



St Edmundsbury
BOROUGH COUNCIL

C82

Performance and Audit Scrutiny Committee 27 July 2011

Budget Outturn and Financial Highlights Report: 2010/11

1. Introduction

- 1.1. As reported to this Committee on 26 April 2011 (report B572 refers), changes have been made to the statutory requirements for the reporting and approval of the Council's annual financial statements. In previous years (in accordance with the 2003 Accounts and Audit Regulations) members of this Committee were required to approve the draft annual accounts prior to their submission to the Council's external auditors.
- 1.2. Requirements for the approval of the accounts have been changed by the Accounts and Audit Regulations 2011. The Council are still required to submit draft accounts for external audit review by 30 June each year, but member scrutiny and approval is not now required until the audit has been concluded. This brings Councils into line with arrangements within the private sector where directors and board members would be made aware of the findings of the audit prior to their approval of the accounts.
- 1.3. In view of the fact that this Committee will no longer receive draft financial statements in June each year (i.e. prior to their submission to external audit for review) it was resolved at the 26 April 2011 meeting of this Committee that it should instead receive a budget outturn and financial highlights report at its first meeting following the 30 June deadline for production of the draft accounts for audit.

2. Purpose of the Report

- 2.1 This report provides details of the Council's budget outturn and financial highlights for the 2010/11 financial year. The Committee is asked to note the information contained within this report and forward any relevant issues/comments to Cabinet for consideration.

3. Financial Commentary on the Year

- 3.1 The 2010/11 financial year was marked by continued financial uncertainty, which has had a range of impacts on the Council. These are explained in the following commentary. Whilst we have weathered the financial storm well to date, the impact of the public sector cuts, announced in the Government's Comprehensive Spending Review in December 2010, will be significant. Below is an explanation of our revenue, capital and reserves movements in the year 2010/11, and a summary of the Treasury Management activities.

4. Revenue Income and Expenditure

- 4.1 The revenue account (known as the General Fund) is used to fund our day-to-day services. We receive significant income from government departments, fees and charges and various other sources, to carry out particular areas of work. However, our overall expenditure is greater than these sources of income, and the difference is made up by government grants, council tax and the use of reserves. This section sets out:

- a comparison of the 2010/11 budget and actual expenditure
- an explanation of the main variances
- an explanation of how we paid for our services.

Comparison of the 2010/11 budget and actual expenditure

- 4.2 The Council set a net expenditure budget for 2010/11 of £13.895m, including a planned use of reserves totalling £204k. The actual net expenditure for the year was £13.048m, resulting in a budget underspend for the year of £0.847m. Appendices 1 and 2 provide details of budgeted and actual net expenditure on Council services during the 2010/11 financial year.

The main variances

- 4.3 The main reasons for the budget underspend are set out in Table 1 below. They combine a range of underspends (the first 8 rows) and overspends (the last 3 rows) resulting in the net underspend of £0.847m. (The penultimate row entitled 'Other net variances' includes variances which are less than £40k, and are therefore not itemised individually).

Table 1

	£000
Major Variances to Budget	(Under-spend)/ Overspend
Waste and street scene services operational costs underspend	(220)
Industrial, commercial and shop rent income above budget	(203)
Salary increase of 1% included in estimates, but not required	(155)
Car parking- income above budget and non-domestic rate refunds	(90)
West Suffolk House underspend	(83)
Computer costs underspend	(46)
Housing benefits salary overspend, computer costs and printing/stationery underspend	(44)
Athenaeum, salaries and utilities underspend	(42)
Apex, increased service charges and cost of opening programme	55
Undeveloped land external fees	55
Highways agency transfer to Suffolk County, one off costs	145
Other net variances (individually less than £40,000)	(219)
Total Net Variance	(847)

- 4.4 Most of the above variances are due to specific issues and factors arising during the 2010/11 financial year and corrective action was taken during the course of 2010/11 to address overspends where possible. Where variances are likely to impact on future years they have been taken into account in setting the 2011/12 budgets.

How we paid for our services

- 4.5 The Council's net expenditure on services (ie. after allowing for income from fees and charges and government departments) is funded by government grants (revenue support grant and redistribution of business rates), and the council tax, with the balance being transferred (to) / from the Council's General Fund Reserve. The 2010/11 position is set out in Table 2 below.

Table 2

	Actual 2010/11	
	£000	£000
Net expenditure on services		13,048
Funded by:		
Council tax	(6,614)	
Government Grant	<u>(7,077)</u>	
		<u>(13,691)</u>
Surplus transferred to General Fund		<u>(643)</u>
Planned use of reserves which was not required		<u>(204)</u>
Budget underspend		<u>(847)</u>

5. Capital Income and Expenditure

5.1 Capital income and expenditure includes transactions related to the following activities:

- buying or selling land or property
- building new property
- improving our existing properties
- providing grants to others for any of the above activities.

