

Agenda item:

**Decision maker:** Cabinet 7<sup>th</sup> October 2013  
City Council 15<sup>th</sup> October 2013

**Subject:** Revenue Outturn 2012/13 (Final Accounts)

**Report by:** Head of Finance and Section 151 Officer

**Wards affected:** All

**Key decision (over £250k):** Yes

**Forward Plan:** Yes

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## 1. Purpose

The purpose of this report is to:

- Inform Members of the overall Revenue Outturn for 2012/13 (subject to the completion of the audit) compared with the Revised Budget 2012/13
- Briefly describe the main variances against the Revised Budget for 2012/13
- Set out the cash limit reductions to Portfolios in the current year arising from the claw back of overspendings against 2012/13 cash limits
- Inform Members of the final outturn position of both the Housing Revenue Account (Council Housing Account) and the Collection Fund (Council Tax and Business Rates Collection Account)
- Make recommendations for the use of the resultant improvement in the financial position of the City Council compared to the forecast financial position as set out in the Portsmouth City Council Budget 2012/13 to 2016/17 report approved on the 12<sup>th</sup> February 2013

## 2. Recommendations

2.1 It is recommended that:

- i) The final outturn position for 2012/13 (subject to audit) be noted in respect of the General Fund, Collection Fund and Housing Revenue Account
- ii) That the following reduction in the 2013/14 cash limits related to the "Claw back" of overspendings in 2012/13 are noted:

Children & Education	£3,000
Leader	£3,000

- iii) The sum of £5,000,000 be transferred to the Revenue Reserve for Capital to supplement the Capital Resources available in order to accelerate the Council's current strategy to drive economic growth and jobs within the City
- iv) The sum of £439,000 be transferred from General Reserves to the Medium Term Resource Strategy Reserve in order to replenish the reserve to a level that is sufficient to finance future spend to save schemes, feasibility studies and staff redundancy costs.
- v) In the event that the external auditors require any adjustments to the Final Accounts for 2012/13 that alter the overall net improvement in the Council's position from £5,439,000, the Head of Finance & Section 151 Officer be authorised to, in the first instance, adjust the transfer to the Medium Term Resource Strategy Reserve accordingly and, if necessary, the transfer to the Revenue Reserve for Capital for any remaining sum.

## 3. Background

3.1 On the 12<sup>th</sup> February 2013, the City Council approved a Revised Budget (General Fund) for 2012/13 of £195,582,325. This budgeted expenditure was to be financed as follows:

	£
Formula Grant	84,881,677
Council Tax	68,596,699
Other General Grants	36,300,057
General Reserves	5,803,892
<b>Total Financing</b>	<b><u>195,582,325</u></b>

- 3.2 This level of budgeted spending relied on the use of £5.804m from General Reserves and represents the extent to which the Council's budgeted in-year spending exceeded its in-year income. The main reason for the draw down of £5.8m from General Reserves was to transfer the £4.202m underspend from 2011/12 (which had accrued to General Reserves) into the MTRS Reserve.
- 3.3 The future years' budget forecasts, prepared at the time the budget was approved in February 2013, indicated that the Council had underlying budget deficits of the following:

<b>Year</b>	<b>Forecast Budget Deficit £m</b>
2013/14 (funded from Reserves)	0.3
2014/15	6.6
2015/16	15.8
2016/17	26.0

The Council has sufficient General Reserves to be able to provide temporary support to its budget in the short term and therefore is able to manage the elimination of these deficits over a 3 year period. The savings targets to achieve £26.0m over the next 3 years that have been approved by the Council are as follows:

<b>Year</b>	<b>In Year Target £m</b>	<b>Cumulative Saving £m</b>
2014/15	9.0	9.0
2015/16	8.5	17.5
2016/17	8.5	26.0

#### **4. Revenue Outturn 2012/13 (General Fund)**

- 4.1 The City Council's Financial Statements (Final Accounts 2012/13) were finalised in June 2012 and submitted to the external Auditor (Ernst & Young) for auditing. The final audited accounts were subsequently approved by the Governance, Audit & Standards Committee on 26<sup>th</sup> September 2013.
- 4.2 At the time of writing this report the Audit of the Accounts 2012/13 had not been finalised. The audit however, was nearing its conclusion and it is not anticipated that any adjustments will be required that impact on the overall net expenditure of the Council for 2012/13. This means that the overall underspend, and therefore the level of General Reserves (which are used to support future years budgets) arising from the 2012/13 reported Final Accounts and set out in this report, is not expected to change.
- 4.3 Overall net expenditure for the City Council in 2012/13 amounted to £191,226,400 compared to the Revised Budget of £195,582,300. This is an underspend against budgeted expenditure of £4,355,900. In addition to this however, the Council received higher sums than anticipated from General Grants amounting to £930,400. The overall net improvement against the

budget therefore amounts to £5,286,300 and represents a variance of 2.7%. This is set out in summary in Appendix 1.

