

*PART 1 – PUBLIC DOCUMENT	AGENDA ITEM No. 9
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TITLE OF REPORT: REVENUE BUDGET OUTTURN 2011/12

REPORT OF THE STRATEGIC DIRECTOR OF FINANCE, POLICY & GOVERNANCE

This report to Cabinet on 19 June is presented to the FAR Committee for consideration and comment.

1. PURPOSE OF REPORT

- 1.1 The purpose of the report is to inform Cabinet of the summary position on income and expenditure as at the end of the financial period April 2011 to March 2012 for the General Fund and the Council's trading account, Careline.
- 1.2 This report updates Cabinet on the position of the Council's Earmarked Reserves as at 31 March 2012 and any transfers to/from reserves.
- 1.3 This report updates Cabinet on the projected General Fund balance at the end of 2012/13 as a result of the 2011/12 outturn position.
- 1.4 This report updates Cabinet of any requests for 2011/12 carry forwards that require approval.
- 1.5 This report informs Cabinet of the outturn on the Council's Treasury Management activities.

2. FORWARD PLAN

- 2.1 This Report does contain a recommendation on a key decision and was first included in the Forward Plan on 1 March 2012.

3. BACKGROUND

- 3.1 Members approved the 2011/12 General Fund estimates in February 2011 and approved General Fund net expenditure of £15.872million. In addition to the 2011/12 original budget, Members approved carry forward budgets of £290k (15 February 2011 £288k, 14 June 2011 £2k), a contribution to a strategic priorities fund of £100k and a net increase to the base budget of £65k. The total working budget for 2011/12, was therefore, £16.327million.
- 3.2 The 2011/12 General Fund estimates included expenditure reduction and income generation proposals of £1.9million, agreed as part of the Corporate Business Planning process, and an allowance of £848k for known financial risks in reserves following an assessment of the risk register.

- 3.3 At 1st Qtr the projected expenditure on the General Fund was estimated to be £16.469million, this was an increase on the working budget of £142k. A total of £72k of this overspend was able to be covered from the general fund reserve balance since a number of identified financial risks had been realised. Also reported at 1st quarter was an increase to the base budget for 2012/13 of £35k.
- 3.4 At the end of the 2nd Qtr the projected expenditure on the General Fund was revised to £16.618million, this was an increase on the working budget of £149k. A total of £107k of this overspend was able to be covered from the general fund reserve balance since a number of identified financial risks had been realised during the quarter. Also reported at 2nd quarter was an increase to the base budget for 2012/13 of £60k.
- 3.5 The 3rd quarter revenue budget monitoring report was presented to members on the 15 February 2012. The projected expenditure on the General Fund was revised to £16.202million, a reduction of £416k on the working budget. This decrease was mainly due to the request to carry forward a total of £419k of budgets into 2012/13.
- 3.6 The Accounts and Audit Regulations, revised in 2011, require the Statement of Accounts to be signed off by the responsible finance officer by the 30 June. There is no longer a statutory obligation for the Statement of Accounts to be signed off by Full Council by the 30 June. The Statement of Accounts are still required to be formally approved by a Committee by the 30 September (Regulation 8(3)) and they will be presented to the Finance, Audit and Risk Committee on the 20 September.
- 3.7 At the Council meeting on the 9 February 2012 a minimum general fund balance for 2012/13 of £1.668million was approved.

4. ISSUES

Executive Summary

Issue & Relevant Table	Comment
Net general fund expenditure for 2011/12 (Table 1)	The net expenditure in 2011/12 was £15.331million. This was £870k (5.7%) lower than the working budget of £16.202million agreed at the 3 rd quarter and £541k (3.4%) lower than the original budget.
Allowance for financial risks (Table 2)	The budgeted minimum general fund balance at third quarter of £1.399million included an allowance of £609k for known financial risks. £80k of these risks were realised in the final quarter leaving a remaining balance of £529k. A total of £319k of the original 2011/12 financial risk balance of £848k was realised over the year.
Careline (Table 3)	Careline made a net deficit (including overheads) of £80k in 2011/12.
Achievement of Savings (Table 4)	Of the £1.913million of expenditure reduction and income generation proposals agreed in the 2011/12 original budget, £1.660million (87%) has been achieved in 2011/12.
Collection Fund Balance (Table 5)	The balance on the Collection Fund at the year end is a net deficit of £68k. The Council's share of the balance is a surplus of £3k.
General Fund Reserve Balance (Table 6 and appendix A)	The general fund reserve has a balance of £2.674million at 31 March 2012. The projected balance at the 31 March 2013 is £2.180million.

