

MEETING:	Cabinet
MEETING DATE:	11 June 2015
TITLE OF REPORT:	Financial outturn 2014/15
REPORT BY:	Chief financial officer

Classification

Open

Key Decision

This is not a key decision.

Wards Affected

County-wide

Purpose

To inform Cabinet of the revenue and capital outturn for 2014/15, including the treasury management outturn report.

Recommendations

THAT:

- (a) the final outturn for 2014/15 be noted;**
- (b) the note and approve the movements in reserves (paragraph 12 to 14); and**
- (c) the treasury management outturn report be recommended to Council for approval.**

Alternative Options

There are no alternative options

Reasons for Recommendations

- 1 Ahead of the commencement of the external audit, Cabinet can note the outturn for the 2014/15 financial year. The unaudited 2014/15 accounts are available for review on:

www.herefordshire.gov.uk/council-finance

Key Considerations

Revenue outturn

- 2 The 2014/15 budget underspent by £0.6m in line with the majority of forecasting throughout the year. This has been achieved by improved forecasting processes with greater input and ownership from service managers. Included in the outturn is the delivery of planned savings of £15.4m, the performance of which has been monitored and reported throughout the year. The 2015/16 budget includes a further savings target of £10.2m which will require continued close monitoring with challenges increasing as more savings are required.

Service	Budget	December projection over/(under)	Outturn over/(under)	Change
	£000	£000	£000	£000
Adults and wellbeing	56,805	613	(16)	(629)
Children's wellbeing	38,397	498	529	31
Economy, communities and corporate (ECC)	50,303	(79)	(352)	(273)
Directorate total	145,505	1,032	161	(871)
Other budgets and reserves	630	(1,690)	(800)	890
Total	146,135	(658)	(639)	19

- 3 The key changes from the December projected outturn are:

Adults and wellbeing

- The adults wellbeing outturn has improved significantly since December delivering a year end outturn an underspend of £16k against budget compared to a forecast overspend of £613k in December. This improvement is due to efficient working with health partners partially through the system resilience fund, on-going high cost placement and continuing health care reviews, plus additional grant funding from care act grant (£125k) and additional help to home grant (£120k). The impact of the Care Act 2015, and effectively managing demand continues to be a high risk area for the council over the coming year.

Children's wellbeing

- The children's wellbeing outturn is £529k, slightly worse than the December outturn by £31k. This is due to an increase in agency costs in the last three months of the year. This will continue to be managed in 2015-16.

ECC

- The ECC outturn has improved by £273k since December, to a £352k underspend due to increased income from the economic upturn.

Other budgets and reserves

- This budget now includes a £1m increase to the risk mitigation reserve.

4 A more detailed analysis of the revenue outturn is provided in appendix A.

Capital outturn

5 £77.7m of capital schemes were delivered in 2014/15 summarised below:

- Road network investment and improvements - £30.3m
- EnviRecover, energy from waste plant - £6.0m
- Leominster primary school replacement - £5.2m
- New heritage archive and records centre - £3.9m
- Halo leisure centre improvements - £3.7m
- Hereford city link road - £2.7m
- Broadband network, Fastershire - £8.0m (inclusive of £5.4m in Gloucestershire)
- Hereford enterprise zone site investment - £2.2m
- Other smaller schemes - £15.7m

6 Significant changes since the December forecast are:

- Reduced spend on EnviRecover, energy from waste plant of £4.7m. This loan drawdown will be provided in 2015/16. The plant remains on schedule to open in early 2017.
- Forecast spend on the new link road of £3.8m lower due to forecast land acquisition and compensation sums not falling due during the period.
- Broadband spend of £2.1m lower than anticipated. This is due to later than anticipated delivery of elements of the programme and as a result extensions have been granted to milestone areas 1 and 11 of the contract completion dates to September 2015, to be reviewed in June. All other milestones currently remain with a December 2016 completion date.
- Works at the Ross leisure centre have been delayed following the identification and consideration of a possible sewer diversion requirement resulting in a revised expected completion date of September 2015, £1.6m underspend in year.

Scheme	Approved budget £m	December forecast £m	2014/15 outturn £m	Over/ (under) £m
EnviRecover energy from waste plant	40.0	10.7	6.0	(4.7)
Hereford City Link Road	27.0	6.5	2.7	(3.8)
Fastershire, broadband infrastructure	20.2	10.1	8.0	(2.1)
Leisure Centre improvements	8.7	5.3	3.7	(1.6)
Total	95.9	32.6	20.4	(12.2)

- 7 A more detailed analysis of the capital outturn is provided in appendix B.

