

Report of	Meeting	Date
Chief Executive (Introduced by the Executive Member for Resources, Policy & Performance)	Executive Cabinet	21 June 2012

PROVISIONAL REVENUE OUTTURN 2011/12

PURPOSE OF REPORT

1. This report sets out the provisional revenue outturn figures for the Council as compared against the budgets and efficiency savings targets it set itself for the financial year 2011/12.
2. The accounts are provisional at this stage and are also subject to final checking and scrutiny by the Council's external auditor. Should there be any significant changes to the outturn as a result of this process I shall submit a further report to Executive Cabinet.

RECOMMENDATION(S)

3. That Executive Cabinet are asked to consider the following recommendations.
 - Approval of slippage requests outlined in Appendix 2 of the report to finance expenditure on specific items or projects in 2012/13.
 - Transfer the sum of £75,000 to create an earmarked reserve to cover the potential liability of charges from the Council's Collection Fund.
 - Transfer the remaining year-end balance of £187,000 on the General Fund Revenue Account to General Balances. This will help to mitigate against future risks to the Council's income streams following implementation of the Local Business Rates Retention scheme from April 2013.

EXECUTIVE SUMMARY OF REPORT

4. The Council expected to make overall target savings of £358,000 in 2011/12 from management of the establishment, a reduced pension rate from the draft budget, and review of the Car Leasing scheme. As reported in December, all of the Council's savings targets for 2011/12 have been achieved.

Further savings have been made during the remainder of the year and this has helped to increase general balances and also create provisions for additional employment opportunities for young people and mitigate potential future liabilities for the Council.

5. After taking slippage of budgeted underspends on committed items into account, the Council's initial net expenditure at the end of the year shows an underspend of £372,000 against the budget reflecting a further reduction of £437,000 from the position reported in December.
6. The Council's Medium Term Financial Strategy proposed that working balances were to be no lower than £2.0m due to the financial risks facing the Council. I am pleased to report that should the recommendations in this report be accepted, the level of balances proposed at 31

March 2012 will exceed the minimum of £2.0m by £0.264m. This puts the Council in a strong position for the start of the next financial period.

Confidential report Please bold as appropriate	Yes	No
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Key Decision? Please bold as appropriate	Yes	No
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Reason Please bold as appropriate	1, a change in service provision that impacts upon the service revenue budget by £100,000 or more	2, a contract worth £100,000 or more
	3, a new or unprogrammed capital scheme of £100,000 or more	4, Significant impact in environmental, social or physical terms in two or more wards

REASONS FOR RECOMMENDATION(S)

(If the recommendations are accepted)

7. To ensure the Council's budgetary targets are achieved.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

8. None.

CORPORATE PRIORITIES

9. This report relates to the following Strategic Objectives:

Strong Family Support		Education and Jobs	
Being Healthy		Pride in Quality Homes and Clean Neighbourhoods	
Safe Respectful Communities		Quality Community Services and Spaces	
Vibrant Local Economy		Thriving Town Centre, Local Attractions and Villages	
A Council that is a consistently Top Performing Organisation and Delivers Excellent Value for Money			✓

Ensuring cash targets are met maintains the Council's financial standing.

BACKGROUND

10. The Council's approved revenue budget for 2011/12 included savings proposals of £1.197m required to balance the budget and maintain front line services. All the proposals have been implemented including the proposed changes to the planning fees structure.
11. In addition to the savings outlined above, the Council expected to make overall target savings of £358,000 made up of £300,000 from management of the establishment, £36,000 from a reduction to the pension rate, and £22,000 from the review of the Car Leasing scheme.

