

NON EXEMPT

HAVANT BOROUGH COUNCIL

CABINET

25 June 2014

Provisional Outturn 2013-14

Report by Simon Little, Service Manager (Finance)

FOR DECISION

Leader's Portfolio: Councillor M Cheshire MBE

Key Decision: Yes

1.0 Purpose of Report

1.1 This report is to advise Cabinet of the provisional Revenue Outturn for 2013/14 and asking them to approve the transfer of the residual surplus to the General Fund.

2.0 Recommendation

2.1 That Cabinet note the Outturn position and their previous agreement to:

- carry forward £85,000 for the Local Development Framework,
- carry forward £218,000 for Major buildings repairs.

2.2 That Cabinet:

- Set aside £500,000 in the General Fund to cover the 2014/15 reduction in Business Rates income to cover backdated appeals on the Retained Business Rates system.
- Note that the £93,000 from Central Government received following the winter floods to fund grants will be paid to businesses and households during 2014/15.
- That £1,152,000 is set aside in the General Fund to support the delivery of the Council's vision, driving forward opportunities to transform public services and create financial efficiency.

3.0 Summary

3.1 The provisional revenue outturn position indicates a surplus of £2,048,000. This is an increase from the forecast at Quarter 3 of £890,000 of £1,158,000. Analysis is provided in section 4.

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4.0 Subject of Report

4.1 The main variances that make up the surplus of £2,048,000 can be categorised as follows, a reconciliation is included in Appendix B:

4.1.1 2013-14 was the first year of the Retained Business Rates scheme, being a transitional year, with the scheme not being finalised until after the budget preparation, some anomalies have appeared which effect both 2013-14 and 2014-15. The calculation for the scheme includes a number of tariffs and levies to central government. The scheme also transfers the risk for backdated rateable value appeals and bad debt. The impact of this on the general fund is to inflate the income received in 2013-14 and deflate that in 2014-15. Therefore we recommend the Cabinet set aside £500,000 from the surplus generated this year to cover the expected shortfall in the next. The calculation for retained business rates is:

Collection Fund	Budget £000	Actual £000
Business Rates Yield		
Base Yield	31,247	31,710
Provision for backdated appeals		(1,121)
Adjustment for provision for bad debt		76
Transitional protection payment		(124)
Business Rates Yield	31,247	30,541
Distribution		
Central Government (0.50)	(15,624)	(15,624)
Hampshire County Council (0.09)	(2,812)	(2,812)
Hampshire Fire (0.01)	(312)	(312)
Havant Borough Council baseline (0.4)	(12,499)	(12,499)
Total Distribution	(31,247)	(31,247)
Collection Fund Surplus/(Deficit)	-	(706)
Deficit Share Calculation	Budget £000	Actual £000
Central Government (0.50)	-	(353)
Hampshire County Council (0.09)	-	(64)
Hampshire Fire (0.01)	-	(7)
Havant Borough Council baseline (0.4)	-	(282)
Total	-	(706)
Havant Borough Council Retained Business Rates Calculation	Budget £000	Actual £000
Havant Borough Council baseline	(12,499)	(12,499)
Tariff paid to Central Government	9,396	9,396
Levy for safety net paid to Central Government	107	173
Extension of Small Business Rates Relief	-	(310)
Retained Business Rates	(2,996)	(3,310)

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- 4.1.2 Changes in funding received including £315,000 in Section 31 Grant for Business Rates, £163,000 in General Government Grants offset by a technical adjustment on the Council Tax calculation of £69,000, £93,000 in grants to support businesses and households following the winter floods. To improve the transparency of the Council's finances the number of reserves and transactions to and from them is being reduced, this led to the increase of £293,000 for the General Fund.
- 4.1.3 Unexpected decisions made by Government in the wind up of old schemes, including £204,000 not claw backed from the 2012/13 Council Tax Benefit Scheme and £90,000 discretionary relief for Business Rates.
- 4.1.4 A number of large building repairs projects slipped during the winter because of the sudden death of our Buildings Maintenance Team Leader in October 2013 and the retirement of the maintenance assistant. None of the delays have meant plant or system failures which would have led to additional costs being incurred. The total underspend was £223,000, the cabinet agreed to roll forward £218,000 to cover the costs of those projects now being completed in the new financial year in February 2014
- 4.1.5 Deferment of the local development framework to 2014/15 reduced costs by £100,000, the Cabinet agreed to roll forward £85,000 to the new financial year in February.
- 4.1.6 Other net movements were £49,000. Included in the reduced expenditure is an underspend against employee budgets of £193,000 (1.5% below). Turnover means that this creates some flexibility in the budget that the Head of Paid Service can use to cover workload pressures, sickness absence in key posts and new initiatives introduced by Cabinet during the year. This year the Head of Paid Service used this flexibility to provide cover for long term illness in Finance, to carry out targeted recruitment campaign in finance after traditional approaches failed and to supplement the corporate training programme in its work with senior management team.
- 4.1.7 The Council's income from fees and charges finished the year £710,000 above budget (1.6% higher). These budgets are difficult to predict because they arise from customer behaviour that may not be repeated one year to the next. Increases normally occur with an upturn in the local economy so this over-performance is an encouraging sign. The main areas performing above budget include Planning Applications and Local Land Charges £186,000, Legal Fees £31,000, Coastal Partnership Income £120,000, collection of overpaid Housing Benefit £100,000, ICT Contract with Capita £36,000, with other income increasing by £115,000.

