



Title: **Revenue Outturn 2011/12 – Subject to Audit**

Public Item: **Yes**

Wards Affected: **All Wards in Torbay**

To: **Overview and Scrutiny Council** On: **20 June 2012**  
On: **12 July 2012**

Key Decision: **No**

Change to Budget: **Yes** Change to Policy Framework: **No**

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## **1. What we are trying to achieve and the impact on our customers**

- 1.1. The revenue outturn report shows the results of the Council's expenditure throughout the financial year 2011/12 and makes recommendations with respect to the declared surplus. It gives confidence that the Council has managed its resources well in delivering its stated objectives.
- 1.2 A separate report will be presented to Members of the final capital outturn position.

## **2. Recommendations for decision**

- 2.1 **That the revenue outturn position for 2011/12 be noted.**
- 2.2 **That the Overview and Scrutiny Board be asked to report directly to Council on any recommendation it may have following its review of the outturn position.**
- 2.3 **That it be recommended to the Council that:**
- (i) That a sum of £0.305m be transferred to an Employment Fund Reserve (paragraph A3.8);**
  - (ii) That the transfer of £0.136m of the revenue underspend to the Comprehensive Spending Review Reserve (paragraph 3.9) be approved;**

- (iii) That it be noted that the transfers in (i) and (ii) above are subject to the final audit of the Council's accounts.
- (iv) That the reserves proposed in paragraph 3.8 of the submitted report be amalgamated.

### 3. Key Points and reasons for recommendation

- 3.1 The Council continues to be faced with an extremely challenging future due to the expected reduction in government grant over the next two years of the current Comprehensive Spending Review (CSR) and the likely further reductions required in the following CSR. In addition, the Council is impacted by the political and economic uncertainty within Europe and the impact this may have upon the public finances of the country and future grant support for local government.
- 3.2 2011/12 was a challenging year financially for the Council due to significant pressures within Children's Services, Adult Social Care and Spatial Planning. However, despite these pressures, the Council has been able to contain spending and is in the position whereby income received has exceeded expenditure in 2011/12. A summary of how the net surplus was achieved and how it is recommended to be used is shown below:

	<b>Council Budget</b>	<b>Council Outturn</b>	<b>Over/(under)spend</b>
Council Expenditure	124,832	125,346	514
Unallocated Grants	955	0	(955)
<b>Surplus achieved</b>	<b>125,787</b>	<b>125,346</b>	<b>(441)</b>
Allocated to:			
- Employment Fund Reserve			305
- CSR Reserve			136
<b>Balance</b>			<b>0</b>

- 3.3 The Council was able to achieve this small surplus due to the successful implementation of strict financial control including a moratorium on non-essential expenditure, a vacancy freeze for all non-front line posts (using redeployment for vacancies in preference to redundancies where possible), and the non committal of unringfenced grants. These actions meant that the Council could declare an overall underspend. This situation comprises a number of over and underspends in different services at the end of the financial year (the detail is summarised below in section A3). These measures were supported by careful monitoring of budgets and performance by the Mayor, Executive Leads, Overview and Scrutiny Board and the Senior Leadership Team
- 3.4 The actions taken have ensured that services have continued to be provided to those most in need. Savings have mostly been achieved in discretionary areas. Whilst in the short term the impact on services has been minimal, there will be consequences from the freeze on expenditure which, in some cases, only defers

spend or, if continued in the longer term, could have an adverse consequence of increasing expenditure e.g. repairs and maintenance.

## Reserves

### Financial Challenge Reserves

- 3.5 As part of a previous Council decision, reserves were created to assist in meeting the financial challenges it faced over the period of the Comprehensive Spending Review (CSR). Three reserves, and spending on those reserves (for one-off purposes), have been reported to Members throughout the year and the balance on each reserve as at 31 March 2012 are shown below:

Reserve	Working Balance £'m
Comprehensive Spending Review Reserve	2.890
Budget Pressures Reserve	0.443
Financial Strategy and Change Management Reserve	0.149
<b>Balance at 31 March</b>	<b>3.482</b>

