

Gloucester City Council

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| Meeting: | Overview and Scrutiny Cabinet | Date: | 15 June 2015 17 June 2015 |
| Subject: | 2014-15 Financial Outturn report | | |
| Report Of: | Cabinet Member for Performance and Resources | | |
| Wards Affected: | All | | |
| Key Decision: | No | Budget/Policy Framework: | No |
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| Appendices: | 1. Savings Performance 2. Capital Programme | | |

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 This report is to inform members of the final Council position against agreed budgets for the 2014/15 financial year. It also highlights some key performance indicators.
- 1.2 It is best practice for members to approve any transfers of Council funds into earmarked reserves.

2.0 Recommendations

- 2.1 **Overview and Scrutiny Committee** is asked, subject to any recommendations it wishes to make to Cabinet, to **RESOLVE** that the report be noted.
- 2.2 **Cabinet** is asked to **RESOLVE** that:
- (1) It be NOTED that:
 - (i) The savings achieved in year total £1.010m.
 - (ii) That the year end position for the financial year 2014/15 is to increase the Council's General Fund balance by £63k
 - (iii) The increase in the general fund balance from £1.869m to £1.932m at the end of 2014/15.
 - (iv) The closure of the Housing Revenue Account as a result of the successful stock transfer to Gloucester City Homes be noted. (Paragraph 8.11 details proposed transfers to earmarked reserves for HRA balances).
 - (v) The Council has been required to make a deficit payment to the Gloucestershire Business Rates Pool as a result of losses at Tewkesbury Borough Council, as detailed in Section 7.

(2) The transfers to and from earmarked reserves as below and detailed in sections 8 and 9 of this report be approved.

- £1million to Environmental Liability Reserve
- £400k to Major Repairs Reserve
- £275k to Pension Liability reserve
- £5k to Three Choirs Reserve
- £14k to Members Allocation Reserve
- £10k from Historic Buildings Reserve
- £12.5k to Portfolio Reserve
- £313k to Regeneration Reserve

3.0 Background

- 3.1 This report is intended to give Members a clear and concise view of the 2014/15 outturn of the Council and accompany this with explanations for any variances. The financial position for each directorate is presented in a summary table showing the budget for the year as well as final position against budget for the end of the 2013/14 financial year.
- 3.2 The reported position in Quarter 3 was to increase the general fund by £264k. The actual outturn position is to increase the general fund by £63k a change of £201k on the Qtr3 forecast.
- 3.3 It should be noted that the overall financial performance in the last quarter was to increase the general fund by £414k a significant improvement of £150k. However the council is required to make a £351k contribution to the Gloucestershire Business Rates Pool. The details behind this contribution are shown in section 7 of the report.
- 3.4 Included within the 2014/15 budgets were efficiency targets of £1.380m across a number of service areas and schemes. As previously reported a number of these schemes have been successfully achieved in year with £1.010m of savings delivered. Where savings targets have not been achieved these will be delivered in 2015/16. Appendix 1 provides details.

4.0 Council Summary

- 4.1 A summary table below shows the outturn position for each service area. Explanation of significant changes since last reported to members is detailed in the main paragraphs of the report.

| Service Area | 2014/15 Budget £000 | Final Outturn £000 | Final Variance £000 |
|--|------------------------------------|-----------------------------------|------------------------------------|
| Services | 7,814 | 7,976 | 162 |
| Resources | 3,712 | 4,470 | 758 |
| Funding and Corporate Adjustments | (12,164) | (12,457) | (294) |
| GCC | (638) | (11) | 626 |

4.2 The tables below show the final outturn and variance as well as the forecast outturn from Quarter 3 for comparison. The commentary for each service area will highlight the main changes from those forecast at Qtr 3 to the final outturn position.

5.0 Services and Neighbourhoods

| Service Area | 2014/15 Budget £000 | Forecast Outturn at Qtr 3 £000 | Final Outturn £000 | Movement between Quarters £000 | |
|---|---------------------------|---|--------------------------|---|------------|
| Director | 188 | 169 | 125 | 44 | Fav |
| Public Protection | (362) | (436) | (618) | 182 | Fav |
| Neighbourhood Services | 5,565 | 5,929 | 5,913 | 16 | Fav |
| Development Services | 300 | 280 | 247 | 33 | Fav |
| Housing Services | 696 | 601 | 634 | 33 | Unfav |
| Cultural Services and Tourism | 614 | 956 | 924 | 32 | Fav |
| Contact Centre and Customer Services | 813 | 764 | 765 | 1 | Unfav |
| Directorate Total | 7,814 | 8,263 | 7,990 | 273 | Fav |

5.1 The most significant change within this directorate was the performance of the Cemeteries and Crematorium service. This is included within the Public Protection line above. The budget position within this service has improved by £181k in the last quarter. This is a result of the strong performance earlier in the year continuing into the last quarter. Previous estimates had included, as with all income targets, a degree of prudence as to the final estimate. Within this service those estimates were significantly overachieved. This tends to indicate that the savings target within this area will be achievable in 2015/16.

