Meeting: Overview and Scrutiny Committee

Date: 7 September 2009

Title: 2008/09 Performance and Finance Provisional Out-turn

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Service:	Legal and Democratic Services	
Directorate:	Chief Executive	
Wards affected:	All	

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1. **Purpose of Report**

   This report presents the 2008/09 Performance and Finance Provisional Out-turn.

   The Committee is invited to examine the contents of the2008/09 Performance and Finance Provisional Out-turn Report, focussing on the aspects of the report identified by the Committee at its previous meeting and set out below.

   In fulfilling its role as critical friend, the Committee may wish to make comments and/or recommendations to Cabinet on the Council's performance and financial out-turn.

   The financial aspects of the report have previously been scrutinised by the Finance Sub-Committee at its meeting on 24 June 2009.

2. **Details**

   The 2008/09 Performance and Finance Provisional Out-turn report sets out details of the delivery of Council Plan milestones during 2008/09, the achievements of the Strategic Investment Plan along with the provisional performance of the General Fund, the Housing Revenue Account, Dedicated Schools Grant, Strategic Investment Plan and the delivery of the Treasury Management Strategy during 2008/09.

   The report has previously been considered by the Cabinet on 17 June 2009, the Finance Sub-Committee on 24 June 2009 and the Overview and Scrutiny Committee on 14 July 2009.

   When this report was considered by the Committee on 14 July, reference was made to statements made by the Mayor in respect to the financial out-turn 2008-09. The Committee wished to investigate the issues raised by the Mayor in her statements, in the light of the information contained in the report. However, finance officers had not been invited to the meeting on the understanding the report had been submitted to the Finance Sub-Committee to deal with the financial aspects of the report and to this meeting to focus on the performance aspects. In view of this it was suggested that consideration of the report be deferred to the next meeting to enable representatives of the Interim Director of Finance to be present.

Reference was also made to the recommendations of the Finance Sub-Committee. Members sought clarification on the ability of the sub-committee to report directly to Cabinet without the need for their recommendations to be reported to the Overview and Scrutiny Committee for approval. The Committee was advised that the Constitution did allow for the Finance Sub-Committee to report directly to Cabinet on matters arising from the revenue and capital budget monitoring information. The Committee believed the report of the Finance Sub-Committee should have been reported in the first instance to the Overview and Scrutiny Committee as they wished to review the issues highlighted by its sub-committee, the conclusions and recommendations it had reached and the supporting evidence for them.

The Committee agreed that consideration of the 2008/09 Finance and Performance Out-turn Report be deferred to the next meeting to enable the Interim Director of Finance or her representatives to attend.

In accordance with this decision, Finance officers have been asked to attend.

In order to investigate the matters referred to above, extracts from the minutes of the Finance Sub-Committee and Cabinet are attached as appendices.

3. Appendices

Appendix A - Extract from the minutes of Cabinet held on 17 June 2009
Appendix B - Extract from the minutes of Finance Sub-Committee held on 24 June 2009

Annex 1 - Copies of the 2008/09 Performance and Finance Provisional Out-turn report have only been circulated to Members of the Overview and Scrutiny Committee as a separate document. Further copies are available from Michael Robson or from the Council's website www.northtyneside.gov.uk.

4. Background Information

The following background papers and research reports have been used in the compilation of the report and are available for inspection at the offices of the author.

- Minutes of the Overview and Scrutiny Committee 14 July 2009
- Cabinet Report: 17 June 2009
- Report from Finance Sub-Committee to Cabinet on 13 July 2009.

Extract
from the minutes of the
Cabinet held on 17 June 2009

CAB207/06/09 (ALL WARDS) **2008/09 PERFORMANCE AND FINANCE PROVISIONAL OUT-TURN**

The Cabinet received a report on the Council's final financial and performance position for 2008/09.

The report brought together key information for 2008/09 in one report, setting out the performance on progress against the Council Plan Milestones, delivery of the Strategic Investment Plan and Revenue budgets financial performance. The executive summary attached at Annex 1 to the report highlighted the key messages from the report:

Council Plan Performance

Of the 110 milestones in the Council Plan, 96 had been delivered on schedule, 7 ahead of schedule and 7 had not been fully completed in-year. Some of the highlights achieved in delivering the Council Plan were contained in the report. Only 7 milestones had required extended timescales, details of which were set out in the report.