- 3.6 The main reserve is the CSR reserve which was set up in 2010 to support the Council during the financial challenges it faced. The main call on this reserve has been the cost of redundancies of which costs amounted to £0.6m. This CSR reserve will be maintained to assist the Council in managing the impact of further structural changes.
- 3.7 The Council holds two other uncommitted reserves: a Budget Pressures Reserve and a Change Management and Financial Strategy Reserve. Members will also recall that the council had to account for sunk costs arising from the redesign of the office accommodation review. This has been confirmed as £0.5m and has been funded the Financial Strategy and Change Management Reserve.
- 3.8 Due to the ongoing financial pressures that will be faced by the Council, it is suggested that these reserves are merged into the CSR reserve, creating one reserve which will be used as considered appropriate by the Mayor in consultation with the Chief Finance Officer, the Chief Executive and the Executive Lead for Finance. Business Units will be expected to explore options to manage any budget pressures during the year before consideration is given to releasing resources from this reserve.
- 3.9 Mindful of the challenges that will have to be faced in the next few years, it is recommended that a contribution of £0.136m of the surplus is made to the Comprehensive Spending Review. If the proposals to agree to merge the reserves are approved, the CSR reserve will stand at £3.618m from 1 April 2012.

## **General Fund Balance**

- 3.9 The net surplus achieved continues the good record of the Council not having to make a call on general fund balances since the Council became a unitary authority in 1998. The General Fund Balance currently stands at £4.0m. This represents some 3.2% of net budget. In these challenging financial times there has been media attention as to the level of reserves held by Council's. It should be recognised that the general fund balance is uncommitted (unlike other earmarked reserves) and provides funds that would only be used for any unforeseen or unexpected expenditure that could not be managed within services. With this in mind and in light of the difficult financial climate faced by the Council and reduction to the Council's net budget, I believe that a cash balance of £4m, is a prudent and sustainable level. In addition the Council's external auditors will have a view as to the level of the Council's General Fund Balance.
- 3.10 The Council has a statutory obligation to report on its financial position in each year which culminates in the production of the Council's statutory annual accounts. The accounts must be finalised and signed by the Chief Finance Officer before the end of June each year.
- 3.11 The Council needs to consider the reserves position before the compilation of the statutory annual accounts and the audit of those accounts. As set out in the Accounts and Audit Regulations, the statutory accounts will be presented to Members of the Audit Committee for formal approval in September 2012. This allows Members to consider and approve the accounts after the statutory audit has been completed and reported to Members in September 2012. For Members information, the external audit of the accounts will commence on 9 July 2012 and is expected to take approximately 2 months.
- 3.12 As in previous years there will be a review of all earmarked reserves. This will be undertaken as part of the budget preparation process and is reported to Members at least once a year usually in the autumn, as has been the practice in recent years.
- 3.13 Once this review has been completed, where applicable any surplus monies can be recycled as part of the budget setting process for the following year. Members will be aware that these reserves are earmarked for specific purposes with the exception of the General Fund Reserve which remains the only fund the Council holds to meet emergency costs. With media attention focusing in the level of Council reserves it should be noted that any release of monies from reserves should only be used for one off purposes and cannot be used to sustain ongoing expenditure. However, due to the expected challenges the Council will face with ongoing reductions to its grant, all earmarked reserves will be scrutinised.

**For more detailed information on this proposal please refer to the supporting information.**

**Paul Looby  
Executive Head of Finance**

**Appendices**      Appendix 1    Write-Off's over £5,000 (Exempt Appendix).

## **Supporting information**

### **A1. Introduction and history**

- A1.1 The Council approved the 2011/12 budget at its meeting on 24 February 2011. Financial monitoring reports have been presented to the Overview and Scrutiny Board and Council during 2011/12. These reports summarised and identified the key spending pressures faced by Business Units within the Council and where appropriate, the action officers took to ensure the Council spent within the agreed budget set for the year. This process ensured that there was effective public monitoring and scrutiny of the revenue budget throughout the financial year.
- A1.2 This report compares the revised budget position for 2011/12 to the revenue outturn position as at the end of the financial year and explains key variances
- A1.3 The outturn position indicated in this report is the final position subject to the Council's external auditors – the Audit Commission - completing their annual audit of the accounts. As part of any audit review, there is the possibility that changes may be made to the overall outturn position for the Council. However, should any variations to the figures be necessary these are not expected to be materially significant.

