Report to: **Cabinet** **Date of Meeting: 18 August 2011**

Subject: **2010/11 Financial Year – General Fund Outturn & Prudential Indicators Update**

Report of: **Head of Corporate Finance & ICT**

Wards Affected: All

Is this a Key Decision? No **Is it included in the Forward Plan?** No

Exempt/Confidential No

Purpose/Summary

1. To report the 2010/11 revenue outturn position for the General Fund and approve the transfer of the underspend to reserves; and

2. To approve an update of the Council's Prudential Indicators for 2011/12, resulting from the changes made in the 2010/11 Statement of Accounts arising from the introduction of International Financial Reporting Standards.

Recommendation(s)

Cabinet is recommended to: -

a) Agree the transfer of the 2010/11 General Fund revenue underspend to reserves as set out in paragraph 4.3 of the report; and

b) Approve the amended Prudential Indicators for 2011/12 as set out in Appendix 1.

How does the decision contribute to the Council's Corporate Objectives?

Corporate Objective		Positive Impact	Neutral Impact	Negative Impact
1	Creating a Learning Community		√	
2	Jobs and Prosperity		√	
3	Environmental Sustainability		√	
4	Health and Well-Being		√	
5	Children and Young People		√	
6	Creating Safe Communities		√	
7	Creating Inclusive Communities		√	
8	Improving the Quality of Council Services and Strengthening Local Democracy		√	

Reasons for the Recommendation:

1. To ensure Cabinet are informed of the revenue outturn position for 2010/11 and to seek approval to reserve the identified underspend; and

2. To ensure that Cabinet are fully appraised of the changes required to the prudential indicators in 2011/12 which were previously approved in March 2011.

What will it cost and how will it be financed?

(A) Revenue Costs
There are no financial costs as a result of this report. The identified underspend will provide additional one-off resources to assist the transformation process.

(B) Capital Costs
None.

Implications:
The following implications of this proposal have been considered and where there are specific implications, these are set out below:

Legal	Statutory Duty	
Human Resources	None	
Equality		
1.	No Equality Implication	√
2.	Equality Implications identified and mitigated	
3.	Equality Implication identified and risk remains	

Impact on Service Delivery:
None.

What consultations have taken place on the proposals and when?
All Departments have been involved in the closure of the Accounts for 2010/11.
The Head of Corporate Legal Services has been consulted (LD 264/11) and any comments have been incorporated in the report.

Are there any other options available for consideration?
None.

Implementation Date for the Decision
Immediately following call-in.

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Background Papers:
Closure of Accounts working papers 2010/11.
Prudential Indicators Report 2011/12.
IFRS Working papers

1. Introduction

1.1 This report considers two issues arising from the preparation of the 2010/11 Statement of Accounts i.e. the revenue Outturn position for the year and implications for the Council's Prudential Indicators for 2011/12.

1.2 The General Fund outturn position for the 2010/11 financial year is presented, which highlights the major variations compared to the budget and identifies an overall revenue underspend position. The report requests Cabinet to approve the proposed transfer of the non-school revenue underspend to reserves.

1.3 The second issue relates to the introduction of International Financial Reporting Standards (IFRS) to local authorities for 2010/11. An implication of IFRS for Sefton has been the reclassification of a number of leases, with the resultant need to amend the Council's Prudential Indicators for 2011/12.

2. General Fund Revenue Outturn 2010/11

2.1 The Council has completed the closure of the Authority's accounts for 2010/11; PricewaterhouseCoopers are currently auditing the figures. The agreed Statement of Accounts will be presented to Audit and Governance Committee on 28 September, at the conclusion of the audit.

2.2 The outturn figures for 2010/2011 are presented in more detail in the following sections but can be summarised as follows:

Revenue Account 2010/2011	**Schools** **£m**	**Non-Schools Services £m**
Budgeted Balances at 31 March 2011	**11.791**	**3.661**
Plus Schools Delegated Budget Underspend 2010/2011	2.723	-
Plus Non-Schools Net Underspend	-	0.026
Provisional Unallocated Balances at 31 March 2011	**14.514**	**3.687**

3. Schools Delegated Budgets Outturn 2010/2011

3.1 The underspend on schools delegated budgets for 2010/2011 was £2.723m. Consequently, schools retained balances now stand at £14.514m; this represents 8.4% of schools 2011/2012 delegated budgets.

3.2 The Sefton Schools Forum agreed a scheme to review excessive schools finances i.e. if balances were above agreed thresholds. Where balances are above 5% of the annual budget, for a secondary school, or 8% for a primary school, a review could be triggered. A number of school spending plans were reviewed during the year to identify the reasons for retaining the balances. No resources were re-distributed during the year.