Earmarked Reserves (Table 7)	As at 1 April 2011 there was a balance of £3.023million in other useable earmarked reserves. During 2011/12 there has been a net transfer of £248k into the general fund and the balance at 31 March 2012 is £2.776million. This includes £967k in the special reserve.
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General Fund 2011/2012 Outturn

4.1 The net expenditure in 2011/12 was £15.331million and is £870k lower than the working budget estimate of £16.201million and £541k lower than the original budget estimate of £15.872million. The major variances to the working budget for 2011/12 are detailed below in Table 1. There is a small net impact of a decrease of £13k on the 2012/13 budget as a result of all the ongoing year end variances. In addition there is a net decrease of £1k on the amount of budget requested to be carried forward from 2011/12 to 2012/13. The total budget requested to be carried forward into 2012/13 is £418k and is detailed in appendix B.

Table 1-Significant changes to the General Fund

(Key: - = reduction in expenditure, + = increase in expenditure)

Expenditure/ Income	2011/12 Working Budget £'000	2011/12 Actual £'000	Year End Variance £'000	Explanation
Housing & Council Tax Benefits Net position	-120	-580	-460	The final net position of Housing and Council Tax Benefit payments, after consideration of the grant subsidy from DWP and the collection of overpayments, is a surplus of £580k. This is an improvement on the position that was expected in the mid-year estimate and is possible because the Council is allowed to keep all overpayments recovered even though a partial subsidy payment has been received. A considerable amount of work has taken place in recent years to improve procedures and quality checking to reduce the amount of subsidy penalties imposed. This has resulted this year in a reduction in grant subsidy penalties, meaning that far more of the actual spend is recovered from DWP subsidy.
Waste - Recycling Education / communication plan	+212	+81	-131	Annual allowance of £200k, funded by a contribution from the Herts Waste Partnership's Alternate Financial Model, is used for a programme of initiatives to promote and increase recycling. Not all the allowance was spent in 2011/12. The 2012/13 budget of £200k has been committed to projects.
- Transport Subsidy	-21	-44	-23	Increase in the waste transport subsidy received from Herts County Council.
Trade Waste - waste transfer costs	+31	-35	-66	When the Council was redirected from the Ware landfill site to the Shanks transfer station on Burymead Rd, Hitchin, it was agreed the Council would need to contribute to the costs incurred for bulking the waste. The following year HCC procured a disposal, bulking and transfer contract. At the point of contract award all disposal and transfer costs were then

Expenditure/ Income	2011/12 Working Budget £'000	2011/12 Actual £'000	Year End Variance £'000	Explanation
				payable by HCC negating the requirement for the Council's disposal contribution.
Parking – PCN income	-310	-361	-51	A higher number of Penalty Charge Notices issued in the last quarter of 2011/12 has resulted in more income than anticipated in the revised working budget. The revised working budget was based on the average activity over the previous 3 quarters.
Leisure Mgmt – Contract payments	+207	+177	-30	Reduction in the net contract payments for the Hitchin and Royston Leisure management contracts. This is in part due to surplus income and part due to negotiated changes to the contract during the year.
Parks Grounds Maintenance - contract payments	+76	+23	-53	Ongoing budgets for the maintenance of Howard Park and Avenue Park have not all been required in 2011/12 due to the ongoing renovation works.
Learning & Development – training	+201	+153	-48	One of the key outcomes from the recent liP assessment was that decreased capacity, and the perception that attending training may impact on job security, has an impact on budget spend even when there may be a significant training need. The liP action plan therefore includes proposals to manage this risk, as part of the corporate business planning process.
Shared Services Project – project costs	0	+35	+35	The Council's contribution to the Shared Services project costs was agreed to be funded from the Special Reserve. The partners have agreed the total project costs, less the costs already incurred by each authority, will be split equally between the partners to simplify the cross-charging process.
Shared Internal Audit Service – contract payments	+107	+82	-25	A total of 346 audit days have been used during the year rather than the 404 expected. A review of the audit plan during the year resulted in the cancellation of 7 planned audits. It also did not prove necessary to use the budgeted contingency of £10k for additional audit days.
Office Accommodation – other hired services	+36	+4	-32	Funding was allocated from the Strategic Priorities Fund for the back scanning of documents in order to progress the project to empty Letchworth Town Hall and the Secondary Centre. It was not possible to finish this project before the end of March and the funds have been spent in April and May of the new financial year.
Sales Ledger - Bad Debt Provision	+20	+63	+43	It has been necessary to increase the sales ledger provision for the potential non-collection of monies owed for services. Total sales ledger debtors have increased from £982k at March 2011 to £1,387k at March 2012. In particular the