### **A2. Carry Forwards**

- A2.1 The Council's Financial Regulations states that, subject to the approval of Council when considering the end of the financial year position, any overall net underspend within a directly controllable revenue budget may be carried forward into the following financial year.
- A2.2 Under the terms of the Constitution, Directors and Executive Members discuss any proposed carry forwards and agreed those that should be recommended for approval.
- A2.3 As part of the 2011/12 outturn all adjustments i.e. carry forwards are for committed expenditure and do not require Council approval. No other carry forwards have been permitted.

#### Schools Service

- A2.4 A balanced budget position has been declared for Schools Block Activities after making a contribution to reserves of £0.012m. This position will be reported to the Schools Forum.
- A2.5 Schools will be carrying forward balances of £3.5m from 2011/12 to 2012/13 – these resources are earmarked for schools related expenditure. This is an increase against the previous year. It is important to note that although balances have increased in 2011/12 this is on a smaller base as schools that have converted to Academies over 2011/12 are no longer included in the figures.

### A3. Net Expenditure

A3.1 Net expenditure for 2011/12 was £125.3m. This gives an overall Council surplus of £0.441m against the revised budget of £125.8m. The main variations are summarised in table 1.

**Table 2**

#### **Net Revenue Expenditure 2011/12**

<b>Council Services</b>	Revised Budget	Outturn	Net Over /(Under) spend
	£'000	£'000	£'000
<b>Place and Environment</b>			
Residents and Visitors	9,960	9,448	(512)
Waste	10,518	10,155	(363)
Spatial Planning	5,565	6,060	495
Torbay Development Agency	4,853	4,615	(238)
Harbours	0	0	0
<b>Sub Total</b>	<b>30,896</b>	<b>30,278</b>	<b>(618)</b>
<b>Children, Schools &amp; Families</b>	21,123	23,259	2,136
<b>Sub Total</b>	<b>21,123</b>	<b>23,259</b>	<b>2,136</b>
<b>Communities &amp; Local Democracy</b>			
Community Engagement			
Community Safety	1,427	1,278	(149)
	2,864	2,435	(429)
<b>Sub Total</b>	<b>4,291</b>	<b>3,711</b>	<b>(580)</b>
<b>Adults and Operations</b>			
Adult Social Care	41,937	43,382	1,445
Business Services	2,615	2,336	(279)
Finance	11,005	9,793	(1,212)
Information Technology	3,999	3,866	(133)
Commercial Services	2,586	2,522	(64)
Supporting People	6,380	6,199	(181)
<b>Sub Total</b>	<b>68,522</b>	<b>68,098</b>	<b>(424)</b>
<b>Operational budget - Overspend</b>	<b>124,832</b>	<b>125,346</b>	<b>514</b>
<b>Unallocated Grants</b>	<b>955</b>	<b>0</b>	<b>(955)</b>
<b>Total</b>	<b>125,787</b>	<b>125,346</b>	<b>(441)</b>

A3.2 A brief summary of the main variances and the principal reasons for any underspends or overspends within each directorate are explained below. Note that all directorates made savings from vacancy management and the moratorium on expenditure introduced part way through the year.

## Place and Environment

A3.3 Overall underspend of £0.618m after the application of carry forwards.

**Residents and Visitor Services** - underspend of £0.512m. This was primarily due to additional car parking income which increased throughout the year. Members will be aware that parking revenue funds both parking and transport initiatives.

**Waste and Cleaning** - underspend of 0.363m. This was due to improvements in waste diversion and recycling which continue to deliver savings in landfill tax, landfill gate fees and transportation costs.

**Spatial Planning** - overspend of £0.495m. This was mainly due to increased costs for Concessionary Fares, a reduction in planning fee income due to weaknesses within the national and local economy, the delay in the government's introduction of "full cost recovery" for planning fees and a delay in the charging for rubble at the civic amenity site.

**Economic Development Company (Client side)** - underspend of £0.238m. This was primarily due to savings within facilities management and the Council froze some repairs and maintenance expenditure on its contract.

