufficient to fund expenditure incurred. The provisional outturn position for the HRA is shown at Appendix B.

5.5 Following the revised budget-setting exercise, the HRA balance at the end of 2011/12 was forecast to be £3.198m. However, the provisional outturn position shows an in-year underspend of £754k, which, when factored into the forecast balance, results in a closing balance of £3.952m.

5.6 Significant variances contributing to the variance of £754k are:

#### **Income £300k over-recovery (0.5%)**

- £80k under-recovery of net rental income, representing a 0.17% variance from revised budget.

- £177k over-recovery of non-dwelling rents. Income was conservatively estimated at the time of setting the revised budget, and the outturn position is closer to the original budget.
- £157k over-recovery of lease-holder charges. Income was conservatively estimated at the time of setting the revised budget, and the outturn position is closer to the original budget.
- £42k over-recovery on Other Items of Income. Primarily, this reflects improved collection rates on water charges.

#### **Repairs & Maintenance – £134k underspend (1.6%)**

- £107k overspend on Void Repairs. There has been a new approach to the management of void repairs in 2011/12 in which transferring tenants were asked to ensure the completion of more work themselves. This resulted in a significant (£340k) underspend against the original budget of £1m, despite being slightly over the revised budget.
- £270k underspend on Other Repairs/Income reflecting a more proactive approach to billing tenants for rechargeable works, together with a slight reduction in the amount of works being carried out.

#### **Supervision & Management – £239k underspend (2.9%)**

- The primary contributors to this variance are a reduced management recharge from the GF, of around £100k, due to lower than budgeted GF support costs, combined with an underspend on utilities relating to Elderly Persons Dwellings.

#### **Provision for Bad Debts – £78k overspend (39.2%)**

- The bad debt provision is calculated using a formula approved by the Audit Commission. The in-year increase reflects an increase in the level of outstanding debts (arrears having increased from £1.35m to £1.5m).

#### **Interest Payable – £51k underspend (16.9%)**

- The revised budget of £300k was based on the set-up fees for the Self-Financing loan and three days' interest based on an assumed interest rate of 4.5%. The actual average interest rate achieved was 3.2%, which represented a £40k reduction in interest payable.

#### **Interest and Investment Income – £85k over-recovery (85%)**

- The revised budget saw an overly-conservative reduction on the original budget from £140k to £100k. In reality, improved investment performance saw a £45k improvement against the original budget.

### **6. Capital Expenditure**

- 6.1 For 2011/12, the Council's total revised estimate of capital investment was £17.5m. A summary of the actual investment of £12.1m is set out in Appendix C.
- 6.2 The strategy for financing capital expenditure is proposed by the Section 151 Officer as follows: firstly through external contributions and capital grants, secondly, where appropriate, through contributions from revenue, and finally through capital receipts.



6.3 The provisional capital outturn position for both General Fund and HRA is shown in Appendix C.

### **General Fund capital programme**

6.4 At £3.739m, the GF outturn position is £3.987m under spent against the revised budget of £7.726m, equating to a slippage rate of 51%. GF slippage on the capital programme was 30% in 2010/11 and 47% in 2009/10.

6.5 Material variances (over £100k) are:

- Acquisition of Investment Property - £999k slippage. This amount is committed to the purchase of 41 The Marlowes, which was not completed as at 31 March 2012.
- Housing Development Fund - £1.6m slippage. This fund was approved by Cabinet as a general provision for the service rather than for a specific project – the funds were not required in 2011/12.
- Maylands Business Centre - £290k underspend. £50k of this represents slippage into 2012/13 for an outstanding retention payment. The remaining £240k represents a saving. The funding for this project came from the Growth Area Fund (GAF), and any subsequent use of the underspend will need to relate to regeneration, and meet the restrictions attached to GAF funding.
- Improvement Grants - £181k underspend. The improvement grant scheme is currently under review as Officers work on alternatives to the current system that offer improved value for money for Council Tax payers.
- Car Park Refurbishment Programme - £133k slippage. Resource pressure has resulted in this project being rescheduled for 2012/13.

6.6 Further review of the 5-year capital programme is currently underway to ensure that the forecast delivery dates of capital projects are realistic. Capital funds are the largest source of the Council's investment funds and it is crucial that accurate information on the timing of expenditure is available if the Treasury team is to achieve the best return on the Council's investments.

### **HRA capital programme**

6.7 Excluding the HRA self-financing payment of £354.015m, the HRA outturn position is £8.4m, some £1.3m (13%) under spent against the revised budget of £9.7m. (The self-financing payment is separately financed, and has no impact on the overall HRA capital programme.)

6.8 Material variances (over £100k) are:

- Lifts - £214k underspend. Unanticipated problems with footings for the structural works resulted in slippage to the project, which will be completed in 2012/13.
- Fire alarms - £156k underspend. The design work has been completed, but a decision was taken to delay the delivery of this project to align it with the fire risk assessment scheduled for 2012/13.
- Pelham Court structural repairs - £480k underspend. This project was delayed due to a complex consultation process with tenants and leaseholders.

- Roofs: flat to pitch - £396k underspend. This relates to work on flats in Queens Square, Hemel Hempstead, which were delayed due to planning issues over whether the square is categorised as having iconic status.

## 7. Balances and Reserves

7.1 The Reserves Summary in Appendix D reflects the movements previously approved by Council, together with the following transfers proposed, contingent on outturn, in paragraph 3.6 of the Budget Report to Cabinet in February 2012:

- Uninsured Loss Reserve – contribution £200k  
To increase the Council's protection against the impact of uninsured losses.
- Land Charges Reserve – contribution £180k  
To mitigate the impact of potential liabilities arising from the Environmental Information Regulations 2004.
- Technology Reserve – contribution £250k  
To support investment in the Council's technology infrastructure to build system resilience and provide opportunities for future efficiencies.
- Redundancy Reserve – contribution £500k  
To mitigate the impact on annual revenue expenditure of any future redundancy requirement to deliver savings in the short to medium term arising from the Local Government Resource Review and the outcome of shared services and outsourcing projects.
- Localisation of Council Tax Support Transitional Reserve – contribution £250k  
To create a new reserve to enable the Council to support a scheme to provide transitional protection for benefit recipients.
- Vehicle Replacement Reserve – contribution £270k  
To part-finance the Council's future vehicle fleet replacement programme thereby reducing the call on future capital resources.

7.2 In cases where reserves were to be drawn down in 2011/12 to fund budgeted expenditure which was not spent in full, only the amount required to fund actual expenditure was drawn down.

7.3 The most noteworthy example of this relates to the Local Development Framework (LDF) reserve which was budgeted to have £231k drawn down to fund expenditure in 2011/12. For the reasons explained in paragraph 3.10 these funds were not required in 2011/12, and thus have remained in the reserve to fund future years' expenditure on the LDF project.

7.4 In addition to the above, at its meeting of 29 May 2012, Cabinet recommended to Council the following additional transfers to reserves. These reserve movements are not currently reflected in the Reserves Summary, but will be included at the final outturn report if approved by Council.

- Public Service Quarter (PSQ) Transition Reserve – contribution £1m  
This reserve does not currently exist, so would need to be created. The reserve would be a prudent measure, enabling the Council to mitigate some of the inevitable risks associated with a project on the scale of the PSQ development.

- Dacorum Development Programme Reserve – contribution £74k  
To contribute to the financing of revenue costs associated with the set up and governance arrangements for the Local Investment Plan.