



St Edmundsbury
BOROUGH COUNCIL

E63

Performance and Audit Scrutiny Committee

31 July 2013

Budget Outturn and Financial Highlights Report: 2012/2013

1. Summary and Reasons for Recommendations

- 1.1. Statutory requirements for the reporting and approval of the Council's annual financial statements are set out in the Accounts and Audit Regulations 2011. The regulations require the Council to submit draft accounts to its external auditors (currently Ernst and Young) by 30 June each year, with member scrutiny and approval of the accounts required once the audit has been concluded (normally by 30 September each year). The 2012/2013 draft accounts were submitted to external audit at the end of June and the audit is now in progress. A copy of the draft accounts is available on the Council's web site www.stedmundsbury.gov.uk/finance.
- 1.2. Now that the draft accounts have been prepared, the purpose of this report is to provide members with an overview of the Council's budget outturn and financial highlights for the 2012/13 financial year. The audited financial statements will be presented to this committee at its meeting on 26 September 2013 for approval in accordance with powers delegated to it under the Council's Constitution (as approved by full Council on 18 June 2013 – reports E30 and D358 refer).

2. Recommendation

- 2.1 The committee is asked to note the information contained within this report and forward any relevant issues or comments to Cabinet for consideration.

Contact Details

Name

Title

Telephone

E-mail

Portfolio Holder

David Ray

Resources and Performance

01359 250912

david.ray@stedsbc.gov.uk

Lead Officer

Rachael Mann

Head of Resources and Performance

01638 719245

Rachael.mann@westsuffolk.gov.uk

3. Corporate Objectives

3.1 The recommendations meet the following, as contained within the Corporate Plan:

- (a) Working together for prosperous and environmentally-responsible communities; and
- (b) Working together for an efficient Council.

4. Key Issues

4.1 Financial Commentary on the Year

4.1.1 External economic pressures and uncertainty continue to impact on the finances of the Council, the most significant current challenge being the reduction in Government general formula grant funding arising out of the 2010 Comprehensive Spending Review. For St Edmundsbury Borough Council, this has resulted in a 30.5% reduction in formula grant over the past 3 years (i.e. a reduction from £7.08m in 2010/2011 to £5.41m in 2011/2012 and £4.92m in 2012/2013 – an overall reduction of £2.16m) with the expectation of further reductions in future years. In response to these cuts in funding, the Council has continued to make significant budget savings. St Edmundsbury already has an excellent track record of achieving year-on-year savings having delivered total savings of £11.05m since 2005/2006 (including £2.15m in 2012/2013) and plans to deliver a further £1.0m savings in 2013/2014.

4.1.2 Below is an explanation of our revenue, capital and reserves movements in the year 2012/13, and a summary of the Council's treasury management activities.