As part of the outturn position agreed by Council in 2010/11 a carry forward was approved for the TDA in recognition of an expected shortfall in professional fee income during the year. This was transferred to the EDC in 2012/13. As part of this year's outturn it was established this carry forward was not required as the EDC's professional fee income was better than anticipated. This carry forward of £0.292m has been returned to the Council and earmarked in a Regeneration Reserve.

A3.4 **Communities and Local Democracy** Overall underspend of £0.580m.

**Community Safety** - underspend of £0.431m partly due to bringing forward the implementation of proposed savings for 2012/13 to generate savings in 2011/12.

**Community Engagement** - underspend of £0.149m partly due to savings within the Members allowances budget as a result of some Members undertaking more than one special responsibility allowance.

## Children, Schools & Families

A3.5 Overall overspend of £2.136m. As reported during the year the overspend was within Safeguarding and Wellbeing due to the increased numbers (see note below) and costs for children in care and placements within the independent sector plus the continued use and costs associated with the appointment of

agency social workers within the Children in Need service. The overspend within Safeguarding and Wellbeing is partly offset by savings within Children's, Schools and Communities and Commissioning and Performance budgets.

A3.6 The number of looked after children at the end of March was 252, an increase of 32 since 31<sup>st</sup> March 2011 (220). The number of children on Child Protection Plans for the same period is 290.

### **Adults and Operations**

A3.7 Overall underspend £0.424m. However, within this portfolio there were a number of significant variations which are summarised below:

<p><b>Adult Social Care</b> – net overspend of £1.445m</p> <p>This included the application of additional resources from government for “winter pressures” and application of the section 256 NHS monies as set out in the Annual Strategic Agreement with the Torbay NHS Care Trust. It should be noted that without the application of the “winter pressures” monies the overspend would have been £1.654m</p>
<p><b>Learning Disability</b> - as a result of the personalisation agenda costs have increased within this area without a corresponding decrease in traditional care services such as residential care. Underpinning the cost pressures are a number of factors such as transitional cases from children services, ordinary residency issues, older family carers and costs relating to clients at risk of offending.</p>
<p><b>Older People and Physical Disability</b> – due to expenditure within non-residential services such as domiciliary and day care and personal budgets. Whilst costs have reduced in residential and nursing placements there has been a movement of clients and costs to domiciliary care. Underpinning this cost pressure is the demographic pressures of an ageing local population.</p>
<p><b>Mental Health</b> - due to overspends on residential and domiciliary care.</p>
<p>The main variations for other services within this portfolio are summarised below:</p>
<p><b>Business Services</b> - underspend of £0.279m due to a reduction in recruitment costs arising from the reduction in the number of posts advertised within the council and savings as a result of bringing forward a restructure of the service and additional income received from services provided to schools.</p>
<p><b>Commercial Services</b> – underspend of £0.064m due to in year management.</p>
<p><b>Information Technology</b> – underspend of £0.133m underspend due to reduced costs for IT licenses and by reducing the annual contribution to the IT renewals reserve.</p>
<p><b>Supporting People</b> - underspend of £0.181m due to contractual negotiations with service providers and in year management.</p>



**Finance** - underspend of £1.212m primarily due to in year management and savings within treasury management due to higher than budgeted cash balances (linked to the profile of spend within the capital programme) combined with higher investment rates leading to better investment returns, lower audit and inspection fees, lower than expected discretionary pension costs and reduced staffing costs arising from vacancy management within the business unit.

### **Unringfenced Grants**

A3.8 As reported throughout the year a number of uncommitted grants and budgets were held back as part of the Council's strategy to mitigate against the in year budget pressures. These resources grants remained uncommitted at year end i.e. the Council's contingency of £270,000, the New Homes Bonus (NHB) allocation of £305,000 and the Local Services Support Grant of £380,000. It is proposed to earmark the NHB to an employment reserve to be used on initiatives for economic regeneration and growth which is a key priority for the Council. The criteria for use of this reserve is under development and will be reported to Members when complete.

### **A4. Debtors Outturn**

A4.1 The key issues with respect to debtors are:

#### **Council Tax**

A4.2 The 2011/12 targets for collection of Council Tax were:

- (i) collect 96.5% of the Council Tax due within the financial year ; and
- (ii) collect 50% of the arrears brought forward from previous years.

