

## Agenda Item: 6

**Report to:** Cabinet  
**Date of meeting:** 8th July 2013  
**Report of:** Head of Strategic Finance  
**Title:** Summary of the Financial Outturn 2012/ 2013

### 1.0 SUMMARY

1.1 This report informs Cabinet of the revenue and capital outturns for 2012/2013.

### 2.0 RECOMMENDATIONS

- 2.1 To consider the revenue outturn as summarised at Appendix 1A, and supplementary notes at Appendices 1B to 1E and to note that a variance of £283k has occurred. It should be noted however that this apparent 'overspend' included a voluntary additional payment of £750k into the Council's Pensions Fund and that the true position was an effective under spend of £467k.
- 2.2 To approve that specific unspent budgets have been carried forward into 2013/2014 in the sum of £234,910 and as detailed at Appendix 1D.
- 2.3 To consider the Reserves statement at Appendices 1E and note that the overall level of revenue reserves has increased by £277,354. It is also recommended that the following transfers between reserves should be approved:
- the Climate Change Reserve be increased by £20k
  - the Housing Benefit Subsidy Reserve should reduce by £300k
  - the Invest to Save Reserve should increase by £200k
  - the Economic Impact Reserve should increase by £60k
  - a new reserve 'Market Promotion Reserve' should be set up with a balance of £20k.
- 2.4 To consider the capital outturn as detailed at Appendix 2 and note that the Council's present and future holding of capital receipts is fully committed.

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### **3.0 INTRODUCTION**

3.1 A key feature of the reporting of the Final Outturn for any financial year is to compare the actual position with the original estimate and forecast budget monitoring statements produced throughout the year. This comparison is essential as it provides an indication of the accuracy and robustness of financial control within the Council.

3.2 It is important as part of that process that guidance is provided, as a simple comparison will not necessarily present a fair reflection of a constantly evolving situation. This report will hopefully provide a meaningful analysis of the revenue and capital outturns for 2012/2013. The more technical detail of the Final Outturn is reflected within the audited Statement of Accounts that will be reported to the Audit Committee on 25<sup>th</sup> September 2013.

### **4.0 ORIGINAL ESTIMATES 2011/2012**

4.1 The original revenue estimates were approved by Council on 25th January 2012 and have been summarised at **Appendix 1A** and indicated net General Fund expenditure of £14,897k.

### **5.0 BUDGET MONITORING: THE FINANCE DIGEST**

5.1 Watford Council has a well developed budget monitoring system which compares original estimates with a forecast end of year financial outturn. The last reported budget monitor as at end of January 2013 (Period 10) forecast an overall overspend of £67k and comprised additional expenditure to be financed from earmarked reserves of £488k and a general under spend of £421k. Had this been the final position for 2012/2013 then the General Fund Budget would have been £14,964k.

### **6.0 SUMMARISED REVENUE OUTTURN 2012/2013**

6.1.1 **Appendix 1A** summarises the actual outturn for 2012/2013 when compared to the Original Estimate and Budget Monitor/ Finance Digest forecast and indicates a General Fund expenditure outturn of £15,057k (an overspend of £160k compared to original budget, and £93k compared to the forecast).

6.1.2 Appendix 1A also shows the funding earmarked to cover this expenditure and indicates £15,400k of funding from central government and council tax was originally anticipated. The outturn position was £15,277k with the difference of £123k being due to the fact that the first instalment of New Homes Bonus funding for 2012/2013 was actually received in the previous financial year (2011/2012).

6.1.3 The net effect of expenditure and its financing was an original surplus of funding of £503k (to be transferred to the Vehicle Replacement Fund and the Economic Impact Reserve) whereas the outturn shows a surplus of £220k. There has therefore been a variance of £283k between original estimate and outturn (and reflects the £160k and £123k referred to above).

