

# TONBRIDGE & MALLING BOROUGH COUNCIL

## CABINET

16 June 2010

### Report of the Chief Executive, Director of Finance, Leader of the Council and Cabinet Member for Finance

#### Part 1- Public

#### Executive Non Key Decisions

#### 1 REVENUE AND CAPITAL OUTTURN 2009/10

**In accordance with the Council's Financial Procedure Rules we present a report and accompanying information detailing actual Revenue and Capital Outturn for the year ended 31 March 2010. We also present for consideration our recommendations, formulated in conjunction with Management Team, regarding proposed adjustments to the Accounts in the light of the Outturn position.**

#### 1.1 Introduction

- 1.1.1 A detailed statement of the revenue and capital outturn position for the year 2009/10 is provided in the attached booklet which has been compiled in liaison with Chief Officers, including, where appropriate, explanatory notes of variations between revised estimates and outturn. Variations between the original and revised estimates for 2009/10 were highlighted in the notes to the Annual Estimate papers presented to Members during the 2010/11 budget cycle.
- 1.1.2 Members will note on the Interest and Transfers page (CS 28) within Corporate Services the financial instrument impairment. The impairment is in respect of the £1m deposited in the Icelandic Bank Landsbanki following advice from the Chartered Institute of Public Finance and Accountancy.
- 1.1.3 The Authority has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund to 2010/11 with £252,000 currently 'sitting' in a Financial Instruments Adjustment Account.
- 1.1.4 Based on the assumption that local authority deposits do have priority status and other relevant information the impairment assumes a recoverable amount of around 95% could be achieved over the period October 2011 to October 2018. The extent to which this will impact on the Council's reserve balance in due course depends on the eventual level of repayment.

- 1.1.5 The Local Government Association, our legal advisors and our representatives on the Creditors Committee are working hard to protect our interests and remain optimistic that we will be accorded priority status.
- 1.1.6 In accordance with the Council's Constitution the Statement of Accounts, which shows the outturn in the format specified by the Code of Practice on Local Authority Accounting in the United Kingdom, will be presented to the Audit Committee for consideration and perusal and to the General Purposes Committee for approval. The Director of Finance will, therefore, be presenting the Statement of Accounts to the Audit Committee on 21 June and to the General Purposes Committee on 28 June.

## **1.2 Overall Revenue Position**

- 1.2.1 Members are advised that overall the revenue outturn is within budget with a contribution to the General Revenue Reserve of £1,135,371 compared with the Revised Estimate figure of £821,350 (£314,021 more than the revised estimate for 2009/10).
- 1.2.2 We have also as part of the closedown process undertaken a review of the specific earmarked reserves held by the Council. As a result of this review and in liaison with Management Team it is recommended that a contribution of £50,000 be made to the Planning Inquiries reserve and a contribution of £12,000 to the Leisure Services Business Unit reserve.
- 1.2.3 Due to the timing of this report in relation to the meeting of both the Audit Committee and General Purposes Committee the recommendation set out at paragraph 1.2.2 has been reflected within the Accounts.
- 1.2.4 As already mentioned, measured against the Revised Estimate the overall revenue position is within budget to the sum of £314,021, but does not take into account the financial instrument impairment referred to above. The principal reasons for the better than expected net position prior to making a contribution to the General Revenue Reserve are given in the table below.
- 1.2.5 Members will note from the table that due to the current economic climate that income from the Council's major income streams was £877,043 less than anticipated. The Council did set aside £700,000 for the expected downturn, some £177,043 less than the actual impact of the downturn on our major income streams. This shortfall being largely met from further savings on the Council's salary bill of £154,691. In addition, there are those costs over which the Council have no control at all, for example, concessionary fares.

<b>Description</b>	<b>Revised Estimate 2009/10 £</b>	<b>Outturn 2009/10 £</b>	<b>Variation £</b>
Major Income Streams (including LSBU)	(9,669,700)	(8,792,657)	877,043
Salaries (including LSBU)	14,523,800	14,369,109	(154,691)
Economic Downturn	700,000	-	(700,000)
Concessionary Fares Scheme	389,400	432,297	42,897
Software Support & Maintenance	406,300	435,254	28,954
Contracted Out Services – VAT Consultancy	69,600	85,804	16,204
Interreg Funding – Customer Profiling	-	(15,500)	(15,500)
Summons Costs Recovered	(235,000)	(250,810)	(15,810)
Repairs & Maintenance of Fixed Plant	8,500	(7,922)	(16,422)
Telephones & Mobiles (including LSBU)	193,050	175,028	(18,022)
Recruitment & Training (including LSBU)	158,850	139,115	(19,735)
Here & Now	62,500	41,241	(21,259)
Energy (including LSBU)	547,900	524,876	(23,024)
Rates	642,300	608,639	(33,661)
Refuse, Recycling, Street Cleansing & Public Conveniences Contract Payments	3,064,900	3,026,147	(38,753)
KCC Contribution - Tonbridge Gateway	-	(67,573)	(67,573)
Investment Income	(928,700)	(1,035,427)	(106,727)
Other Net Changes	3,788,350	3,740,408	(47,942)
<b>Total</b>	<b>13,722,050</b>	<b>13,408,029</b>	<b>(314,021)</b>