4.4 The most significant reasons for the £5.3m underspend are set out below:

#### Overall Variance against Budget

The total of all Portfolio and Committee variations compared to budget was an underspend of £1.890m (1.25%). All Portfolio's operated within the Council's budget rules and exercised strict financial control over their activities throughout the year. As a result any individual net Portfolio overspends that arose represented less than 1.0% of the respective Portfolio budget.

Portfolio under and overspendings along with an underspending of £2.202m within Other Expenditure are set out in Appendix 1.

Set out below are the main variances that occurred both within Portfolio and outside of Portfolio Expenditure. In particular, whilst there were a number of variances within the Health & Adult Social Care and Children & Education Services both of these Portfolios exercised effective financial management and remained at or around their overall Portfolio Cash Limit.

#### Main Underspendings against Budget:

- Unused general contingency of £1.5m
- Higher than anticipated Grants from Government of £0.9m mainly relating to a re-imburement of funding withdrawn for Academies
- Release of sums set aside for anticipated non recovery of housing renovation loans to the private sector in the sum of £0.8m. Security for loans has now been provided by placing registered charges on properties allowing the financial provision set aside for non-recovery to be released
- In Children & Education Services - £0.8m savings were realised from holding vacancies and reduced project spend in the Early Years Service (£0.2m), holding vacancies and reduced contracted services in the Youth Service (£0.2m) plus other savings in Management, Support and Strategic Commissioning (£0.4m).
- Savings within Adult Social Care amounting to £0.4m mainly arising from additional client contributions from in house residential units (£0.2m) plus reduced clients and savings in staff and client activities in day care services (£0.2m)
- Improved trading results from the Port of £0.5m
- Non-use of the specific contingency held to cover potential cash and interest rate movements in the Council's Treasury Management activities amounting to £0.5m

### Main Overspendings against Budget:

- In Education & Children's Services – £0.7m arising from increased numbers of Looked After Children and therefore a higher than anticipated use of Independent Foster Agencies for their placement
- In Adult Social Care – £0.4m mainly arising in domiciliary care services due to increased demand.

4.5 A full summary of each Portfolio's variances against their cash limit is attached at Appendix 1 as well as an analysis of windfall savings and windfall costs for which Portfolios are not accountable.

4.6 Two Portfolios marginally exceeded their cash limited budget in 2012/13 (after adjusting for windfall costs and windfall savings) as follows:

Children & Education	£3,000
Leader	£3,000

The Council resolution of 15<sup>th</sup> December 2009 stated that any overspendings against cash limits in one year will be deducted from the following year's cash limit. Therefore cash limit reductions have been made to those Portfolios for the sums stated above.

## **5. General Fund Reserves**

5.1 The Council had originally planned its Medium Term Financial forecasts, savings requirements and budget for 2012/13 on the basis of a deficit (and therefore a withdrawal from General Reserves) of £5.804m. The actual deficit for the year of £0.518m and the consequent underspend has improved the financial position of the Council compared to the forecasts presented to Council as part of the Budget Report in February 2013. In addition, the claw back of overspendings amounting to £6,000 has also had a positive impact. The overall impact of these improvements in the Council's forecast position, amounting to £5.292m, is set out below (this however does not include the effect of the performance of the Collection Fund – see next section):

	<b>£ 000</b>
Actual withdrawal from General Reserves for 2012/13	518
Less: Planned withdrawal from General Reserves as per the Revised Budget 2012/13	(5,804)
Add: Claw back in 2013/14 of overspendings in 2012/13	(6)
<b>Total Improvement in Forecast Financial Position</b>	<b>(5,292)</b>

