TEWKESBURY BOROUGH COUNCIL

Report to:	Executive Committee
Date of Meeting:	15 July 2015
Subject:	Financial Outturn 2014/15
Report of:	Simon Dix, Finance and Asset Management Group Manager
Corporate Lead:	Rachel North, Deputy Chief Executive
Lead Member:	Councillor D J Waters
Number of Appendices:	Four

Executive Summary:

The report highlights the Council's financial performance for the previous year, setting out the general fund and capital outturn positions. To support this, a detailed statement on both positive and negative variances against budget is included.

The formation of the Council's reserves for the forthcoming year requires the approval of the Executive Committee.

The performance of the Treasury Management function is also included within the report as required by the Council's Treasury Management Policy.

Recommendation:

That the Executive Committee:

1. **NOTE the general fund outturn for 2014/15, the financing of the capital programme and the annual treasury management report and performance; and**
2. **APPROVE the transfers to and from earmarked reserves.**

Reasons for Recommendation:

In line with the requirement to provide Members with regular information on the Council's finances and financial performance, a report on progress against budget is produced on a quarterly basis. This new report on the outturn position for the Council offers more detail and compliments the enhanced reporting that will commence in the 2015/16 year. Members are also required to approve the transfers to and from earmarked reserves and the carry forward of budgets.

The Council's Treasury Management Policy requires the Section 151 Officer to report to Members annually, by 30 September, on the treasury management activities and prudential indicators for the previous financial year.

Resource Implications:

As detailed within the report.
Legal Implications: None associated with the report.
Risk Management Implications: A number of reserves have been set aside to deal directly with specific service risk or general financial risk to the Council.
Performance Management Follow-up: The performance of services against their set budget is monitored on an ongoing basis and includes Challenge Panels on a quarterly basis. In addition, performance is reported to Members on a quarterly basis.
Environmental Implications: None associated with this report.

1.0 INTRODUCTION/BACKGROUND

1.1 This report sets out the final outturn position for the 2014/15 financial year. The main purpose of this report is to provide Members with an overview of the performance against the general fund revenue budget for 2014/15 and explain significant variances.

1.2 The report also addresses the movement on reserves and requests Member approval for the creation of newly requested reserves or additions to existing reserves that fall outside of a previously approved sum.

1.3 In addition to the revenue budget outturn, this report also seeks to confirm the full year progress against the capital programme and the sources of finance used in delivering that programme and also to report the performance in 2014/15 of the treasury management function in line with the requirements of the Code of Practice.

1.4 All of the information within this report will be contained within the Council's Statement of Accounts which will be approved by the Audit Committee on 3^{h} September 2015 following the audit conducted by Grant Thornton.

2.0 GENERAL FUND REVENUE OUTTURN 2014/15

2.1 In March 2015, the quarter three outturn position was reported to Executive Committee. The report confirmed a surplus of £37,906 for this period which represented a positive variance of 0.18% on budget and is within the 5% tolerance allowed in the Medium Term Financial Strategy (MTFS).

2.2 The final general fund revenue outturn position for the full year can now be reported at a £207,742 surplus, representing a positive variance of 2.4% and again within the MTFS tolerance. It is pleasing to again report a surplus for the Council within the financial year particularly given the financial climate for local government and the squeeze on service budgets. The surplus can now be utilised to finance the reserve and carry forward requests of the Council.

2.3 The table below summarises the service performance which has generated the reported surplus:

Table 1 – General Fund Outturn Summary

	Full Year Budget	Outturn Position	Underspend /(overspend)	Budget Variance %
Employees	8,930,852	9,142,563	(211,711)	(2.4)
Premises	766,221	775,597	(9,376)	(1.2)
Transport	854,160	837,322	16,838	2.0
Supplies & Services	2,136,821	2,127,059	9,762	0.5
Payments to Third Parties	1,002,687	1,048,352	(45,665)	(4.6)
Transfer Payments	19,176,000	18,898,878	277,122	1.4
Depreciation	984,546	951,939	32,607	3.3
Income	(25,262,367)	(25,400,233)	137,866	(0.5)
Total	**8,588,920**	**8,381,477**	**207,442**	**2.4**

2.4 The outturn position is mainly attributable to the major items outlined below:

- Development management income exceeded target by over £152,000 as a result of planning and land charges income.
- Other income targets exceeded expectation in particular trade and garden waste and car parking.
- Expenditure on employee costs was in excess of the budgeted position as the use of agency staff to cover both vacancies and sickness absence had a substantial impact. In addition, vacant posts are being filled quicker than in previous years which prevents any savings accruing from the vacant posts.