4.2 Revenue Income and Expenditure

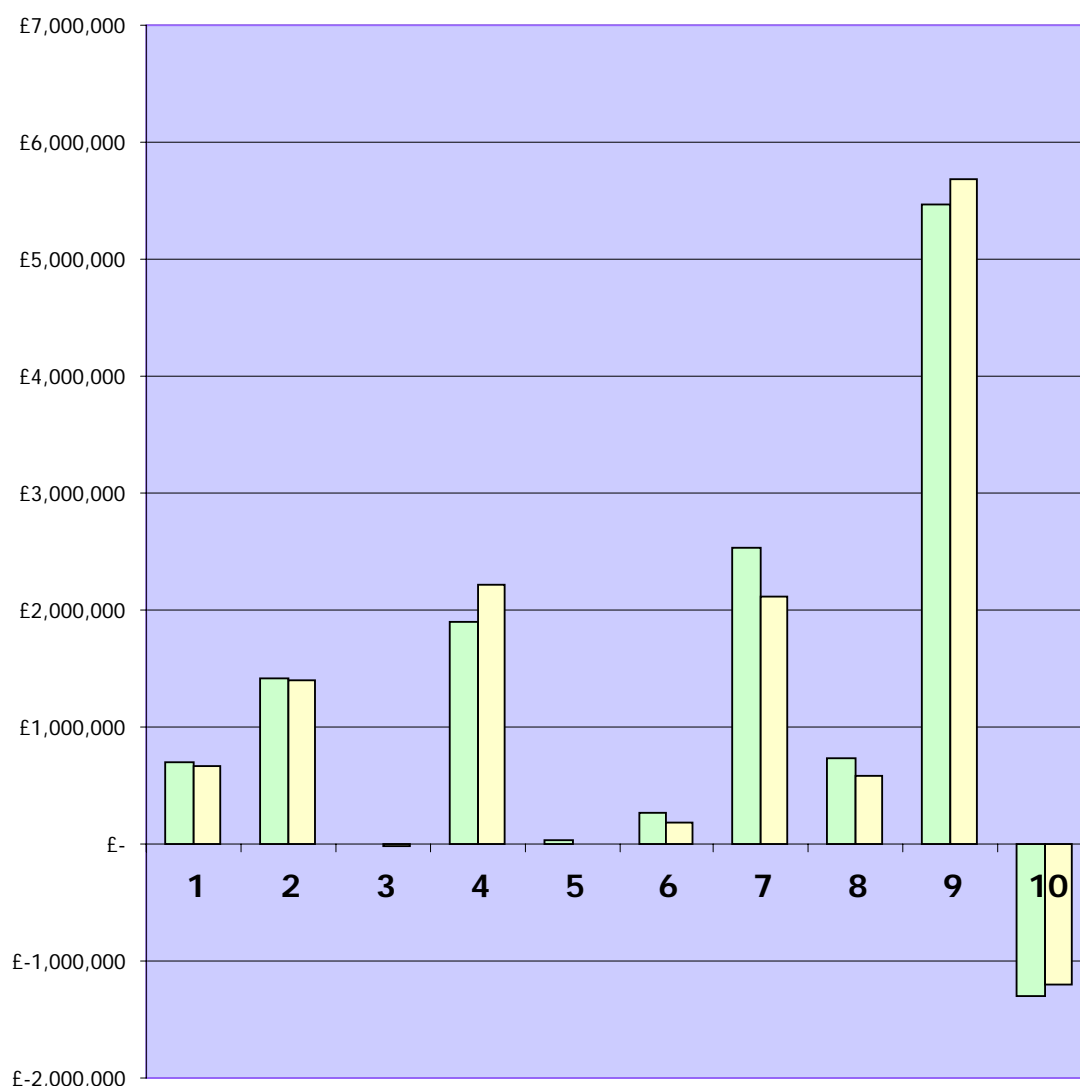
4.2.1 The revenue account (known as the General Fund) is used to fund the Council's day-to-day services. The Council receives significant income from government departments, fees and charges and various other sources to carry out particular areas of work. However, overall expenditure is greater than 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 2012/2013 budget and actual expenditure
- an explanation of the main variances
- an explanation of how we paid for our services

4.3 Comparison of the 2012/13 budget and actual expenditure

4.3.1 The Council set a net expenditure budget for 2012/2013 of £11.594m (including a planned use of General Fund reserves of £0.145m). The actual net expenditure for the year was £11.585m, resulting in a budget underspend for the year of £0.009m. Table 1 below provides an overview of budgeted and actual net expenditure on Council services during the 2012/2013 financial year with further details provided at appendix 1.

Table 1 - Comparison of the 2012/13 budget and actual expenditure



- | | |
|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> ■ 2012/13 Budget ■ 2012/13 Actual | <ul style="list-style-type: none"> 1 Corporate Expenditure 2 Legal & Democratic Services 3 Policy, Communications & Customers 4 Resources & Performance 5 Human Resources & Organisational Development 6 Economic Development & Growth 7 Planning & Regulatory Services 8 Housing 9 Leisure, Culture & Communities 10 Waste, Street Scene, Property & Grounds Maintenance |
|----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Waste, Street Scene, Property and Grounds Maintenance (service 10 above) is an income generating service. Budgets are set with an expectation that the relevant individual services will contribute income in excess of their operating costs.

Members will be aware that while depreciation is charged to the net cost of services this is purely an accounting adjustment and is not chargeable to the council tax payer.

4.3.2 The main reasons for the budget variances are set out in table 2 below. They combine a range of underspends (the first 6 rows) and overspends (the next 5 rows) resulting in the net underspend of £0.009m.