Strategic Investment Plan

Delivery of the Strategic Investment Plan during 2008/09 had seen the highest ever level of capital investment in a single year. Total capital expenditure amounted to £110.844million. This included investment in the Council's assets of £93.965million, of which £63.269million related to the General Fund Assets and £30.696million to Housing schemes. The expenditure also included £8.627million equal pay settlements and £2.165million statutory redundancy payments that were eligible for capitalisation.

Reprogramming into future years was £8.038million, the lowest level of reprogramming since 2002/03 representing 15% of the revised budget compared to 40% in 2007/08.

The major schemes completed during the year were set out in the report.

General Fund - Overall Position

As at 31 March 2009, the provisional General Fund out-turn position was an underspend of £0.100million. Directorates showed an underspend of £2.006million against their approved budgets, an improvement of £0.361million against the year-end projections reported to Cabinet on 9 February 2009. Corporate and Non-delegated Items showed an overspend against budget of £1.906million. This was due primarily to an overspend of £3.700million on the continued implementation of the Council's job evaluation scheme, including £1.729million of backdated costs relating to 2007/08. This had been treated as a corporate item for 2008/09 budget monitoring purposes.

Each directorate had come within its approved budget, in three out of four cases, by over £0.500million. The Organisational Improvement Directorate had shown an underspend of £0.035million after the application of £0.647million from the Strategic Reserve to fund capacity in the directorate. This use of reserves had been reported in-year as part of the regular budget monitoring process.

Area Based Grant

Area Based Grant (ABG) had been received for the first time in 2008/09. The grant was allocated directly to service budgets and was included within Directorate out-turns. The total grant received for the year was £14.271million, and at the end of the year services had reported unspent grant of £1.143million. This had been transferred to the ABG Balance shown in the Accounts and would be carried forward for spend on approved schemes in 2009/10.

Cross-cutting Items

Corporately, and in addition to the job evaluation overspend, there had been several variations from budget, both underspends and overspends. The greater part of the Value For Money and Efficiencies Programme's £9.4million target saving had been built into directorate cost centre budgets at the start of the year and had been reflected in service out turns for the year. Those schemes of a cross-cutting nature which were held centrally showed a net overspend of £492,000 after the application of the specific contingency of £833,000 held against the overall programme. Administrative Buildings budgets had also overspent by £0.500million. Set against these overspends were savings arising from the two day strike held in 2008 - £0.244million, year end reviews of the Bad Debt Provision - £0.583million, Pensions Strain on the Fund costs - £0.239million, and Street Lighting PFI requirements - £0.215million. Despite the sharp fall in interest rates in the second half of the year the Council had been able to maintain an average rate of interest on its investments of over 5%, and the capital financing and interest budget had come in under budget by £0.681million.

Moving to Monthly Pay

The Council was in the process of transferring all remaining weekly paid staff to the monthly payroll and this had necessitated a change in accounting practice to eliminate the "two weeks lying on" arrangement, which had previously applied for weekly paid staff. In turn this had required the setting up of a provision of £0.678million in the balance sheet. For out-turn purposes the expenditure had been shown as a Corporate Item and had been funded by a contribution from reserves.

Workforce Costs

The Council had to manage a significant number of claims from employees on equal pay issues. In addition to claims for equal pay and equal value, legal judgements on claims relating to protection arrangements had also generated over 1,000 claims in 2008/09. These, and the problematic issue of male contingent claims, had been settled in the year. Overall, £8.627million of expenditure on equal pay claims had been incurred in 2008/09 and financed by means of the capital approval, which had been received from central government in September 2008. Although this expenditure had to be added to the Strategic Investment Plan, the capitalisation eliminated any direct effect on services in 2008/09 and avoided the use of reserves, thus helping to maintain the strength of the balance sheet.

Over 200 voluntary redundancies had been approved in 2008/09. The cost of statutory redundancy payments (£1.815million for the General Fund) had been met by way of capitalisation approval, with the revenue (non-statutory) cost of £0.678million being met from reserves previously set-aside as part of the 2007/08 accounts. There was therefore no direct effect on revenue of 2008/09 redundancy payments.

Reserves and Balances

After taking into account all transactions, the General Fund Revenue Account showed an underspend of £0.100million for 2008/09, and as part of the Reserves and Balances Policy this would be transferred to the Strategic Reserve. The General Fund Balance at the end of the year would remain unchanged at £6.475million, and the Area Based Grant balance came in at £1.143million.

