

**CABINET**

**On 17 June 2008**

Report title: **Financial Outturn 2007/08**

Report of: **Chief Financial Officer**

**Ward(s) affected:** All

**Report for:** Key Decision

**1. Purpose**

1.1 To set out the provisional revenue and capital outturn for 2007/08 and consider the carry forward requests.

**2. Introduction by Cabinet Member for Resources (Cllr Charles Adje)**

2.1 The reported financial outturn is consistent with that previously projected and I recommend the virements as set out in section 13 are agreed. I commend the report to the Cabinet for approval.

**3. Recommendations**

3.1 To note the provisional general fund outturn for 2007/08 set out at paragraph 9.1 for revenue and paragraph 9.8 for capital.

3.2 To note the reasons for variations detailed in appendices A and B and to agree the planned transfers to reserves in appendix A.

3.3 To note the provisional housing revenue account (HRA) outturn set out at paragraph 9.11.

3.4 That the revenue carry forward proposals of £1.490m detailed in appendix C be approved.

3.5 That the capital carry forward proposals of £5.955m set out in appendix D be approved.

3.6 To note the provisional outturn of a £2m underspend for schools and delegate the finalisation of this position and the carry forward to the Chief Financial Officer.

- 3.7 To delegate to the Chief Financial Officer authority to prepare the Council's financial statements such that the financial position of the Council is optimised.
- 3.8 To note that the Council's Financial Statements for 2007/08 are to be approved by General Purposes Committee.
- 3.9 To note the treasury management outturn.
- 3.10 To agree the virements set out in section 13.

**Report authorised by: Gerald Almeroth – Chief Financial Officer**

**Contact officers: Kevin Bartle, Head of Corporate Finance  
John Hardy – Head of Finance – Budgeting, Projects & Treasury  
Telephone: 020 8489 3743/3726**

#### **4. Executive Summary**

- 4.1 This report sets out the Council's provisional outturn for 2007/08. The year end general fund surplus is £2.109m (0.9% of the approved revenue budget) excluding the dedicated schools grant (DSG). After carry forward requests of £1.490m set out in this report this leaves a net underspend of £0.619m.
- 4.2 The report also sets out the capital outturn position, which is a net underspend of £6.878m (6.8% of the approved budget). Carry forward requests of £5.955m are submitted for consideration. The position on the HRA, non-schools and schools DSG is also reported. These show small underspends against the approved budgets.
- 4.3 In overall terms, after taking into account adjustments previously reported through the budget management process, the financial outturn is in line with the agreed financial strategy.

#### **5. Reasons for any change in policy or for new policy development (if applicable)**

5.1 None

#### **6. Local Government (Access to Information) Act 1985**

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

SAP outturn reports

Final accounts working papers

**For access to the background papers or any further information please contact John Hardy on 020 8489 3726.**

## 7. Background

7.1 This report has six sections:

- overall position;
- outturn – revenue and capital;
- prioritised carry forward proposals – revenue and capital;
- provisions and contingent liabilities;
- treasury management outturn, and;
- financial administration.

7.2 This reports on the provisional outturn position. The final statement of accounts will be prepared in accordance with the Accounts and Audit Regulations 2003. This will be reported to the General Purposes Committee on 26 June 2008 for approval prior to audit. This meets the statutory deadline for the financial statements to be approved by the end of June 2008.

7.3 The external audit for the Council's 2007/08 accounts will commence on 1 July. The auditors will submit a report on the findings of their audit to General Purposes Committee on 25 September and then will subsequently complete their audit by issuing their formal opinion before the end of September.

## 8. Overall general fund position 2007/08

8.1 The overall net revenue underspend provides a surplus of £2.109m. After the proposed utilisation as set out in this report the general fund shows a small net surplus. This is summarised in the following table:

	£'000
2007/08 general fund revenue surplus	(2,109)
Less carry forward requests	1,490
<b>Net surplus</b>	<b>(619)</b>

This net surplus would ordinarily be added to general fund balances, however, at Cabinet on 22 April it was agreed to earmark this projected net underspend for the acquisition of the strategic waste depot site at Marsh Lane. Therefore £600k of this will be allocated for that purpose as previously agreed.

## 9. Outturn – revenue and capital

9.1 The general fund **revenue outturn** is summarised in the following table. There is a provisional net general fund underspend of £2.109m after planned transfers to reserves (0.9% of the approved budget). The variances are explained in more detail in Appendix A. This variation is marginally higher than that reported previously.

