

Leicester
City Council

**CABINET
SELECT COMMITTEE**

**25th June 2007
June 2007**

REVENUE OUTTURN 2006/07

REPORT OF THE CHIEF FINANCE OFFICER

1. PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to show the final summary outturn position comparing spending with the budget for all General Fund Services and the Housing Revenue Account (HRA).
- 1.2 This is the fourth and final report in the annual cycle of budget monitoring and shows the outturn position for the General Fund against the revised budget of £232.7m, and the HRA against a gross budget of £65m.
- 1.3 Previous reports have been presented to the Cabinet and Scrutiny Committees in September, January and March, which outlined budgetary issues that had emerged during the year.
- 1.4 The report shows a year-end under spend by service department budgets (excluding schools) of £0.5m, which represents 0.8% of their net budgets. All departments have spent within their resources, which is a pleasing result given the pressures which existed during the year. Corporate Budgets have under spent by £3.6m, which mainly relates to the savings made in capital financing costs, and is broadly in line with forecasts made at the time the budget for 2007/08 was set. Schools have spent £3.4m less than their budgets, representing 2.4% of schools' aggregate budgets. A significant part of this relates to planned savings prior to the start of Building Schools for the Future. Schools are (prima facie) entitled to retain these monies.

2. RECOMMENDATIONS

2.1 Cabinet is recommended to:

- a) note the final outturn for 2006/07 for each department and the Council as a whole;
- b) note the reasons for the variances between the 2006/07 budget and the final outturn;
- c) note the position of the Council's General Fund and HRA balances;
- d) note the position in respect of significant earmarked reserves;
- e) note the proposals for the use of under spends;
- f) approve the establishment of new earmarked reserves (proposed in section 10.18 of the supporting report);
- g) approve virements as detailed in section 4.3 of the supporting report;
- h) approve the transfer to the Children and Young People's Departmental Reserve of the planned contribution of £0.5m, and the under spend of £0.4m to contribute to the costs of the ongoing transformation of Children's Services as outlined at paragraph 6.2.3 of the supporting report;
- i) approve the transfer to the Capital Fund as outlined in paragraph 7.2 of the supporting report.
- j) approve the stock write off proposed in paragraph 6.3.7 of the supporting report.
- k) approve the funding of £0.1m for a steam cleaning machine for paving in the city centre from reserves (paragraph 9.5 of the supporting report).

2.2 The Select Committee is asked to consider the overall position for the Council and make any observations and recommendations to Cabinet that it sees fit.

3. FINANCIAL & LEGAL IMPLICATIONS

3.1 The report is solely concerned with financial issues. There are no direct legal implications in this report. Peter Nicholls, the Head of Legal Services has been consulted in the preparation of this report.

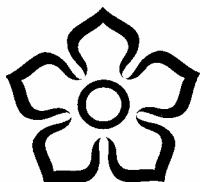
4. OTHER IMPLICATIONS

4.1 There are no equal opportunity, policy, sustainable and environmental, crime and disorder or human rights, elderly /people on low income implications.

Report author: Lisa Turner
Senior Accountant - Ext 6013

MARK NOBLE
CHIEF FINANCE OFFICER

Key Decision	No
Reason	N/A
Appeared in Forward Plan	N/A
Executive or Council Decision	Executive (Cabinet)



Leicester
City Council

**CABINET
SELECT COMMITTEE**

**25th June 2007
June 2007**

REVENUE OUTTURN 2006/07

SUPPORTING INFORMATION

REPORT OF THE CHIEF FINANCE OFFICER

1. PURPOSE OF THE REPORT

- 1.1 This is the fourth and final report to members in the annual cycle of budget monitoring. Previous reports have been made in September, January and March, which identified budgetary issues that had emerged during the year and the forecast outturn for the year-end.

2. REPORT SUMMARY

- 2.1 Most departments have experienced difficulties during the year. Early forecasts predicted an overspend position in many departments. During the course of the year these departments tightly controlled their expenditure and management have taken action in order to achieve an outturn within budget.
- 2.2 The resulting outturn figures show that all departments have managed to achieve an outturn of at or below budget, although two departments have needed to draw from their reserves to do so. Despite the pressures reported in earlier months departments have done well to manage their spending within budget, and it is very pleasing to be able to present this overall picture.
- 2.3 An under-spend of £3.6m has materialised on corporate budgets largely as a result of savings made in capital financing costs. This saving is due to large net inflows of cash into the authority, i.e. cash receipts in excess of cash expenditure which has led to higher levels of interest being received, and also some timely borrowing decisions made at the end of 2005/06. Offset against it is a provision for possible grant claw back of £1m, discussed further in paragraph 7.3.
- 2.4 The Housing Revenue Account (HRA) has incurred an overall deficit of

£0.5m, which is lower than the planned deficit of £1.7m. There were a number of reasons for the reduced deficit of £1.2m and these are detailed in section 11 of this report. The HRA balance as at 31st March 2007 stands at £2.9m.