5.2 The in-year deficit of £0.518m has reduced the balance on General Reserves from £24.141m as at 1<sup>st</sup> April 2012 to £23.623m as at 31<sup>st</sup> March 2013. This is illustrated below:

	<b>£ 000</b>
General Reserves as at the 1 <sup>st</sup> April 2012	24,141
Less: Deficit transferred from General Reserves 2012/13	518
<b>General Reserves as at the 31<sup>st</sup> March 2013</b>	<b>23,623</b>

**6. Collection Fund**

The Collection Fund is a statutory account which includes all transactions in respect of Non Domestic Rates and Council Tax and shows how these sums are distributed to the City Council, the Police Authority and the Hampshire Fire & Rescue Authority. The overall balance on the Collection Fund is consolidated with the other accounts of the Authority into the Balance Sheet.

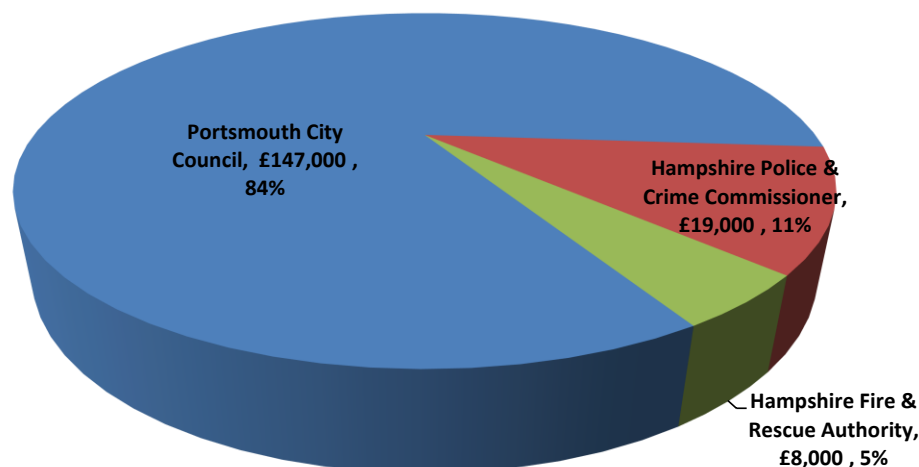
The Collection Fund is intended to break even but is dependent largely on the robustness of the estimates of the amount of Council Tax that will be collected. It involves forecasting all of the Council Tax income due from all properties including the effect of exemptions and discounts across the City’s 88,000 properties. At the beginning of the year, the fund was in deficit in the sum of £419,000 and when the Budget was revised in February 2013 it was anticipated that the fund would be in deficit in the sum of £200,000 by the end of 2012/13. The Budget for 2013/14 was prepared on this basis i.e. that there would be a repayment of this deficit of £200,000 during 2013/14.

The actual deficit on the Collection Fund at the end of 2012/13 was just £27,000 i.e. £173,000 lower than anticipated. Since the Budget and Council Tax for 2013/14 was set on the basis of a £200,000 deficit, the improvement of £173,000 from the estimate can be distributed through the 2014/15 Budget Process. An estimate of the Collection Fund balance as at the end of 2013/14 will be revised in the light of this improvement and all other circumstances just prior to setting the Council Tax and Budget for the next financial year. Any estimated surplus at that time will then be distributed to constituent Authorities during the next financial year.

The primary cause of the overall fund improvement is slightly higher than anticipated Council Tax income receivable than estimated.

The City Council administers the Collection Fund and collects the Council Tax on behalf of the City Council, Hampshire Police & Crime Commissioner and the Hampshire Fire & Rescue Authority and therefore any surplus or deficit on the fund is shared with them. Should the unplanned improvement of £173,000 remain, this would be shared as follows:

## 2012/13 Unplanned Reduction in Collection Fund Deficit £173,000



Any unplanned surplus that relates to the City Council (i.e. £147,000) will be transferred to General Fund Reserves in 2014/15 and planned into future financial forecasts accordingly.