6.2.1 **Appendix 1B** provides detail of the major variances that actually occurred. The following additional notes provide an element of further explanation:

## 6.2.2 **Favourable**

- additional income of circa £377k was achieved from areas such as hostel and bed and breakfast income and recycling.
- additional commercial rent of £305k was realised across the property portfolio.
- additional investment interest of £104k accrued due to the size of the portfolio being larger than anticipated.
- building maintenance costs showed a revenue saving of £390k due to a larger proportion of the programme being financed from capital receipts.
- ongoing procurement savings of £357k accrued and was mainly due to the rationalisation of gas and electricity contracts.
- salaries and agency costs showed a £95k under spend
- pay inflation under spend of £135k due to there being no pay ward.

## 6.2.3 **Adverse**

6.2.3.1 Revenues and benefits was the one area which showed a particularly disappointing result which can be broken down as follows:

- salaries and agency overspend (Watford's proportion) was £310k and reflects the increased caseload being experienced.
- reduced income from court costs of £118k due to not taking up as many court days as anticipated
- additional cost of discretionary rate relief to businesses of £76k which had been forecast very early in the financial year.
- additional net cost of rent allowances largely due to an increasing volume of claimants (£646k) . To illustrate this, the amount of subsidy claimed for 2011/2012 was £32.8m; for 2012/2013 it had increased to £35.3m. The Council is not reimbursed 100% of payments it has made. So for example, where an overpayment has been made only 40% of the value is reimbursed. In 2012/2013 overpayments to the value of £896k were made (£760k in previous year). The Council may well recover a part of these overpayments from claimants but it clearly will always be in arrear. Further, where there is local authority error (£305k, 2012/2013; £289k, 2011/2012), then no subsidy is received. The Benefits Division has not been up to date in processing 'Atlas' notifications from the DWP and it is not known whether this has affected overpayments (all Atlas payments have now been processed but only 15,726 (out of 23,297) had been actioned as at April 2013.

6.2.3.2 Benefits has been identified as the key risk area where adverse variances may well occur. For that reason, the statement of reserves at Appendix 1E includes a Housing Benefit Subsidy Reserve of £997k and it is recommended that £300k of this reserve should be used to reduce this adverse variance.

## 6.2.3.3 **Additional Payment into the Pension Fund.**

There was one additional variance that helped contribute to the £283k adverse variance (compared to original estimate) and that relates to an end of year additional payment into the Council's Pension Fund. The background to this is that the last actuarial review was as at 31<sup>st</sup> March 2010, with the next review being 31<sup>st</sup> March 2013. Watford Council has always followed the HCC appointed actuaries

6.2.4 advice which should enable the current deficit to be eliminated in 20 years time.

6.2.4.1 In reality the period 2010/2013 has seen all pensions funds increase their deficits and is due to a combination of people living longer combined with very poor investment returns (due to the low interest rate environment). The Finance Period 10 Digest was forecasting a general under spend of £421k was likely (section 5 of report refers), and as a consequence, approval was received from the Mayor and Portfolio Holders to make an additional £750k payment into the Pension Fund. This is not an adverse variance as the benefit of this action will be experienced in future years. By making the payment before the end of the year it will be now reflected within the actuarial review due to commence shortly (the results of which will be known in December 2013).

6.2.4.2

Had this payment not been made then the ultimate £283k variance (original to Outturn) would have been transformed into a £467k under spend and which is comparable to the £421k forecast at the end of January 2013.

## 7.0 ANALYSIS OF DETAILED VARIATIONS, RESERVES & BALANCES

7.1 **Appendix 1C** analyses the salaries and agency outturn and shows an extremely encouraging result with an Original Budget of £14,522k and an Outturn of £14,427k, an under spend of £95k.

7.2 **Appendix 1D** details those unspent balances that Leadership Team recommend should be carried forward to 2013/2014 and is typically due to a delay in carrying out an initiative. Should Cabinet not approve this recommendation then it would put pressure upon the 2013/2014 revenue budget.