- 2.5 Schools have spent £3.4m less than their budgets, representing 2.4% of schools' aggregate budgets. This is made up of a combination of some schools underspending and adding to their balances, and some schools drawing on balances accumulated in earlier years. Schools' revenue balances now stand at £15.5m and further details on these balances is provided in Section 8 of this report.
- 2.6 The Council's general reserves position at the end of the 2006/07 financial year is forecast to be £7.7m, representing just 3% of the budget. If the recommendations in this report are accepted, a further £0.1m will be committed, leaving a balance of £7.6m. This is slightly higher than £7m, which is the minimum balance suggested by the Council's financial strategy. In terms of the percentage of budget held in reserves £7m is well below the average of reserves held by unitary and metropolitan authorities. It is also noted that the Council faces a high level of risks, including major development projects, which could impact on reserves. Further details relating to the level of general reserves is provided in Section 9 of this report.
- 2.7 Looking further ahead to 2007/08, it is already becoming apparent that a number of budgetary challenges exist within departments. These are explored in more detail within the departmental outturn narratives at Section 6 of this report.

3. BACKGROUND

- 3.1 The net General Fund budget (which pays for all services other than costs associated with the Council's housing stock) is divided into three components:
 - (a) Departments' service budgets, which are controlled by Corporate Directors and monitored by Scrutiny Committees;
 - (b) Corporate budgets which are managed centrally rather than being controlled by a Corporate Director.
 - (c) Budgets which are delegated to schools and funded from a ring-fenced Dedicated Schools Grant (DSG).

All directors are accountable to Cabinet for the use of their budgets.

- 3.2 Each Director is responsible for ensuring that the cost of service provision is contained within their department's budget, and for taking action (or recommending action to Cabinet) where it appears that a budget may overspend.
- 3.3 Under Finance Procedure Rules, underspendings against a department's budget are carried forward by the department which generated the underspending. Some departments also have trading organisations, which "sell" services to other departments. Finance Procedure Rules allow departments to retain 50% of their trading surplus, the balance being returned to the general reserve.
- 3.4 Corporate budgets include:

- (a) capital financing costs – these are essentially the costs of interest and principal on debt raised for previous years' capital schemes, offset by interest earned on invested cash balances;
- (b) miscellaneous budgets, such as bank charges & District Audit fees; and
- (c) the net recharges budget, which represents income earned by the General Fund from other parts of the Council (such as the Housing Revenue Account and trading units).

3.5 Under spends/overspends on corporate budgets are transferred to or from the general reserve.

4. **BUDGET 2006/07**

4.1 The General Fund budget for 2006/07 was originally set at **£232.5m**, of which £1.3m was planned to be funded from general reserves resulting in a net budget requirement of £231.2m. After adding the approved carry-forward amounts from 2005/06 (of **£0.2m**) the budget for the year has been revised to **£232.7m**.

4.2 Financial control is maintained by monitoring actual expenditure against approved budgets at regular intervals throughout the year. This has necessitated additional arrangements during 2006/07 to reflect the changes being made to set up new Adults and Children's Services departments.

4.3 The table below details the revised 2006/07 budget for the authority:-

Table 1	Revised Base Budget for 2006/07	Approved Carry forwards	Virements / Adjustments	Revised Budget for 2006/07
<u>Department</u>	£000	£000	£000	£000
Chief Executive's Office	2,395.8	-	(1,051.5)	1,344.3
Children and Young People	54,950.7	-	(30.2)	54,920.5
Regeneration & Culture	58,943.5	6.9	1,676.3	60,626.7
Housing	6,298.4	(32.4)	193.6	6,459.6
Housing Benefits	487.8	-	-	487.8
Adults and Community Services	68,486.4	210.1	624.6	69,321.1
Resources	18,269.5	-	1,408.6	19,678.1
Total Departments	209,832.1	184.6	2,821.4	212,838.1
Corporate Budgets				
Miscellaneous	8,810.4	-	(2,569.3)	6,241.1
Capital Financing	17,165.0	-	-	17,165.0
Net Recharges	(3,272.6)	-	(252.1)	(3,524.7)
Total Corporate Budgets	22,702.8	-	(2,821.4)	19,881.4
TOTAL GENERAL FUND	232,534.9	184.6	-	232,719.5

5. SUMMARY OUTTURN

- 5.1 Appendix 1 sets out the final outturn position for the Council's General Fund.
- 5.2 Section 6 of this report sets out the main issues arising from individual departmental outturns and Appendix 2 identifies proposals for uses of underspends carried forward by departments.