### 7. Overall General Fund Financial Position 2012/13

7.1 In overall terms, the General Fund position of the Council compared to the Medium Term Financial forecasts presented to Council on 12<sup>th</sup> February 2013 has improved by the sum of £5.439m arising from the underspend against the Revenue Budget, further improved by both the £6,000 clawback of the 2012/13 overspendings and the improvement on the Collection Fund deficit of £147,000. The improved position on the Collection Fund however, will be subject to review as part of the forthcoming budget process and factored into the future revision of the City Council's Forecasts in February 2014 for next year's budget. The forecast improvement in the City Council's General Fund position therefore is as follows:

Net Improvement in General Reserves 2012/13 (versus forecast)	<b>£ 000</b> 5,286
<u>Add:</u>	
Claw back in 2013/14 of overspendings in 2012/13	6
<b>Actual Improvement vs. Forecast General Fund Position</b>	<b>5,292</b>
<u>Add:</u>	
PCC Share of improvement on the Collection Fund (subject to review and to be transferred to General Reserves in 2014/15)	147
<b>Potential Improvement in General Fund Position</b>	<b>5,439</b>

7.2 The Council now has some strategic options for the use of this £5.439m. That use ought to be consistent with a good and strong financial strategy (as described below). The overall aim of a good financial strategy is that:

*"In year" expenditure matches "in year" income over the medium term whilst maintaining our most important and valuable services*

In recent years, the Council has been following a strategy aimed at making efficiencies first before considering service reductions, joint working arrangements in order to reduce costs and pursuing new income streams wherever possible. In parallel with that, the Council has prioritised Capital Investment towards regeneration as a means of improving the prosperity of the City through job creation which satisfies one of its core priorities but which has the added benefit of reducing the pressure on Council Services.

A good financial strategy would also include the following objectives which will be proposed to the City Council in a forthcoming budget report:

- Protect the "baseline" - measures which avoid any deterioration in the Council's financial position, in particular shifting resources towards prevention to avoid future costs
- Increase income - to reduce the Council's dependency of government funding which is declining sharply and which could include taking a more entrepreneurial role (e.g. Invest to Save through property acquisition and development, selling services etc.)
- Reduce costs - through efficiencies, lean and targeted commissioning, strong contract management and prioritised service reductions
- Effective financial framework i.e. to encourage responsible spending and medium term financial planning
- Strong financial resilience i.e. sufficient reserves to be able to respond to "financial shocks" without the need for drastic and unplanned reductions to services

The strategic options available to the Council for the use of the £5.439m are as follows:

- To "Smooth out" the savings required in 2014/15 and future years to meet the Council's forecast deficits of £6.6m in 2014/15, £15.8m in 2015/16, and £26.0m in 2016/17; or
- Supplement the MTRS Reserve, earmarked for spend to save initiatives, feasibility studies and redundancy costs, which currently stands at £15.9m. After taking account of approved and other estimated commitments against the reserve, the current uncommitted balance stands at £2m; or
- Continue the drive towards regeneration and job creation in the City and the region by supplementing the resources available for Capital Investment



7.3 The Council is currently engaged in a number of negotiations and bids for additional funding that could have a transformational effect on the City and the City's economy. Examples include:

- The City Deal - A negotiation with Government to provide funding or allow additional business rates to be retained by the Council to support infrastructure investment which will enable sites to be developed in and around Tipner and Port Solent. This has the potential to lever in total investment of between £600m to £700m
- The Northern Quarter Development - A City Centre retail and leisure development with a potential total investment of £250m
- Dunsbury Hill Farm - Council owned land in Havant which can be developed. For phase 1, the City Council is looking to develop 500,000 square feet of land for B1/B2/B8 use. The site has obtained outline planning permission. It is anticipated that the site will support between 700 and 1,000 jobs and there is serious interest from prospective occupants. The total potential investment (in phase 1) is £50m
- The Hard - Replacement of the existing bus interchange and improvement of the public realm. Evidence from developers and the business community indicate that a high quality environment is needed to unlock development at eight identified opportunity sites (delivering at least 300 residential units, 25,000m<sup>2</sup> of hotel space, and 20,000 m<sup>2</sup> of office floor space, together with lower levels of retail floor space). In the short-term it will help unlock development at the Brunel House site, generating 186 direct and 82 indirect net jobs within the region.

In order to unlock the potential investment within the City and attract the external funding associated with these schemes, the City Council will need to provide some match funding of its own. In addition to this, it will also be necessary to incur costs at its own risk in working up feasibility and other studies in order to progress those bids.

