

Agenda item:

Cabinet

On 16 June 2009

Report Title. Financial Outturn 2008/09	
Report of: Chief Financial Officer Signed : Gerald Almeroth	
Contact Officer : Kevin Bartle, Head of Corporate Finance Telephone 020 8489 3743	
Wards(s) affected: All	Report for: Key Decision
1. Purpose of the report 1.1. To set out the provisional revenue and capital outturn for 2008/09 and to consider carry forward requests.	
2. Introduction by Cabinet Member for Resources (Councillor B Harris) 2.1 The reported financial outturn shows a small improvement on the position last reported to Cabinet for period 11 and is broadly consistent with previous reports. I recommend approval of the transfers to reserves and the revenue and capital variances to be carried forward to financial year 2009/10 set out in Appendices C and D. I commend the report to the Cabinet for approval.	

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

- 3.1 This report is in line with Council priorities set out in the Council Plan and Medium Term Financial Strategy.

4. Recommendations

- 4.1 To note the provisional general fund outturn of a £0.765m underspend for 2008/09.
- 4.2 To note the reasons for variations and to approve the planned transfers to reserves detailed in Appendix A.
- 4.3 To note the provisional housing revenue account (HRA) outturn and to agree the treatment of the Homes for Haringey surplus set out at paragraph 13.14.
- 4.4 That revenue carry forward proposals amounting to £0.735m detailed in Appendix C be approved.
- 4.5 To note the provisional capital outturn of a £14.22m underspend and the reasons for variation set out in Appendix B and to approve the capital carry forward proposals of £10.409m set out in Appendix D.
- 4.6 To note the outturn of a £0.5m overspend for schools, that decreases schools' balances to £6.6m at the end of 2008/09 and to note the carry forward of the deficit.
- 4.7 That £0.75m of the DSG underspend referred to in paragraph 14.5 is earmarked to help support child safeguarding resource issues. A report will be taken to the Schools Forum outlining this proposal and seeking their support.
- 4.8 That the bid to fund capital works at Alexandra Palace of £0.3m, as set in paragraph 13.3, from the capital underspend is approved.
- 4.9 To delegate to the Chief Financial Officer authority to prepare the Council's financial accounts such that the financial position of the Council is optimised.
- 4.10 To note that the Council's financial statements for 2008/09 are to be approved by General Purposes Committee prior to external audit.
- 4.11 To note the treasury management outturn set out in section 16.

5. Reason for recommendation(s)

- 5.1 This report allows Cabinet to consider the financial outturn position against the approved budget and to approve carry forward proposals and transfers to/from reserves.

<p>6. Summary</p> <p>6.1 This report sets out the Council's provisional outturn for 2008/09. The year end general fund surplus is £0.765m (0.3% of the approved revenue budget) excluding the dedicated schools grant (DSG). After carry forward requests of £0.735m proposed for approval in this report, a net underspend of £0.03m results.</p> <p>6.2 The report also sets out the capital outturn position, which is a net underspend of £14.22m (10.5% of the approved budget). Carry forward requests of £10.409m are submitted for consideration. The positions on the HRA, non-schools and schools DSG are also reported.</p> <p>6.3 In overall terms, after taking into account adjustments previously reported through the budget management process, the revenue financial outturn is broadly in line with the agreed financial strategy.</p>
<p>7. Head of Legal Services Comments</p> <p>7.1 The Head of Legal Services notes the report and confirms that all statutory and constitutional requirements are met.</p>
<p>8. Equalities & Community Cohesion Comments</p> <p>8.1 Equalities issues are a core part of the Council's financial and business planning process.</p>
<p>9. Consultation</p> <p>9.1 Consultation on the preparation of the Council's revenue and capital budgets has been undertaken with residents and business community representatives.</p>
<p>10. Use of appendices /Tables and photographs</p> <ul style="list-style-type: none"> • Appendix A - Explanation of significant revenue variances. • Appendix B - Explanation of significant capital variances. • Appendix C - Revenue carry forward proposals. • Appendix D – Capital carry forward proposals.

11. Local Government (Access to Information) Act 1985

The following background papers were used in the preparation of this report:

- SAP outturn reports; and
- Final accounts working papers.

For access to the background papers or any further information please contact Kevin Bartle, Head of Corporate Finance, on 0208 489 3743.

12. Background

12.1 This report has four sections:

- outturn – revenue and capital;
- carry forward proposals – revenue and capital;
- provisions and contingent liabilities; and,
- treasury management outturn.

12.2 This report sets out the provisional financial outturn position. The final statement of accounts will be prepared in accordance with the Accounts and Audit Regulations 2003 and will be reported to the General Purposes Committee on 25 June 2009 for approval prior to external audit. This meets the statutory deadline for the financial statements to be approved by the end of June 2009.