CURRENT FORECAST POSITION

12. Set out in Appendix 1 is the summary provisional outturn position for the Council for 2011/12. No individual service directorate figures are attached. These can be viewed using the following link and are also available as hard copies for inspection in the Members' Room:
<http://democracy.chorley.gov.uk/documents/s27076/DirectorateMonitoringStatementsProvisionalOutturn201112.pdf.pdf>
13. The net expenditure at the end of the financial year shows a provisional underspend of £372,000 against the Council's budgets (after taking requests for slippage into account). This reflects a further net reduction in expenditure of £437,000 from the position reported in December.
14. Although this is a significant change from the position reported previously, it should be noted that the majority of items outlined in the table below are as a result of factors outside of the Council's direct control (such as the Landsbanki issue) or one-off issues such as disputes being resolved, new contracts negotiated, or sale of land.

An analysis of the main variances over and above those previously reported in monitoring is shown below. Further details are contained in the service unit analysis available in the Members' Room.

ANALYSIS OF MOVEMENTS

Table 1 – Significant Movements since the December monitoring report

Note: Further savings/underspends are shown as ().

	£'000	£'000
Expenditure		
Staffing costs	(86)	
Insurances	(19)	
Internet charges and Members Broadband	(29)	
Electricity	(22)	
Markets Refuse Collection	<u>(12)</u>	
		(168)
Income		
Planning Application Income	(31)	
Legal/Surveyors Fees (sale of land)	(23)	
Licence Fees	(12)	
Sports Development/Young People's Activities	<u>(23)</u>	
		(89)
Housing & Council Tax Benefits	(91)	
Net Financing (Interest Receivable)	(54)	
Other minor variances	<u>(35)</u>	
		(173)
Net Movement		(437)

15. The causes of these variances are explained in the following paragraphs. Most are one-off savings or income increased that relate to 2011/12 only. Any continuing variances from budget would be reflected in revenue budget monitoring reports to be presented during

2012/13. Some of the variances were outside of the control of the budget holders, such as the increase in Planning Application Income.

16. Additional savings on staff salaries of £86,000 have been generated since the last monitoring report, predominantly from within the People and Places and Transformation directorates as a result of vacant posts. As target savings have already been achieved for management of the establishment, this has helped to contribute towards the provision of reserves outlined in the recommendations of the report.
17. The Council recently went out to tender in partnership with South Ribble Borough Council for renewal of the Council's main insurance premiums. The Council's existing supplier Zurich Municipal won the contract for liability and motor policies, with the remaining policies provided through our new broker Jardine Lloyd Thompson. The new policies will generate a significant saving against the Council's budgets and as the new policies came into effect from 1 January 2012, there is an initial saving for the final three months of 2011/12. This, together with smaller savings on previous and other policies has generated a total saving of around £19,000 for 2011/12. The full year saving in 2012/13 should be around £46,000.
18. One issue that has recently been resolved is a long running dispute with Virgin Media regarding the charges for internet connection and Members Broadband. The Council has disputed the costs invoiced for a period stretching all the way back to 2009. Agreement has finally been reached with Virgin Media and a significant proportion of the charges have now been cancelled, generating a saving of around £29,000.
19. One area that was highlighted in the December monitoring report was the difficulty in assessing the true electricity costs for the Council as a result of Npower using estimated meter readings, and in some cases no readings at all, as a basis for their invoices. Based on actual readings taken by the Council, the revised outturn costs are lower than anticipated. This has resulted in a further underspend of around £22,000.
20. Another area where the Council has been in negotiation for a reduction in costs is with the new owners of Market Walk, Orchard St Investment Management, for a fairer waste recharge system. The Council has been encouraging market traders to increase their use of recycling containers in an attempt to reduce general waste and increase the revenue contribution from recycling. As a result, agreement has now been reached with the owners and a revised charge has been set for 2011/12 giving a saving of around £12,000.
21. Income levels from Planning Fees, including pre-application advice income, have continued to be above levels anticipated in the budget over the final quarter of 2011/12, with a number of larger applications received during January and February. This has generated an additional surplus of £31,000 from the forecast position reported in December resulting in a total surplus compared to original estimate for planning fees of around £58,000 for 2011/12.
22. The final quarter of 2011/12 also saw an increase in the number of cash receipts regarding disposal of various small parcels of Council owned land. This generated additional income to the Council of around £23,000.
23. The forecast income for licence fees was profiled in line with previous years but the final quarter saw an increased volume of applications, in particular for gambling, premises and street trading licences. This resulted in additional income of around £12,000 compared to previous forecasts.
24. Two areas where additional income of around £23,000 has been generated for the Council is from Sports Development and Young Peoples Activities. This is a mix of additional income from activities for which a charge is made and grants that have been awarded from external sources.
25. Previous budget monitoring reports have highlighted the volatility of a number of budgets. One such budget that can have a significant impact on the year-end position is housing and