6. EXPLANATION OF VARIANCES – SERVICE DEPARTMENTS

6.1 Chief Executive's Office

- 6.1.1 The Chief Executives office achieved outturn at budget. The budget has been balanced by the merger of the Chief Executive's and Partnership Teams.

6.2 Children and Young People

- 6.2.1 The budget for the Children and Young People's Department has two principal components:

- General Fund Services – funded as mainstream budgets of the Council;
- Schools' Block - funded from the Dedicated Schools' Grant (DSG), which is a ring fenced grant from the Government that has to be used to fund the delegated budget of each school, together with certain items of related central expenditure. Any under spend in the Schools Block has to be carried forward for use in future years.

- 6.2.2 As reported at Period 9, the Directorate Management Team agreed a longer term view of the Departments finances within the context of:

- Major work programmes including Building Schools for the Future (BSF), extended schools and development of early years provision;
- Transforming the department following the Integrated Services Programme; and
- The 2007/08 budget is very tightly drawn in view of the scale of transformation.

The Directorate Management Team has therefore embarked upon a financial plan which addresses the 2006/07 and 2007/08 budgets as a cohesive whole. The results of this planning are explained in the following paragraphs.

- 6.2.3 General Fund Services, after a planned contribution to reserves of £0.5m to

support transformation costs in 2007/08, have under spent by £0.4m. This is slightly higher than previous forecasts mainly due to lower than anticipated Premature Retirement Costs, and action to maximise the benefit of external funding within Early Years and Learning Services. Members are asked to approve the transfer of both the planned contribution of £0.5m, together with the reported under spend (£0.4m), to the departmental reserve to contribute to the costs of the on-going transformation of Children's Services in 2007/08.

6.2.4 The DSG funded Schools Block under spent by £2.4m on budgets other than those delegated to Schools. This under spend has been transferred to a new ring fenced DSG earmarked reserve as outlined in paragraph 10.18. Some items built into the budget were not called upon, including the retrospective contingency of £0.5m for schools facing exceptional cost pressures for which no bids were received from schools, a contingency of £0.2m for unforeseen circumstances in schools, and the insurance contingency of £0.1m relating to a potential increase in the cost of insuring schools. There was also a provision of £0.2m for schools with additional resources and an unspent provision of £0.5m arising from reductions in special school places in earlier years, both of which are contingent upon progressing the review of Special Educational Needs provision in the City. Additional resources of £0.8m were also set aside during the year to start to build up the necessary contribution levels required in future years towards the costs of Building Schools for the Future.

6.2.5 A number of other budgets managed within the department also fall within the schools block, and these budgets had a net overspend of £0.7m, which has been funded from the Schools Block Contingency, and from savings on other DSG services. The variances are in line with those previously reported. The most significant of these is an over spend of £0.8m on the Independent Schools and Mainstream Statementing budgets which, along with Special Recoupment, are highly volatile and reactive to the needs of individual pupils (A growth of £0.9m in 2007/08 has been approved by the Schools Forum). This overspend was partially offset by under spends in other areas, for example, nursery education grants under spent by £0.3m largely due to lower than projected uptake.

6.2.6 During 2006/07, the costs of preparing for BSF, in excess of the corporate revenue provision (£450k), have been accommodated within the departmental outturn rather than, as originally planned, from the BSF reserve. This enables the established BSF reserve, £0.6m at 31st March 2007, to be carried forward into 2007/08 where it will help to alleviate pressures. The financial close for BSF Phase I has slipped beyond March 2007 and more funding will be needed in 2007/08 than was originally envisaged.

6.3 Regeneration and Culture

6.3.1 The Department has controlled its net £61m budget to within a small underspend of £40k. Despite facing significant pressures during the year services have continued to be delivered against the backdrop of major organisational review. This was completed in December 2006 and will generate ongoing savings of £1.6m per annum. All divisions have met their budget target, however there have been a number of significant variations against the budget at service level, and these are explored in more detail below.