12.3 The external audit for the Council's 2008/09 accounts will commence on 1 July 2009. The auditors will submit a report on the findings of their audit to General Purposes Committee on 24 September 2009 and they will subsequently complete their audit by issuing their formal opinion before the end of September.

13. Outturn – Revenue and Capital

13.1 The general fund revenue outturn is summarised in the following table. There is a provisional net general fund underspend of £0.765m after planned transfers to reserves (0.3% of the approved budget). The variances are explained in more detail in Appendix A. The variation has improved from that reported previously, which was a small net overspend of £0.9m at period 11.

Table showing the general fund revenue outturn summary

Directorate	Approved revenue budget	Variance from budget
	£'000	£'000
Children and Young People	67,168	781
Adults, Culture & Community	77,282	589
Corporate Resources	6,562	(20)
Urban Environment (incl. Housing)	46,776	(353)
Policy, Performance, Partnerships & Communications	9,024	(829)
People, Organisation & Development	(27)	(115)
Chief Executive	802	97
Non-Service Revenue	31,374	(915)
Total – General Fund	238,961	(765)
Children and Young People (DSG) – Non Schools	19,053	(1,582)
Children and Young People (DSG) – Schools	140,944	470
Total – DSG	159,997	(1,112)

- 13.2 The two main changes since period 11 are a £0.6m reduction in the overspend in Adults, Culture and Community where the management actions to reduce costs had some impact by the year end and a variation in Policy, Performance, Partnerships and Communications of £0.5m largely due to Area Based Grant (ABG) underspends some of which are proposed for carry forward.
- 13.3 The provisional outturn for the Alexandra Park and Palace Trust shows a deficit of £2.031m, compared with a budgeted deficit of £1.694m, causing an overspend of £0.337m. This is included in the non-service revenue net underspend and is offset by unused NLWA contingency. As reported to Cabinet on 21 April 2009 the Alexandra Park and Palace Board had made a request for the Council to provide additional funds in 2009/10, £0.3m for revenue and £0.3m for capital. The £0.3m for revenue is a continuation of the shortfall experienced in 2008/09. The capital is for essential investment operational equipment, the business case has been set out and it is probable that a further revenue loss of £0.2m would occur without this one-off investment. It is proposed that the Council agree to the capital investment to be funded from the 2008/09 general capital underspend, but that the revenue position is given further consideration.
- 13.4 Transfers to reserves are made at the end of each financial year in line with the approved financial strategy. The table in Appendix A shows the planned transfers to reserves that will be made as part of the accounts closure process. These include transfers for capital financing and interest earnings and are in accordance with previous reports to Members. Use of the corporate redundancy reserve is set out in Appendix A and totals £1.056m leaving £0.944m remaining.

The sum used is substantially in the Children and Young People's and Adults, Culture and Community Services.

- 13.5 Each year the Council submits a substantial housing benefits claim which is in the region of £260m. The position on this claim is yet to be finalised so the accounts have been closed on the latest subsidy reports available. It is proposed that any additional estimated grant above budget should be added to the reserve taking a prudent approach in the event that there are any issues arising from the subsequent audit of the subsidy claim.
- 13.6 In 2008/09 the Council received additional housing benefit subsidy that related to the 2007/08 year. It is proposed that this be added to the reserve in respect of possible future subsidy reductions in line with previous policy for funding homelessness.
- 13.7 The Sustainable Investment Fund (SIF) of £0.5m established by Cabinet in 2007 was designed to finance one-off type 'invest to save' schemes that also reduced the Council's carbon emissions. External grant match funding amounting to £0.155m has helped to deliver a number of schemes since that date. The actual savings in energy costs from these projects for the 2008/09 financial year was £0.082m and 375 tonnes of CO₂. This has contributed to a carbon reduction of 3.3% on the Council's property portfolio against the 2007/08 baseline (ahead of agreed targets). The SIF was a major part in the Council's winning submission to the Government Business Awards. Further projects are planned in 2009/10.
- 13.8 The table in paragraph 13.1 shows an outturn for **schools** of a £0.47m in-year overspend which will decrease school balances to £6.6m at the end of 2008/09. An underspend of £1.582m against the **non-schools** allocation of DSG is also reported.
- 13.9 The final approved **capital programme** for 2008/09 was £135.9m. The provisional underspend is £14.2m as set out in the following table (10.5% of the approved budget). The net capital underspend has not changed from the figure reported to Cabinet at period 11 monitoring.