Table 2 – The main variances

Major Variances to Budget	(Under-spend)/ Overspend
	£000
Pay award of 1% included in budget but not awarded	(155)
Waste and street scene services operational costs underspend	(114)
Suffolk recycling gate fee rebate	(112)
Investment Interest overachieved	(92)
Planning fees overachieved	(81)
Trade waste fees higher than expected	(59)
Athenaeum, lettings and catering income underachieved	57
Market tolls underachieved	59
Planning Division additional temporary planning resources	86
Corporate Properties – rents below budget	128
Car parking- additional maintenance costs and overall income below target	134
Other net variances (individually less than £40,000)	(5)
	(154)
Planned use of General Fund reserves not used	145
Total Net Variance – surplus transferred to General Fund	(9)

4.3.3 Most of the above variances are due to specific issues and factors arising during the 2012/13 financial year and corrective action was taken during the course of 2012/13 to address overspends where possible. Where variances are likely to impact on future years they have been taken into account in setting the 2013/14 budgets.

4.4 How services were paid for

4.4.1 The Council's net expenditure on services (i.e. 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 any balance being transferred to the Council's General Fund Reserve. The level of funding from these sources during 2012/13 is shown in table 3 below.

Table 3 – How services were paid for

	Actual 2012/13	
	£000	£000
Net expenditure on services		11,585
Funded by:		
Council Tax	(6,674)	
Government Grant	(4,920)	
		(11,594)
Surplus transferred to General Fund		(9)

4.5 Capital Income and Expenditure

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

- (a) buying or selling land or property
- (b) building new property
- (c) improving our existing properties
- (d) providing grants to others for any of the above activities.

4.5.2 The Council has been committed to a significant (although now reducing) programme of investment in capital projects. The revised capital budget for 2012/2013 was £3.611m. Actual capital spending during 2012/2013 amounted to £3.543m, a net underspend of £0.068m. The following table 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 2012/2013. 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 4 – Capital Expenditure - Budgeted and actual expenditure

Capital Programme 2012/2013	2012/2013		Variance (Under)/Overspend
	Actual	Revised Budget	
	£000	£000	£000
Rural initiatives grants	48	75	(27)
Improvement grants	602	630	(28)
Affordable Housing Schemes	141	140	1
Apex (Public Venue, Cattle Market)	40	89	(49)
County Upper School Games area	29	30	(1)
Car parks	65	43	22
Bury Town Football - Relocation costs	51	30	21
Grant to Victory Sports Ground	25	25	-
Growth Area Initiatives	314	457	(143)
Purchases of vehicles and plant	1,466	1,285	181
Suffolk Business Park Loan	337	500	(163)
Abbeycroft Loan	150	-	150
Total of other schemes	275	307	(32)
Total capital programme	3,543	3,611	(68)

- 4.5.3 The capital expenditure was financed from usable capital receipts (£0.714m), revenue reserves (£1.604m) and grants and contributions (£1.225m).
- 4.5.4 Capital receipts arising from the Council's planned capital disposals programme for 2012/2013 totalled £4.794m against budgeted disposals for the year of £3.810m, a surplus of £0.984m.

4.6 Reserves

- 4.6.1 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 (i.e. Capital Receipts Reserve and Capital Grants Unapplied Reserve). During 2012/2013 the total value of the Council's usable revenue and capital reserves increased from £24.017m (at 1 April 2012) to £27.261m (at 31 March 2013), a net increase of £3.244m. Table 5 below provides details of the movement in the Council's usable reserves during 2012/2013.

Table 5 – Usable reserves

Reserves	Balance at 1 April 2012	Balance at 31 March 2013	Movement Increase / (Decrease)
	£000	£000	£000
Revenue Reserves			
General Fund Reserve	3,368	3,377	9
Earmarked reserves	10,789	9,910	(879)
Total revenue reserves	14,157	13,287	(870)
Capital Reserves			
Capital Receipts Reserve	9,708	13,822	4,114
Capital Grants Unapplied Reserve	152	152	-
Total capital reserves	9,860	13,974	4,114
Total usable revenue and capital reserves	24,017	27,261	3,244

4.6.2 Revenue Reserves:

- 4.6.3 **General Fund 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 2012 was £3.368m and the closing balance at 31 March 2013 was £3.377m an increase of £0.009m.
- 4.6.4 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.