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- 4.2 The outturn revenue position at the year-end contains differences to the quarter 3 forecast. Some of these changes are favourable and others unfavourable to the Council's overall financial position.
- 4.2.1 Income from planning applications and local land charges continued to grow with an additional £100,000 being received.
 - 4.2.2 The Coastal Partnership attracted an additional £120,000.
 - 4.2.3 The collection rate for overpaid benefits was higher than estimated and netted an additional £100,000
 - 4.2.4 Other income streams also added £182,000, including legal services and Capita share of IT.
 - 4.2.5 In March Central Government decided that they would not claw back the adjustment for the last year of the old Council Tax Benefit scheme, which reduced our costs by £204,000.
 - 4.2.6 The Government paid £93,000 to the Council to fund the payment of grants to businesses and households affected by the flooding.
 - 4.2.7 To improve the transparency of the Council's finances the number of reserves and transactions to and from them is being reduced, this led to the further increase of £147,000 to the General Fund.
 - 4.2.8 The Council budget calculation for Council tax included some elements which would properly be accounted for under Revenue Support Grant which reduced the figure by £69,000, this was more than offset by the additional grants paid for new burdens funding and other small grants of £163,000.
 - 4.2.9 Other minor movements which decrease costs of £154,000.

5.0 Implications

- 5.1 **Risks:** The provisional outturn represents an initial outturn position. The production of the annual Accounts will not be complete until the end of June, and will subsequently be subject to Audit. The provisional outturn is therefore subject to change. Any significant changes will be reported back to the Executive Head (Governance & Logistics). The key risks are as follows.
- 5.1.1 The Outturn for Revenues & Benefits includes an estimate of the benefits subsidy paid by Central Government in 2012/13. This is a provisional figure at this stage and is still subject to audit verification and therefore, the subsidy estimate may change.
 - 5.1.2 The Retained Business Rates contains estimates for bad debt and appeals, both of these are subject to audit verification and any change will have an impact on both the 2013/14 and 2014/15.

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- 5.1.3 A group of Property Search Companies are seeking to claim refunds of fees paid to the Council to access land charges data. Proceedings have not yet been issued. The Council has been informed that the value of those claims at present is £137,762 plus interest and costs for which provision has been made. The claimants have also intimated that they may bring a claim against all English and Welsh local authorities for alleged anti-competitive behaviour. It is not clear what the value of any such claim would be as against the Council. It is possible that additional claimants may come forward to submit claims for refunds, but none have been intimated at present.
- 5.4.4 Municipal Mutual Insurance (MMI) provided insurance to a number of local authorities, including HBC. During 1992, MMI suffered substantial losses, and ceased renewals and underwriting new business. However, the company was still potentially liable for liabilities. Given this liability, a contingent Scheme of Arrangement was entered into in January 1994. Obligations that cannot be met from the remainder of MMI's assets will be apportioned between MMI's 729 member authorities.

Since 1994, there has been no certainty regarding potential liabilities, and thus no action has been taken to conclude MMI's affairs. Since 2008 MMI has been subject to court action, known as 'Employers' Liability Policy Trigger Litigation'. On 28th March 2012 a Supreme Court judgement gave certainty that MMI will fully incur the liabilities relating to Mesothelioma. This ruling substantially increases the likelihood that the Council will incur some of this liability. The latest estimate of HBC's share of the liability continues to be £153,900 which was fully provided in 2011/12.

Appendices:

Appendix A – Summary to outturn analysed by type of expenditure and by Cluster

Appendix B – Main Variances between Budget to Actual Spend

Appendix C – Reconciliation of Forecast at Quarter 3 and Actual Spend

Agreed and signed off by:

Executive Head of Governance & Logistics: 9 June 2014

Relevant Executive Head: 9 June 2014

Cabinet Lead: 11 June 2014

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Appendix A

Summary of Outturn Analysed by Type and Cluster

	2013-14 Original Budget	2013-14 Provisional Outturn	Forecast Deficit/ (Surplus)
	£000's	£000's	£000's
SERVICE RUNNING EXPENSES			
Employees	13,056	12,863	(193)
Other Running Expenses	43,024	43,000	(24)
Adjustment for Council Tax Benefit Scheme	-	(204)	(204)
Large Building Repairs	396	173	(223)
Capital Charges	2,344	2,278	(66)
LESS Income	(43,112)	(43,822)	(710)
Less Non General Fund Expenditure	(40)	(43)	(3)
TOTAL SERVICE RUNNING EXPENSES	15,668	14,245	(1,423)
FINANCING ITEMS			
<i>Treasury Income and Expenditure</i>			
Net cost of borrowing	112	118	6
Past Service Pension Costs	518	518	-
<i>Transparency Agenda</i>			
Adjustment to reduce movements between reserves	414	121	(293)
<i>Adjustments to meet statutory Requirements</i>			
Capital Financing Adjustment	-	(3)	(3)
Accumulated Absences	-	18	18
- Collection Fund Surplus (Council Tax)	-	74	74
Repayment of Borrowing	774	818	44
Reversal of Capital Charges	(2,344)	(2,278)	66
TOTAL FINANCING	(526)	(614)	(88)
Langstone Harbour Board	71	35	(36)
NET EXPENDITURE	15,213	13,666	(1,547)
Funded by:-			
Revenue Support Grant	(4,189)	(4,396)	(207)
Council Tax	(7,493)	(7,217)	276
Retained Business Rates	(2,996)	(2,930)	66
Retained Business Rates S31 Grant	-	(380)	(380)
<i>General Government Grants</i>			
New Burdens Grants	-	(125)	(125)
Flooding Support Grants	-	(93)	(93)
Electoral Registration Funding	-	(13)	(13)
Council Tax Freeze Grant	(83)	(83)	-
New Homes Bonus	(452)	(452)	-
New Homes Bonus Adjustment Grant	-	(25)	(25)
TOTAL FUNDING	(15,213)	(15,714)	(501)
DEFICIT/(SURPLUS)	-	(2,048)	(2,048)

Summary of Outturn Analysed by Type and Cluster

Summary By Management Structure

	2013-14 Original Budget	2013-14 Provisional Outturn	Forecast Deficit/ (Surplus)
	£000's	£000's	£000's
Chief Executive and Directors	234	226	(8)
Economy and Communities	1,313	1,178	(135)
Environment and Neighbourhood Quality	2,997	2,891	(106)
Governance and Logistics	7,489	6,863	(626)
Marketing and Development	2,522	2,459	(63)
Planning and Built Environment	1,113	628	(485)
Financing Items	(526)	(614)	(88)
Langstone Harbour Board	71	35	(36)
Net Expenditure	15,213	13,666	(1,547)
Funded By	(51,213)	(15,714)	(501)
Deficit/(Surplus)	-	(2,048)	(2,048)

Appendix B

Main Variances Between Budget and Actual Spend

	<u>Deficit/ (Surplus)</u>	<u>Deficit/ (Surplus)</u>
	<u>£000's</u>	<u>£000's</u>
Additional Income		
Planning Applications and Local Land Charges	(186)	
Coastal Partnership Income	(120)	
Housing Benefit Overpayment Collection	(100)	
Legal Fees	(31)	
ICT Capita Contract	(36)	
Other	(115)	(588)
Reduced Expenditure		
Major Buildings Repairs	(223)	
Local Development Framework	(100)	
Other Minor Variances Across Clusters	(49)	(372)
Adjustments Due to Changes in Government Schemes		
Council Tax Benefit Claw back 2013/14	(204)	
Discretionary Rate Relief	(90)	(294)
Additional Funding		
General Government Grants	(163)	
Council Tax	69	
Business Rates	(314)	
Adjustment for the reduction in the use of transfers between reserves	(293)	
Flooding Grants	(93)	(794)
Deficit/(Surplus)		<u>(2,048)</u>

Reconciliation of Variances Between Quarter 3 Forecast and Provisional Outturn

	Quarter 3 Forecast Deficit/ (Surplus)	Outturn Deficit/ (Surplus)	Variance
	£000's	£000's	£000's
Additional Income			
Planning Applications and Local Land Charges	(86)	(186)	(100)
Coastal Partnership Income	-	(120)	(120)
Housing Benefit Overpayment Collection	-	(100)	(100)
Legal Fees	-	(31)	(31)
ICT Capita Contract	(36)	(36)	-
Other	-	(115)	(115)
Reduced Expenditure			
Major Buildings Repairs	(217)	(223)	(6)
Local Development Framework	(100)	(100)	-
Other Minor Variances Across Clusters	100	(49)	(149)
Adjustments Due to Changes in Government Schemes			
Council Tax Benefit Claw back 2012/13	-	(204)	(204)
Discretionary Rate Relief	(90)	(90)	-
Additional Funding			
General Government Grants	-	(163)	(163)
Council Tax	-	69	69
Business Rates	(315)	(314)	1
Adjustment for the reduction in the use of transfers between reserves	(146)	(293)	(147)
Flooding Grants	-	(93)	(93)
Deficit/(Surplus)	(890)	(2,048)	(1,158)