5.2 Within Cultural Services and tourism the position improved by £32k from the previous quarter. This was predominantly due to the an improvement in budget performance at the museums resulting from a decrease in the business rates bill and the final costs of the review being lower than expected. The final position on Guildhall events, which has been reported throughout the year, was broadly in line with the expected position at quarter 3 with the deficit increasing by only £15k. This area has challenging savings targets in 2015/16 and these will be closely monitored.

5.3 Within Neighbourhood Services there were additional year-end costs which were provided for within the Amey Contract. This included a shortfall on the level of income from the sale of recyclates against the level in the contract. This shortfall has been met by invoicing the County Council for works carried out on their behalf as part of the overall contract.

6. Resources

| Service Area | 2014/15 Budget £000 | Forecast Outturn at Qtr 3 £000 | Final Outturn £000 | Movement between Quarters £000 | |
|--|---------------------------|---|--------------------------|---|------------|
| Director | 89 | 70 | 58 | 12 | Fav |
| Audit | 122 | 119 | 114 | 5 | Fav |
| Business Improvement | 1,872 | 2,382 | 2,113 | 269 | Fav |
| Finance | 151 | 194 | 536 | 342 | Unfav |
| BT & T | 648 | 739 | 775 | 36 | Unfav |
| Parking | (852) | (812) | (833) | 21 | Fav |
| Regeneration and Economic Development | 196 | 278 | 146 | 132 | Fav |
| HR | 333 | 267 | 282 | 15 | Unfav |
| Legal, Democratic and Communications | 1,153 | 1,129 | 1,279 | 150 | Unfav |
| Directorate Total | 3,712 | 4,366 | 4,470 | Unfav | 104 |

6.1 Business Improvement has seen an improvement in budget performance in the final quarter. This is predominantly linked to the revenues and benefits service client function. In particular, the Council's share of court costs awarded to the Authority as a result of recovery actions was in excess of budget

6.2 Financial Services shows a budget swing since quarter 3. The expenditure and income relating to Housing Benefits sits within this area and there was a small percentage change in the annual cost from what had been expected. The Council and Civica are working together to try and improve the monitoring of this area during 2015/16.

- 6.3 The performance improvement in regeneration and economic development is linked to the additional rental income generated by properties acquired for the Kings Quarter development. This improvement is offset against the additional corporate costs relating to the borrowing undertaken to buy the properties so the whole Council impact is minimal.
- 6.4 The change in forecast within the legal and democratic team is a result of a provision which has been made for costs which are to be payable as a result of a settlement being reached in a legal action taken against local authorities nationally for repayment of previous land search charges. This has been fully provided for in this year's accounts and so will not impact on future years.

7.0 Business Rates and Business Rates Pooling

- 7.1 The Gloucestershire Business Rates Pool (GBRP) commenced in April 2013 with 2014/15 being the second year this has been in place. The Gloucestershire Pool is made up of the County Council and all the district councils in Gloucestershire.
- 7.2 During 2014/15 an appeal on business rates valuation in Tewkesbury Borough Councils by the largest business entity, has resulted in a deficit on the pool of circa £2.3m. This is partly funded by the retained pool surplus of £264k from last year, and, in line with the pool's governance arrangements, additional contributions from the members of the pool. The share that Gloucester City Council is required to contribute is £351k. This is a direct charge to the Council's General Fund and has had the effect of reducing our surplus to £63k. The Council was aware of this issue at Quarter 3 and had included the latest projected cost from the pool of 135k in its projections.
- 7.3 In addition to the issue above the Government placed a deadline for receipt of appeals against the 2010 ratings list of 31st March 2015 which consequently saw a significant number of appeals lodged in the final weeks of the year. This is a national issue and councils have had to increase their provisions significantly this also had a significant impact on the outturn of the pool
- 7.4 Representation has been made to the government through a letter from the Leader and Chief Executive of Tewkesbury Borough Council. The leaders of all districts and the County Council have also made representation on the implications to the pool and Gloucestershire through a jointly signed letter.
- 7.5 The 2013/14 pool outturn saw £775k retained in Gloucestershire that would have otherwise been passed to Central Government. The 2015/16 forecast position for the pool is for circa £1.8m to be retained in Gloucestershire with a proportion being passed back to districts, plus further financial contribution to the Strategic Economic Development Fund