- 6.3.2 The Cultural Services division achieved a small under spend of £5k. This Service is particularly vulnerable to variations in income levels. It is therefore pleasing that De Montfort Hall achieved its highest ever sales, exceeding the budget of £4.3m by £150k. There were a number of other variations the most notable being a £200k contribution to the Evington Sports Centre capital scheme.
- 6.3.3 Within Highways and Transportation the division achieved a net under-spend of £11k, this is despite divisional review savings and prior year budget pressures carried forward of £318k. These pressures have been met during the year from net under spends within the division. For example, Transport Systems delivered a saving of £294k through staffing vacancies and additional income being generated; and Economic Regeneration under spent by £205k, largely due to vacancies and reward grant income. The Budget pressures carried forward to 2006/07 have been reviewed and budgets adjusted to resolve this issue from 2007/08 onwards.
- 6.3.4 The Environment division achieved a small under spend of £15k. As previously reported, the Bereavement Services overspent by £189k due to a number of reasons, including additional staffing costs and landscape improvement works in order to achieve the Charter for the bereaved. The control of this budget will be a priority in 2007/08. These additional costs were offset by vacant post savings across the division relating to the organisational review and additional income in the Licensing section as a result of new legislation.
- 6.3.5 Planning and Policy under spent by £4k, which is a significant achievement as the organisational review had the most impact on this division. Salary savings of £0.8m were achieved against a target of £0.5m, as a result of vacant posts which arose during the review process, and which remained unfilled until that process was completed in December. These savings meant that it was possible to carry forward more of the Planning Delivery Grant than was planned (see paragraph 10.18) and also to increase the earmarked reserve to cover potential costs associated with planning inquiries. There was also a shortfall in planning income of £188k as the income received was lower than the previous year.
- 6.3.6 The departments' four traded services (Fleet Transport, Operational Transport, City Highways and Catering) made, in total, a surplus of £5k. City Highways and Fleet Transport both broke even. City Catering traded at a loss of £66k partly due to losses incurred on the Braunstone Health and Social Care centre café contract, which terminated in July 2006. The other significant factor is the government's healthy eating initiative within primary and secondary schools. Costs have increased and demand for healthier food has declined. The impact of this is likely to continue into 2007/08 and the department is seeking to secure more funds to subsidise the healthier menus as well as promote their uptake. This loss was offset by an under spend in Fleet Management mainly as a result of deferring expenditure until 2007/08 together with small savings on fuel costs. Under finance procedure rules the department retains 50% (£2.5k) of the aggregate surplus with 50% transferring to the general reserve.

6.3.7 In 2006/07 the Regeneration and Culture Department took responsibility for the Libraries Service from the former Education Department. As part of the year end closure of accounts the department has identified obsolete stock that was published between 1989 and 1998. This was held on the Balance Sheet at £34k but the department has determined that it has no ongoing value to the authority. Under Finance Procedure Rules, any stock write-off in excess of £2k requires Cabinet approval, and accordingly Members are requested to approve the writing down of this stock in accordance with proper accounting practice.

6.4 Housing Department

6.4.1 The department has under spent by £279k or 4% against a net controllable budget of £6.5m. This is a more favourable position than had been anticipated earlier in the year, when agency staff had been brought in to clear the backlog of housing benefits claims, and the use of bed and breakfast significantly increased. A number of management actions were put in place in order to mitigate these additional costs pressures. There are a number of variances within the outturn and the most significant are outlined in the following paragraph.

6.4.2 The Housing Benefit administration service incurred an additional £524k to employ agency staff to clear the backlog in claims which was, in the main, offset by one-off grant monies, resulting in a net overspend of £88k. The Housing Options division overspent by £225k due to increasing demand for bed and breakfast accommodation, and a delay in moving to new offices. Overspends within the department have been offset by reward grant and savings made from holding staffing vacancies in the lead up to the full merger with the Adults and Community Services Department.

6.4.3 Looking ahead to 2007/08, the main challenge for the department will be achieving the efficiency savings included in the Departmental Revenue Strategy. In recognition of this, and to meet the one-off costs associated with the merger to the new Adults and Housing Department, the department would like to carry forward the 2006/07 under spend to meet these pressures in 2007/08.

