

**BABERGH DISTRICT COUNCIL**

**FROM:** Director of Finance

**REPORT NUMBER**    **H53**

**TO:** Overview and Scrutiny  
(Stewardship) Committee

**DATE OF MEETING:** 24 June 2008

**2007/08 FINANCIAL OUTTURN AND STATEMENT OF ACCOUNTS**

**1    PURPOSE OF REPORT**

To provide an overview of the provisional financial outturn for 2007/08 compared to the approved budget and other key financial information.

**2    RECOMMENDATIONS**

- 2.1 That the Overview & Scrutiny (Stewardship) Committee scrutinises this report, the draft Statement of Accounts, the expenditure variations compared to budget and treasury management performance for 2007/08.
- 2.2 That the position on budget carry-forward requests be noted, subject to these being considered further by the Strategy Committee to establish if there is any scope for redirection to other key projects or priorities.
- 2.3 That the Committee notes that Strategy Committee will also consider the potential use of the net General Fund underspend/savings in 2007/08 for key projects or other priorities, including establishing an earmarked reserve to provide additional capacity to deal with work relating to LGR.

The Overview & Scrutiny (Stewardship) Committee is able to resolve these. Council will be asked to approve the Statement of Accounts on the 26 June.

**3    FINANCIAL IMPLICATIONS**

- 3.1 Key aspects of the outturn position on the General Fund revenue budget are highlighted below:
- After allowing for budget carry forward proposals, General Fund net expenditure in 2007/08 is around £0.3m or 2.7% less than the revised budget of £10.9m (but only 0.8% of the gross budget of £35m)
  - This net saving will be added to reserves. Strategy Committee will consider whether to allocate some or all of this to key projects or other priorities
  - Further consideration is being given to the budget carry forward requests to determine whether these should be approved or whether there is any scope to reallocate the money to key projects or other priorities.

- 3.2 The outturn position on Council Housing (the Housing Revenue Account or HRA) shows a lower net expenditure compared to the revised budget of nearly £0.2m after allowing for budget carry forward requests. This will be added to HRA reserves, which will be helpful in terms of providing additional resources for future capital and revenue spending plans.
- 3.3 On the capital programme, the Overview & Scrutiny Committees were informed of the likely General Fund shortfall in spending compared to the original budget for the year as part of the quarterly monitoring reports during the year. As with the revenue budget, further consideration is being given to reviewing how much of the variation compared to the revised budget of nearly £0.3m and the HRA capital programme variation of approaching £0.6m should be carried forward to the current year.
- 3.4 The further work on revenue and capital budget carry forwards and the potential for reallocation to other projects/priorities will be reported to Strategy Committee in due course.
- 3.5 In addition, a review of the capital programme, over and above the review of key capital projects being considered by the Strategy Committee on the 19 June, should be undertaken. The purpose of this would be to establish any amendments that should be made to this in terms of non-committed schemes, priorities and capacity over the next 2 years. This can be undertaken by the Task Group established to deal with the forthcoming Service & Financial Planning process.

**4 RISK MANAGEMENT**

- 4.1 The risks associated with this report link to the Council’s Significant Business Risk No. 7 – Financial, Performance & Risk management. The key risks are:

<b>Risk Description</b>	<b>Likelihood</b>	<b>Seriousness or Impact</b>	<b>Mitigation Measures</b>
The accounts receive a poor or qualified opinion from the External Auditor	Low	Marginal	There are some changes in the accounting requirements again this year. The accounts have been prepared in accordance with the latest accounting codes and practices.

Performance, service quality or the delivery of specific projects suffers as a result of underspends	Low	Marginal	Clear Performance and financial management arrangements are in place.
There are ongoing shortfalls/underspends in future years	Significant	Marginal	Appropriate action to be taken through the Service & Financial Planning process.

## 5 **KEY INFORMATION**

### **Financial outturn**

- 5.1 The key financial issues are summarised in this section of the report to provide a high level view of the Council's financial standing and performance for the year and the variations against the approved budget. Summary financial information will be published, for example in Babergh Matters and on the website, to provide an overview of the year.

### **Statement of Accounts**

- 5.2 In addition to the above, a number of other issues are covered in the explanatory foreword to the **draft** Statement of Accounts attached at Appendix 1 (see pages 2 - 8). This draft is substantially complete, apart from the Cashflow Statement and some of the notes to the core financial statements. The final version will be presented to Council for approval on the 26<sup>th</sup> June.
- 5.3 The Statement provides a comprehensive and very detailed view of the accounts and its key components. Every year the statement is updated for any changes to accounting practices required by the accounting governing bodies and contained in the Statement of Recommended Practices (SORP).
- 5.4 This year's accounts have been subject to some further changes in the way they are prepared and presented. The explanatory foreword and notes within the accounts provide explanations on these changes.