Directorate	Approved Budget	Outturn	Variance
	£'000	£'000	£'000
Children & Young People	40,268	36,002	(4,266)
Adults, Culture & Community	6,294	4,702	(1,592)
Corporate Resources	7,024	4,940	(2,084)
Urban Environment – General Fund	27,085	24,629	(2,456)
Urban Environment – Housing	55,088	51,273	(3,815)
Policy, Performance, Partnerships & Communications	121	114	(7)
Total	135,880	121,660	(14,220)

13.10 Detailed explanations of the variances are set out in Appendix B but substantially relate to schemes not being completed to time for various reasons and thus slipping into the next financial year. Given this relatively large variance, it is proposed that a more detailed corporate monitoring process is put in place where managers will report progress against milestones and budget at regular meetings with the Chief Financial Officer.

13.11 The Council's agreed capital programme for the period 2008/09 to 2010/11 was partly based on achieving usable **capital receipts** of £9.6m in 2008/09. The final position is that £9.3m has been generated, resulting in a shortfall of £0.3m. This variation is analysed below:

£'m

- Under-achievement of right to buy receipts (1.5)
 - Disposals expected in 2008/09 (2.0)
 - 2009/10 planned disposals – achieved in 2008/09 3.2
- (0.3)**

13.12 Right to buy (RTB) and other expected asset disposals have significantly under-achieved against the plan by £3.5m. This is mainly as a result of difficult property market conditions during 2008/09, which has impacted on the number of RTB sales where plans assumed 40 disposals but only 14 went through. Under achievement against other disposals (£2m) mainly results from deferred sales which are now expected to occur in 2009/10. Property market conditions have continued to deteriorate into 2009 and may significantly affect the 2009/10 capital programme. It is planned to undertake an early review of capital receipts forecasts for 2009/10 to mitigate the potential impact of any downturn in numbers of disposals and values obtained compared to plans.

13.13 The provisional HRA outturn for the year is a surplus of £2.524m against a target of £0.537m, an increase of £1.987m. The working balance, therefore, is increased to £7.25m as at 31 March 2009, as shown in the following table.

Item	Revised Budget	Outturn	Variance	Variance
	£'000	£'000	£'000	%
Income	(107,941)	(109,383)	(1,442)	(1.3)
Expenditure	107,404	106,859	(545)	(0.5)
Net deficit / (surplus)	(537)	(2,524)	(1,987)	
Working balance b/fwd 1 April 2008		(4,724)		
Working balance c/fwd 31 March 2009		(7,248)		
Planned closing balance as at 31 March 2009		(5,261)		
Variation in closing balance		(1,987)		

- 13.14 The excess surplus is mainly due to additional leaseholder contributions towards major works (£0.4m), additional rent and service charges income (£0.3m) following lower right to buy sales during the year, a reduction in the provision for bad debts (£0.5m) following better than forecast income collection performance and a surplus made by Homes for Haringey in their company accounts (£0.6m). It is recommended that the full £1.987m is transferred to the HRA working balance.
- 13.15 Given this increased level of working balance, Members will wish to consider the strategic use of this additional resource in due course.

14. Carry Forward Proposals

- 14.1 The Council's financial regulations stipulate that Cabinet will determine any carry forward sums in respect of budget variations at the year-end. For this year, in view of the potential adverse impact on performance in 2009/10, it is proposed that no revenue overspend be carried forward (other than trading deficits in line with regulations).
- 14.2 Requests have been made to carry forward £1.282m (Non ABG £0.901m and ABG £0.381m) of balances proposed to be utilised as one-off resources going forward. However, given the overall provisional outturn position, it is recommended that only £0.735m of the carry forward proposals as detailed in Appendix C are approved; namely all ABG requests totalling £0.381m and a net total of £0.354m of non-ABG requests (including carrying forward the £0.2m Catering DSO Trading deficit). Approval of the carry forward proposals will reduce the net underspend to £0.03m.
- 14.3 The net amount available to meet carry forward proposals from the general fund is £0.75m. **Revenue carry forwards** proposed to be funded from this sum total £0.735m as detailed above. These requests are summarised in the table below and set out in full at Appendix C. The carry forwards include an item of £110k to support Haringey's Citizens Advice Bureau to help meet the higher level of demand for advice from local residents.

Directorate	Non-ABG	ABG	Proposed carry forward
	£'000	£'000	£'000
Children and Young People	(200)	88	(112)
Adults, Culture & Community	0	0	0
Corporate Resources	0	0	0
Urban Environment (incl. Housing)	425	0	425
Policy, Performance, Partnerships & Communications	129	227	356
People, Organisation & Development	0	66	66
Total – General Fund	354	381	735