3.3 The Government has made recommendations within a revised Scheme of Delegation for local authorities, to relax or omit any School Balances control mechanism from April 2011. However the Schools Forum has agreed to continue with current control levels and to review school balances as part of the annual process to assess resources available to schools for 2011/12.

3.4 As mentioned above, the level of school balances has increased in 2010/2011 by £2.723m. Increases in school balances have also been identified nationally due to:

- The uncertainty and impact to individual schools of specific grant funding being absorbed into the DSG in 2011/12;
- The reduction in the level of Devolved Formula Capital funding which will mean that schools will now have to contribute from revenue balances to support any future capital schemes;
- The impact of budget savings on local authority budgets has meant that schools now have to buy additional services no longer offered by the Council; and
- Schools have been extremely cautious over spending in 2010/11 due to the uncertainty of the economic climate and also the Governments announcement to proposed introduction of a new national school funding formula from 2012/2013.

4 Non-Schools General Fund Outturn 2010/2011

4.1 The Original Estimate for 2010/2011 estimated that balances for non-school budgets would total £3.661m at 31 March 2011; i.e. the assumption was that balances would not increase. The outturn for 2010/2011 shows that a net underspend of £0.026m has been achieved against this budget i.e. increasing the level of General Fund Balances to £3.687m. However, this position assumes the proposed transfer of £3.2m to reserves to aid the transformation process; Cabinet is asked to consider this later in the report. Without this transfer, the Council's General Balances would have increased to £6.887m.

4.2 Within this overall net underspending, there have been a number of significant variations in individual services. The major variances are highlighted in the following paragraphs: -

a) **Children's Services** - There was a major overspend of £0.768m on Children's Social Care employees. This has occurred due to the fact that there was an imminent inspection and also the need to reduce Social Worker case loads to nearer that of the nationally recommended level. The budget was not reflective of these identified needs. However, there has been a corresponding reduction in Foster Care costs as a result of the additional Social Workers, identified below.

However, expenditure on looked after children in local authority care was approximately £0.515m less than the approved budget. This underspend was mainly attributable to the Children with Disabilities budget (£0.370m). In addition to this, there was an underspend of around £0.140m relating to Foster Care. Members will be aware that as part of the 2010/11 budget process, additional resources totalling £4.459m were allocated to Children's Schools and Families to specifically address the under-provision in looked after children budgets from the previous year. The outturn position is reflective of these additional resources, but it should be borne in mind that there is continued pressure on this area of the budget and further growth of £1.032m has been approved for 2011/12. The volatility of the need for placements for Looked-after Children and the unpredictability this brings when forecasting future financial commitments is an ongoing issue.

Other Savings were achieved by the Youth Service (£0.460m), reduction in training expenditure (£0.263m) and also by using specific non ring-fenced grants such as Area Based Grant (£0.222m) to fund expenditure that would otherwise have been attributed to core budgets. Additional savings were generated from an underspend on Premature Retirement costs (£0.198m) and from spending restrictions on day to day consumables (also in excess of £0.200m).

b) **Adult Social Care** - The Community Care budget continued to face additional demand pressure during the year, resulting in an overspend of £0.318m. However, additional income from client fees £0.190m, reduced training costs of £0.180m and reduced expenditure on learning disability schemes (£0.200m) has contributed to an overall underspend.

c) **Environmental Services** – An underspending of £0.300m has arisen as a result of reduced expenditure across a range of areas, including employees, supplies and services and transport costs.

d) **Leisure & Tourism** – There was an underspend on employee costs (-£0.760m). This was a result of arrangements being put in place within the year, in anticipation of the staff savings agreements for 2011/12. This level of underspending will therefore not continue in 2011/12 as employee budgets have already been reduced in accordance with savings agreed for the financial year. Premises budgets overspent by some £0.133m, mainly due to NNDR and utilities costs. Sports income was significantly higher during the year (£0.217m), whereas other income budgets, notably Arts, Cemeteries & Crematoria and the Market Hall were down. The overall impact was a £0.130m reduction in income. The Coroner's Service overspent by £0.104m, due to fees payable to organisations undertaking this specialist area of work. The service is demand led and consequently the level of expenditure in any year is unpredictable.

e) **Neighbourhood & Investment** – The Housing employees budget was underspent by £0.250m, with fees and charges income up by £0.160m.

f) **Operational Services** – The main area of overspend was due to the Specialist Transport Unit (+£1.3m), where demand pressures have continued. The introduction of a new route planning system and other service efficiencies are being considered for 2011/12 to help reduce expenditure levels. This overspend has been reduced considerably due to surpluses (-£0.694m) being generated on trading services such as Building Cleaning, Security Force and Commercial Waste. In addition, there was an underspend of £0.125m on street cleaning and public convenience budgets.