Expenditure/ Income	2011/12 Working Budget £'000	2011/12 Actual £'000	Year End Variance £'000	Explanation
				amount of debtors that are 12 – 24 months old has increased to £68k (from £28k in March 2011).
Management Support Unit – Postage	+256	+217	-39	An increase in the use of electronic email has resulted in reduced spend on postage. The 2012/13 budget will be reviewed in the first quarter, as the impact of the increase in 1 st and 2 nd class postage is monitored.
Planning Control – Fees and charges	-440	-412	+28	A total of 2,357 planning applications were received during the year of which 1,126 were fee paying and 1,231 were non-fee submissions. This is a slight increase in the overall number of applications received when compared to the previous year (2292 applications, 1152 fee earning and 1140 non-fee earning)
Planning Projects – town centre repairs and maintenance	+19	+50	+31	Overspend is mainly due to expenditure for remedial works to Sun Street in Hitchin. The Council were anticipating this to be paid for by the contractor who have since gone into administration.
Sub-total			-821	
Other Minor Variances			-49	This further underspend of £49k is made up of a large number of minor variances across all remaining cost centres.
Total Decrease in Expenditure			-870	

4.2 The 2011/12 summary of General Fund expenditure and income is shown in appendix A. The General Fund balance, as at 31 March 2012, is £2.674million. This is £1.355million higher than the revised minimum general fund balance of £1.319million (see table 2). During the final quarter of the year £80k of known financial risks were realised. Of the £848k allowance for known financial risks budgeted for 2011/12 a total of £319k were realised.

Table 2: Minimum General Fund Balance

	£'000
3rd qtr Budgeted minimum general fund balance	1,399cr
Known financial risks realised in final quarter	80dr
Revised minimum general fund balance	1,319cr
The balance consists of two elements:	
Allowance for known financial risks	529cr
Allowance for unknown financial risks	790cr
Budgeted minimum general fund balance	1,319cr

4.3 The Statement of Accounts has yet to be audited, (deadline of 30 September), and changes to the General Fund balance may arise as a result of the final audit. As the Housing Benefit claim has yet to be audited (due by November 2012) the accounts are based on unaudited figures.

4.4 Members approved the carry forward of £419k of budgets in February. Following spend in the final quarter of the year the total final amount requested to be carried forward from 2011/12 into 2012/13 is £418k. The detail of these carry forward budgets is detailed in Appendix B. The carry forward request from 2009/10 into 2010/11 was £498k and the carry forward request from 2010/11 into 2011/12 was

£290k. It is clear there are a number of service areas where budgets have been consistently requested to be carried forward in recent years and it has not been possible to spend the funds within the first 6 months of the following financial year. As a result, it will be necessary to review the carry forward policy in 2012/13 and it might be decided appropriate for the availability of staff resources to deliver the project to be a more explicit factor of whether a budget qualifies to be carried forward.

