

**READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE**

TO:	POLICY COMMITTEE (& AUDIT & GOVERNANCE)		
DATE:	23 JUNE 2014	AGENDA ITEM:	7
TITLE:	PROVISIONAL END OF FINANCIAL YEAR ACCOUNTS, OUTSTANDING DEBT & CAPITAL PROGRAMME FINANCING		
LEAD COUNCILLOR:	JO LOVELOCK/ TONY PAGE	AREA COVERED:	CORPORATE SERVICES
SERVICE:	FINANCIAL	WARDS:	BOROUGHWIDE
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1. EXECUTIVE SUMMARY

- 1.1 This report summarises the financial position at the end of the 2013/14 financial year, setting out draft final budget variances, a preliminary view of the accounts, and includes a summary of outstanding debt owed to the Council as at 31 March 2014. You are also asked to approve the financing of the Capital Programme (including the use of S106 Receipts).
- 1.2 The report also explains (in Appendix C) the Final Accounts process leading to the formal approval of the accounts at the end of September.
- 1.3 There is a need for a formal decision to write off various irrecoverable debts in excess of £10k.

2. RECOMMENDED ACTION

- 2.1 Policy Committee is requested to note the preliminary outturn position set out in the report, and the main reserves set out in Paragraph 3.5.
- 2.2 Policy Committee is asked to agree to funding of the capital programme and use of S106 as stated in paragraphs 3.8-3.10 & Appendix B.
- 2.3 Policy Committee is asked to approve the write off of 2 irrecoverable debts totalling £55,794.88 (as set out in more detail in section 3.15 of the report).

2.4 Policy Committee is asked to delegate to the Head of Finance, in consultation with the Leader, Deputy Leader and Chair of the Audit and Governance Committee, be given delegated authority to amend the Final Accounts where this is in the best interests of the Council.

Appendices

- A Commentaries comparing the Approved Budget to outturn
- B S106 Financing
- C Final Accounts Process
- D General debtors outstanding

3. GENERAL FUND BUDGET

- 3.1 For 2013/14 the Council had a budget requirement of £130.8m which was funded by revenue support grant £40.3m, retained business rates £26.6m, council tax £62.5m and the estimated collection fund surplus of £1.4m. Government Regulations mean that the budget requirement does not change, but budget variances require either compensating adjustments elsewhere or result in a movement on the General Fund Balance. Variations in Business Rate and Council Tax income will leave the Council with a Collection Fund Balance, which is taken into account in future budget rounds.
- 3.2 The Finance Service has completed the main closing accounts processes, and in Table 1 the preliminary outturn position is set out with a comparison to budget as approved by Council in February 2013, restated on new Directorate basis, following the Reshape of the management structure.

3.3

TABLE 1 PRELIMINARY OUTTURN - GENERAL FUND

	Budget 2013/14 £'000	Draft Outturn 2013/14 £'000	Variance to Budget £'000
CSS	13,787	12,512	-1,275
DENS	27,636	30,265	2,629
DEACS	75,593	74,472	-1,121
Directorate Total	117,016	117,249	233
Capital Financing	12,400	11,427	-973
Insurance	791	656	-135
Corporate Property, Pension & Other Liabilities, including Environment Agency Levy	1900	1,504	-396
Redundancy Provision	800	800	0
Capitalisation	0	-250	-250
(Additional) Transfer to Redundancy Reserve	0	1,921	1,921
Grants	-2,044	-2,508	-464
NNDR Compensation Grant less Levy	0	-156	-156
Add to General Fund Balance		220	220
Budget Requirement	130,863	130,863	0

[At the time of writing this report, the detailed figures above were at “final draft” stage and still being checked & verified].

Commentaries comparing the Approved Budget to outturn are set out in Appendices A. In summary Corporate Support Services had underspends on pay costs due to managing vacancies pending Reshape and supplies and services through limiting purchases. In addition, whilst the childcare legal service broadly spent to budget, a much more significant proportion of the work was for other authorities, leading to additional £370k year end income, approximately matching the reduced cost of Reading’s work. As has been reported during the year DENS had a number of significant income shortfalls in Culture & Leisure Services, and the 2014/15 effect is dealt with elsewhere on the agenda. DEACS also had a small overall year end underspend, though across most social care services this amounted to around 1% of the budget.

Overall Directorate budgets were overspent by £233k, but this is compensated by treasury management and insurance costs being below budget. Corporate,

Property & Pension Liability etc. budget was underspent after allowing for year end accounting adjustments. There were three late grants; one to compensate the Council for business rate scheme changes and two distributing funds DCLG originally held back from the finance settlement. In addition £250k of revenue expenditure has been capitalised, with a matching sum being added to the redundancy reserve. These year end adjustments help increase the council's flexibility going forward.

