

Report to: Budget Panel
Date of meeting: 20th September 2011
Report of: Head of Strategic Finance
Title: Summary of the Financial Outturn 2010/2011

1.0 SUMMARY

1.1 This report informs the Budget Panel of the revenue and capital outturns for 2010/2011.

2.0 RECOMMENDATIONS

2.1 To consider the revenue outturn as summarised at Appendix 1 of £16,327k (before the use of reserves, balances and provisions).

2.2 To note that certain unspent budgets have been carried forward into 2011/2012 in the sum of £349,700 and as detailed at Appendix 5A.

2.3 To note that the Department for Communities and Local Government has approved the closure of the Council's Housing Revenue Account and that the balance of £1,310k be transferred to a newly created 'Development Sites Decontamination Reserve' (Appendix 5 refers).

2.4 To note that the Housing Benefit Subsidy provision is now no longer required and that a residual balance of £367k should be transferred to a newly created 'Housing Benefit Subsidy Reserve' (Appendix 5 refers).

2.5 To note that the VAT refund of £1,122k should be transferred to the four funds detailed at Appendix 5 and that, as a consequence, a new 'Insurance Fund' has been created.

2.6 To consider the capital outturn as detailed at Appendix 6.

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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 2010/2011.

3.3 This report does not discuss changes to the presentation of the accounts which has been caused by changes to 'Financial Reporting Standards' as such changes do not actually affect the final outturn but simply re-order the placement of the financial figures. This issue will be covered in the formal report to the Audit Committee on 29th September 2011 which will consider the statutory Statement of Accounts.

4.0 ORIGINAL ESTIMATES 2010/2011

4.1 The original revenue estimates were approved by Council on 27th January 2010 and have been summarised at **Appendix 1**. The net expenditure before the use of reserves and balances was anticipated to be £16,812k. It was anticipated that £280k of reserves and £345k of balances would be used in order to reduce the Council's net expenditure to £16,187k.

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 first report for 2010/2011 covered the first quarter's expenditure and income and was considered by the Budget Panel at its meeting on 20th July 2010 and comprised an explanatory report with a detailed Finance Digest.

5.2 During 2010/2011 monthly budget forecasts were considered by the Leadership Team, Budget Panel, quarterly reports were produced for Cabinet and copies of the Finance Digest was circulated to all members of the Council.

5.3 The last budget monitoring report / Finance Digest for 2010/ 2011 covered the 11 month period up to the end of February 2011. The position for the end of year (Month 12) is always delayed somewhat because it needs to be the final outturn and should include accountancy issues such as accruals; requests for carry forwards etc.

5.4 The key features of the Month 11 budget monitor included:

- a forecast outturn of £17,808k, reduced by :
- the use of £828k from earmarked reserves
- the use of £345k from general balances
- the use of £180k from a housing benefit earmarked provision

5.5 This resulted in a forecast £268k overspend compared to the original budget. A summary of the Month 11 forecast is attached at **Appendix 1**.

6.0 SUMMARISED REVENUE OUTTURN 2010/2011

6.1 **Appendix 1** summarises the actual variances and actual outturn for 2010/2011 when compared to the Original Estimate. **Appendix 2** provides a simple reconciliation between Original Budget; Period 11 Forecast and Final Outturn.

6.2 In summary, Appendix 1 indicates the actual variation between Original Estimate and Outturn was a £485k under spend. This is distorted however by two 'extraordinary items' (VAT refund and Building Maintenance capitalisation—see Appendix 2 for fuller explanation) which resulted in a £1,465k windfall. In addition throughout the course of 2010/2011 reports were presented to Budget Panel / Cabinet in which the original estimate was increased and funded through the use of earmarked reserves and provisions. Interpreting these factors, then the true level of underlying variations was an overspend of £286k (1.7%) and which is explained at Appendix 2.

6.3 A forecast overspend of £300k had been predicted early in the financial year and was largely due to the consequences of the economic downturn. This had the effect of reducing the Council's investment interest (due to low rates of interest), combined with a shortfall in commercial and market rents. At a macro level therefore it could be interpreted that the Council's budget monitoring and forecasting is exceptionally good. This would, however, be glossing over the fact that a number of actual budget variations were not reported during the year and that, coincidentally, the 'swings' equated to the 'roundabouts'. Full reporting of variations needs to be enforced therefore during 2011/2012.