2.5 A full explanation of all variances exceeding £30,000 at a group subjective level is contained at Appendix A. The explanation also includes contact details of the relevant Service Manager should more information be required by Members.

2.6 Balances allocated from New Homes Bonus towards specific projects including the new leisure centre and the Borough Plan that formed part of the base budget for 2014/15 and remain unspent at the year-end have been carried forward and added to the reserves of the Council. In many cases, the project covers a number of years and an underspend in 2014/15, the year the monies were received by the Council, is to be expected. The impact of these underspends has been excluded from the general fund analysis as it would distort the underlying performance of genuine base budgets.

2.7 In contrast to the excellent position reported for the general fund, the financing of the Council's general fund has been substantially impacted by the performance of the retained business rates scheme in 2014/15. The scheme, which was introduced in 2013, allows Council's to retain a percentage of the growth in the local business rate base above a calculated baseline. Tewkesbury had budgeted for retained income of £250,000 from this scheme and is also a member of the Gloucestershire Business Rates Pool which maximises the retention within Gloucestershire.

2.8 Whilst Councils can benefit from growth in business rates, they must also share in the risk of businesses successfully challenging their business rate valuation. The Council had allowed for substantial provisions against successful appeals within the scheme but, as previously documented, has suffered from a number of successful appeals by one business in particular – Virgin Media.

2.9 Virgin Media's business rate assessment accounted for approximately 9% of the Council's total rateable base in April 2014 but the company has successfully challenged both its current valuation and the valuations in place during 2005 to 2010. This has resulted in average reductions in rateable value of circa 40% for this business necessitating substantial refunds of over £10m.

2.10 In addition to the Virgin Media issue, a large number of additional appeals by various businesses have been made prior to 31 March as the window for appealing the current valuation listing closes. This has therefore necessitated extra provision being made against these appeals. This is a picture that is replicated across authorities in Gloucestershire and nationally.

2.11 The combination of these factors means that Tewkesbury has lost all of the £250,000 it envisaged it would have to finance its services and also needed to utilise the reserve it had previously set aside for business rates. In addition, this position is supported by a safety net payment of £3.95m from the Gloucestershire Pool which has in turn placed the Pool into deficit. The governance arrangements of the Pool mean that any deficits need to be met by the Pool members in proportion to their baseline funding targets. The deficit to be met by Tewkesbury is circa £225,000 and can be met from previous surplus distributions of the Pool (£67,000) and balances within the Business Rates reserve for the Council.

2.12 The position with regards to Virgin Media is ongoing as more appeals wait to be heard including the possibility of deletion from the list. Should Virgin Media continue to be successful with its appeals this is likely to again adversely impact the position of the Pool in 2015/16. Despite this, all authorities in Gloucestershire see the Pool providing substantial benefits to Gloucestershire in the long term and are committed to continue the collaborative approach.

2.13 The Council and its partners within the Pool continue to lobby central government with regards to the impact of Virgin Media in the hope of finding a suitable solution but have, as yet, received little positive encouragement.

3.0 COUNCIL RESERVES

3.1 A breakdown of the reserves of the Council as at 31 March 2015 is shown at Appendix C. The reserves have now been grouped under strategic headings rather than the previous method of grouping so as to provide Members with a better understanding of the actual intended use of the monies set aside. Also included is a breakdown of previous year's reserves, under the same strategic headings, so as to inform Members about the movement on those reserves in the last two years.

3.2 Total spendable revenue reserves of the Council stand at £10.57m as at the end of March 2015 and include earmarked reserves, planning obligations and the general fund working balance. Despite expenditure of £601,000 during 2014/15, the reserve balances have seen a net increase of £5.27m during the year. There are a number of reasons for the increase including the surplus on the general fund and the unspent New Homes Bonus monies being carried forward. The largest contributor to the increased reserves is however the retained business rate scheme. The accounting methodology to be applied to the scheme is set out by central government and requires entries into the year-end accounts of the original estimates for business rate activities submitted to government in the winter prior to the financial year commencing. Whilst this is correct accounting practice, the Council must also set aside sums to cover the costs of the actual performance of the scheme which will need to be paid over to Government later in 2015/16. This reserve accounts for the differential in timing. There are no sums set aside in this reserve as contingency to the Council for further losses as the previously established reserve has been utilised in its entirety. However, £250,000 was set aside in New Homes Bonus allocation for 2015/16 to start to replenish that specific element of reserves.

3.3 Where significant movements have occurred during the year, a note in Appendix C has been included, to explain the reason for the movement. Members are asked to approve the balances on the reserves for the new financial year.