council tax benefits. Throughout the year it is extremely difficult to accurately predict the level of expenditure and subsequent levels of subsidy as the nature of the budget is demand driven. For 2011/12 the level of subsidy recovered has increased together with an increase in the amount of benefit overpayments recovered. This has generated an additional surplus of income over expenditure of £91,000 compared to previous forecasts. Although this is a significant figure it should be considered in context with the total subsidy claimed of £30.4m for 2011/12.

26. Another area that has been difficult to forecast is the additional interest receivable in respect of the Landsbanki deposit and the level of recovery on the debt. The Council had previously assumed a recovery rate of 95% (see Treasury Strategies report to Special Council 28 February 2012), but based on the latest information available, this has been revised to 98% recovery on investment. The net effect of this, together with more regular repayments of the outstanding debt, is to reduce the impairment charge in the Council's accounts and increase interest receivable. This, plus additional interest earned on investments during the fourth quarter, has resulted in an increase in net income of around £54,000 for the Council.

COMMITTED ITEMS/SLIPPAGE REQUESTS

27. Each year the Council commits itself to expenditure that may not always be incurred in the financial year. It is customary to allow directorates that have a budget underspend to carry forward these resources to pay for specific items in the following year. This is an important part of the budget management process as it allows officers to commit earmarked resources to specific projects particularly towards the end of the financial year.

The slippage requests received for 2011/12 are outlined in Appendix 2.

GENERAL FUND RESOURCES AND BALANCES

28. With regard to working balances, and as per Appendix 1, we started the year with a balance of £2.077m. The approved MTFs proposes that working balances are to be no lower than £2.0m given the budgetary challenges facing the Council. However there are a number of items that will impact on this position that should be considered by Cabinet, these being:

- Carrying over items into 2012/13 via slippage requests (outlined in Appendix 2).
- Creation of reserve to fund additional apprentice posts (NEET's).
- Creation of reserve to finance potential Collection Fund write-offs.
- Uncertainty in MTFs over local Business Rate retention scheme after 2012/13.

29. The Council's revenue outturn position for 2011/12 provides an ideal opportunity to increase investment in the borough during the new financial year. The Council's recent budget consultation highlighted strong support for investment in areas to tackle youth unemployment, and with this in mind a sum of £110,000 has been set aside in an earmarked reserve to create additional direct employment opportunities for young people not in education, employment or training (NEET).

30. The year-end accounts have highlighted a potential charge to the Council's General Fund Revenue Account for 2011/12 in respect of the collection of Business Rates. Given the revenue outturn position I feel it is prudent at this stage to recommend that a sum of £75,000 is transferred to an earmarked reserve to mitigate against the potential liability.

31. It can be seen from the table below that the General Fund Balance will exceed the minimum level set in the MTFs by £0.264m. However, given that there remains uncertainty for the Council's income streams following the implementation of the local Business Rates retention scheme from April 2013 it would be prudent at this time to maintain balances at this higher level to help mitigate this risk. Proposals to implement Business Rates Retention

from 2013/14 are contained in the Local Government Finance Bill 2010-12. The intention of the scheme is to reward councils for promoting business growth, while protecting services in areas of decline. However, there are uncertainties about the way that levies and top-ups would operate under the new system, and it would be prudent to retain general balances at a higher level until the impact on funding of services has been confirmed.