<b>Directorate</b>	<b>Approved budget</b>	<b>Variance from budget</b>
	<b>£'000</b>	<b>£'000</b>
Children and Young People	74,759	(258)
Adults, Culture & Community	75,132	774
Corporate Resources	10,387	(319)
Urban Environment (incl. Housing)	44,860	(448)
Policy, Performance, Partnerships & Communications	8,431	(392)
People, Organisation & Development	59	(249)
Chief Executive	657	41
Non-Service Revenue	13,448	(1,258)
<b>Total – General Fund</b>	<b>227,733</b>	<b>(2,109)</b>
Children and Young People (DSG) - Non Schools	19,913	(775)
Children and Young People (DSG) - ISB	134,425	(2,000)
<b>Total - DSG</b>	<b>154,338</b>	<b>(2,775)</b>

9.2 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 this accounts closure process. These include the following significant transfers to reserves agreed as part of the Financial Planning report to Cabinet on 22 January 2008:

- £2m to create a corporate provision for redundancy costs;
- £2.6m revenue contribution to forward finance part of the capital programme in advance of planned receipts; and
- £1.8m for implementation of the Achieving Excellence programme switching funding resources from capital to revenue.

9.3 The table above shows a provisional outturn for schools of a £2m underspend. This will increase school balances by £2m to an estimated level of £7.2m at the end of 2007/08. An underspend of £0.775m against the non-schools allocation of DSG is also reported.

9.4 The joint Primary Care Trust (PCT) Learning Disabilities pooled budget overspent by £65k in 2007/08 and this is proposed to be carried forward to be funded against resources in the new year.

9.5 The overall general fund revenue position reported at period 11 to Cabinet on 22 April 2008 was forecasting an underspend of £1.5m. Therefore the provisional outturn now reported has increased slightly to £2.109m. This change is spread across a number of areas but notably includes a reduction in the overspend in Adults, Culture and Community where the management actions to reduce costs had some impact by the year end.

- 9.6 Requests have been made to carry forward £1.490m to be utilised as one-off resources going forward. This will reduce the net underspend to £0.619m.
- 9.7 A Sustainable Investment Fund (SIF) of £0.5m was agreed by Cabinet on 19 June 2007 to finance one-off type 'invest to save' schemes, particularly energy efficiency projects, which can generate environmental benefits through reducing carbon emissions as well as financial savings. This will contribute to the Council's greenest borough priority. In August 2007 match funding bids of £155k were accepted for Salix external funding as the first call on the SIF (thereby doubling the investment available to £310k). To date £161k of this has been committed for energy saving projects including voltage optimiser units and new swimming pool covers. The energy projects have carbon dioxide emissions reductions of 504 tonnes per annum. The estimated financial savings of £91,607 per annum from the installation of this equipment will be returned to top up the SIF to allow for further future investment.
- 9.8 The final approved **capital programme** for 2007/08 was £101.6m. The main reason for the net increase since the original budget was approved is the capitalisation of the single status compensation payments of £3.7m. A separate capitalisation approval from central government was obtained specifically for this during the year. The provisional underspend is £6.9m as set out in the following table (6.8% of the approved budget). The net capital underspend has reduced by £1.5m from the figure of £8.4m reported to Cabinet at period 11 monitoring.

Directorate	Original Budget	Approved Budget	Outturn	Variance
	£'000	£'000	£'000	£'000
Children & Young People	52,909	33,703	31,895	(1,808)
Adults, Culture & Community	3,003	7,501	6,353	(1,148)
Corporate Resources	5,857	9,121	8,158	(963)
Urban Environment – General Fund	17,037	31,137	29,991	(1,146)
Urban Environment – HRA	19,278	19,819	18,165	(1,654)
Policy, Performance, Partnerships & Communications	0	306	147	(159)
<b>Total</b>	<b>98,084</b>	<b>101,587</b>	<b>94,709</b>	<b>(6,878)</b>

Detailed explanations of the variances are set out in Appendix B. The majority of the variations relate to delays in the progress of schemes for various reasons. A review has been commenced to analyse the reasons in more detail and to implement any identified improvements in project management or financial administration early in the new year.

9.9 The Council's agreed capital programme for the period 2007/08 to 2010/11 was based on achieving usable **capital receipts** of £4m in 2007/08. The final position is that £9.5m has been generated, giving an additional balance of £5.5m. This variation is analysed below:

	£'m
• Over-achievement of right to buy receipts	1.2
• Over-achievement of other disposals in 2007/08	2.4
• 2008/09 planned disposals – achieved early in 2007/08	1.5
• Other	<u>0.4</u>
	<b><u>5.5</u></b>

9.10 This is a significantly improved outcome than planned, however, with the current property market conditions there has been a significant downturn in the number of disposals in 2008/09 already so it is recommended that this surplus is considered later in the year as part of the overall financial planning process.