- 4.5 It has been policy in the past to approve the use of an over-achievement of the vacancy control target as a strategic priorities fund for the following year to assist in facilitating the shift in resources to meet key priorities. The vacancy control target has not been over-achieved in 2011/12 but there are £821k of other net underspends. Members are asked to approve a £100k transfer into a Strategic Priorities Fund from this net underspend. The fund, provides the Senior Management Team with authority to approve the allocation of up to £100k during the year for invest to save or continuous improvement projects as the opportunity arises. Following review of the general fund position the funding of a strategic priorities fund is considered affordable (see paragraphs 4.12 to 4.16)

Trading Operations

- 4.6 At the end of the year Careline has achieved £982k of income from fees and charges. This has resulted in a net deficit (including overheads) of £80k in 2011/12. This is £15k lower than the deficit reported at the 3rd quarter of £95k and £39k lower than the deficit reported at the 1st quarter of £119k. Careline made a net overall deficit of £74k in 2010/11 and is currently estimated to make an overall net deficit of £146k in 2012/13 although this is subject to regular review.

Table 3-Trading Operations 2011/12

Trading Account	Projected Outturn £'000	Actual £'000	Variance to Projection £'000
- Direct Costs	945	906	-39
- Recharges	152	156	4
Gross Expenditure	1,097	1,062	-35
Gross Income	1,002	982	20
Net Deficit (funded by the general fund)	95	80	-15

- 4.7 The net deficit position includes all recharges for overheads. The loss of a significant contract during the year has had a detrimental effect on the ability of the service to recover all costs. Staffing levels have been reviewed to minimise the deficit position as much as possible.

Expenditure Reduction and Income Generation Proposals

- 4.8 A total of £1.913million of proposals were approved within the 2011/12 budget. A total of £1.660million (87%) has been achieved in 2011/12. The position is summarised in table 4. Any variance reported here has also been incorporated in the revised general fund estimated spend. It should also be noted that further additional savings have been identified and achieved in year.

Table 4: Summary of all 2011/12 efficiency proposals as at the end of the year

	Budgeted Efficiency £'000	Revised Estimate £'000	Variance £'000	Comment
Budget Scrutiny efficiencies	-123	-123	0	
Expenditure Reduction efficiencies	-432	-407	+25	As previously reported.

	Budgeted Efficiency	Revised Estimate	Variance	Comment
Income Increases	-325	-248	+77	As previously reported. Largely due to the reduction in burial numbers.
Capital funding of IT capital projects	-210	-210	0	
Staff Restructure	-563	-511	+52	As previously reported.
Senior Mgmt Restructure & Terms & Conditions	-260	-161	+99	As previously reported. The full saving has now been achieved going forward. Since the restructure was not approved by full Council until the 7 th April and the required consultation period with staff had to follow, the full year saving will not be achieved in this financial year.
Total efficiency	-1,913	-1,660	+253	

Collection Fund

- 4.9 Collection Fund surpluses can be transferred to the general fund in future years to reduce the amount of council tax the Council has to raise to finance its own expenditure. Similarly surpluses on the collection fund attributable to Hertfordshire County Council and Hertfordshire Police Authority can be transferred to their respective general funds in future years to reduce their amount of council tax.
- 4.10 There was a small overall net surplus of £15k on the collection fund for 2011/12. However, this includes additional payments from HCC and HPA for the previous year's deficit position which total £95k. Excluding these payments the Collection Fund made an in-year deficit of £80k.
- 4.11 The balance on the Collection Fund at the year end is a net deficit of £68k, which is apportioned over the precepting authorities based on the size of the precepts, as shown in Table 5. The Council's share of the balance is a surplus of £3k while Hertfordshire County Council and the Police Authority have a deficit of £68k and £3k, respectively. The reason the Council has a net surplus and the major preceptors have a net deficit is, in part, because contributions were paid from the collection fund to the County Council and Police Authority general funds in 2008/09 based on an estimated surplus which was not achieved. This Council chose not to move funds from the collection fund to the general fund. This resulted in year end deficit positions at the end of 2008/09 for the major preceptors while the Council remained in a surplus. The County Council and Police Authority have paid additional contributions in 2009/10, 2010/11 and 2011/12 to reduce their deficit position.

Table 5 – Collection Fund Deficit (2011/12)

Precepting Authority	Apportioned Surplus/(Deficit) £'000
North Hertfordshire District Council	3
Hertfordshire County Council	(68)
Hertfordshire Police Authority	(3)

- 4.12 As part of the budget setting process for 2012/13 no contribution to or from the collection fund was planned from the 2012/13 general fund budget.