5.2 The Council is coming to the end of a significant programme of investment in capital projects. The original capital budget for 2010/11 was £16.894m, but this was revised upwards towards the end of the financial year to £17.498m. This upwards revision was primarily made as a result of a supplementary increase in the budget for the Apex. Actual capital spending during 2010/11 amounted to £7.651m (including £0.274m on the purchase of vehicles and plant which was not in the capital programme). Table 3 shows the main items of capital expenditure and how these compared to the budgeted capital programme. It should be noted that the table does not include the complete spend on any one project, but rather, the spend (and budgeted spend) during 2010/11. Therefore overspends and underspends on any individual project reflect only an overspend or underspend in the year, rather than on the project as a whole.

Table 3 - Actual and Budgeted Capital Expenditure: 2010/11

	Actual	2010/11	
		Revised Budget	Variances (Under)/Overspend
	£000	£000	£000
Improvement grants	880	1,306	(426)
Affordable Housing Schemes	134	1,602	(1,468)
Apex (Public Venue, Bury St Edmunds)	3,708	4,145	(437)
Haverhill Leisure Centre improvement works	(14)	60	(74)
Haverhill Community Football	511	439	72
Growth Area Initiatives	25	4,740	(4,715)
Cattle Market redevelopment, car parking	288	323	(35)
West Suffolk House	24	227	(203)
Major planned building maintenance	11	531	(520)
Car parking – School Yard	818	744	74
Environmental enhancements	354	1,121	(767)
Purchase of vehicles and plant	274	0	274
Total of other schemes	638	2,260	(1,622)
Total capital programme	7,651	17,498	(9,847)

- 5.3 The capital expenditure was financed from usable capital receipts (£4.849m), revenue reserves (£0.152m) and grants and contributions (£2.650m).
- 5.4 Capital receipts arising for the Council's planned capital disposals programme for 2010/11 totalled £0.978m against budgeted disposals for the year of £1.126m, a shortfall of £0.148m.

6. Reserves

- 6.1 The Council has a track record of sound financial management. An integral part of our financial strategy is to ensure that our usable reserves are maintained at a healthy level. We maintain a number of reserves, which are split into two main categories; revenue reserves (the General Fund and Earmarked reserves) and unallocated capital reserves (ie. Capital Receipts Reserve and Capital Grants Unapplied Reserve). During 2010/11 the total value of the Council's usable revenue and capital reserves decreased from £28.100m (at 1 April 2010) to £24.125m (at 31 March 2011), a net reduction of £3.975m. More detail of these reserves is set out below.

Revenue Reserves:

- 6.2 **General Fund Reserve** - this reserve provides the day-to-day cash flow cover for the Council and accommodates the inevitable mismatches that arise between cash inflows and outflows. The opening balance at 1 April 2010 was £2.676m and the closing balance at 31 March 2011 was £3.319m an increase of £0.643m.
- 6.3 The demand on reserves changes over time and it is appropriate to review allocations on an annual basis. The Council has previously determined that the level of the General Fund Reserve should not fall below £1.75m. As in previous years, the Council can use balances above this minimum to help support future expenditure on services, and maintain sustainable levels of council tax, at a time of severe budgetary constraint.
- 6.4 **Earmarked Reserves** - enable the Council to manage the funding of expenditure that may vary between financial years (e.g. the purchase of vehicles and plant) and to reduce risk by providing a degree of contingency funding where the future level of expenditure may be uncertain (e.g. the Self Insurance Reserve). Earmarked reserves are also used to hold revenue funds that have been allocated for specific purposes when the year of expenditure may vary. The opening balance on earmarked reserves at 1 April 2010 was £12.516m. Net movements during the year resulted in a decrease in earmarked reserves of £0.666m leaving a closing balance on earmarked reserves of £11.850m.
- 6.5 The 2011/12 Budget and Council Tax Setting report provided information on indicative transfers to and between earmarked reserves, based on an estimated year end underspend of £0.194m. It was agreed to transfer this underspend in its entirety to the General Fund in order to support revenue expenditure and reduce the level of council tax. As Chief Finance Officer, I have delegated authority to make these transfers, in consultation with the Portfolio Holder for Resources and Efficiency. As reported above, the actual year end underspend was £0.847m, and following approval of the Statement of Accounts, I will make this transfer to the General Fund Reserve. I continue to review the adequacy and appropriateness of individual earmarked reserves in consultation with the Portfolio Holder for Resources and Efficiency, and report any transfers to or between reserves to the Performance and Audit Committee and Cabinet.