Coming into 2008/09, the Council had Earmarked Reserves of £35.739million, and the budget for the year included the use of £5.000million of reserves to support revenue spend. During the year the Council had also received £8.022million of Local Area Business Growth Incentive (LABGI) grant. At the end of the year Earmarked Reserves showed an increase of £1.010million to £36.749million, largely due to the receipt of the LABGI grant. At year end the total of balances and reserves remained over £50million, at £53.854million.

Housing Revenue Account

The Housing Revenue Account balances had finished the year at £4.559million. This represented an improvement from the original projected balances of £1.589millilon. This movement had been made up of £1.323million improved balances brought forward from 2007/08 and £1.647million improvement from the planned contribution from balances for 2008/09. The main causes of the improvement for 2008/09 had been a reduction in Management and Special Services costs.

Schools Finance

The National Government were committed to reducing overall school balances-funds allocated to schools should be spent for the benefit of those children in schools today. This had seen a pressure being placed upon schools to reduce surplus balances. Overall, school balances had reduced in North Tyneside by £0.520million from £4.968million at 31st March 2008 to £4.448million at 31 March 2009. This reduction was in contrast to the experience over the last 6 years when school balances in North Tyneside had gradually risen from just over £0.500million.

Whilst the Council could confirm the aggregate value of school balances as at 31st March 2009 was £4.448million, the exact classification of those balances was not due to be confirmed with the DCSF until August 2009, as part of the Consistent Financial reporting and Section 52 outturn submissions. Following this exercise the Council would be able to report upon the number of schools in deficit.

Financing the Strategic Investment Plan

Delivery of the Strategic Investment Plan (SIP) during 2008/09 had resulted in total capital expenditure of £110.844million. This included investment in the Council's assets of £93.965million of which £63.269million related to the General Fund and £30.696million to Housing schemes, – the highest ever level of investment in a single year. This expenditure was financed by £68.742million Council contribution and £42.102million external funding.

Treasury Management

Although 2008/09 had seen major turbulence in the financial markets, the Council's Treasury Management Strategy ensured that the value of its investments had been preserved and involvement in major financial crises such as the Icelandic banks default had been avoided.

The Bank base rate had fallen from 5.25% at the start of the year to 0.5% at its close. Despite this, as a significant amount of the Council's cash surpluses had already been invested for periods of up to one year at the previous high rates of around 6%, this had the effect of safeguarding the budgeted level of investment income, and allowed the Council to achieve an average return on its investment for the year of 5.5%.

The Council had repaid £5million of loans (held at rates of 11.25%) that had matured during the year, and in line with the Council's approved Treasury Management Strategy for 2008/09, the Council had undertaken some long-term borrowing of £20million at an average rate of 4.04%, to support its Strategic Investment Plan.

Balance Sheet

The movement in Council balances during 2008/09 had been relatively small. However, the general fall in asset values, a reflection of the changing economic climate, had had a major, negative, effect on the Council's Balance Sheet. This was primarily due to revised valuations of land and buildings and the Council's element of the current Pension Fund deficit. Over the year, the value of the Council's Balance Sheet had fallen by £266.482million, from £696.743million to £430.261million. Although at the moment this was a Balance Sheet reduction with no direct effect on the Council's revenue account, it did have implications for the future, particularly in the case of the Pension Fund, where a new valuation was required in 2010. These factors were being taken into account as part of the Council's financial planning process for future years' budgets.

Fixed Assets

As part of the Council's closure of accounts process, the Council considered as a matter of course any impairment of assets as a result of use. In addition, for 2008/09 an exercise had been carried out to reflect the impact of the current economic downturn on the value of the Council's land and property assets. The resulting reduction in asset value was reflected in the Council's balance sheet, but did not directly impact on 2008/09 revenue expenditure or directorate budgets. The resulting reduction in value due to impairment was £5.561million for Land and Buildings and £158.8million impairment of Council dwellings.

Pension Fund Deficit

The falls in property values, and in stock markets, were of particular importance to pension funds, which held large investments in both these assets. All pension funds had seen large falls in value throughout 2008/09. The Council was a member of the Tyne and Wear Pension Fund, which was valued every three years. The last valuation had been carried out in 2007, and that had set Council contributions to the fund for the period 2008/09 to 2010/11. The next valuation would be carried out in 2010. There was therefore no direct effect on the Council's 2008/09 budget of in-year falls in pension fund values. However, the Council was required to show an up to date actuarial estimate of its pension fund liability. The effect of recent market falls on the value of the fund was demonstrated by the pension fund deficit figure in the Council's 2008/09 balance sheet. This was £303.936 million, compared to a 2007/08 figure of £175.363million – a rise of £128.573million, or 73%. There was, therefore, an underlying concern about funding levels, which would need to be addressed as part of the 2010 valuation and reflected in Council budgets from 2011/12. This would be further considered as part of the 2010-2015 Financial Plan.