3.4 EARLY TERMINATION COSTS

As part of in year budget reductions to keep net expenditure within the approved budget and the requirement to make savings so that the budget set for 2013/14 was within the available resources, taking account of the on-going reductions in government support for the council's activities, the Personnel Committee has agreed redundancy, compensation and early retirement packages to the value of £3.7m for 115 employees. These have been funded from the Organisational Change (Redundancy) Reserve.

3.5 GENERAL FUND BALANCES & RESERVES

Based on the provisional outturn the General Fund Balance as at 31st March 2014 is as follows

	Approved Budget £'000	Actual £'000
1 April 2013	5,337	5,284
Use of Balances	0	0
Transfer to balances		220
31 March 2014	5,337	5,504

Table 1 above includes capitalisation of £250k of revenue expenditure that is of a capital nature. This will enable £250k, and £512k arising from the Government's distribution of unused grant held back to be transferred to the Redundancy Reserve to help meet future Reshaping costs.

Most of our specific earmarked Reserves have followed the budget plan agreed in February. The balance on the Insurance Reserve has been reduced by £378k following a Review of the Council's needs for this reserve undertaken by the Council's Insurance advisor. The £378k is included in the transfer to the Redundancy Reserve. The Risk & Robustness Report in the budget report identified the need to keep the Redundancy Reserve under review and additional transfers have been made to take it to £3.8m at the year end. The transfers made arise from additional general grant receipts, capitalisation as well as the planned closure of various other reserves.

3.6 HOUSING REVENUE ACCOUNT

The preliminary outturn position for the Housing Revenue Account is set out in table 2

Table 2 Preliminary Outturn - Housing Revenue Account

	Budget 2013/14 £'000	Draft Outturn 2013/14 £'000	Variance to Budget £'000
Repairs	12,245	10,480	-1,765
Management	16,897	15,890	-1,007
Capital	11,160	11,165	5
Total Expenditure	40,302	37,535	-2,767
Rents	35,671	35,260	-411
PFI Allowance/Grant	3,997	3,997	0
Service Charges	485	459	-26
Interest & GF Contribution	149	175	26
Total Income	40,302	39,891	-411
Net Income	0	-2,356	-2,356
HRA Balance b/f	11,171	10,892	
HRA Balance c/f	11,171	13,248	

The table shows an underspend of almost £2.4m in comparison with the budget across the account as a whole. Around £1.8m of this arises from the repairs budgets, mainly relating to £1.4m slippage on Capital Repairs and contingency that was not required, and almost £1m from staffing and running costs budgets, the latter mainly associated with the PFI scheme that have not been needed this year. There has been a reduction of income by £0.4m mainly as a result of the overall impact of a reduced stock (some right to buys, but more particularly the regeneration of Dee Park).

3.7 CAPITAL EXPENDITURE

Table 3 shows a comparison by service between the Draft Outturn and Planned Expenditure.

Table 3 Preliminary Outturn - Capital

	Planned (Estimate+ slippage from 12/13) £' 000	Draft Outturn £' 000
<i>Expenditure:</i>		
Education	28,323	22,580
Transport	12,615	8,813
Civic Offices Re-provision	12,791	12,321
Other Corporate	8,147	6,935
Environment,Culture & Sport	1,869	966
Housing (General Fund) & Community Care	2,847	1,690
Housing (HRA)	7,470	5,667
	<u>74,062</u>	<u>58,972</u>
<i>Funded by:</i>		
Grants	23,663	18,362
Receipts(including s106 & HRA Major Repairs Reserve)	13,369	13,526
Borrowing	37,030	27,084
	<u>74,062</u>	<u>58,972</u>

3.8 The difference of £15.1m between the capital programme plan of £74.1m and actual expenditure of £59m was the result of slippage in a number of key areas.

3.9 The main projects affected were as follows: schools expansion £5.7m; transport "Pinch Point", Reading Station and LSTF (£3.8m) and HRA Housing (£1.8m).

3.10 Appendix B sets out S106 funding for approval in line with the agreed process.

BORROWING OUTSTANDING

In line with the requirements of the CIPFA Prudential Code there will be a treasury outturn report to Audit and Governance Committee as part of the final accounts package setting out in full the outturn Prudential Indicators. Table 5 shows the summary position of capital debt outstanding as measured by the adjusted capital finance requirement

Table 4 Capital Debt Outstanding

(Adjusted CFR)	Probable £m	Outturn £m
General Fund	173.6	164.1
HRA	196.1	194.9
Total	<u>369.7</u>	<u>359.0</u>

Actual borrowing at 31 March 2014 was £320.4m gross and £290.4m net of investments.