Capital Reserves

- 6.6 **Usable Capital Receipts Reserve** – capital receipts arise primarily from the disposal of Council assets and are used to help fund the Council's capital expenditure programme. Capital receipts cannot be used to help fund revenue expenditure, and therefore have to be accounted for separately from the General Fund reserve. The opening balance at 1 April 2010 was £12.452m and the closing balance at 31 March 2011 was £8.583m, a net decrease in capital reserves during the period of £3.869m.
- 6.7 **Capital Grants Unapplied Reserve** – new International Financial Reporting Standards (IFRS) require that where conditions attached to capital grants and

contributions have been met, but the grant is unspent, then the balance of the grant should be held separate in a Capital Grants Unapplied reserve. The opening balance at 1 April 2010 was £0.456m and the closing balance at 31 March 2011 was £0.373m, a net reduction £0.083m.

- 6.8 Table 4 below summarises the make-up and movement in revenue and capital reserves during 2010/11.

Table 4

Reserves	Balance at 1 April 2010 £000	Balance at 31 March 2011 £000	Movement Increase / (Decrease) £000
Revenue Reserves			
General Fund Reserve	2,676	3,319	643
Earmarked reserves	12,516	11,850	(666)
Total revenue reserves	15,192	15,169	(23)
Capital Reserves			
Capital Receipts Reserve	12,452	8,583	(3,869)
Capital Grants Unapplied Reserve	456	373	(83)
Total capital reserves	12,908	8,956	(3,952)
Total usable revenue and capital reserves	28,100	24,125	(3,975)

7. Treasury Management

- 7.1 There has been no let up in the historically low interest rates which have significantly impacted the Council's investment income. Budgeted investment income for 2010/11 was £566,000 (£14.91 per Band D property), representing a target investment rate of 1.5%. Actual investment income achieved during the 2010/11 financial year was £541,825, an underachievement in investment income of £24,175. This represented an average rate of return for the year of 1.28%.
- 7.2 The Council has benefitted from establishing a Treasury Management Sub-Committee during 2010/11, which has ensured that three key councillors are directly involved in the detailed assessment of our treasury management and investment strategy, reviewing performance throughout the year, and reporting to Cabinet and Council as appropriate.
- 7.3 Looking ahead to 2011/12, the future for interest rates remains bleak. The majority of our remaining longer term investments matured during 2009/10, and it is a challenge to find attractive rates which deliver the required level of security.

Our budgeted income from investments for 2011/12 is £457,000 (which is equivalent to £11.97 for each Council Tax Band D property). The target investment rate for the year remains unchanged at 1.5%.

8 Conclusion

- 8.1 The last two years have been a turbulent period in terms of local government finances. The underspend during 10/11 was a positive result, given the enormous challenges ahead as a result of the Comprehensive Spending Review. Officers took action where possible to reduce expenditure during the year, in order to plan for future cuts. The challenge continues, as service demand increases in many areas but government grant cuts of 28% have already been announced.
- 8.2 Members are asked to note the information contained within this report and forward any relevant issues/comments to Cabinet for consideration.