6.5 Housing Benefits

6.5.1 The housing benefit budget is classified as demand-led and therefore any under spend or overspend accrues to the general reserve. The service is now entirely grant funded, and costs can only be incurred for two reasons : -

- a) overpayments made to claimants, to the extent that these cannot be recouped; and
- b) deductions made to grant by the Department of Work and Pensions (DWP).

- 6.5.2 For 2006/07 the housing benefit budget overspent by £55k. However, included in this sum is a provision of £0.7m against outstanding debts relating to overpayments made to claimants. A certain level of overpayments is inevitable in administering a system as complex as housing benefit and occurs in all major cities. The level of overpayments is higher than usual due to the impact of the backlog in processing claims which occurred in the early months of 2006/07.
- 6.5.3 During the course of this year the DWP have finalised the 2004/05 subsidy claim, resulting in a decision to claw back £0.9m. This decision was subsequently challenged but rejected by the DWP. The authority had already made a provision to cater for possible claw back, which was sufficient to meet this additional cost.
- 6.5.4 Finalisation of the 2005/06 grant claim remains outstanding and subject to audit qualification, any resulting adjustments made by the DWP will affect this budget in future years. Provision has been included within the accounts for claw back in respect of 2005/06, amounting to 1.5% of the total claim. Most of this provision has been charged to the accounts in earlier years.

6.6 Resources Department

- 6.6.1 In accordance with previous forecasts, the Department has had some budget problems during the year which it has not been possible fully to offset by compensating savings in other areas. The principal areas of overspend are

The Coroner's services: £400k

The high spending on the Coroner's service is the result of high activity on inquests, which are determined by the Coroner, who is not a City Council employee, together with an associated increase in volume and cost of pathology and toxicology.

Childcare vouchers scheme: £ 78k

The scheme to offer employees childcare vouchers saving money for both the employee and the Council (through a reduction in the cost of employer's National Insurance costs) has been slower to develop than originally envisaged. This initiative will be promoted again in 2007/08.

Building Cleaning client costs: £ 70k

This is due to the additional client costs, previously reported, which arose from the termination of the building cleaning contract.

Operational property (admin buildings): £400k

There is a recurrent budget pressure arising from the non-disposal of Greyfriars. A budget saving on the admin buildings account was included in the Department's 2004/05 Revenue Strategy, but the disposal has not yet taken place. There are other pressures on the account too, mainly due to increased costs – cleaning, energy, maintenance – at New Walk Centre. There have also been some one-off costs of using Mansion House as temporary decant space for various office moves.

- 6.6.2 Difficulties in these areas will persist into the new financial year, and the Department is undertaking a thorough review of its budgets to seek ways of eliminating or funding these problems.
- 6.6.3 Compensating savings elsewhere amount to £713k, leaving a net overspend of £235k, which the Department proposes to meet from its earmarked reserves, including the Departmental Investment reserve. This reserve now stands at less than £200k, most of which will need to be retained as a hedge against any future departmental overspend - leaving little or no scope for its use to pump-prime investment in new initiatives.
- 6.6.4 The Property division is responsible for managing the authority's investment property portfolio. The portfolio generated a surplus of £145k in 2006/07 of which, in accordance with finance procedure rules, 50% has been retained by the department, with the balance transferred to the general reserve.
- 6.6.5 The department also manages 10 trading units that "trade" predominantly within the Council, although some external income is generated. The majority of trading units achieved a surplus at year end, although ICT, Payroll and Cashiers had a shortfall on their budgeted surplus of £125k, £41k and £8k respectively. These were offset by surpluses made, most notably, by Customer Accounts (£170k) and Creativity Works (£146k), which when aggregated meant the departments' traders had an overall surplus, in excess of that budgeted for, of £348k. Financial Procedure Rules determine that the department may retain 50%, with the balance transferred to the general reserve.

6.7 Adults and Community Services

- 6.7.1 The Adults and Community Services Department has effectively achieved a break even position which has been achieved through the use of reserves (£705k) and other one-off monies (£128k). The small under spend reported (£75k) relates to the Youth Offending Service. This sum is requested to be carried forward in recognition of the forthcoming inspection, and to meet obligations to partner contributors to the service. There were a number of significant variances within this outturn position and these are explained in further detail in the following paragraphs.
- 6.7.2 An overspend of £1m within Adult and Community Care mainly due to service user transport, home care and direct payments. The key increases have been in complex care and supported living costs.
- 6.7.3 The Older People's Services achieved an under spend of £342k through a reduction in the costs of in-house home care services, additional home care income, lower utility and legal charges and a reduction in employee costs.
- 6.7.4 The Resources Division under spent by £712k, largely as a result of the impact of the one-off monies described above, together with savings on staffing vacancies being held pending ongoing reviews.