General Fund Balances Projected For 2012/13

- 4.13 A review of all the net under and over spends is estimated to result in a decrease in General Fund expenditure in 2012/13 of £13k (see paragraph 4.1, excludes carry forwards).
- 4.14 The revised 2011/12 year end General Fund balance impacts on the projected balance as at 31 March 2013. Because the net spend in 2011/12 was lower than expected it is not expected to be necessary to transfer any funds from the special reserve into the general fund in order to maintain the required minimum General Fund balance of £1.668million (5% of net budget plus an estimate for financial risks) in 2012/13, as agreed in February 2012. A summary of the projected general fund balance is shown in table 6:

Table 6 Projected General Fund Balances as at 31 March 2013

(Key: - = reduction in expenditure, + = increase in expenditure)

Projected General Fund Balances as at 31 March 2013	£'000
Balance Brought Forward (1/4/2012)	-2,674
Original Projected Net District Spend	+15,566
Parish Precepts	+927
Precept Receipts & Government Grants	-16,479
Contribution from Special reserve	0
Changes to budget agreed at 3 rd Quarter Report	-25
Changes to budget proposed in this report	-13
Carry Forwards Agreed and requested	+418
Strategic Priorities Fund	+100
Balance Carried Forward (31/3/2013)	-2,180

- 4.15 The total revenue balances available in the general fund and the special reserve at the 1 April 2012 is £3.641million (general fund of £2.674million and special reserve of £0.967million). This is £1.4million higher than when the original budget for 2012/13 was estimated and approved in February 2012. However, £518k of this increase in balances is due to the 2011/12 carry forward budgets and the strategic priorities fund which have been requested to be spent in 2012/13 instead. There are also a total of £38k of changes to the base budget for 2012/13. The projected general fund and special reserve balance at the 31 March 2013 is therefore, now £920k higher than when the 2012/13 budget was approved in February.
- 4.16 The changes to the General Fund budget will be incorporated into the Medium Term Financial Strategy and Members are reminded that the 5 year Budget Forecast for the period 2012/13 to 2016/17, shows that expenditure exceeds income and requires annual efficiency targets. There are a number of changes to Local Government finance that will need to be considered in the 2013/14 Medium Term Financial Strategy, including the localisation of Business Rates. It is anticipated at this stage that in order to cushion the Council against the impact of fluctuations in income from Business Rates the Council will need to consider maintaining a higher general fund reserve balance. Increasing, the allowance for unknown financial risks from 5% to, say 10%, would require a minimum general fund balance of £2.5million in 2012/13. This exceeds the anticipated balance of £2.18million shown in table 6 and places further pressure on revenue budgets.

Earmarked Reserves

Reserves

- 4.17 A reserve can be established from 'events that have allowed monies to be set aside, surpluses or decisions causing anticipated expenditure to have been postponed or cancelled.' The total value of the earmarked reserves is £2.776million as at 31

March 2012. There was a net transfer to the General Fund in 2011/12 from the earmarked reserves of £248k. This is detailed in table 7 and Members are asked to approve.

- 4.18 Following changes in the Local Authority Accounting Code of Practice in 2010/11 it has become necessary to create five new earmarked reserves in 2011/12. This is because grants and contributions must now be recognised in the Income and Expenditure Account (and hence general fund) as soon as they are received, when all the conditions have been met. Previously grants would have been held as a receipt in advance until the relevant expenditure was incurred. The Code of Practice allows Authorities to earmark the funds to specific services by transferring the monies out of the general fund into reserves, where they will be held until the relevant expenditure is incurred.
- 4.19 The five new earmarked reserves are the result of receiving the following grants and contributions which remain unspent as at the 31 March 2012. There are no conditions attached to the monies, only guidance on how they should be spent.
- Discretionary Housing Payments and various additional Housing Benefit Administration grants to help meet the additional burden of implementing changes to the Housing Benefit process from the Department of Work of Pensions (a total of £41k remains unspent at the year end)
 - Homelessness grant and preventing repossessions grant from the DCLG (a total of £72k remains unspent at the year end)
 - Climate Change Grant awarded from the DCLG over the last couple of years (a total of £28k remains unspent at the year end but it is committed to projects to reduce energy consumption)
 - Play schemes and sports development grants from County Councillor's locality budgets
 - The paintings conservation reserve consists of receipts from the sale of the Radcliffe Book and other monies which have been earmarked for future art conservation.