Treasury management

- 8 Treasury management underspent by £0.9m which was slightly higher than that forecast in December 2014 due to:

- anticipated capital expenditure in 2014/15 being deferred into 2015/16,
- short-term variable interest rates being lower than expected,
- long-term fixed rates from the public works loan board being lower than forecast,
- loans secured later in the year than budgeted

- 9 Appendix C includes a detailed analysis of the outturn report in line with the CIPFA code of practice on treasury management. The council has complied with its prudential indicators for 2014/15 approved by Council on 7 February 2014 as part of the treasury management strategy statement.

- 10 Loan finance is secured to support capital investment. Appendix C confirms external borrowing at £165m as at 31.03.15. This includes historical borrowing where central government provided funding allocations, pre the introduction of prudential borrowing in 2004/05. This supported borrowing balance totalled £116m as at 31.03.15. The remaining borrowing requirement has funded capital investment that reduces ongoing revenue costs, spend to save projects, including:

	£m
• Road investment	15
• Energy from waste plant	6
• Leisure pool and centre improvements	7
• Hereford Enterprise Zone	3
• LED street lighting	2
• Wheeled bins	1

Pension deficit

- 11 The estimated pension deficit on Herefordshire's fund as at 31 March 2015 is £211m an increase of £52m from 31 March 2014. The shortfall represents the difference between the estimated value of obligations and the assets held in the pension fund. The council ensures that funding is set aside by the time the benefits come to be paid with revised contribution rates bringing the fund into balance over a period of 21 years. Although the benefits will not actually be payable until employees retire, the council has a commitment to make the payments and this needs to be disclosed at the time the employees earn their future entitlement. At the moment the council has included £7m pa in its revenue budget to repay the deficit, agreed with the pensions fund's actuaries. This amount will be reviewed after the next full valuation (due 31 March 2016) which is based on assumptions about mortality rates, salary levels, inflation and others.
- 12 This proportionate level of deficit of 42% is normal for local authority pension funds and relates to falling returns on investments and employees living significantly longer than anticipated when the scheme was initially set-up.

Pension fund	As at 31 March 14 £m	As at 31 March 15 £m
Present value of obligations	419	500
Fair value of assets	(260)	(289)
Deficit	159	211
Deficit %	37%	42%

Medium Term Financial Strategy

- 13 The current MTFS 2015/16 – 2016/17 was approved by Council in February 2015. This will be updated based on revised grant assumptions and savings plans over the coming months extending the period of the strategy from 2016/17 – 2019/20, covering the electoral term. This will be informed by the budget on 8 July 2015 although indications are that there will be significant reductions in grant that coupled with increasing demographic pressures will mean further savings will need to be identified. Indications are that funding cuts will be steeper and front loaded increasing the previous saving target for 2016/17.

Reserves

- 14 The prudential general reserve balance at 31 March 2015 is £7.1m, after taking account of the £0.6m underspend. This represents 5% of net budget, providing resilience for the budget challenges ahead.
- 15 The outturn position includes new reserves for severe weather costs (£0.5m), invest to save (£0.3m) and infrastructure development fund (£0.2m).

- 16 As at the 31 March 2015 the council held £26.6m of earmarked reserves, an increase of £2.6m from 31 March 2014. Earmarked reserves also include unused grants carried forward into 2015/16, the largest being dedicated schools grant of £1.5m.

Collection fund

- 17 Income collected from council taxpayers and business ratepayers (NNDR) is accounted for through the collection fund. For council tax the income is distributed to the council, West Mercia Police and Hereford & Worcester Fire and Rescue Authority. Similarly the account distributes shares of the business rates collected between the council, central government and the fire authority.
- 18 The position on council tax for 2014/15 was a surplus of £1.7m, of which Herefordshire's share is £1.4m, included in the 2015/16 base budget.
- 19 The business rates element of the collection fund was a deficit of £7.6m, of which Herefordshire's share is £3.7m. This includes the £3.5m deficit brought forward from 2013/14. The main reasons for the shortfall are increased rate reliefs and provision for known appeals. The deficit has been covered by an allowance in the 2015/16 budget and the £3.2m rates smoothing reserve included in the 2014/15 outturn.

Community Impact

- 20 The recommendations do not have any community impact

Equality and Human Rights

- 21 The recommendations do not have any equality implications

Financial Implications

- 22 These are set out in the report.

Legal Implications

- 23 None.

Risk Management

- 24 The council is required to close the 2014/15 accounts by 30 June 2015 which includes the approval of statutory statements by the chief finance officer. In 2014/15 the council decided to bring this deadline forward by one month in preparation on the statutory deadline being brought forward for the closure of the 2015/16 accounts. Failure to meet statutory deadlines carries a reputational risk for the council in relation to its corporate governance role. Successfully bringing forward the closedown of 2014/15 has proved the council is capable of meeting the shorter timeframes. The council ensures this by maintaining, communicating and sharing detailed plans and timetables.

Consultees

25 None

Appendices

Appendix A Revenue outturn

Appendix B Capital outturn

Appendix C Treasury management outturn

Appendix D Bad debts written off

Background Papers

- None identified.