- 6.7.5 In addition to the above, there was a one-off cost of £642k arising from the Adult Learning Transformation project. This has been met from a contribution from the former Education Departmental Reserve. Further details on this reserve are provided at Paragraph 10.4.
- 6.7.6 Looking ahead to 2007/08, the department faces significant budgetary pressures, including an underlying level of commitment, which has been met from one-off monies in 2006/07. The position has been addressed, to some degree, by the 2007/08 Departmental Revenue Strategy. However, the situation remains extremely challenging, and the depletion of the departmental reserves, partly to balance the 2006/07 position, and partly because £200k has been committed as part of the 2007/08 budget strategy, is a particular concern and any future overspends may need to be carried forward.
- 6.7.7 In order to support the City of Leicester PCT to deliver its financial recovery plan, expenditure of £3.6m has been incurred in 2006/07 and a further payment of £0.45m will be made in 2007/08. The overall impact on the Council is neutral, as the PCT has made a capital grant of £4.1m to the Council. These transactions have been processed through the Council's capital fund in order eliminate any impact on revenue resources.

7. CORPORATE BUDGETS

- 7.1 Corporate budgets (£19.8m) represent areas of expenditure which are not the responsibility of any service Department. Capital Financing (£17.2m) is by far the largest element of this budget. Corporate budgets overall have under spent by £3.6m, which is in line with forecasts made when the 2007/08 budget was set.
- 7.2 The Capital financing outturn shows a saving of £4.4m, which is slightly in excess of the previous forecasts. This saving mainly reflects large inflows of cash into the authority, i.e. cash receipts in excess of cash expenditure. There has been a growing trend of increasing interest income now over several years. The budget for this interest is always set prudently as cash balances can be very volatile, but, although the budget for 2006/07 was set at higher levels than previous years, the underlying cash balances have still exceeded expectations, thereby earning additional interest. Main contributory factors in 2006/07 are the change in funding for schools, which has resulted in DSG being received earlier than the equivalent Revenue Support Grant (RSG), and delays to the LAA programme. Significant savings have also been made due to delays in the Capital expenditure programme. To the extent that the saving arises from slippage on capital spending, Members are requested to approve this sum being added to the capital fund, amounting to £2.7m. Further reasons for the saving include good borrowing decisions: low interest rates were exploited at the end of 2005/06, and borrowing was undertaken in advance for the entirety of the 2006/07 capital programme. This money has been invested pending need, and is benefiting from the increase in short term interest rates seen in recent months.
- 7.3 Given the harder line being taken by the Department of Work and Pensions in relation to housing benefit grant, a provision has been set aside from corporate budgets of £1m for possible claw back of grant for 2006/07. This grant claim has not yet been submitted.

8. SCHOOLS BALANCES

- 8.1 In 2006/07 67 schools (62%) have increased their balances, and schools' balances increased overall by £3.4m during 2006/07. Primary Schools increased by £0.5m, Secondary Schools by £2.8m and Special Schools by £0.12m. The total balances held by schools now stand at £15.5m.
- 8.2 It should be noted that, in the case of the Secondary Schools, £1.9m funding was included in their budgets for 2005/06 and 2006/07 which schools were advised to set aside as reserves for BSF, and this is therefore a major reason for the increase. Balances will also include unspent Standards Funds Grants which, under DfES guidance, can be spent until August 2007. This means that the balances are artificially enhanced at this stage and also that there may be more schools in deficit against their routine funding ("Section 52") allocations. The following table shows the overall position for 2006/07 before any of the above adjustments are made. The 2005/06 position after adjustments is shown for comparison – It should be noted that the number of schools with balances over 10% at the end of March 2007 is likely to reduce significantly once the adjustments are factored in.