Overall, the effect of these changes to Assets and the Pension fund liability had been to reduce the value of the Council's Balance Sheet from a figure of £696.743million at the end of 2007/08 to £430.261million at the end of 2008/09.

Partnerships

The Council had introduced a framework to bring together the separate strands of budget reporting relating to individual partnerships that allowed a financial overview of partnerships as a whole. As a result of this work, the Council was able to report that partnerships had delivered revenue expenditure of £3.782million and capital expenditure of £0.431million through 2008/09.

The Council would be reporting Partnership financial performance as part of the Council's budget monitoring process for 2009/10.

The financial information presented in the report informed the preparation of the Council's Statement of Accounts for 2008/09, which would be presented to full Council on 30 June 2009. The figures were, therefore, provisional until approval by Council.

Councillor G Brett, Deputy Chair of the Finance Sub Committee and members of the Cabinet then asked a number of questions about the report. The Chief Executive and Head of Strategic Finance responded verbally and indicated that written responses would be provided in due course.

The Mayor raised a number of concerns regarding the report. While the report presented a balanced position, the Mayor had serious concerns about some of the underlying issues. She was concerned that there were several structural financial problems and she would make it her top priority to address these.

She referred to the Council's dependence on the use of reserves - £8 million last year and a proposed £8.4million in the current 2009-2010 budget - which she stated was not sustainable.

She was also concerned about the level of debt associated with the Council's Strategic Investment Plan, the Council's pension fund liability and the reduced value of the Council's assets, such as land, due to the economic downturn.

The Mayor stated that in the interests of the Council taxpayers of North Tyneside she wished to instigate a review of all levels of debt within the Council. This would include:

- Producing a profile of all the council's debt;
- Reviewing the council's strategic investment programme;
- A review of council assets and their reduced value due to the economic downturn;
- A shortfall in pension provision.

She also announced that with immediate effect, additional monitoring would be introduced on a bi-monthly basis, to ensure close scrutiny and transparency of Council affairs for Council residents.

RESOLVED that (1) the achievements made in relation to the delivery of the Council Plan Milestones and the Strategic Investment Plan during 2008/09, be noted;
(2) the provisional financial out-turn for 2008/09 be noted;
(3) the proposal to transfer the net General fund surplus of £0.100million to the Strategic Reserve, be approved;
(4) the carry forward of £8.038million of Capital projects into 2009/10 as outlined in paragraph 7.7 and Appendix E of the report, be approved;

(5) the performance of the treasury management function for 2008/09 be noted;
(6) the actual 2008/09 Prudential Indicators be noted;
(7) the financial outturn in relation to partnership-related activities for 2008/09 be noted;
(8) a review be undertaken into the levels of debt within the Council, as outlined above, with a report being submitted to the August Cabinet meeting;
(9) consideration be given to the content and presentation of information in future budget monitoring reports in the light of concerns previously raised by the Finance Sub Committee; and
(10) budget monitoring reports be presented to Cabinet on a bi-monthly basis.

Appendix B

Extract
from the minutes of the
Finance Sub-Committee held on 24 June 2009

F46/06/09 2008/09 PERFORMANCE AND FINANCE PROVISIONAL OUT-TURN

"The sub-committee considered the key messages set out on in the Executive Summary and highlighted the following:

Cross-Cutting items

Members highlighted the overspend in relation to the Value for Money and Efficiencies Programme cross-cutting schemes. Members were concerned that this represented a significant overspend in the context of the target savings. It was noted that some of the schemes have involved longer timescales than originally envisaged and that some required significant system changes to streamline process and that the Council's strategic partner, Deloittes, is assisting with this. The sub-committee highlighted that greater transformation savings had been identified in next years budget and questioned whether this could be achieved, given that the target efficiencies had not been achieved for 2008-09. The sub-committee was informed that project plans in relation to these targets were reviewed on a monthly basis. The sub-committee requested a breakdown showing the transformation savings that have and have not been achieved during 2008-09.