g) **Planning & Regeneration** – The main budget pressures arose from reduced income as a result of the downturn in the economy. Planning, Building Control and Land Search fees are all below budget (+£0.456m), although the latter budget is also reduced due to the Government's abolition personal search fees. The ending of Planning & Housing Delivery Grant has also resulted in a £0.250m gap in the budget. Reduced expenditure on staffing and consultant's costs amounting to £0.170m has reduced the level of overspend, as has the increase in S106 fee income (£0.100m).

h) **Corporate** - The net income from Housing Benefit Subsidy was £1.4m higher than anticipated in the budget; this was partly due to the efforts of Arvato / Client team in implementing changes which enabled maximum subsidy to be received. A one-off recovery of VAT paid in previous years (£1.2m) was received during the year. This was the result of a joint exercise undertaken by the Authority with PricewaterhouseCoopers. The ongoing transformation of the Council has meant that costs have had to be incurred which would not ordinarily be the case. For example, significant redundancy payments have been made in order to encourage staff to leave employment. The statutory element has been capitalised, following approval by the Government, however, the non-statutory expenditure costs fall directly on the Council. This and other transformation costs, such as pension contributions totalled some £1.7m in 2010/11.

i) **Debt Repayment / Net Investment** - There was an underspend of £2.3m on debt repayment / net investment during the year. This was the result of better investment returns on temporary monies held by the Council and particularly the lower than planned need for borrowing from the Public Works Loan Board.

4.3 As mentioned in paragraph 4.1, the overall underspend for the Authority could have increased General Balances to £6.887m; and in normal circumstances this would have been recommended. Such balances are normally viewed as being "untouchable" as they are there to provide a "back-stop" for the Council for unexpected financial consequences. However, the current position of needing to find savings of £38m over 3 years means that a lot of change will be required throughout the Authority. Consequently, the transfer of £3.2m to Earmarked Reserves specifically set aside to assist the transformation process is recommended.

5 Prudential Indicators 2011/12 – Proposed Amendment

5.1 Members will recall that Prudential Indicators need to be established prior to the start of the financial year. These provide the financial framework / boundaries for the Authority with regard to ensuring that the Council complies with the relevant legislation, is acting prudently and that its capital expenditure proposals are affordable. These were approved by the Council on 3 March 2011 for the 2011/12 financial year.

5.2 International Financial Reporting Standards (IFRS) are the latest accounting standards introduced by the International Accounting Standards Board (IASB). They have been adopted by local authorities in 2010/11 for the preparation of year end Statement of Accounts. The introduction of IFRS has meant that some figures used within the determination of the Prudential Indicators have been amended. Consequently, an update of the Indicators is now required.

5.3 One of the key areas of change for Sefton, as part of the implementation of IFRS Accounting, has been the reclassification of certain "operating" leases as "finance" leases.

5.4 Under an operating lease, the value of future lease payments are disclosed in a note to the accounts, but are <u>not recorded within creditors</u> on the balance sheet. The value of the asset is also <u>not recorded within fixed assets</u>. Whereas, under a finance lease, they have to be identified within the Balance Sheet. The value of the asset is recorded within fixed assets, whilst the liability for all future payments is now recorded within creditors.

5.5 The implication for Sefton has been that the value of assets and liabilities in the 2010/11 Accounts increasing significantly since the 2009/10 Statement. The effect of this change is:

- the value of fixed assets has risen by some £19.082m;
- the level of our borrowings recorded on the face of the balance sheet has also increased by £18.429m to reflect the anticipated future creditor payments under the finance lease. For information, in addition to the creditor payments recorded in the balance sheet, £0.653m of interest, payable under the leases, has been recorded within the Capital Adjustment Account i.e. the difference between the above two figures.

5.6 It should be noted that the above is a technical change to the Accounts. <u>No new agreements or borrowing has been undertaken in respect of these leases, it is merely the way that these historic agreements are being presented within the Statement of Accounts</u>.

5.7 As a consequence of this accounting change, the increase in fixed assets / borrowing figures needs to be reflected in the Prudential Indicators. The key indicators that require revision due the changes made on the balance sheet are the capital financing requirement (CFR), the operational boundary and the authorised limit. The amendments to these indicators are highlighted in <u>**Appendix 1**</u>. The update of the indicators is merely a technical adjustment; it will not adversely affect the Council, or require any change to how we finance the newly categorised finance leases.