- 14.4 Area Based Grant (ABG) carry forwards were discussed at the Haringey Strategic Partnership on 27 April 2009 as part of a wider report on ABG grant and theme board allocations for 2009/10 and, although it was stressed that decisions regarding carrying forward funds into 2009/10 rest with the Council, there was general support to agreeing those sums allocated to partners to enable the on-going delivery against the Local Area Agreement priorities. This is evidenced by the ABG revenue carry forwards proposed in the table above which relate to resources for projects being delivered by partners.
- 14.5 The DSG non schools underspend of £1.582m is also proposed to be carried forward. This represents an increase of £0.4m above the underspend reported at period 11 to Cabinet on 21 April 2009. Any balance of DSG funding is required to be carried forward under legislation. The utilisation of the carry forward is required to be discussed with the Schools Forum. It is permissible to use DSG resources in support of “combined services” and, given the issues in respect of safeguarding children, it is recommended that £0.75m of the underspend is earmarked to help support the delivery of the JAR action plan.
- 14.6 The outturn for schools is an in-year overspend of £0.5m, reducing school reserves from £7.1m at the end of 2007/08 to £6.6m at the end of 2008/09. The overspend will be carried forward automatically as required by regulation.
- 14.7 Capital carry forward proposals are included for consideration amounting to £10.409m (before transfers to capital reserves). This is mainly in respect of schemes that have encountered slippage and the projects will be delivered in the new financial year. The carry forward proposals are detailed in appendix D.

15. Provisions and Contingent Liabilities

- 15.1 Under accounting requirements the Council is required to consider any areas where it feels there is a potential future liability. Depending on the certainty of this liability and information on the value of the liability, the Council will either raise a provision for this liability or disclose a contingent liability in the notes to the accounts. All areas for **provisions and contingent liabilities** are in the process of being reviewed. These will be considered in the near future and finalised and reported as part of the Statement of Accounts.

16. Treasury Management Outturn

- 16.1 The Treasury Management Policy sets projections for treasury management activity for the forthcoming year as well as limits on borrowing and investment. The overall aim of the policy is to meet borrowing requirements at the lowest cost and to ensure security and liquidity of the Council’s investments while optimising returns. The policy requires annual reporting of the outturn position.

- 16.2 In February 2009 the Council formally approved a revised Treasury Management Strategy that restricts the institutions deposits can be placed with, to reduce risk given the continued difficulties in the global banking sector. The use of additional government backed AAA instruments has also been included for consideration of future use. Detailed reports on the Treasury Management position will be taken to the General Purposes Committee on a quarterly basis. The next meeting is planned for 7 July 2009.
- 16.3 A recent report by the Audit Commission on the national position in terms of the collapsed Icelandic banks was published at the end of March 2009. The report includes recommendations for improvements for central government, CIPFA, as well as local authorities. The recommendations for local authorities have been considered and included within the Council's own action plan in regard to this matter. Progress against the action plan will be reported to the Audit Committee.
- 16.4 The administration process for the Icelandic banks in which Council deposits have been frozen is continuing. The government has issued a regulation to allow authorities to defer accounting for the net loss until later years. CIPFA has recently issued further accounting guidance for authorities on the assumptions for deferred impairments in the 2008/09 accounts and based on the latest position, this recommends assuming recovery of nearly 90% of the capital sum. The Council has, however, accounted for interest not received in relation to these investments in 2008/09.
- 16.5 The Council's borrowing strategy and funding requirement is determined by the maturity of existing debt, new borrowing to fund capital investment and amounts to be set aside from revenue and capital receipts. The estimated position for 2008/09 and the outturn position are shown in the following table:

	Estimated position £m	Outturn position £m
Borrowing approvals/supported borrowing	49	49
Principal repayment	0	0
<u>Less</u>		
Minimum revenue position	(10)	(9)
Usable capital receipts	(9)	(9)
Net Change	30	31

- 16.6 The average level of debt in 2008/09 was £634m and the average level of investments was £144m. The limits and performance for 2008/09 are as follows:

	Approved Limit	Actual performance
Overall borrowing	£696m	£634m
Short term borrowing	20%	0.004%
Amount of debt at variable rates	£66m	0

- 16.7 The Council has complied with the limits set out in the approved Treasury Management Strategy in terms of borrowing and investments.
- 16.8 The average interest rate achieved in 2008/09 on investments was 5.28% which is 1.66% above the average base rate of 3.62%. It is proposed that the additional earnings achieved are transferred to earmarked reserves in order to supplement likely reduced levels of interest earnings in 2009/10, in line with the budget report to Council in February 2009.
- 16.9 The average rate of interest on external debt (the Consolidated Rate of Interest) was 7.27% in 2008/09 compared with 7.22% for the previous year. The reason for this increase was a number of stepped market loans where the initial discount period was over during 2008/09.
- 16.10 The maturity structure of the Council's debt as at 31 March 2009 is shown in the graph below. Treasury management practices require continual review of debt maturity to ensure that the optimal position regarding risk profile, interest rates and redemption penalties is obtained. The profile shows that debt repayment is relatively well spread out.