- 4.6.5 **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 2012 was £10.789m. Net movements during the year resulted in a decrease in earmarked reserves of £0.879m leaving a closing balance on earmarked reserves of £9.910m.
- 4.6.6 The 2013/2014 Budget and Council Tax Setting report (D302 to Council 26 February 2013) provided information on indicative transfers to and between earmarked reserves, based on an estimated year end underspend of £0.244m. 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. The Chief Financial Officer has delegated authority to make this transfer, in consultation with the Portfolio Holder for Performance and Resources. As reported above, the actual year end underspend was £0.009m, and following approval of the Statement of Accounts this balance will be transferred to the General Fund Reserve. The adequacy and appropriateness of individual earmarked reserves will continue to be monitored by the Head of Resources and Performance in consultation with the Portfolio Holder for Performance and Resources, and any resulting transfers between reserves will be reported to the Performance and Audit Scrutiny Committee and Cabinet.

4.6.7 Capital Reserves

- 4.6.8 **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 2012 was £9.708m and the closing balance at 31 March 2013 was £13.822m, a net increase in capital reserves during the period of £4.114m.
- 4.6.9 **Capital Grants Unapplied Reserve** - International Financial Reporting Standards 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 in a Capital Grants Unapplied reserve. The balance was unchanged between 1 April 2012 and 31 March 2013 at £0.152m.

4.7 Treasury Management

- 4.7.1 There has been no let up in the historically low interest rates which have significantly impacted on the Council's investment income. Budgeted investment income for 2012/2013 was £0.569m representing a target investment rate of 1.5%. Actual investment income achieved during the year was £0.661m, an overachievement in investment income of £0.092m. This was due primarily to marginally higher than projected interest rates over the period, the average rate of return achieved for 2012/2013 being 1.65%

4.8 Looking to the future

- 4.8.1 The most significant challenge that the council faces is the continuation of public expenditure cuts and the reduction in central government grant funding, following the latest spending announcement on 26 June 2013, which confirmed

that once again local government would suffer the deepest cuts. Combined with other financial pressures, such as continued low interest rates (affecting our interest receipt income), increased costs of service delivery and increased demand on front line services such as housing benefits, the challenges grow day by day.

- 4.8.2 2013/2014 also marks the start of a new era in the way that local government is funded with the introduction from April 2013 of the Government's new business rates retention scheme and the implementation of the localised council tax support schemes.
- 4.8.3 The financial climate is unprecedented for local authorities, but continues to be one in which opportunities exist, and different ways of working are required. The scale of the savings/additional income required to deliver a balanced budget over the period of the Medium Term Financial Strategy (MTFS), goes beyond efficiency alone. Indeed, the key to delivering these savings will be maximising income and transforming services.
- 4.8.4 Future financial strategies will need to provide clear plans for reshaping the role of the council in light of the many initiatives, reforms and challenges that we continue to face and to complement the delivery of the council's strategic priorities. The Council's Medium Term Financial Strategy will be rewritten with a view to publication late 2013/2014.

5. Other Options considered

Not applicable

6. Community Impact

- 6.1 **Crime and Disorder Impact** *(including Section 17 of the Crime and Disorder Act 1998)*
None
 - 6.2 **Diversity and Equality Impact** *(including the findings of the Equality Impact Assessment)*
Ensuring the Council manages its funds well has an equal impact on everyone in the borough.
 - 6.3 **Sustainability Impact** *(including completing a Sustainability Impact Assessment)*
None
- ## **7. Consultation** *(refer to the Consultation and Community Engagement Strategy)*
- Not applicable
- ## **8. Resource implications** *(including asset management implications)*
- 8.1 The purpose of this report is to provide members with an overview of the Council's budget outturn and financial highlights for the 2012/2013 financial year.

9. Risk/Opportunity Assessment *(potential hazards or opportunities affecting corporate, service or project objectives)*

Risk area	Inherent level of Risk (before controls)	Controls	Residual Risk (after controls)
	High/Medium/Low		High/Medium/Low
Revenue and capital budget management - failure to achieve projected income or expenditure exceeds approved budgets.	High	<ul style="list-style-type: none"> • Budgets reflect economic situation facing the Council • Clear responsibilities for budget monitoring and control • Annual efficiency programme used to deliver required budget savings • Medium term financial planning to capture longer term budget implications 	Medium

10. Legal or policy implications

10.1 Accounts and Audit Regulations 2011

11. Wards affected

11.1 All

12. Background Papers

12.1 Budget and Council Tax: 2013/2014 (Council 26th February 2012 – D302)

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