9.11 The provisional HRA outturn for the year is a surplus of £1.728m against a surplus target of £1.094m, an increase of £0.634m. Therefore the working balance is increased to just over £5.3m at 31 March 2008, as shown in the following table.

Item	Revised Budget	Outturn	Variance	Variance
	£'000	£'000	£'000	%
Income	(106,844)	(107,627)	(783)	(0.7)
Expenditure	105,750	105,899	149	0.1
<b>Net deficit / (surplus)</b>	<b>(1,094)</b>	<b>(1,728)</b>	<b>(634)</b>	
Working balance b/fwd 1 April 2007		(3,596)		
Working balance c/fwd 31 March 2008		<b>(5,324)</b>		
Planned closing balance as at 31 March 2008		<b>(4,690)</b>		
Variation in closing balance		<b>(634)</b>		

9.12 The overall HRA outturn surplus variance position of £0.634m is broadly similar to that reported for period 11 (£0.5m). The excess surplus is mainly due to a reduction in the provision for bad debts following improved income collection performance and higher than forecast income from leaseholders in respect of charges for major works.

## 10. Carry Forward Proposals

- 10.1 The Council's Finance Procedure Rules provide for Cabinet to 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 2008/09, it is proposed that no revenue overspend be carried forward (other than the joint PCT Learning Disabilities pooled budget).
- 10.2 The net amount available to meet carry forward requests is £2.109m. Members are asked to consider the requests for **revenue carry forwards** to be funded from this sum. These requests are summarised in the table below and set out in full at appendix C.

Directorate	Proposed carry forward £'000
Children and Young People	358
Adults, Culture & Community	0
Corporate Resources	45
Urban Environment (incl. Housing)	446
Policy, Performance, Partnerships & Communications	392
People, Organisation & Development	249
<b>Total – General Fund</b>	<b>1,490</b>

- 10.3 The joint pooled Primary Care Trust (PCT) Learning Disabilities partnership budget overspent by £65k in 2007/08. This overspend will be carried forward and be funded against resources in the new year.
- 10.4 The DSG non schools underspend of £0.775m is also proposed to be carried forward. This underspend was reported in the February monitoring report and highlighted the Family Support budget, and the Early Years Nursery education payments to the voluntary sector as making up the underspend. Any balance of DSG funding is required to be carried forward under legislation and will be needed to meet future commitments.
- 10.5 The school balances are still provisional at the time of writing this report. Based on returns received from schools, the provisional outturn is estimated to be an in-year underspend of £2m, increasing school reserves from £5.2m at the end of 2006/07 to an estimated £7.2m at the end of 2007/08. It is recommended that finalisation of the schools' carry forward is delegated to the Chief Financial Officer.
- 10.6 **Capital carry forward** proposals are included for members consideration amounting to £5.955m. This is mainly in respect of schemes that have encountered some slippage and the project will be delivered in the new financial year. The carry forward requests are detailed in appendix D.

## 11. Provisions and contingent liabilities

- 11.1 An accounting requirement is for the Council 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. I will finalise my consideration of this and report as part of the Statement of Accounts.

## 12. Treasury Management outturn

- 12.1 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 maximise investment returns. The policy requires annual reporting of the outturn position.

### Borrowing and Investment

- 12.2 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 2007/08 and the outturn position are shown in the following table:

	Estimated position £m	Outturn position £m
Borrowing approvals	24	24
Principal repayment	0	0
<u>Less</u>		
Minimum revenue position	(10)	(10)
Usable capital receipts	(10)	(10)
<b>Net Change</b>	<b>(4)</b>	<b>(4)</b>

### Indebtedness

- 12.3 The average level of debt in 2007/08 was £634m and the average level of investments was £120m. The limits and performance for 2007/08 are as follows.

	Approved Limit	Actual performance
Overall borrowing	£669m	£634m
Short term borrowing	20%	0.004%
Amount of debt at variable rates	£190m	0

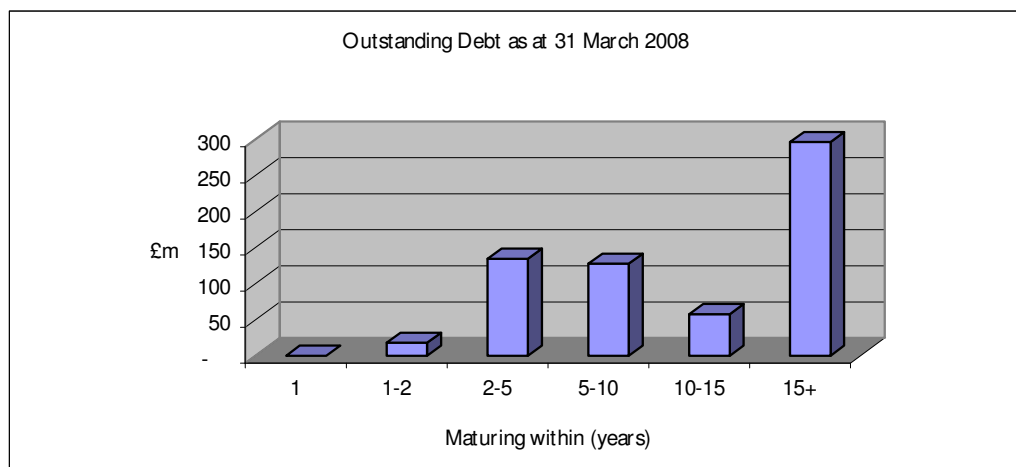
- 12.4 The Council has complied with the limits set out in the approved Treasury Management Policy.