7.6 The future composition of the pool will need to be agreed prior to setting the budgets for 2016/17 and composition of the pool will need to be notified in line with government deadlines. It is essential that a 'knee jerk' reaction to disband the pool is not made and any future decision is based on facts including the benefits that the pool can bring to both the city and Gloucestershire moving forward. It is worth noting that without the appeal at Tewkesbury, which is both extremely significant and a one off event, the pool would have been in a surplus position and delivered additional funding to Gloucestershire authorities in excess of what would have been achieved if they were acting independently.

8.0 Housing Revenue Account (HRA)

8.1 On the 17th March 2015 the Council completed the voluntary stock transfer to Gloucester City Homes (GCH). This brought to conclusion a major project that had started nearly 5 years ago when the Council commenced a comprehensive housing stock options appraisal.

8.2 Following the vote by tenants that the housing stock should transfer, both organisations worked diligently to ensure that the Transfer Agreement was put in place. This agreement details all the arrangements, warranties, indemnities and conditions of the contract between the two organisations.

8.3 Once the transfer had been completed approval was sought from the Secretary of State for the closure of the HRA under powers conferred by sections 74(3)(d) and 87 of the Local Government and Housing Act 1989. The direction was provided as the Housing Revenue Account (Gloucester City Council) Direction 2015 being effective from 1st April 2015.

8.4 The final transfer agreement approved by both the council and GCH accounted for specific liabilities to be met from the closing balances of the HRA. These included past pension costs of £1.1m, ill health retirement costs £305k, plus adjustments for rent free week/prepayments and arrears totalling £615k.

8.5 Once all correct accounting entries regarding the closure of the HRA, including those highlighted in paragraph 8.4 above had been completed, a residual balance of £1.834m remains. It is proposed this balance is used to manage potential ongoing liabilities as a result of the transfer, and to transfer to earmarked reserves for other key priorities of the Council.

8.6 As part of the Transfer Agreement a VAT Shelter arrangement was agreed with the Council and GCH. The Council will retain 25% of all future VAT benefits over a 15 year period as a result of the VAT Shelter. The expected income in 2015/16 is £476k which can be used to deliver projects. Potential projects were identified as part of the transfer process, such as public realm, regeneration, and delivering housing projects. These

monies will be placed in an earmarked reserve and utilised in line with cabinet approval.

8.7 To clarify what the VAT shelter is;

A VAT Shelter is a procedure agreed with Her Majesty's Revenues and Customs to ensure that following a housing stock transfer there is no impact on taxation. Had the Council retained the housing stock and carried out the necessary works on the properties the VAT would have been reclaimed by the Council, however private registered providers are unable to recover the VAT. The VAT shelter arrangement allows the Vat to be recovered and shared between the council and GCH.

8.8 One of the key ongoing potential liabilities as a result of the transfer is environmental liabilities. A key potential liability is 'asbestos works', and within the transfer agreement the asbestos works threshold is £1.937m. Any costs in excess of this threshold will need to be met by the Council. The environmental report stated '*With the level of uncertainty over future costs, this is seen as a major financial risk to the Council*' and also stated '*consider making provision, as other councils have, for the uninsured exposures, depending on Council's financial position and risk appetite, but ideally £1m plus;*'. It is proposed to place £1m into an earmarked reserve based upon the professional advice provided to the Council. This level should safeguard the council in the future and can be reviewed.

8.9 The council also has significant exposure to major repairs which are currently unbudgeted and could be a significant risk. Current potential examples are Eastgate Market Car park roof, and the replacement of GL1. It is proposed to create a Major Repairs Reserve that can be drawn upon to assist in offsetting potential major liabilities. It is proposed to transfer £400k to this reserve. In future years if surpluses are achieved this reserve could be topped up to manage further liabilities

8.10 One of the council's key priorities is the regeneration of the city and it is proposed to transfer £159k to the regeneration reserve to further enable key regeneration priorities to be delivered.

8.11 The transfer includes a contribution for known pension liability and this is proposed to be transferred to earmarked reserve.

8.12 The table below summarises the proposed transfer to earmarked reserves from the HRA closing balance;

| No | Reserve | Proposed Transfer £'000 | Balance @ 31 March 15 £'000 |
|----|---------------------------------|----------------------------|-----------------------------------|
| 1 | Environmental Liability reserve | 1,000 | 1,000 |
| 2 | Pension Liability reserve | 275 | 275 |
| 3 | Major Repairs Reserve | 400 | 400 |
| 4 | Regeneration Reserve | 159 | 159 |

9.0 Reserve Movement

9.1 Detailed below are summarised movements of proposed transfers to and from reserves along with balances on current earmarked reserves.