7.0 ANALYSIS OF DETAILED VARIATIONS

7.1 **Appendix 3** provides an analysis of the major variations (+/-£10k) that actually occurred at cost centre level. In many respects the current system of budget monitoring encourages the respective Portfolio Holder and Head of Service to manage their budgets at cost centre level. So, for example, due to the economic recession there had been a reduction in the volume of planning applications which had a significant effect upon anticipated development control income. This adverse variation was 'managed' through the Head of Service not filling vacancies—which is logical if activity levels are down. As a consequence the development control cost centre came in on budget and is not highlighted at Appendix 3. This approach is to be commended.

7.2 The variations at Appendix 3 total £485k as per the Appendix 1 summary. Looking forward, key issues for 2011/2012 include:

- better forecasting within Community Services (albeit circa £250k of the variation related to an adjustment to the SLM outsourced contract and an electricity refund both of which were outside the purview of the Head of Service). The Head of Service has addressed this issue for 2011/2012 and improved monitoring has been established.
- commercial rent income needs to be closely monitored and this will be a key risk in 2011/2012 .

- the cost of revenues and benefit staffing levels exceeded original estimates by a large margin (see Shared Services Operating Costs at Appendix 3). This has considerably reduced the saving arising from the shared services joint initiative. The current situation cannot continue and must be arrested by more effective use of technology within the Division. This again is a key risk for 2011/2012.
- The cost of the housing benefit subsidy system to Watford significantly exceeded original budgets. This was reported during the year and was largely due to the original estimate being very 'optimistic'. The 2011/2012 assumptions built into the net cost of subsidies is far more realistic. This is a cost centre with circa £34m of subsidy income and is a key risk where close monitoring during 2011/2012 will be essential.

7.3 The variations at Appendix 3 also include the windfalls relating to the VAT refund and the part capitalisation of building maintenance which, as referred to earlier should be discounted when considering underlying trends.

8.0 SUMMARY OF SALARY AND AGENCY COSTS

8.1 The cost of salaries and agency staff in order to provide day to day services is circa £15m and should be compared to the council's budget for 2010/ 2011 of £16.8m. Any effective budgetary control system does therefore need to ensure it has accurate reporting and control of the staffing budgets.

8.2 **Appendix 4** therefore provides a summary of salaries/ agency budgets across all the service areas (excluding staffing within Shared Services where the control is exercised through the Joint Committee). These figures exclude the cost of consultants who are engaged to carry out specific time limited tasks and do not deliver ongoing services. The original budget at Appendix 4 is after deleting 1% from each cost centre and which represents a vacancy factor built into detailed estimates.

8.3 Appendix 4 is encouraging in that it indicates a £165k under spend which represents a 1.07% variation. Simplistically if the original estimates had assumed a 2% vacancy factor then there would have been no outturn variation. For 2011/2012 a 1% vacancy allowance has again been assumed and there is no intention for any change for the foreseeable future.

9.0 RESERVES, BALANCES and PROVISIONS

9.1 In many ways, the most complex part of reporting the Revenue Outturn is to seek to explain the variations to the level of individual reserves. **Appendix 5** provides a detailed summary of proposed movements to reserves, balances and provisions which will need specific approval from Cabinet / Audit Committee / and Council.

9.2 In terms of the revenue outturn in isolation, the position can be summarised as follows:

- original estimates intended to take £280k from reserves and £345k from the General Fund working balance.
- during the year, approval was received to increase the drawdown from reserves by a further £548k and from the housing benefit provision by £180k.

- due to the 'windfalls' relating to VAT and Building Maintenance, instead of drawing down reserves, £665k has been transferred into them.

This is all illustrated at Appendix 1.

9.3 Appendices 5, 5A & 5B provide a full analysis of all movements to reserves, balances and provisions that have occurred both during and at the end of 2010/2011 financial year.