### **Divisional Budgets and CAST**

- 5.5 Overall, net expenditure for last year was just over £0.2m below budget after carry forward requests. Details of key variations and carry forward requests are provided in Appendix 2.

## **General Fund**

- 5.6 Babergh's revised net budget for the year was £10.9 M. This represents the net cost of services taking into account income from fees and charges, specific Government grants and other items.
- 5.7 The outturn revenue position shows an overall underspend/saving of just under £1m compared to the revised budget. Key variations and carry forward requests are also provided in Appendix 2.
- 5.8 A number of budget carry forwards have been requested, totalling nearly £0.6m. These relate to service priorities and activities not fully undertaken in 2007/08, but these are now planned for completion in the current financial year. Further examination of the carry forward requests is being undertaken by officers. Strategy Committee will be asked to consider whether any of these should be reallocated to key projects or other priorities.
- 5.9 If the requested carry forwards are approved in total (with or without reallocation to other areas), there will be a net saving in relation to 2007/08 of nearly £0.4m that will be added to reserves. The Strategy Committee should also consider whether any of this should be used towards key projects or other priorities.
- 5.10 Specifically, it is suggested that some of the money should be transferred to an earmarked reserve to help with additional capacity to deal with work relating to LGR. There is already £21,000 budget available relating to the Suffolk Pathfinder project, which could be topped up to, say £100,000.

## **Council Housing (Housing Revenue Account – HRA)**

- 5.11 The financial position on the HRA is better than anticipated. Details of the main variances and budget carry forward requests are also provided in Appendix 3. The net overall saving after carry forwards of around £0.2m will increase the level of reserves.

## **Capital Expenditure**

- 5.12 The revised capital budget for the year was agreed at just over £5.2 m, which was nearly £0.5m less than originally approved. Actual expenditure was nearly £4.4 m. The overall position is summarised in the table below:

Area	Original Budget* £000	Revised Budget £000	Actual £000
<b>General Fund</b>			
ICT (Incl. LAMP/CAST)	1,075	936	826
Contract & Asset Management	572	310	249
Private Sector Housing	630	505	446
Community Development and the Environment	408	429	379
	2,685	2,180	1,900
<b>HRA</b>	3,048	3,056	2,468
<b>Total</b>	5,733	5,236	4,368

\* Including carry forwards/adjustments from previous year

5.13 Details of variations between actual expenditure and the revised budget are provided in Appendix 4.

### **Treasury Management**

5.14 There is also a requirement for Members to consider performance on treasury management for the year – Appendix 5 provides a summary of activities.

## **6 APPENDICES**

- 1 – Draft Statement of Accounts 2007/08
- 2 – Divisional Budgets/CAST and General Fund Budget variations and carry forward requests
- 3 – HRA variations and carry forward requests
- 4 – Capital Programme variations and carry forward requests
- 5 – Treasury Management Performance 2007/08

## **7 BACKGROUND PAPERS REFERRED TO:**

None.

**CONTACT:** Barry Hunter,  
Director of Finance                      **E-MAIL:** barry.hunter @ babergh.gov.uk

## Main General Fund variances and requests for carry forwards

<b>Divisional Budgets/CAST</b>	<b>Variations £'000</b>	<b>Cfwd £'000</b>	<b>Comments</b>
Salaries	35	15	Efficiencies and other staff savings within Corporate Management, Finance and Contract and Asset Management areas.  Carry forward request to fund LGR and other Corporate Finance priority work.
Training: <ul style="list-style-type: none"> <li>• Corporate</li> <li>• Divisional</li> </ul>	40 32	35 10	The overall budget of £75k included £30k cfwd from 2006-07. The underspend is against an overall budget of £150k. Some of the cfwd requests are to fund training requirements of newly recruited staff and qualification fees.
Recruitment	45	20	Determined by number of vacancies and recruitment needs. The underspend is significant in relation to the overall budget of £80k.
Other variations	80	45	
Section 106 income- legal fees	28	25	Possible Cfwd request to fund staffing/resourcing of the scheme.
CAST	160	87	
Other variations (less than £10k)	49	15	
<b>Total</b>	<b>469</b>	<b>252</b>	

<b>Services</b>	<b>Variations £'000</b>	<b>Cfwd £'000</b>	<b>Comments</b>
<b>Natural &amp; Built Environment</b>	330	220	The key variations have been on waste and recycling strategy and planning policy.  Cfwd's are requested for local plan, development control, purchase of Wheelie bins and other smaller items.
<b>Community Development and Contract &amp; Asset</b>	120	100	An approved budget of £50 k was set aside for ongoing