Members highlighted the overspend of £0.500m in relation to the Administrative Buildings budgets and that this related to unexpected expenditure in Quarter 4 which had not been highlighted in Quarter 3. It was noted that officers were looking at these costs in detail to identify any ongoing costs and whether any costs will be offset when buildings are vacated following office relocations. It was also noted that running costs can be unpredictable, but that work was ongoing to try to improve predictions and to budget appropriately. There was some discussion about the detailed information contained in Annex 1 about the overspend on reactive repairs and maintenance during Quarter 4. It was noted that this is a different issue to the overspend on administrative buildings which is a corporate rather than directorate budget. It was noted that there had been an overspend in Quarter four in relation to a large number minor reactive repairs and this was focussed on priority health and safety repairs. The sub-committee asked for a breakdown of the revenue and capital costs relating to the expenditure incurred in quarter 4 in relation to reactive repairs.

Workforce Costs

There was some discussion about vacancy savings and redundancy costs over the year. The sub-committee requested a breakdown of the head count at the start and end of the year, following the 200 redundancies set out in the report.

Revenue Grants

The sub-committee raised an issue about grants received as revenue and how this has been applied in each directorate. The sub-committee requested a breakdown of this information to identify any underlying weaknesses that could be exposed in the absence of grant income.

Schools Finance

There was a discussion about the reasons for the reduction in surplus balances and the sub-committee noted that the Children, Young People and Learning Directorate are working with individual schools to understand the overall position, although there are likely to be more schools in a deficit position. The overall school balances have reduced by £0.520m to £4.448m.

Balance Sheet

There was some discussion about the impact of the fall in asset values on the Council's Balance Sheet and whether this will have an effect on the Council's credit rating and ability to borrow. It was noted that this would not be the case as local authority accounting is different, and that prudential borrowing is based on affordability of repayments rather than asset values. It was noted that the reduced value of assets could have an impact on capital receipts.

There was also a discussion about the pension fund deficit. It was noted that there is an underlying concern about funding levels, which will need to be addressed as part of the 2010 valuation of the Tyne and Wear Pension Fund and reflected in Council budgets from 2011/12. It was noted that this issue was being looked at on a national basis and the Council is working with neighbouring authorities to influence the action needed to address this issue.

Members raised an issue about planned voluntary redundancies over coming years and the impact this could have on the pension fund. Members asked for a copy of the breakdown of efficiency saving which was set out in the budget programme.

Annex 1

The sub-committee considered the detailed information contained in Annex 1. There was some discussion about the insurance reserve, the strategic reserve and the S117 reserve. Members asked for clarification of what was happening with the S117 reserve.

The Chair thanked officers for attending and providing information.

It was **AGREED** that the Finance Sub-committee recommend to Cabinet:

i. That given the concerns in relation to the pension fund deficit, that the Cabinet make representations to all relevant bodies in order to influence the appropriate actions needed to address this issue.
ii. Given the 15% shortfall in transformation savings achieved for 2008/09, it is recommended that Cabinet ensure robust systems are put in place to monitor future transformation savings and to ensure that the even greater savings planned for future years will be achieved."

The recommendations set out above were presented to the Cabinet at its meeting on 13 July 2009. The following is an extract from the minutes of that meeting setting out the Cabinets response.

"In response, the Cabinet Member for Finance welcomed the report. He stated that in relation to the concerns regarding the pension fund deficit, the Mayor and Cabinet took this issue very seriously, and were trying to clarify the Council's obligations to the pension fund and wished to make all necessary representations to relevant bodies. An update on the pensions position was to be included in the budget monitoring report which would be submitted to the next Cabinet meeting. The Cabinet Member would also be taking an interest in this issue through his membership of the Pensions Committee.

The Cabinet Member expressed concerns that the transformation savings target for 2008/09 had not been fully achieved. The Cabinet was working closely with the Corporate Management

Team to ensure that the Council's transformation and value for money savings this year were achieved. Steps would be taken to ensure the necessary systems were in place to make this an integral part of the budget monitoring and management process.

The Mayor endorsed the Cabinet Member's remarks and indicated that she would take up the issue of the pension fund deficit with the Local Government Association, The Association of North East Councils and other local authorities. With regard to the shortfall in transformation savings, the Mayor stated that savings targets must be met in future without using contingencies. She added that budget monitoring would be subject to closer scrutiny following her instruction to introduce bi-monthly monitoring.

RESOLVED that the recommendations of the Finance Sub Committee be accepted."