3.9 FINAL ACCOUNTS PROCESS

Appendix C explains the final requirements for Local Authority Accounts and in particular the formal approval process at the end of June & September. The draft accounts which must be prepared in a prescribed format will be "signed off" by the Head of Finance by the end of June prior to audit before being presented to the Audit & Governance (A+G) Committee before the end of September for approval. The external auditor (KPMG) is expected to review the draft accounts during July and August, prior to issuing an opinion on them at the A+G Committee at the end of September. The accounts will be published on the Council's website as signed off initially (with a "subject to audit" cover) and with the audit opinion at the end of September. At the time of preparing this report, not all the figures set out above had been checked in detail, and therefore may vary in the final accounts. Any significant variations, if not apparent from a full reading of the accounts will be explained in the cover report to the Audit & Governance Committee.

3.10 DEBT OUTSTANDING

The accounts include various streams of income where money was owed to the Council at the year end, and the remaining sections of this report include a commentary on those debtor streams.

3.11 COUNCIL TAX

Table 5 shows the Council Tax Collection Rate over the last 6 years:

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Collection Rate	96.73%	97.17%	97.20%	97.41%	97.54%	96.93%

- 3.12 At the year end, just over £300k of Council Tax arrears arose on accounts where the Council Tax Support Scheme required a new or increased contribution. Adjusting for this, the collection rate that is comparative to previous years is 97.33%. In addition, previous year's arrears to the value of £1.1m (2012/13 £1.25m) were also collected, leaving arrears at 31 March 2014 of £9m (31/3/13 £7.9m).

The improved recovery activity over recent years has resulted in irrecoverable debt written off of £32k (2012/13 £26k).

3.13 BUSINESS RATES

Arrears of Business Rates total £4.7m in 2013/14 (£3.29m in 2012/13). For 2013/14 the in year Collection Rate was 97.28% (97.72% in 2012/13). In addition there was a reduction in previous years arrears of £1.46m (2012/2013 £1.6m).

- 3.14 After allowing for providing for the cost of losses, including the impact of historic revaluation changes, for which the Council has an estimated liability of at least £13m, we originally expected to be able to retain £26.6m to fund the budget. At outturn, after providing for losses and appeals on a similar basis as planned we anticipate having just over £1.26m additional business rates income. After allowing for the Government's 50% share, the fire authority 1% share, and the £21.35m tariff payable to the Government, the Council's share is £27.2m. This is £414k higher than the Government set baseline, but a levy of 44% of this (£182k) is payable to the Government. The balance of £232k will be part of the collection fund balance and be taken into account in setting the council tax for 2015/16.

3.15 HOUSING RENTS

Arrears of rents from Council Housing and Temporary Accommodation totalled just over £0.7m broken down as follows:-

	Current Tenants		Former Tenants	
	£000	% of rent	£000	% of rent
Council Housing	370	1.0	335	0.9
Temporary Accommodation	2		17	
	<u>372</u>		<u>352</u>	

Against these arrears a bad debt provision of £0.6m has been made. In comparison at 31/3/2013, current tenants rent arrears were £496k and former tenants rent arrears were £359k.

3.16 GENERAL DEBTORS

The table at Appendix D summarises the level of general debtors outstanding of £6.7m greater than 60 days old, beyond the normal reminder process.

The most significant areas of debt relate to Housing Benefit Overpayment and Community Care, where the majority of debt relates to domiciliary care and older peoples residential accommodation awaiting administration of clients estates. A large proportion of the debt is being paid by instalments or awaiting legal action.

Where Housing Benefit overpayments occur in most cases 40% is claimable through subsidy and the Council seeks to recover the overpayment from the claimant by either deductions from on-going benefit or by raising an invoice. In most cases arrangements to pay are agreed with claimants linked to ability to pay hence the age of the debt.

WRITE OFFS

- 3.17 Financial regulations require that Committee approval is given for write offs above £10,000. Your approval is therefore requested for the following 2 write offs for the reasons stated. There are currently no business rates write offs, Included in the list below are 2 general debt write-offs.

Write Offs over £10,000

A	£32,041.29	Irrecoverable Debt- Social Services
B	£23,753.59	Irrecoverable Council Tax

4 CONTRIBUTION TO STRATEGIC AIMS

- 4.1 The production of accounts does not in itself contribute to the Council's strategic aims, however maintaining a "healthy" financial position is a key element underpinning sound Corporate Governance of the organisation.

5 COMMUNITY ENGAGEMENT AND INFORMATION & LEGAL IMPLICATIONS

- 5.1 None directly from this report.

6 FINANCIAL IMPLICATIONS

- 6.1 As set out above

7 BACKGROUND PAPERS

2013/14 Budget

2013/14 Closing working papers (excluding confidential items)