## Main General Fund variances and requests for carry forwards

<b>Management</b>			repairs to Hadleigh swimming pool. This was largely underspend and is requested to be carried forward.  There are also variations and requests for Cfwd for parks and amenity areas. Minor variations and requests for Cfwd for number of small items under £5 k.
<b>Customer Services</b>	160	120	Most of the contingency fund of £140 k approved to allow for any potential additional costs relating to Concessionary Bus Fare scheme. As at end of 2007/08 this contingency was under spend by nearly £100 k, which should be carried forward.
<b>Other services</b>	160	60	The key areas of significant variation are £84k additional investment income, £14k reduction in borrowing costs, an Pathfinder budget of £21k not used. PSA reward grant of £20k. These and other smaller items of underspend are requested to be Cfwd.
<b>Sub-Total</b>	770	480	
<b>Other variations incl. recharges from Divisional Budgets and CAST</b>	190	100	
<b>Total</b>	<b>960</b>	<b>580</b>	

## Main HRA Variances and requests for Carry forwards

Area	Variations £'000	Cfwd £'000	Comments
Rent Income	75		Mainly due to improvement in voids position.
Repairs & Maintenance	176	160	Some savings resulted from reduction in the average void cost from £1200 to £900 and extending painting cycles from 5 yearly to 6 yearly.  The request for Cfwd is mainly for repairs and painting contract. Some smaller Cfwd items on plumbing, garden tidying, kitchen work and electrical work.
Supervision and management	101		Savings / underspend on staffing and central costs.
Others	8		Investment income and other income.
<b>Total</b>	<b>360</b>	<b>160</b>	

## Main Capital Variances and requests for Carry forwards

<b>General Fund</b>	<b>Variations £'000</b>	<b>Cfwd £'000</b>	<b>Comments</b>
Private Sector Renewal Grant	26		
ICT ( including CAST & LAMP)	110	110	Underspend and requests for Cfwd on CAST & LAMP, Service transformation and other application software.
Natural Built & Environment	63	29	Sudbury HERS - Bldg repair/Enhancement wks
Contract & Asset Management	51	61	Key underspend areas are Kingfisher, Hadliegh pool and repairs to the corporate building.
Others	30	4	
<b>GF sub total</b>	<b>280</b>	<b>204</b>	
<b>Council Housing</b>	<b>588</b>	<b>581</b>	Work on structural repair on hold pending a potential transfer to a Housing Association. The new 'whole house' applying testing and fault detection has resulted in reduction in capital spend temporarily. Contribution to IBS related projects and Choice Based letting from the HRA have been delayed. There have also been some other under spends across other budget areas in lesser amounts..
<b>Total</b>	<b>868</b>	<b>785</b>	

**Treasury Management Review 2007/08**

**1. Key Points**

- 1.1. All Treasury Management activities were carried out in accordance with the Council's policies and Treasury Management Strategy.
- 1.2. Income from investment of surplus funds exceeded budget.
- 1.3. No additional external borrowing was undertaken during the year.

**2. Activities and performance in 2007/08**

- 2.1. Investment income was o £79,000 (11% ) higher than the revised budget. This was due to higher and more favourable interest rates and larger funds to invest.
- 2.2. The interest rate overall continued its upward trend from previous year for the majority of the year, picking at 5.75% by end of the second quarter and eased up towards the last quarter of the financial year, finishing the years at 5.25%.
- 2.3. Our approach to investment has been reviewed through out the year and based on advice from our Treasury advisors.
- 2.4. Officers monitor rates of return in comparison to the benchmark on monthly basis to ensure consistent levels of performance.

<b>Return on Investments</b>	<b>2007/08</b> %	<b>2006/07</b> %
Average return on investments	5.74	4.84
Local Authorities benchmark	5.68	4.86
Performance margin over benchmark	+0.06	-0.02

- 2.5. Council's surplus funds were regularly invested in short-term investments (over-night – 3 months) or in a Business Reserve Account.
- 2.6. We have continued to use the Co-op Bank's Public Sector Reserves Account for our overnight placements. In addition Abbey National Building Society provided us with the base rate of interest on our investments.

2.7. There was no additional external borrowing during the year. The Council's £1.1m borrowing for HRA purposes undertaken in 2006/07 (arranged at a highly attractive rate of 3.7% for 50 years). The borrowing requirements of £0.1m for CAST were met by internal borrowing from General Fund.

2.8. The following table sets out the Council's total investments as at 31 March 2008 (2007/08) and the comparative position for 2006/07.

**As at 31 March 2007/08**

<b>Sector</b>	<b>Amount Invested £M 2007/08</b>	<b>Proportion of Total Investment (%)</b>	<b>Approved Sector Limit (%)</b>	<b>Amount Invested £M 2006/07</b>
UK Banks	5.0	77	None	1.4
UK Building Societies	1.5	23	70	1.0
Foreign Banks	-		70	2.7
<b>Total</b>	<b>6.5</b>	<b>100</b>		<b>5.1</b>

**Adherence to the Policy**

There were no deviations from Treasury Management Policy or Strategy during the year.