12.5 The average interest rate achieved on investments was 6.04% and this is 0.5% above the average base rate of 5.54%. This has been agreed as our performance target for 2008/09.

12.6 The average rate of interest on external debt (the Consolidated Rate of Interest) was 7.22% in 2007/08 compared with 7.26% for the previous year.

12.7 The maturity structure of the Council's debt as at 31 March 2008 is shown in the graph below. The 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.



### 13. Financial administration

13.1 Financial regulations require proposed budget changes to be approved by Cabinet. These are shown in the table below. These changes fall into one of two categories:

- budget virements, where it is proposed that budget provision is to be transferred between one service budget and another. Explanations are provided where this is the case;
- Increases or decreases in budget, generally where notification has been received in-year of a change in the level of external funding such as grants or supplementary credit approval.

13.2 Under the Constitution, certain virements are key decisions. Key decisions are:

- for revenue, any virement which results in change in a directorate cash limit of more than £250,000; and
- for capital, any virement which results in the change of a programme area of more than £250,000.

Key decisions are highlighted by an asterisk in the table.

13.3 The following table sets out the proposed changes. Each entry in the table refers to a detailed entry in the appendices, which show the budgets that it is proposed to change. There are two figures shown in each line of the table and the detailed sheets. The first amount column relates to changes in the current year's budgets and the second to changes in future years' budgets (full year). Differences between the two occur when, for example, the budget variation required relates to an immediate but not ongoing need or where the variation takes effect for a part of the current year but will be in effect for the whole of future years.

13.4 Proposed virements are set out in the following table:

Period	Service	Key	Amount current year (£'000)	Full year Amount (£'000)	Description
13	C&YP	Rev	143		Allocation of grant funding from Big Lottery Fund.
13	C&YP	Rev	236		Allocation of grant funding from Targeted Schools Meals Grant.
13	C&YP	Rev	51		Allocation of grant funding from Learning Skills Council.
13	C&YP	Rev*	1,470		Standards Fund grant allocation.
13	C&YP	Rev	64		New Opportunities Fund allocation.
13	C&YP	Rev	200		General Sure Start Grant - Parents as Partners in Early Learning.
13	C&YP	Rev	183		Teenage Pregnancy Local Implementation grant.
13	C&YP	Rev	64		Higher level teaching assistants funding arrangement grant from the Training and Development Agency for Schools.
14	Various	Rev*	1,820		Employee costs budget adjustments.
14	CR	Cap*	3,734		Single Status – budget for compensation payments.

## 14. Recommendations

- 14.1 To note the provisional general fund outturn for 2007/08 set out at paragraph 9.1 for revenue and paragraph 9.8 for capital.
- 14.2 To note the reasons for variations detailed in appendices A and B and to agree the planned transfers to reserves in appendix A.
- 14.3 To note the provisional housing revenue account (HRA) outturn set out at paragraph 9.11.

- 14.4 That the revenue carry forward proposals of £1.490m detailed in appendix C be approved.
- 14.5 That the capital carry forward proposals of £5.955m set out in appendix D be approved.
- 14.6 To note the provisional outturn of a £2m underspend for schools and delegate the finalisation of this position and the carry forward to the Chief Financial Officer.
- 14.7 To delegate to the Chief Financial Officer authority to prepare the Council's financial statements such that the financial position of the Council is optimised.
- 14.8 To note that the Council's Financial Statements for 2007/08 are to be approved by General Purposes Committee.
- 14.9 To note the treasury management outturn.
- 14.10 To agree the virements set out in section 13.

**15. Comments of the Head of Legal Services**

- 15.1 The Head of Legal Services notes the report and confirms that all statutory and constitutional requirements are met.

**16. Use of Appendices**

Appendix A - Explanation of significant revenue variances.

Appendix B - Explanation of significant capital variances.

Appendix C - Revenue carry forward requests.

Appendix D – Capital carry forward requests.