Table 2 – Schools Carry Forward Percentage	No of Schools	
	2006/07	2005/06
Schools in deficit	6	10
Schools with reserves < 5% of their annual budget	20	41
Schools with reserves between 5% and 10% of their annual budget	38	38
Schools with reserves > 10% of their annual budget	44	20

- 8.3 On the raw figures, there are six schools in deficit, three of which are below £25k. The other three schools' deficits range from £45k to £72k. Officers are working with these six schools to assist them to achieve a balanced budget in due course. Of the 10 schools in deficit in 2005/06, seven are now in a surplus position and one other has significantly reduced their deficit and work continues with the other two schools to address their on-going financial position.
- 8.4 The Scheme for Financing of Schools contains the power for the Council to claw back excess schools' balances; this is defined as over 8% for Primary and Special schools and 5% for Secondary schools. However, schools are permitted to retain unspent Standards Fund, prior year commitments, items identified in the School Development Plan, reserves for maintenance and retrospective adjustments and external income. Schools will also be allowed to retain reserves accumulated for BSF. Schools are currently being asked to inform the Department about the funds held within their overall balances, so that the adjusted figures can be calculated and reviewed, leading to an assessment of whether or not the 8% or 5% limits have been exceeded.

8.5 The Scheme for Financing Schools was updated with the directed revisions mandated by the DfES. This included a requirement that all authorities were to include controls on surplus balances. The City Council, however, had adopted this power in earlier years. At this stage it cannot be determined with any certainty whether or not it will be possible to claw back significant amounts of money from schools once the exclusions have been calculated. However, in previous years the exercise has been undertaken resulting in very little scope to claw back excessive funds. From the returns already made by schools there appears to be significant unspent standards funds held within schools balances, and as previously highlighted, Secondary Schools have been advised to set aside reserves for BSF, and were allocated funds for this purpose which the Council would expect to see reflected in their balances. Members are asked to note that, in any event, sums clawed back would remain with the schools' block and cannot be used for general purposes.

9. **GENERAL RESERVES**

9.1 The table below shows the effect of the outturn on the Council's general reserves: -

Table 3 - General Fund Reserve	Amount £m
Opening Balance at 1st April 2006	7.884
<u>Add:</u>	
Resources Trading Surpluses Contribution	0.247
Regeneration and Culture Trading Surpluses Contribution	0.003
Corporate Budgets Underspend	0.925
<u>Less:</u>	
Planned Support for the Budget	(1.285)
Housing Benefit Overspend	(0.055)
Closing Balance at 31st March 2007	7.719
Less Commitments - See Paragraph 9.5 below	(0.100)
Uncommitted Balance	7.619

9.3 It is essential that the Council holds some funds in reserve in order to meet unexpected events such as an unforeseen overspend, a contractual claim, uninsured losses or cost increases arising from major projects, to which the Council's exposure has increased in recent years.

9.4 Members are also reminded that corporate budgets are amongst the most volatile in the Council. There is no guarantee that the savings achieved in 2006/07 will continue and therefore a prudent approach to the use of reserves continues to be recommended.

9.5 Members have made a commitment to fund the cost of a steam cleaning machine for the city centre, at a estimated cost of £80k. Together with operative costs, a figure of £0.1m will be required in 2007/08, in addition to the budget, which it is proposed is funded from reserves. From 2008/09, the permanent running costs will impact on the revenue budget.

10. OTHER SIGNIFICANT EARMARKED RESERVES

- 10.1 This section of the report provides an overview of other significant sums of revenue money, which are held in reserves. These reserves are “earmarked” for specific purposes, and are separate from the Council’s “uncommitted” balances. In general these reserves have increased by £10.2m during 2006/07 from £46.4 to £56.6m, although after deducting sums earmarked by law, and the insurance fund, the reserves amount to £15.2m.
- 10.2 **Schools Balances (revenue)** – As noted earlier in this report, the amount of money held in this reserve has increased from £12.1m to **£15.5m** following this year’s outturn. This money is, by law, ring fenced to individual schools.
- 10.3 **Other Ring-fenced Schools Block Reserves (excluding DSG)** – These reserves incorporate the LMS contingency fund holding funds allocated for in-year changes to schools formula funding resulting from the revised September pupil count - any unspent allocation is ring-fenced for spending in schools, the secondary review fund and Standards Fund Match Funding which is the unallocated match funding for 2006/07 Standards Fund grant, which can be expended up to 31st August 2007. The balance currently stands at **£6.7m**, none of which is available for general spending.
- 10.4 **Children and Young People’s Departmental Reserve** (*formerly the Education Departmental Reserve*) – This reserve was set-up in 2003/04 to deal with budget and other pressures and has been utilised during the year to fund the Adult Learning Transformation costs. The balance, including the contributions of £0.9m outlined in paragraph 6.2.3, currently stands at **£1.6m**. This sum is planned to be used to fund the transformation of the Department and its services in 2007/08 and beyond.
- 10.5 **Building Schools for the Future Project Management Reserve** - This reserve has a year end balance of **£0.6m**. It is the balance of the £2m set aside in 05/06 to provide for BSF project development costs. Further details on BSF project development costs have been outlined in paragraph 6.2.5.
- 10.6 **Building Schools for the Future (Capital Financing)** – Cabinet, on the 15th January 2007, approved the establishment of this reserve to meet the capital financing costs associated with the BSF programme. Funding for the costs of borrowing to meet the BSF programme has already been made available by the DfES. As this was provided in advance of need, it needs to be set aside until required. The balance at year end is **£3.1m**
- 10.7 **Insurance Fund** – The Councils’ self-insured insurance fund stands at **£13.7m**, which is set-aside to pay insurance claims. An actuarial review conducted in September 2005 indicated that the fund was adequate and stable at that time. The insurance fund is now healthier, reflecting improved performance on our management of risk and consequently our ability to defend claims. However, there is always an element of uncertainty about the right size of the fund, particularly given the growth in the “claims culture” in recent years and the length of time it takes for claims to be negotiated (and, sometimes, received). We have been able to freeze charges to departments at 2005/6 levels. During 2007/08 we will commission a further actuarial review to assess the health of the fund, which will hopefully reveal that it is at adequate levels.