Table 7 –Earmarked Reserves 2011/12

	Balances at 1 April 2011	Contributions	Payments to Fund expenditure	Balances at 31 March 2012
	£'000	£'000	£'000	£'000
Special Reserve	967cr	0	0	967cr
Insurance Reserve	83cr	7cr	0	90cr
Information Technology Reserve	451cr	0	69	382cr
Environmental Warranty Reserve	209cr	0	0	209cr
S106 Monitoring	53cr	35cr	16	72cr
Housing Planning Delivery Reserve	950cr	0	303	647cr
Performance Reward Grant	187cr	0	116	71cr
Museum Exhibits Reserve	12cr	0	0	12cr
Building Control Reserve	21cr	27cr	6	42cr
Hitchin Museum Donations	2cr	1cr	0	3cr
Cemetery Mausoleum	81cr	15cr	0	96cr
Property Maintenance	7cr	8cr	0	15cr
Leisure Management Reserve	0	12cr	0	12cr
DWP Additional Grants Reserve	0	42cr	1	41cr
Homelessness Grants Reserve	0	72cr	0	72cr
Climate Change Grant Reserve	0	28cr	0	28cr
Childrens Services Reserve	0	6cr	0	6cr
Paintings Conservation Reserve	0	11cr	0	11cr
Total Revenue Reserves	3,023cr	264cr	511	2,776cr

5.1 The Treasury Management Review in Appendix C details the treasury management activities for 2011/12. This sets out the total borrowing and interest earned on investments for the year and the overall outcome of the Council's Treasury Strategy. Members are recommended to:

- Approve the actual 2011/12 prudential and treasury indicators in this report;
- Note the annual treasury management report for 2011/12.

6. LEGAL IMPLICATIONS

6.1 The Accounts and Audit Regulations 2011 require that the responsible finance officer certify that the Annual Statement of Accounts presents a true and fair view of the financial position of the Authority by no later than 30 June of the following year. A Committee or Member meeting must then consider and approve, by way of resolution, the Statement of Accounts by the 30 September.

6.2 Members are reminded of the duty to set a balanced budget and to maintain a prudent balance.

7. FINANCIAL AND HUMAN RESOURCE IMPLICATIONS

7.1 Financial implications are contained in the body of the report.

7.2 There are no direct human resource implications arising from this report.

8. RECOMMENDATIONS

8.1 That Cabinet approves a decrease of £870k in the 2011/12 General Fund expenditure (Paragraph 4.1, Table 1 refers).

8.2 That Cabinet approves the change in carry forward of budgets making the total carry forwards for the year, £418k. (Appendix B refers).

8.3 That Cabinet approves a budget of £100k for a Strategic Priorities Fund for 2012/13 (paragraph 4.5 refers)

8.4 That Cabinet approves the amendments to the 2012/13 budget, a net decrease in expenditure of £13k (paragraph 4.1, Table 1 refers).

8.5 That Cabinet recommend that Council approve the net transfer from earmarked reserves of £248k, (Paragraph 4.16 refers).

8.6 That Cabinet approves the actual 2011/12 prudential and treasury indicators in the Treasury Management Review (appendix C).

8.7 That Cabinet notes the treasury management report for 2011/12 (appendix C)

9. REASONS FOR RECOMMENDATIONS

9.1 To ensure Cabinet's budget monitoring role is fulfilled before the finalisation of the Annual Statement of Accounts by the 30 June.

9.2 To ensure scrutiny of the Council's treasury management activities for 2011/12.

10. APPENDICES

- 10.1 Appendix A – General Fund Summary 2011/12
- 10.2 Appendix B – Carry Forward Budgets requested for 2011/12
- 10.3 Appendix C - Treasury Management Review 2011/12

11. CONTACT OFFICERS

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12. BACKGROUND PAPERS

- 12.1 Revenue Estimates 2011/2012
Financial Ledger (March 2012) Unaudited