Revenue and Capital Outturn 2011/2012 Appendix 1A

Section 1: Revenue Outturn

The revenue outturn is analysed on two bases:

- How the Outturn compares to the Original Estimate
- How the Outturn compares to the Finance Digest Forecast at Period 11

Outturn to Original Estimate/ Forecast (before Final Account adjustments)

The Original estimate was £14,581k
The Outturn is £ 14,832k

An over spend of £251k (Forecast at Period 11 £519k overspend)

There are three big numbers that account for this position

- Redundancy/ Pensions Strain: it was originally intended to fund the majority of restructuring costs from the Pensions Fund Reserve (there being a limited annual provision of £75k for minor staff changes). The actual additional cost in 2011/2012 was £479k and, in closing the accounts, it was resolved to fund all redundancy costs from within the revenue estimates without recourse to the Pension Fund Reserve or the minor contingency provision. This was because of the opportunity afforded through capitalising building maintenance (see next note) and also because it would be prudent to keep the Pensions Reserve at as high a level as possible to meet possible future actuarial valuation issues.
- Capitalisation of Building Maintenance: at the end of each year we are able to ascertain the nature of the Building Maintenance Programme and it is often the case that the nature of the work means that it should be capitalised (as an improvement). In 2011/12 circa £500k of work has been transferred to the capital account and resulted in a £500k saving on the revenue account which could then be utilised to meet the restructuring costs referred to above.
- The revenue accounts across all services (excluding the 2 variations above) show a circa £272k overspend, and this is analysed at **Appendix 1D** (and compares with the period 11 Forecast of £519k).

The net effect of these three variations is as follows:

Redundancy/ Pension Strain	plus £479k
Capitalisation of Building Maintenance	minus £500k
Overspends on Revenue Accounts	plus £272k
Net Effect of major variations:	plus £251k over spend for the year

Salaries and Agency Costs:
The largest budget of the Council (excluding Housing Benefits) is the salaries and agency account and attached at **Appendix 1B** is the subjective analysis of this cost centre. It shows an Original Estimate of £17,260k and an outturn excluding redundancies and pension strain of £17,320k (an overspend of £60k, 0.3%).

Appendix 1A continued

This summary includes those staff engaged in the direct provision of Shared Services activities but actually on Watford's payroll (and terms and conditions).
This is analysed by activity at **Appendix 1C** and indicates an excellent set of figures for all directly run Council services (again redundancy needs to be excluded for a true comparison). The one problematic area relates to those staff/ agency employed directly on Shared Services activities (but paid through Watford's payroll) where an £472k overspend occurred and will be largely related to revenues and benefits activities. This overspend will be transferred into the Shared Services activity cost centres to be combined with the staff employed by Three Rivers. The combined total will then be recharged back to Watford/ TRDC (broadly 60%/ 40% split) and will be shown under Watford's Strategic Finance estimates.

All Major Variations Original Estimate/ Forecast/ Outturn:

Appendix 1D provides an overview of the major variations that actually occurred during 2011/2012.
It shows a very encouraging situation where Heads of Service have been extremely proactive in identifying variations during the year. The one weakness has been the forecasting of income where the negatives have been identified but not necessarily the positives. Listed below are the significant areas of income where this has occurred:

	Forecast period 11 £k	Outturn £k
Housing Managed Properties	(50)	(151)
Waste re-cycling grant	(30)	(87)
Land Charge Search Fees	(0)	(66)
Investment Interest	0	(48)

Housing managed properties is a volatile area to forecast; the waste re-cycling grant is dependent upon achieving re-cycling targets and is not known until year end; the land charge income was potentially affected by the need to make refunds as a consequence of legislative clarification; the investment interest is difficult to predict due to the need make end of year final adjustments to ensure interest is accounted for in the correct year of account. Nevertheless these areas will be given specific attention during 2012/2013.

Section 2: Reserves

Section 1 discussed the 'true' underlying variances within the annual revenue estimates and indicated a £272k over spend. There has however been a number of movements (one offs) to the Council's level of reserves. By reference to **Appendix 1,** it indicates that £137k was anticipated to be transferred into reserves (£150k minus £13k), whereas at outturn £1,280k was transferred into General Fund reserves.

Appendix 1A Continued

This increase broadly comprises:

	£k
Use of Earmarked reserves during the year	-475
Over provision for bad debts (see note below)	794
Adjustment for housing benefit subsidy (see note at Appendix 1G)	629
Use of Economic Impact Reserve (to fund overspend)	-272
Additional Contribution to Vehicle Replacement Reserve	125
Additional Contribution to Pensions Funding Reserve	75
Budget Carry Forwards for 2011/2012	301
New Homes Bonus (Pre-payment relating to 2012/2013)	122
Sub Total	1,299

Over provision for Bad Debts
As part of Final Accounts closure a comprehensive review of the Provision for Bad Debts relating to the over payment of Housing Benefit was carried out and where there has been no reliable data in the past. This review established that the revenue account for the Housing Benefit Client has been showing an apparent overspend when in fact there was a probability that the overpayments would be recovered. This would not necessarily show up because the HB Client Account (and benefits generally) is a £38m cost centre where variations compared to estimates are not unexpected. As a consequence of this review £794k can be brought back into the revenue account that had effectively been written off. It is not possible to chart this back through past years but certainly covers at least the last three years. There is still a very adequate provision for bad debts for HB Overpayments (93% on housing benefit overpayment arrears of £2.894m).

Section 3: Capital Outturn

The capital outturn is detailed at **Appendix 2** and, by reference to the final page second table down, indicates an original (January 2011) programmed spend for 2011/2012 of £14,709k. Since that date there have been reported increases to the capital programme (notably the Colosseum due to variation orders, and additional Section 106 projects). There has also been forecast rephrasing to projects such as the Health Campus and the Cultural Quarter.

The 'current budget' on the final page therefore indicates an anticipated spend of £9,967k against an outturn of £10,066k (a £99k variation).

The other significant issue to draw to Budget Panel's attention is the Council's holding of capital receipts (last page bottom two tables). For the General Capital Programme it shows the current capital programme (due to be completed in 2014/2015) will use up all capital receipts except for a small balance of £854k. Any additional projects included from now on will further reduce this balance.

For Section 106 funded expenditure (last table), the current programme will only leave unapplied contributions of £68k.

Appendix 1A Continued

In both instances assumptions have already been made about the generation of new receipts (£5.5m for the General Fund; and £775k for Section 106 projects). It is essential that new receipts are generated unless the Council is content to actually borrow/ take on debt on a permanent basis.