

TITLE OF REPORT: Revenue Outturn 2016/17

REPORT OF: Darren Collins, Strategic Director, Corporate Resources

Purpose of the Report

1. This report sets out the Council's revenue outturn position for the financial year 2016/17 prior to audit.
2. This report also recommends to Council appropriations to and from reserves consistent with previous decisions, accounting policies, the principles set out in the Medium Term Financial Strategy (MTFS) and requirements of the Accounting Code of Practice.

Background

3. Cabinet has received quarterly reports throughout the year on the revenue budget so that any variances can be identified and addressed. This report sets out the final revenue outturn position for 2016/17 on a consistent basis to the revenue budget monitoring framework.

Revenue Outturn 2016/17

4. Council agreed the original revenue budget for 2016/17 on 23 February 2016. This was set at £198.883m.
5. Monitoring during the year projected an over spend of £1.359m as reported to Cabinet on 24 January 2017 although it was concluded that the outturn would be delivered within budget.
6. The final revenue outturn on services compared with budget is £197.453m. There was also a reduction in funding from original budget of £0.125m which results in an under spend of £1.305m after proposed movement of reserves.
7. In addition to the monitored outturn position and as previously reported in the quarterly revenue monitoring updates, the council has secured dividend income in year in respect of Newcastle Airport of £2.897m.
8. The under spend will result in an increase in the level of General Fund reserves of £0.456m, and a decrease in the level of Earmarked reserves of £2.692m. The Council's reserves position and strategy will be reviewed as part of the Medium Term Financial Strategy (MTFS) to be reported to Cabinet on 18 July 2017.
9. Whilst the outturn position is positive, it should be noted that some one-off areas of under spend and additional income have contributed to this position:

- There is a £1.276m under spend on Capital Financing which is due to active management of debt including deferral of borrowing by using cash balances which has resulted in reduced borrowing costs during 2016/17, as well as some slippage on the programme itself.
 - Traded and Investment Income overachieved budget by £2.750m due to savings delivered by the Insurance Fund, a higher surplus than projected within Construction Services, and income received in relation to the Trinity Square Partnership with Northumbria University.
 - An under spend of £2.750m on Other Services and Contingencies was mainly a result of an under use of Contingency funding.
10. The outturn position includes a provision for workforce management totalling £1.412m.
11. Further detail on the outturn position can be found in Appendix 1.

Appropriations to/from Reserves

12. The proposed movement of Earmarked reserves is outlined below:
- The agreed budget framework allows flexibility to carry forward appropriate underspent balances for reinvestment the following year. A total of £2.171m is proposed to be transferred from this reserve to match expenditure incurred with £0.969m appropriated into this reserve.
 - Appropriations to and from the Revenue Grants and Receipts Unapplied reserve reflect the requirements of the Accounting Code of Practice whereby unused grants and contributions, without conditions attached, should be appropriated to reserves to fund future expenditure rather than creating creditors on the Balance Sheet. A total of £1.156m is proposed to be transferred from this reserve to match expenditure incurred with £0.539m appropriated into this reserve
 - Public Health expenditure was £0.659m under budget and so it is proposed that this be appropriated into the ring-fenced Public Health reserve.
 - Appropriate expenditure totalling £0.176 is proposed to be funded from the Discretionary Social Fund reserve.
 - Receipts from Section 106 and Section 38 agreements should be appropriated into the Developers' Contributions reserve which can then be used to fund specific development expenditure. A total of £0.373m was received in year to be appropriated to the reserve with £0.472m being used to fund expenditure incurred in the current year.
 - Appropriate expenditure totalling £0.067m is proposed to be funded from the Economic Growth reserve.
 - Appropriate expenditure totalling £1.191m is proposed to be funded from the Strategic Change reserve.