4.0 CAPITAL PROGRAMME

4.1 The Council have committed to a substantial capital programme in the last few years and this is highlighted in the level of capital expenditure incurred in 2014/15. As in previous years, the Council has supported both Disabled Facility Grants and Community Grants through capital allocations but has in 2014/15 also committed and expended capital resources on its own assets. This has included the office refurbishment project and the commencement of the new leisure facility as well as allocating funds of £150,000 to the Roses Theatre.

4.2 Over £819,000 of capital was expended during the year on the office refurbishment project which was completed in September 2014. Overall, the project was completed ahead of schedule, included extra works and came in at £28,870 under the total budget allocation. The new leisure facility build project commenced in February 2015 with the initial groundworks and saw expenditure of £1.25m by 31 March. Monies set aside for investment purposes were held back in the second half of the year resulting in a substantial underspend against the capital investment programme. This was in response to the losses suffered from Virgin Media, in particular the refunds of over £10m to the business. This impact saw treasury balances fall by circa 50% hence the reason to hold back further investment.

4.3 Within the total expenditure on housing and business grants is expenditure on flood relief grants for properties and businesses affected by flooding in winter 2014. £315,000 has been spent on this programme in the 2014/15 financial year and has been financed from the Council's capital balances. However, the scheme is backed by central government and capital grants to cover the expenditure incurred will be received by the Council in 2015/16.

4.4 The summarised capital programme is shown at Appendix C together with the sources of finance used. In summary, the Council expended £3.68m on capital projects in 2014/15 utilising £2.88m of capital reserves and £0.80m of capital grants. The balance on the capital reserve has reduced to £12.33m as at 31 March 2015 with commitments totalling £10.50m over the next three years. It is envisaged that a programme of asset disposals will provide additional capital resources which can be used to support the investment ambitions of the Council.

5.0 TREASURY MANAGEMENT

5.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services. This Council has adopted the code and complies with its requirements, one of which is the receipt by Members of an Annual Review Report after the financial year end.

5.2 The detailed treasury report is attached at Appendix D.

5.3 The prudential indicators have been monitored regularly and there were no material departures from the indicators arising during the year. The in-year performance of investments resulted in an average return of 0.85% and total income of £209,834. This is £9,901 below the budget for the year and reflects the fact that the base rate, and therefore market rates, failed to rise in year as previously predicted.

6.0 PERFORMANCE INDICATORS

6.1 The Financial Services section report on two performance indicators during the year relating to the speed of paying invoices and the level of sundry debt over 12 months old. The summary performance of the indicators are shown in the table below.

Table 2 – Performance Indicators

KPI description	Outturn 2013-14	Outturn Q1 14-15	Outturn Q2 14-15	Outturn Q3 14-15	Outturn Q4 14-15
Percentage of creditor payments paid within 30 days of receipt	90.71%	92.18%	92.90%	93.42%	93.71%
Outstanding sundry debt in excess of 12 months old	£68,635	£40,298	£39,671	£36,342	£49,735

6.2 It is pleasing to report a significant performance improvement in the speed of paying invoices. The outturn performance of 93.71% within 30 days is up 3% on the previous year and is the highest annual figure reported. This reflects the service improvements made and the efficient working of staff involved. The sundry debt position has fallen by over £19,000 across the financial year taking the amount outstanding to just under £50,000. Figures had been lower during the course of the year but one specific debt pushed the year end figure back up. That particular debtor is now paying off the arrears that had been generated.

7.0 CONSULTATION

7.1 Budget holders have been consulted about the budget outturn for their service areas. The feedback has been incorporated in the report to explain differences between budgets and actual income and expenditure.

8.0 RELEVANT COUNCIL POLICIES/STRATEGIES

8.1 Treasury Management strategy approved at Council on 27 February 2014 and the Medium Term Financial Strategy approved at Council on 28 January 2014.

9.0 RELEVANT GOVERNMENT POLICIES

9.1 None.

10.0 RESOURCE IMPLICATIONS (Human/Property)

10.1 As detailed within the report and appendices.

11.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

11.1 None.

12.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

12.1 None.

13.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

13.1 Approval of Treasury Management Strategy 2014/15 – Council 27 February 2014.

Approval of Budget 2014/15 – Council 27 February 2014.

Background Papers:	Approval of Treasury Management Strategy 2014/15 – Council on 27 February 2014. Approval of Budget 2014/15 – Council on 27 February 2014.
Contact Officer:	Simon Dix, Finance and Asset Management Group Manager Tel: 01684 272005 Email: simon.dix@tewkesbury.gov.uk
Appendices:	A – Revenue Outturn by Group. B – Earmarked Reserves and Carry Forwards. C – Capital Outturn 2014/15. D – Annual Treasury Management Report.