7.3.1 **Appendix 1E** details the end of year position regarding the Council's holding of reserves and balances and indicates that the General Fund Balance has remained at £1,350k and is in accordance with Council current policy. The earmarked/ general/ and capital related revenue reserves has increased by £277k. When preparing the budget for 2012/2013 (February 2012) it was anticipated that reserves would increase by £503k (£150k to Vehicle Replacement Reserve; and £353k to the Economic Impact reserve). There has therefore been an under performance of £226k which has largely due to the £283k variance covered within the Revenue Outturn report at Section 6 earlier.

7.3.2 As part of the closure of the final accounts, the opportunity is traditionally taken to review the levels of individual reserves with a view to making some cross reserves transfers. In that respect it is recommended that:

- the Climate Change Reserve should be topped up by an additional £20k (to give a closing balance of £56k) and will enable further initiatives to be funded in 2013/2014.
- a new reserve "Market Promotions Reserve" should be set up with a balance of £20k and can be accessed to support the new market
- the Housing Benefit Subsidy Reserve should be reduced by £300k to help fund the revenue and benefits overspend in 2012/2013.
- the Invest to Save Reserve should be topped up with a further £200k transfer (and will enable up front expenditure to be incurred in order to

- provide subsequent ongoing efficiency savings).
- the Economic Impact Reserve should be increased by the residual balance from the above transfers (£60k) and will help to maintain a cushion to meet future government funding reductions.

## **8.0 CAPITAL OUTTURN 2012/2013**

8.1 A detailed analysis of the council's capital programme has been attached at **Appendix 2**. The overall position indicates main features (as summarised on the final page) include:

- an outturn spend (including Section 106) of £4,954k
- further programmed expenditure in 2013/2016 of £34,833k
- that uncommitted capital receipts will have been fully utilised with a small shortfall of £473k. There is however considerable scope to cover any shortfall by way of reductions to the capital programme, additional capital receipts, and access to the PWLB borrowing facility (£4m of which is uncommitted).

## **9.0 CONCLUSION**

9.1 The 2012/2013 revenue outturn represents a good result against a national background of an economy at best 'flat' and potentially slightly recessionary. This has affected Watford Council particularly through its volume (and cost) of rent allowance payments. This however was more than compensated by favourable variances identified throughout the year and as part of Final Accounts closure. These favourable variances also permitted an additional payment to be made into the Council's Pensions Fund with no impact upon its holding of reserves and balances.

9.2 Reserves and balances have increased by £277k (although it was originally anticipated that this increase would be £503k. This preservation of reserves will provide a much needed 'buffer' in the years to come and will be discussed in far more detail when the Medium Term Financial Strategy is considered in detail in September 2013..

9.3 With regard to the capital outturn, the Council continues to have an ambitious programme which includes ensuring its infrastructure/ assets are well maintained as well as seeking to move forward through investment in key projects where the aim is to secure the future prosperity of the Watford area.

## **10.0 FINANCIAL IMPLICATIONS**

10.1 These have been included within the report.

## **11.0 LEGAL IMPLICATIONS**

11.1 There are no legal implications in the report.

## 12.0 POTENTIAL RISKS

Potential Risk	Likelihood	Impact	Overall Score
That the External Auditor finds material errors within the Final Accounts process	2	4	8

## 13.0 EQUALITIES

13.1 Watford Borough Council is committed to equality and diversity as an employer, service provider and as a strategic partner. In order to fulfil this commitment and its duties under the Equality Act 2010 it is important to demonstrate how policies, practices and decisions impact on people with different protected characteristics. It is also important to demonstrate that the Council is not discriminating unlawfully when carrying out any of its functions.

13.2 The reporting of the Final Outturn for 2012/2013 does not have any direct equality implications. In effect it is reporting upon the financial consequences of policies already established by the Council and is not seeking to change those policies in any way.

### **Appendices:**

Appendix 1A Revenue Account General Fund Summary 2012/2013

Appendix 1B Major Variations 2012/2013

Appendix 1C Salary and Agency Summary

Appendix 1D Carry Forward requests into 2013/2014

Appendix 1E Summary of Reserves

Appendix 2 Capital Outturn