13. These proposals would result in a reduction in Earmarked reserves of £2.692m.
14. The proposed movement of General Fund reserves is outlined below:
 - In the Budget and Council Tax Level 2016/17 report on 23 February 2016 Council approved the use of the General Fund to mitigate the impact of budget proposals in 2016/17. In line with this a total of £3.746m is required to mitigate savings within Care, Wellbeing and Learning.
 - The Council received a dividend of £2.897m from Newcastle Airport arising from a refinancing exercise. It is proposed that this is transferred to the General Fund reserves pending the full review of reserves which will be part of the Medium Term Financial Strategy (MTFS) to be reported to Cabinet on 12 July 2017.
15. These proposals would result in a movement from General Fund reserves of £0.849m. It is proposed that the overall under spend against budget of £1.305m is moved to the General Fund reserve which therefore results in a net overall increase of £0.456m.
16. In addition to this it is proposed that the over spend on schools budgets in 2016/17 of £1.573m is appropriated from the ring-fenced Schools LMS Budget Share reserve and the over spend of £0.190m on Dedicated Schools Grant (DSG) be transferred from the Earmarked DSG reserve.
17. There is an overall surplus on the Housing Revenue Account (HRA) of £3.250m. The HRA is ring-fenced and does not form part of the General Fund reserve. It is proposed that the surplus be transferred to the HRA reserve.
18. The outcomes set out in this report have been reflected in the draft Statement of Accounts for 2016/17 that is subject to audit.

Recommendations

19. Cabinet is requested to:
 - (i) Note the 2016/17 revenue outturn position of the Council as an under spend of £1.305m, subject to audit.
 - (ii) Recommend to Council the appropriations to and from reserves outlined in paragraphs 12-17.

For the following reason:

- To contribute to the sound financial planning and management of the Council to ensure financial sustainability.

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Policy Context

1. This report meets the standards required to comply with the Accounts and Audit Regulations 2015. It is also consistent with Vision 2030 and the Council Plan of ensuring a sustainable financial position for the long term.

Background

2. The Accounts and Audit Regulations 2015, which represent financial management good practice, recommend that councillors should receive regular reports on performance against revenue and capital budgets. The frequency of the reports is determined following a risk assessment of the budget, and Cabinet currently receives a report on a quarterly basis.
3. This report sets out the final outturn position on the 2016/17 revenue budget.
4. Council agreed the original revenue budget for 2016/17 on 23 February 2016. This was set at £198.883m.
5. Appendix 2 details the agreed budget for 2016/17 compared to the outturn for the year, along with the proposed movement of General Fund and Earmarked reserves.
6. Appendix 3 provides further details the expected use of reserves for 2016/17. The actual year end proposed use of reserves is £9.978m compared with an estimated use of £11.431m. It is also proposed that £6.742m be transferred to reserves which gives a net movement of £2.236m

Revenue Outturn 2016/17

7. Monitoring during the year projected an over spend of £1.359m as reported to Cabinet on 24 January 2017 although it was concluded that the outturn would be delivered within budget.
8. The final revenue outturn on services compared with budget is £197.453m. There was also a reduction in funding from original budget of £0.125m which results in an under spend of £1.305m after proposed movement of reserves and excluding the airport dividend receipt. This outcome, subject to the approval of proposed appropriations to and from reserves, means that there would be a reduction in Earmarked reserves of £2.692m, and an increase in General Fund reserves of £0.456m in the 2016/17 financial year. The overall reserves position will be considered further with a review of the Council's reserve strategy as part of the Medium Term Financial Strategy (MTFS) to be reported to Cabinet on 18 July 2017.
9. Service outturn is shown in Appendix 2. Although the outturn is positive, it masks over spends in some services and also includes a number of areas of one-off additional funding. The positive outturn remains a significant achievement given the financial pressures faced by all services and enables the Council's sound financial position to be maintained within an extremely challenging economic and financial context.

10. Quarterly reports to Cabinet have identified that the Council's budget has continued to face increasing pressures in a number of areas. The main variances to budget on a group basis are outlined below:

Care, Wellbeing and Learning

11. The over spend of £2.469m on Social Work - Children and Families relates mainly to placement expenditure for Looked After Children in Independent Fostering and Supported Accommodation, and higher than expected staffing costs.
12. The over spend of £0.594m on Early Help and Education relates mainly to Home to School/College transport costs.
13. The over spend of £0.958m on Commissioning and Quality Assurance relates to higher than budgeted employee costs and over spends in relation to voluntary organisations and Mental Capacity Act Deprivation of Liberty Safeguards.
14. The under spend of £0.438m on Learning and Schools relates to an overachievement of income within Adult Learning.
15. The over spend of £1.380m on Adult Social Care relates to an over spend on employee expenditure, higher than expected care costs for Direct Payments, and one off reductions in income.
16. Public Health expenditure benefitted from lower than expected contract costs. It is proposed that the under spend of £0.659m be moved to the ring fenced Public Health reserve.