1.2.6 **[Annex 1]** provides details of Service specific issues in respect of the revenue outturn for 2009/10.

### 1.3 Leisure Services Business Unit

1.3.1 Members will note that the Leisure Services Business Unit (LSBU) shows a deficit of £478,149 prior to making a contribution to or from the LSBU earmarked reserve compared with the Revised Estimate figure of £571,350. Contributions to or (from) the LSBU earmarked reserve for revenue purposes for the year amounted to a net contribution to of £12,000 producing a net deficit of £490,149 giving a better than estimated net trading position of £81,201. An analysis of the position in respect of the four sites is given in the table below.

<b>Leisure Services Business Unit</b>	<b>Revised Estimate</b>	<b>Provisional Outturn</b>	<b>Variance</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Angel Centre	209,150	185,069	(24,081)
Larkfield Leisure Centre	(14,800)	(63,519)	(48,719)
Tonbridge Swimming Pool	119,150	101,501	(17,649)
Poult Wood Golf Centre	257,850	255,098	(2,752)
<b>Deficit / (Surplus)</b>	<b>571,350</b>	<b>478,149</b>	<b>(93,201)</b>
Earmarked Reserve		12,000	12,000
<b>Total</b>	<b>571,350</b>	<b>490,149</b>	<b>(81,201)</b>

1.3.2 An overview of the financial performance of the LSBU is given in **[Annex 2]**.

## **1.4 Capital Plan**

1.4.1 A detailed draft outturn position was presented to the Finance and Property Advisory Board on 26 May 2010 which showed actual net spend of £1,863,000 against a budget provision of £2,448,000. **[Annex 3]** provides details of Service specific issues in respect of the capital outturn for 2009/10. A number of general issues are highlighted below.

- Capital renewals budgets totalling £823,000 with actual capital renewals expenditure totalling £558,000.

Capital renewals provisions reflect predictions as to when assets will need to be replaced. These predictions reflect, where possible, the experience gained with similar assets, and aim to result in sufficient budget to maintain the asset base without over-inflating the Capital Plan. These predictions cannot always be accurate; and, if anything, there is a tendency towards caution. Although this provides headroom to allow the replacement of assets that did not last as long as expected, the general trend is for renewals budgets to be below budget.

- Some projects are dependent on progress by other parties and delays outside the Council's control will lead to slippage. Examples of this include the Local Transport Plan Partnership Programme budget of £10,000 and actual expenditure of nil.
- A number of capital plan provisions provide funding for the Council to grant aid parish councils, organisations, and individuals. Release of grant is dependent on claims supported by invoices to confirm that work has been undertaken. The Council has no control over the timing of payments and whilst the likely profile of payments is taken into account when establishing budget provision, this is inevitably imprecise. Examples of this include Capital Grants to Organisations budget of £69,000 and actual expenditure of £33,000.

- Schemes have been physically completed but final payments have not yet been made pending settlement of final accounts and or release of retentions. Examples of this include Gibson East / Castle Reception Enhancements, actual expenditure £410,000 against a budget of £423,000.

1.4.2 The report on Private Sector Housing Update to the Strategic Housing Advisory Board (SHAB) on 17 May 2010 advised of an overspend on Disabled Facilities Grants in 2009/10 of £138,700. Earlier reports to SHAB had indicated that any overspend would be recouped by reducing provision in 2010/11. Given the level of overspend and continuing demand for Disabled Facilities Grants this approach will lead to an unrealistically low budget provision for 2010/11. As a consequence, it is proposed that the overspend be met from the Council's revenue reserve for capital schemes.