Contact Details

Name

Telephone

E-mail

Chairman

John Hale

01359 221141

john.hale@stedsbc.gov.uk

Chief Finance Officer

Liz Watts

01284 757252

liz.watts@stedsbc.gov.uk

Name

Telephone

E-mail

Portfolio Holder

David Ray

01359 250912

david.ray@stedsbc.gov.uk

Scrutiny Manager

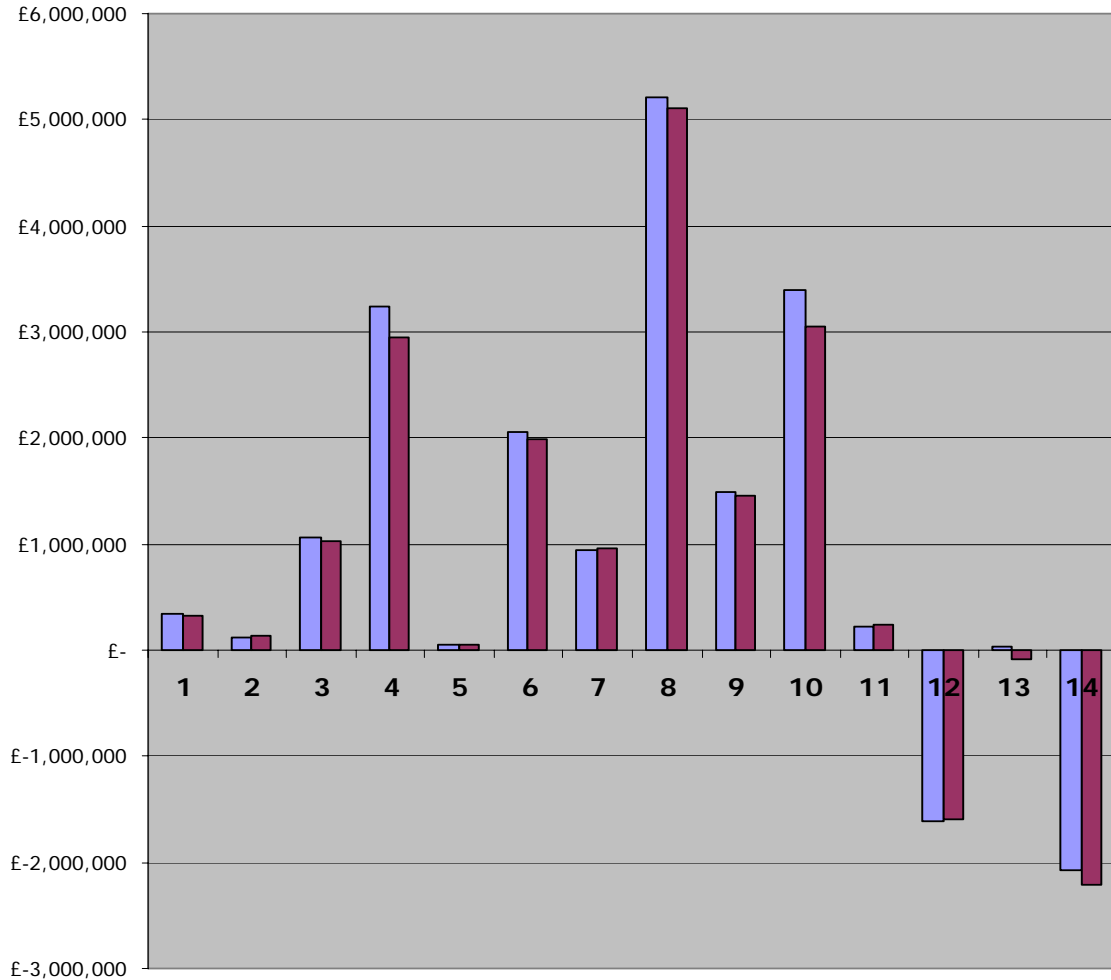
Adriana Stapleton

01284 757613

adriana.stapleton@stedsbc.gov.uk

Appendix 1

Comparison of the 2010/11 budget and actual expenditure



■ 2010/2011 Budget
■ 2010/2011 Actual

- 1 Chief Executives Office inc. communication
- 2 Mayoralty
- 3 Legal & Democratic Services
- 4 Financial Services, ICT, Revs and Bens, Procurement
- 5 Emergency Planning
- 6 Health & Housing
- 7 Neighbourhood Management and Development
- 8 Leisure Services
- 9 Planning
- 10 Waste Management
- 11 Economic Development
- 12 Engineering
- 13 Property Services
- 14 Corporate Property

Appendix 2
St Edmundsbury Borough Council
2010/11 Outturn Report - Net Expenditure



St Edmundsbury
 BOROUGH COUNCIL

	Budget Full Year 2010/11	Actual	Variance Over/ (Under)
	£000	£000	£000
Chief Executive & Corporate Management			
Customer Services	-	(4)	(4)
Chief Executive Officer	267	283	16
Corporate Directors	-	(20)	(20)
Communications	32	28	(4)
Strategy & Performance Unit	-	8	8
Corporate Review Programmes	22	18	(4)
Mayoralty	122	136	14
Human Resources	27	8	(19)
Legal & Democratic Services	1,062	1,033	(29)
Chief Finance Officer	3,237	2,940	(297)
Total Chief Executives	4,769	4,430	(339)
Community Directorate			
Emergency Planning	58	53	(5)
Health & Housing	2,051	1,996	(55)
Neighbourhood Management and Development	950	955	5
Leisure Services	5,216	5,107	(109)
Total Community	8,275	8,111	(164)
Economy & Environment Directorate			
Planning	1,498	1,453	(45)
Waste Management	3,389	3,045	(344)
Engineering	(1,610)	(1,601)	9
Economic Development	229	244	15
Property Services	35	(88)	(123)
Corporate Property	(2,075)	(2,211)	(136)
Total Environment	1,466	842	(624)
Depreciation	(593)	(459)	134
Area based grant	(23)	(36)	(13)
Revenue Contribution to capital		152	152
Disposal costs not funded from capital		7	7
SEBC Total	13,895	13,048	(847)

	Income Budget Full Year 2010/11 £000	Actual £000	Variance Over/ (Under) £000
Funded by (income):			
Use of General fund & service balances	(205)	642	(847)
Collection Fund Deficit	38	38	-
Grant Income			
Business Rate Income	(6,180)	(6,180)	-
Revenue Support Grant	(897)	(897)	-
Amount to be met from collection fund (council tax)	(6,651)	(6,651)	-