Communities and Environment

17. The over spend of £0.833m on Housing General Fund mainly relates to delays in the delivery of agreed savings.
18. The under spend of £0.349m on Council Housing, Design and Technical Service relates to an overachievement in grant income and under spends on staffing costs.
19. The over spend of £0.469m on Culture, Communities, Leisure and Volunteering relates mainly to an underachievement of income across all leisure facilities which is offset by under spends within other service areas.
20. The under spend of £0.480m on Facilities Management relates to an overachievement of income for School Meals and Building Cleaning.
21. The under spend of £0.311m on Waste Services, Grounds Maintenance and Fleet Management relates to reductions in utility charges and additional income for trade waste.

Corporate Services and Governance

22. The under spend of £0.420m on Human Resources and Litigation relates to an overachievement of income in relation to elections, litigation and registrars.

Corporate Resources

23. The over spend of £0.423m on Housing Benefits relates mainly to an increase in the bad debt provision due to the ongoing impact of Welfare Reform on the Council.

Other Services and Contingencies

24. An amount of £3.597m of Contingency remained unused at the end of the year. This relates to savings mitigation, invest to save, winter maintenance and workforce management. Within Other Services £1.412m was moved to the redundancy provision to cover the expected costs for the next two financial years. The dividend from Newcastle Airport of £2.897m is shown within Other Services and it is proposed that this be appropriated to the General Fund reserves pending a review of reserves.

Capital Financing Costs

25. The under spend of £1.276m on Capital Financing Costs is mainly due to active management of the Council's cash balances.

Traded and Investment Income

26. The under spend of £2.061m relates to an increase in expected income from the Trinity Square Partnership with Northumbria University and an increase in the expected surplus from Construction Services. The Insurance Fund also delivered a saving against budget due to an overall reduction in claim costs.

Schools

27. Schools reserves have decreased from £7.046m to £5.473m as there was an over spend on schools of £1.573m for 2016/17 which is proposed to be funded from the LMS Schools reserve. This forms part of the total General Fund reserve.
28. The Dedicated Schools Grant (DSG) also over spent in 2016/17 by £0.190m and it is proposed that this be met from the DSG reserve which is a ring-fenced Earmarked reserve.

Housing Revenue Account

29. There is an overall surplus on the Housing Revenue Account (HRA) of £3.250m. The HRA is ring-fenced and does not form part of the General Fund reserve. It is proposed that the surplus be transferred to the HRA reserve which will increase from £24.109m to £27.359m.

Savings

30. The overall target for revenue savings in 2016/17 was £18.795m. The final outturn for achieved savings was £16.579; a shortfall of £2.217m, the majority of which relates to the delivery of the Social Care re-organisation saving. This shortfall formed part of the approach to the financial planning underpinning the setting of the 2017/18 revenue budget.

Reserves

31. A summary of the proposed movements to and from reserves is attached at Appendix 3. It was estimated that £11.431m would be required to support the revenue budget in 2016/17 and the actual proposed usage of reserves for the year is £9.978m. In addition it is also proposed that £6.742m is moved to reserves; this includes the £2.897m dividend from Newcastle Airport, the £1.305m budget surplus, £0.969m budget flexibility and £1.571m ring-fenced reserves.
32. The final position on reserves will be reflected in the 2016/17 Financial Statements. The overall reserve position and strategy will be reviewed as part of the Medium Term Financial Strategy (MTFS) to be reported to Cabinet on 18 July 2017. The 2016/17 Financial Statements are subject to audit.

Consultation

33. The Leader of the Council has been consulted on this report.

Alternative Options

34. There are no alternative options proposed.

Implications of Recommended Option

35. Resources

- a. **Financial Implications** – The Strategic Director, Corporate Resources confirms these are as set out in the report and Appendix 2 and 3.
- b. **Human Resource Implications** – There are no direct Human Resource implications as a consequence of this report.
- c. **Property Implications** – There are no direct property implications as a consequence of this report.

36. Risk Management Implication

Regular budget monitoring and the associated action planning that arise from this activity assists in reducing the risk of the Council overspending its agreed budget. This enables effective financial planning which allows the Council to deploy resources in line with priorities over the medium and long term and deliver sustainable budgets.

37. Equality and Diversity Implications - Nil.

38. Crime and Disorder Implications - Nil.

39. Health Implications - Nil

40. Sustainability Implications – Regular budget monitoring and allocated actions contributes to the financial sustainability of the Council.

41. Human Rights Implications - Nil.

42. **Area and Ward Implications** - Revenue spending supports the delivery of services across the whole of Gateshead