9.2 In previous years the Council took ownership of a number of assets previously held by the South West Regional Development Agency (SWRDA). A number of these assets generate income. Where the asset portfolio generates a surplus it is to be transferred in an earmarked reserve for use only on local regeneration purposes. The reserve may now be established and it is proposed £154k to the reserve. The total transfer to the regeneration reserve in year will be £313k, £154k from SWRDA surplus and £159k from the balance on the HRA detailed above.

9.3 Other proposed movements to and from reserves are for the reasons detailed below;

- 3 Choirs Reserve - The City hosts the festival every 3years and this is the contribution from 2014/15 to the final cost of the festival.
- Members Allocation Reserve – to enable delivery of projects
- Historic Building reserve –to fund an agreed award to the Llanthony Priory Trust
- Portfolio Reserve – annual sum put in reserve for surveys undertaken every 3 to 4 years.

9.4 The table below summarises proposed transfers to and from reserves;

| No | Reserve | Opening Balance £'000 | Proposed Transfer £'000 | Balance @ 31 March 15 £'000 |
|----|-----------------------------------|--------------------------|----------------------------|-----------------------------------|
| 1 | 3 Choirs Reserve | - | 5 | 5 |
| 2 | Historic Buildings Reserve | 63 | (10) | 53 |
| 3 | Portfolio Reserve(Housing Survey) | 10 | 12.5 | 22.5 |
| 4 | Members Allocation Reserve | - | 14 | 14 |
| 5 | Shopmobility Reserve | 29 | - | 29 |
| 6 | Regeneration Reserve | - | 313 | 313 |
| 7 | Insurance reserve | 10 | - | 10 |

10.0 Savings

10.1 Appendix 1 shows that £1.010m of savings have been successfully implemented in 2014/15. These include savings related to the Amey contract, reductions in grants to the voluntary sector, and a reduction in the Aspire management fee.

10.2 Of the £1.380m savings target in 2014/15 £470k of savings have not been achieved. This was partially offset by the early delivery of the senior management restructure to give a net underachievement of £370k in 2014/15.

10.3 Where savings have not been delivered in 2014/ these have been carried forward into 2015/16 and will be monitored closely to ensure delivery. The Asset Management service review (100k) has now been fully implemented and therefore will be fully delivered in 15/16.

11.0 Capital Programme

11.1 The Capital Programme budget for the year, including Housing Expenditure, was £21.454m. Expenditure for the year was £16.110m. The areas of major capital expenditure were £7.5m on housing (both General Fund and HRA), £6m on Kings Quarter and other projects including St Michaels Tower, Flood Works, and various projects within the agreed City Centre Investment Fund

11.2 The nature of capital projects means that many of them span a number of financial years, budgets are set per project any unspent budgets at the end of any one financial year may be carried forward into the next.

11.4 A summarised table for the Capital Programme is shown as Appendix 2.

12.0 Supplier Payments

12.1 The Council is committed to paying invoices within terms. During Quarter 4 and in 2014/15 as a whole, the actual achievement was 94% within 30 days. The details on prompt payment (30 days performance) are:

| | Quarter 1 | | Quarter 2 | | Quarter 3 | | Quarter 4 | | TOTAL 2014/15 | |
|----------------------------|-----------|-----|-----------|-----|-----------|-----|-----------|-----|---------------|-------------|
| Number paid within 30 days | 2619 | 93% | 2496 | 94% | 2683 | 94% | 2582 | 94% | 10380 | 94% |
| Number paid over 30 days | 183 | 7% | 173 | 6% | 167 | 6% | 160 | 6% | 683 | 6% |
| Total Invoices paid | 2802 | | 2669 | | 2850 | | 2742 | | 11063 | 100% |
| Average Days to Pay | 9 | | 9 | | 9 | | 9 | | 9 | |

13.0 Financial Implications

13.1 Contained in the report

(Financial Services have been consulted in the preparation this report.)

14.0 Legal Implications

14.1 There are no legal implications from this report

(Legal Services have been consulted in the preparation this report.)

15.0 Risk & Opportunity Management Implications

15.1 There are no specific risks or opportunities as a result of this report

16.0 People Impact Assessment (PIA):

16.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

17.0 Other Corporate Implications

Community Safety

17.1 None

Sustainability

17.2 None

Staffing & Trade Union

17.3 None