7.4 Given the potential transformational effect that these major developments could have on the wealth and prosperity of the City, it is recommended that £5,000,000 of the improvement in the City Council's financial position be transferred to the Revenue Reserve for Capital to supplement the Capital Resources available in order to accelerate the Council's current strategy to drive economic growth and jobs within the City

7.5 Given also that spend to save schemes, in general, deliver the same or comparable levels of service for reduced cost, this method of meeting the City Council's savings targets is preferable to service reductions. There is a need therefore to maximise the resources available to the MTRS Reserve in order to provide any up front funding for future savings. For these reasons, it is recommended that the remaining £439,000 of the improvement in the City Council's financial position be transferred to the Medium Term Resource Strategy Reserve. This will replenish the reserve to a level that is sufficient to

finance future spend to save schemes, feasibility studies and staff redundancy costs.

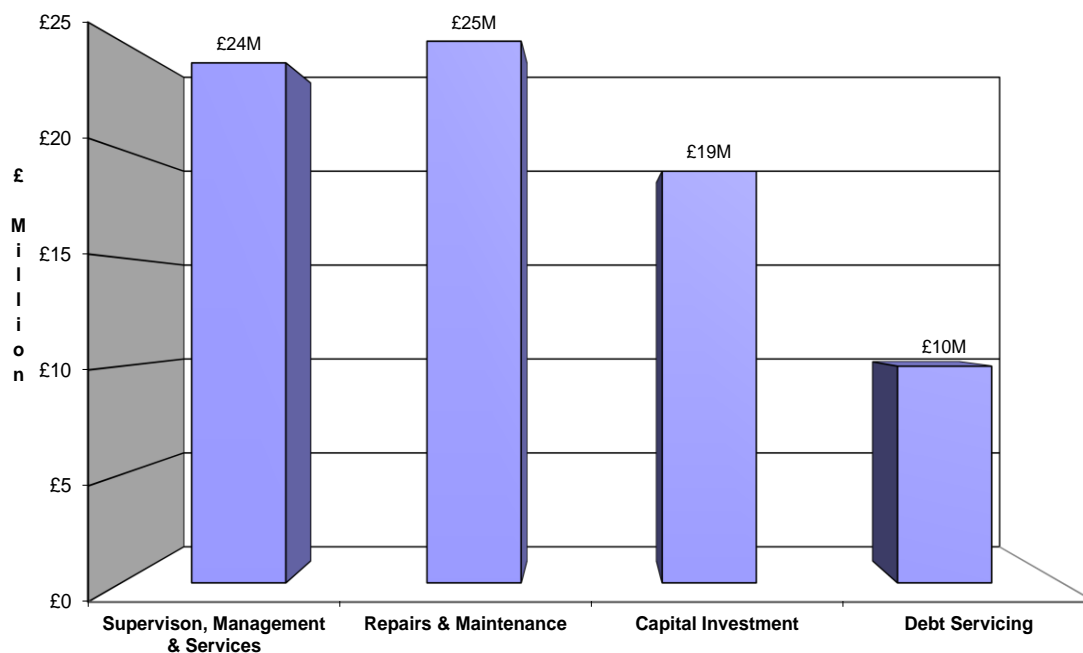
- 7.6 Should the Council decide to transfer the sum of £5.439m into the Revenue Reserve for Capital and the MTRS Reserve, the longer term forecast of General Reserves after taking account of the planned use of General Reserves to support future years budgets whilst savings targets are being “managed in”, is forecast to reduce to £8.4m and is the sum approved by the City Council in February 2013. This is set out below:

<b>Medium Term Forecast of General Reserves – 2013/14 to 2016/17</b>	<b>£ m</b>	<b>£ m</b>
<b>General Reserves as at 1 April 2012</b>		24.141
<u>Add:</u>		
Claw back in 2013/14 of overspendings in 2012/13	0.006	
Improvement in Collection Fund	0.147	
		0.153
<u>Less:</u>		
In-Year Deficit 2012/13	(0.518)	
Recommended Transfer to the Revenue Reserve for Capital	(5.000)	
Recommended Transfer to MTRS Reserve	(0.439)	
		(5.957)
<u>Less:</u>		
Used to Support Approved Budget 2013/14	(0.313)	
Used to Support Forecast Budget 2014/15	(6.574)	
Used to Support Forecast Budget 2015/16	(3.050)	
Used to Support Forecast Budget 2016/17	0	
		(9.937)
<b>Forecast General Fund Position as at 31<sup>st</sup> March 2017</b>		<b>8.400</b>

## 8. Housing Revenue Account (HRA)

- 8.1 The HRA includes only income and expenditure relating to the City’s council housing stock. It does not include Local Authority expenditure on other Housing services e.g. support for Registered Social Landlords or Housing Benefit Payments. The purpose of the HRA is to separately identify the services that council tenants pay for through their rents as opposed to their Council Tax. It includes expenditure on Management & Maintenance of Council Housing and how these costs are met by Rents, Charges, Grants and other income. An analysis of the main types of expenditure on Council Housing is illustrated below.