32. There are other financial risks facing the Council that support the need to maintain working balances at the level proposed. There is continuing instability in the banking system. Though the Council aims to minimise risk in investing cash balances, the loss of a single investment could have a significant impact on finances. A £15,000 provision has been created for potential repayment of insurance settlements to the Council's former insurer MMI, but it represents only part of the total potentially repayable. Any payments in excess of £15,000 would have to be met from general balances. The Council may have to reimburse land charge personal search fees received in previous years. A Government grant held in an earmarked reserve would cover part of the cost, but general balances would have to meet any additional reimbursement. The earmarked reserve created in 2010/11 to meet restructuring costs such as termination payments and pension strain has reduced to £77,370. Use of general balances may be required in 2012/13 and beyond to fund further restructuring required to generate subsequent revenue budget savings. In addition, it is prudent for the Council to guard against any potential losses that may occur from its investment portfolio. Whilst the risk is low, there is an expectation that the Council would be able to cover any such losses should they occur. At present, our individual lending limits are £3,000,000 to any one institution. This, therefore, represents a potential risk that would need to be covered.
33. The effect of the above recommendations on working balances is set out in the table below.

Table 2 – Movement in General Fund Balance

General Balances	£m
Opening Balance 2011/12	2.077
Provisional revenue budget underspend	0.372
Potential Closing Balance 2011/12	2.449
Reserve to fund additional apprentices (NEET's)	(0.110)
Reserve for Collection Fund write-offs	(0.075)
Proposed Working Balances for 2012/13	2.264

34. Appendix 3 provides further information about the earmarked reserves and provisions that would be available during 2012/13 if the recommendations of this report are approved. Most of the earmarked reserves would be committed to the financing of slippage from 2011/12, financing of the capital programme, and financing of previously approved revenue budgets such as allotment development. Much of the £1.315m earmarked reserves total that is not yet committed is likely to be spent during 2012/13, and spending proposals would be submitted in revenue budget monitoring reports. The total includes Government grants received to support housing-related projects, of which £0.504m is to fund county-wide projects to prevent single homelessness. Projects to be funded with that particular grant are likely to span more than one financial year, and the grant would be held in reserve until applied in full.

35. Two new provisions have been created during 2011/12, as shown in Appendix 3. When expenditure is incurred, it would be charged directly to the provision rather than the revenue account. The £1.750m provision for pension liabilities has been created using the tranche of VAT Shelter Income received from Chorley Community Housing specifically for that purpose.

OTHER ISSUES

36. During 2011/12, the Council exercised its option under the 2007 voluntary stock transfer agreement to receive the £1.75 million tranche of VAT Shelter Income held by Chorley Community Housing in respect of pension liability relating to transferred employees. The income has been used to create a provision in respect of the pension liability. The transactions are not presented in Appendix 1 to this report, but will be explained further in the Statement of Accounts for 2011/12.
37. The Council has also received £504,000 of Single Homeless Initiative grant, which will be used to fund projects in Lancashire from 2012/13 onwards. The income has been transferred into an earmarked reserve and use of the funding will be presented in future budget monitoring reports. Again the transactions are not shown in Appendix 1, but the Statement of Accounts will include further details.

IMPLICATIONS OF REPORT

38. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal	✓	Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

COMMENTS OF THE STATUTORY FINANCE OFFICER

39. The financial implications are detailed in the body of the report.

COMMENTS OF THE MONITORING OFFICER

40. The Monitoring Officer has no comments.

GARY HALL
CHIEF EXECUTIVE

There are no background papers to this report.

Report Author	Ext	Date	Doc ID
Dave Bond/Michael Jackson	5488/5490	28/05/12	Revenue Budget Monitoring 2011-12 Provisional Outturn - FINAL.doc