At the end of the financial year the Council collected £56.7m which is 95.8% of the Council Tax due in 2011/12. This is a reduction on the outturn position at the end of last year.

A4.3 The collection of arrears proved difficult due to the weakness of the local economy. The arrears outstanding at the end of the financial year were £3.9m.

A4.4 2012/13 will be the second year Torbay has frozen council tax. Changes in welfare benefit regulations will reduce many people's disposable income. This, combined with the continuing weakness of the local economy, will place pressure on collection performance during the next 12 months. The position will continue to be monitored and reported to Members on a quarterly basis.

A4.5 There are no Council Tax write-offs over £5,000 to report.

#### **Non-Domestic Rates**

A4.6 The targets for the collection of NNDR (business rates) were:

- (i) To collect 98.0% of the business rates due in the financial year; and
- (ii) To collect 50% of the arrears brought forward from previous years.

A4.7 At the end of the fourth quarter, the Council collected £34.2m which is 97.5% of the business rates due in the year 2011/12. Performance was impacted due to the changes in the exemptions in respect of unoccupied properties.

A4.8 The impact of the continued downturn within the local economy has meant it continues to be a difficult environment for the business sector and this has made it a challenging time with respect to the collection of income, reflecting the difficult trading conditions and a number of business failures due to the recession. The total arrears outstanding at the end of the year was £1.5m.

NNDR write- offs are set out at exempt Appendix 1.

## **A5. Conclusion**

A5.1 The regular budget monitoring reports to Members during the year identified the key variations which have been summarised in this outturn report. Despite significant budget pressures within Adults, Children's and Spatial Planning the Council was still able to declare a small surplus due to management action taken and the application of grants. The Council is already preparing for the ongoing financial challenges it faces in the future starting with a detailed service review of all activities within each Business Unit and is mindful of the significant ongoing pressures it faces including the Waste Agenda, increasing demands made upon Social Care for Adults and Children's as well as the volatility in income collection and continued likely reduction of government grant. This review is ongoing and will be completed before the end of the summer.

A5.2 As part of the overall strategy of strict financial management and control, Members and officers must continue to manage their budgets robustly in 2012/13 to maintain expenditure within their approved allocation and continue to demonstrate value for money to ensure the Council is not in a position that it would have to implement draconian actions in order to achieve a balanced position at year end.

A5.3 A key principal that must be adhered too is that any new proposals and service issues should not be considered or brought forward unless clear and achievable funding sources (or savings) are identified, and that these are priority projects for the Council and are not driven simply because some external funding has become available. In addition at the first indication of a variance against the approved budget, officers must identify the anticipated size of the variance, the cause of the variance and the remedial action to bring the budget back into balance. This will be supported through the regular budget monitoring to Executive Lead Members, Overview and Scrutiny and the Senior Leadership Team.

A5.4 The Council continues to have some uncommitted reserves in 2012/13 to assist in addressing any unforeseen events and which will also assist the Council in managing a reduction in service provision over the next few years.

## **A6. Risk assessment of preferred option**

### **Outline of significant key risks**

- A6.1 There is a risk that the Council will have insufficient reserves. The maintenance of the general fund balances of £4m and the CSR of £3.6m will assist in ensuring the Council's general fund reserves are sufficient to assist with its medium term financial planning and manage unforeseen events.
- A6.2 There is a risk that savings generated in the 2011/12 financial year will have resulted in pent-up demand. This issue was considered during the budget setting process for 2012/13 and is, to some extent, mitigated by carry forwards.

## **A7. Other Options**

- A7.1 Members could propose alternative uses for the surplus.

## **A8 Summary of resource implications**

- A8.1 The resources implications are outlined within the report.

## **A9. What impact will there be on equalities, environmental sustainability and crime and disorder?**

- A9.1 The approval of the recommendations will assist all Council services in meeting their obligations with respect to equalities, environmental sustainability and crime and disorder.

## **A10. Consultation and Customer Focus**

- A10.1 Directors and Executive Heads and their Executive Leads have discussed and agreed the outturn position.

## **A11. Are there any implications for other Business Units?**

- A11.1 Implications for Business Units with respect to the outturn position.