**Main Areas of Council Housing Revenue Spending 2012/13**  
£78 Million



8.2 The Revised Budget for 2012/13 approved in February 2013 assumed that the HRA would make a withdrawal from the HRA General Balance of £0.5m. This was deliberately planned in order to provide funds to support expenditure in the current year and provide a cushion whilst expenditure is managed down over time to a point in future years when in-year expenditure broadly meets in-year income. Compared with the actual withdrawal from the HRA Reserve of £2.2m, this represents a deterioration in the overall anticipated financial position on the HRA of £1.7m.

8.3 The HRA Reserve now stands at £8.5m compared with £10.7m at 31 March 2012 and is held as an overall contingency to avoid falling into deficit and to provide support to future years budgets where income levels are not sufficient to meet service needs.

8.4 The HRA continues to maintain a healthy position. Current estimates indicate that the HRA will need to sustain deficits over the short term but then even out over the medium term.

## 9. Summary & Conclusion

9.1 In 2012/13 the Council experienced a reduction in its General Reserves (excluding schools) of £0.5m and this represents the extent to which the City Council's in-year expenditure has exceeded its in-year income. The Council had actually budgeted for a withdrawal from General Reserves of £5.8m, therefore this reduced withdrawal from General Reserves represents an overall underspend against the budget of £5.3m. The £5.3m improvement arose from underspendings, in the main, arising from the non-use of contingencies, additional government grants and releases of sums that had previously been set aside for anticipated non recovery of loans.

- 9.2 The deficit on the Collection Fund of £27,000 is lower than the anticipated deficit of £200,000 reflected within the Budget. The City Council’s share of the £173,000 budget surplus is £147,000.
- 9.3 Taking the above factors together, there is a forecast improvement of £5.4m in the overall financial position of the Council. This is now available either to “smooth out” the savings requirements of the Council over a longer period of time or to use to supplement the MTRS Reserve or to be invested to accelerate the Council's current strategy to drive economic growth and jobs within the City.
- 9.4 It is recommended that the Council uses £5,000,000 of the improvement to provide additional capital resources in order to accelerate the Council's current strategy to drive economic growth and jobs within the City and uses the remaining £439,000 to support spend to save schemes as a key driver to meet the Council's future savings requirements.
- 9.5 In relation to the Housing Revenue Account, a withdrawal from HRA Reserves of £2.2m was made during 2012/13. This represents a £1.7m overspend versus the Budget approved in February 2013 and leaves the balance on the HRA Reserve at £8.5m as at 31<sup>st</sup> March 2013.

**10. City Solicitor’s Comments**

- 10.1 The City Solicitor is satisfied that it is within the Council’s powers to approve the recommendations as set out.

**11. Equality Impact Assessment**

- 11.1 Since the recommendations contained within this report simply propose a transfer of funds between one financial reserve to another and the use of any funds within those reserves has not yet been determined, an equality impact assessment is not necessary.

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**Chris Ward**  
**Head of Finance & Section 151 Officer**

**Background List of Documents –**

Section 100D of the Local Government Act 1972

The following documents disclose facts or matters which have been relied upon to a material extent by the author in preparing this report –

<b>Title of Document</b>	<b>Location</b>
Portsmouth City Council Budget 2013/14 to 2016/17	Office of Head of Finance
Statement of Accounts 2012/13 (Governance & Audit Committee 26 <sup>th</sup> September 2013)	Office of Head of Finance
Electronic Final Accounts Files 2012/13	Financial Services Local Area Network

The recommendations set out above were:

Approved / Approved as amended / Deferred / Rejected by the Cabinet on 7<sup>th</sup> October 2013

Signed: .....

Approved / Approved as amended / Deferred / Rejected by the City Council on 15<sup>th</sup> October 2013

Signed: .....