## **1.5 Treasury Management and Investment Strategy Review**

1.5.1 In response to the difficulties caused by the banking crisis the Chartered Institute of Public Finance and Accountancy undertook a review of the Treasury Management Code of Practice and Cross-Sectoral Guidance Notes and other associated documents. The outcome of that review was the publication in December 2009 of a revised Code which has been adopted by the Council. The Code continues to require an annual review report of the previous year to be presented and considered by Members. To comply with the Code an annual review report for the year 2009/10 is attached at **[Annex 4]**. As this is a technical document, if Members have any questions, could we please ask that you contact John Pickup on extension 6112 in advance of the meeting.

1.5.2 The Council currently has an investment of £1m frozen in an Icelandic bank. It is unclear how much and when any settlement might be made. The Local Government Association, our legal advisers and representatives on the Creditors Committee are working hard to protect our interests and remain optimistic that we will be accorded "preferred creditor" and, if so, should obtain a settlement in excess of 80%.

## **1.6 Balances and Reserves**

1.6.1 **[Annex 5]** Table 1 shows the movement on the Special Projects Reserve. Members will note that there are four contributions to reserves previously agreed by Members / Director of Finance.

1.6.2 **[Annex 5]** Table 2 details the movement on Other Earmarked Reserves. Members will note that there are two contributions to reserves that require approval.

1.6.3 **[Annex 5]** Table 3 gives details of some minor revenue adjustments agreed by the Director of Finance during the closedown process.

- 1.6.4 Members will also be aware of future potential liabilities, for example, costs associated with the proposals for Hadlow Tower, which may require a call on the Council's reserves.
- 1.6.5 The Council is required to have regard to the level of its balances and reserves before making decisions concerning its finances. The Council's General Fund working balance is set at £1,250,000 and this sum is considered appropriate for an authority of our size and scale. The position in respect of the Council's General Revenue Reserve is given below.

<b>General Revenue Reserve</b>		
	<b>£</b>	<b>£</b>
Balance at 1 April 2009		5,148,739
Contribution to / (from) Reserve		1,135,371
<b>Balance at 31 March 2010</b>		<b>6,284,110</b>

- 1.6.6 The Medium Term Financial Strategy anticipated a General Revenue Reserve balance at 31 March 2010 of £5,970,000.

## **1.7 Audit Committee and General Purposes Committee**

- 1.7.1 As mentioned earlier, a copy of the Statement of Accounts for 2009/10 will be presented to the Audit Committee for consideration and perusal on 21 June and to the General Purposes Committee for approval on 28 June. The Accounts will reflect the revenue and capital outturn position as detailed in this report and accompanying information, together with the subsequent recommendations.

## **1.8 Legal Implications**

- 1.8.1 There are a number of legislative requirements to consider as we move through the closedown process, and prepare and publish the Statement of Accounts.
- 1.8.2 The contract with Landsbanki remains in default and action is now being taken by Bevan and Brittan, our legal advisors, to confirm local authority depositors' status as **priority creditors**. It is expected local authorities' cases will be referred to court shortly. A number of authorities have been selected by the Winding-Up Boards as "Test Cases" in order to allow the full range of issues to be argued before the Icelandic courts. The subsequent judgements will not be automatically binding on other cases. Therefore, to ensure the earliest possible resolution of matters for all authorities, the Winding-Up Boards have been invited to refer all authorities' claims to the court now.

## **1.9 Financial and Value for Money Considerations**

- 1.9.1 As set out above.

## 1.10 Risk Assessment

1.10.1 The compilation and presentation of the revenue and capital outturn forms part of the closedown process, leading to the preparation and publication of the Statement of Accounts which is a statutory document. Therefore, failure to prepare and publish the Accounts within the statutory timescale could adversely affect our Use of Resources assessment.

1.10.2 In respect of the Landsbanki investment participation in the joint action coordinated by the Local Government Association is still thought to offer the greatest chance of recovering the defaulted loan and associated interest.

## 1.11 Recommendations

1.11.1 Cabinet is **RECOMMENDED** to:

- 1) Receive and approve the Revenue and Capital Outturn for the year 2009/10 including the proposal set out at paragraph 1.4.2 in respect of the overspend on Disabled Facilities Grants.
- 2) Endorse the contribution of £50,000 to the Planning Inquiries reserve and the contribution of £12,000 to the Leisure Services Business Unit reserve (paragraph 1.2.2 refers).
- 3) Receive and approve the Treasury Management and Investment Strategy Review 2009/10 [**Annex 4**].

Background papers:

contact: Sharon Shelton  
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Valuations and reports provided by Investec Asset Management. Information provided by the Council's Treasury Adviser, Sector Treasury Services Ltd.  
Impairment/Valuation report provided by BPS Chartered Surveyors.

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