APPENDIX 1

PRUDENTIAL INDICATORS 2011/12 – AMENDED AUGUST 2011

1. Capital Financing requirement

The Capital Financing Requirement indicator reflects the Authority's underlying need to borrow for a capital purpose. This is based on historic capital financing decisions and a calculation of future years planned capital expenditure requirements. The indicator approved in March 2011 is compared to the revised indicator incorporating the effects of IFRS below:

Capital Financing Requirement					
	31/03/10 £m **Actual**	31/03/11 £m **Estimate**	31/03/12 £m Estimate	31/03/13 £m Estimate	31/03/14 £m Estimate
General Fund as approved	182.400	194.700	207.000	204.000	199.000
As revised under IFRS		211.500	224.000	222.000	217.000

This increase in the CFR reflects the reclassification of operating leases to finance leases, and also the revision of certain fixed asset valuations as noted in 1.4 above.

2 Prudential Indicator – Borrowing Limits

2.1. External borrowing undertaken by the Council arises as a consequence of all the financial transactions of the Authority, both capital and revenue, and not simply those arising from capital spending. The Council manages its Treasury Management position in terms of its external borrowings and investments in accordance with its approved Treasury Management Strategy and Policy Statements.

The Operational Boundary

2.1.1 The Operational Boundary sets a limit on the total amount of long-term borrowing that the Council can undertake. It reflects the Authority's current commitments, existing capital expenditure plans, and is consistent with its approved Treasury Management Policy Statement and practices. The figures are based on prudent estimates.

2.1.2 The indicator approved in March 2011 is compared to the revised indicator incorporating the effects of IFRS below:

Operational Boundary - approved March 2011				
	2010/2011 £m	2011/2012 £m	2012/2013 £m	2013/2014 £m
Borrowing (long-term)	140.000	159.000	163.000	164.000
Other long term liabilities	7.500	6.500	6.500	5.500
Total	147.500	165.500	169.500	169.500

Operational Boundary - revised under IFRS				
	2010/2011 £m	2011/2012 £m	2012/2013 £m	2013/2014 £m
Borrowing (long-term)	158.000	177.000	181.000	182.000
Other long term liabilities	7.500	6.500	6.500	5.500
Total	165.500	183.500	187.500	187.500

The above change reflects the inclusion of the finance lease liabilities on the balance sheet, which have been reclassified from operating leases as required under IFRS. The total value of the liability is £18.429m.

The Authorised Limit

2.1.3 The Authorised Limit sets a limit on the amount of borrowing (both short and long-term) that the Council undertakes. It uses the Operational Boundary as its base but also includes additional headroom to allow, for example, for exceptional cash movements. Under the terms of section 3 (1) of the Local Government Act 2003, the Council is legally obliged to determine and review how much it can afford to borrow i.e. the authorised limit. The authorised limit determined for 2011/12 will be the statutory limit determined under section 3 (1).

2.1.4 The Council is asked to delegate authority to the Head of Corporate Finance and Information Services to effect movement between the separately agreed figures for borrowing and other long-term liabilities within the total authorised limit for any year. Any such changes will be reported to the Council at the earliest opportunity.

2.1.5 The indicator approved in March 2011 is compared to the revised indicator incorporating the effects of IFRS below:

Authorised Limit - approved March 2011				
	2010/2011 £m	2011/2012 £m	2012/2013 £m	2013/2014 £m
Borrowing (short & long-term)	155.000	174.000	178.000	179.000
Other long term liabilities	7.500	6.500	6.500	5.500
Total	162.500	180.500	184.500	184.500

Authorised Limit – revised under IFRS				
	2010/2011 £m	2011/2012 £m	2012/2013 £m	2013/2014 £m
Borrowing (short & long-term)	173.000	192.000	196.000	197.000
Other long term liabilities	7.500	6.500	6.500	5.500
Total	180.500	198.500	202.500	202.500

The above change reflects the inclusion of the finance lease liabilities on the balance sheet, which have been reclassified from operating leases as required under IFRS. The total value of the liability is £18.429m.

Prudential Indicator – Financing Costs/Net Revenue Stream

2.1.6 This indicator measures the total capital financing costs of capital expenditure as a proportion of the total level of income from Government grants and local Council Taxpayers. From 2011/12 Net Revenue Stream no longer includes Area Based Grant.

2.1.7 The indicator approved in March 2011 is compared to the revised indicator incorporating the effects of IFRS below:

Financing costs/Net revenue stream - approved March 2011				
	2010/2011	2011/2012	2012/2013	2013/2014
General Fund	5.2%	6.4%	6.9%	6.7%

Financing costs/Net revenue stream - revised under IFRS				
	2010/2011	2011/2012	2012/2013	2013/2014
General Fund	5.3%	6.3%	6.7%	6.5%