10.0 CAPITAL OUTTURN 2010/2011

10.1 A detailed analysis of the council's capital programme has been attached at **Appendix 6**. The main features include

- an original projected spend (including Section 106) of £13,700k
- a final outturn spend (including Section 106) of £10,312k

This indicates a 24% level of slippage (compared to 29% in previous year). The Original Estimate however, was finalised in January 2010 and, during the course of 2010/2011 there have been regular reports through the Finance Digest/ Cabinet regarding amendments to the programme to reflect anticipated slippage/ increased cost/ new projects. The variances detailed below need therefore to be taken in this context.

10.2 This variance of £3,388k very largely represents slippage into the 2011/2012 financial year and, for general fund projects, is chiefly made up by:

Under spend/ Slippage	£k
* Health Campus –delay in land purchase	724
* Colosseum—profiled expenditure slightly delayed	1,894
* Cultural Quarter Phase 1-longer timescale	432
* Refuse Freighters—saving on procurement	105
* Woodside Access Improvements-delay	224
* Affordable Housing-no projects to fund	235
* Decent Homes—reduced requirement	157
* Wiggshall Depot replacement-slightly delayed	286
* Backlog Repairs—money set aside for Depot work	485
* Events Market—slightly delayed	97
New projects	
* Hollywell Community Centre	+480
* Woolworth's Renovation	+932
*Watford Business Park (LAGBI funded)	+103
* ICT-SAN implementation	+188

10.3 With regard to Section 106 projects, the original estimate of £744k only had a minor end of year under spend of £20k. The detail within Appendix 6 does illustrate that a number of projects have been delayed but this has been compensated by mid year approval to a programme of playground improvements.

10.4 The delay in either commencing or completing capital projects has now been reflected within the 2011/2012 projected capital budget. This again has been shown at Appendix 6 and which now details the complete (and updated) capital programme which was approved by Council on 26th January 2011.

10.5 Appendix 6 also details how the capital programme has been funded in 2010/2011 and can be summarised as follows:

* Use of Capital Receipts	£8,747k
* Use of Section 106 contributions	£ 724k
* Use of Reserves—(the CPZ reserve)	£ 276k
* Use of Grants and contributions	£ 564k

10.6 Finally Appendix 6 indicates how the Council's current capital programme will be financed through to completion. And indicates:

- there will be a surplus of capital receipts of £2,374k
- there will be available Section 106 contributions of £4,498k

It will undoubtedly be the case that proposals for further capital projects (in particular Section 106 proposals) will be considered during the four year perspective of the capital programme.

11.0 CONCLUSION

11.1 The 2010/2011 revenue outturn represents a good result with a bottom line showing an increase in General Reserves of £665k. Watford's 'share price' would undoubtedly increase if it was listed on the Stock Exchange. However this apparent good performance is flattered by the VAT refund of £1.122m (the Council had to put forward a strong case in order to achieve the refund and it was not a 'windfall' as such). This excellent, overall result is reinforced by the fact that the Council had reduced its council tax by 1.4% in 2010/2011 so that its residents were required to pay less for its local services.

11.2 The underlying trend of revenue expenditure indicates an overspend of £286k which again is a good result against a background of the economic downturn which particularly affected the Council's levels of income. Further, the financial forecast had been predicting a £300k shortfall throughout the year and, simplistically, indicates budget monitoring processes are largely fit for purpose. The salaries and agency outturn was particularly accurate and accounts for 93% of net expenditure.

11.3 The 2010/2011 revenue outturn has highlighted areas where budget forecasting needs to be improved and the Leadership Team and Portfolio Holders will pay special attention to this and to the key risk areas.

11.4 With regard to the capital outturn slippage continues to be an ongoing problem but it does need to be recognised that this mainly occurs in relation to the larger, strategic projects where the Council is often dependent upon partner organisations.

11.5 Finally, the audited, statutory Statement of Accounts will be reported for approval to the Audit Committee on 29th September. The first Finance Digest for 2011/2012 has already been circulated to all members of the Council and a revised Medium

Term Financial Strategy was reported to Cabinet on 25th July. So, like the seasons, the never ending cycle has started for another year.

12.0 FINANCIAL IMPLICATIONS

12.1 These have been included within the report.

13.0 LEGAL IMPLICATIONS

13.1 The creation of new reserves is part of the overall budget of the Council and therefore under the constitution requires the approval of full council.

14.0 POTENTIAL RISKS

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

15.0 EQUALITIES

15.1 There are no equality implications in formally reporting the final outturn for 2010/2011.