- 10.8 **IT Fund (Resources Department)** - The Resources department holds an IT fund which stands at **£0.8m**. Annual ICT development expenditure can vary enormously each year, this fund smoothes out the peaks and troughs. The fund is held for various ongoing IT developments such as infrastructure projects which straddle years.
- 10.9 **Central Maintenance Fund (Resources Department)** – The fund is maintained to hold monies earmarked for repairs and maintenance of operational buildings. It is ‘topped-up’ with additional funds each year by means of a contribution from the budget. This reflects the fact that work is undertaken on a programmed basis. The fund currently has a relatively small balance of **£0.3m**.
- 10.10 **Other Resources Department Reserves** – separate reserves are held for the cost of local elections, unspent area committee grants, and a fund for rating appeals which has been re-directed to other initiatives as part of the 2007/08 budget strategy. The balance on these reserves totals **£1.2m**, most of which is committed.
- 10.11 **Adult and Community Services Reserves** – The Milford Fund (**£0.1m**) and the Intermediate Care Reserve (**£0.3m**) are being held to contribute towards the cost of redeveloping Butterwick House into an Intermediate Care Centre for Adults and Older People. It is expected that work will start during 2007/08 and the balance of funding will come from the NHS.
- 10.12 **Supporting People Grant (Adults)** – This reserve was established to carry forward any unspent grant monies for use in future years. The balance at year-end stands at **£2.1m**, and cannot be used to support general spending.
- 10.13 **Regeneration and Culture Reserves** – The department holds reserves totalling **£0.7m**. This includes £0.2m on-street parking monies held in accordance with the Road Traffic Regulation Act 1984, and other reserves relating to Community Cohesion £0.1m, unspent planning delivery grant (£0.1m); and monies set aside to meet the costs of planning enquiries (£0.1m).
- 10.14 **Housing Maintenance Traded Service (Housing)** – the balance on the reserve is currently **£0.5m**, which is available to fund future capital programme works.
- 10.15 **Job Evaluation** – An earmarked reserve was established during 2004/05 to build a suitable provision to manage the expected costs of the implementation of a revised job evaluation scheme and the costs of salary protection once a scheme is implemented. Budgeted contributions totalling £3.5m have been made from 2004/05 to 2006/07, from which costs associated with the development of the scheme have been charged, as agreed, leaving a year end balance of **£2.3m**.

10.16 **Business Improvement Project** – An earmarked reserve was established in 2004/05 to meet the costs associated with this project, which is designed to improve the Council's strategic capacity to deliver services, improve customer focus and reduce costs. As part of the 2006/07 budget strategy an additional £0.5m was earmarked towards restructuring costs associated with this project, leaving a year-end balance of **£1.1m**.

10.17 There are various other individual reserves established in accordance with Finance Procedure Rules. The figure stands at **£6m** including those described below.

10.18 The following earmarked reserves have been set up during the year and require approval from Cabinet:

Children and Young People

➤ **Bridges Project** – to earmark **£0.2m** of unspent one-off budget growth in 2006/7. This relates to the Council's share of the cost of developing a county-wide information sharing database about vulnerable children, pending the introduction of the national directory. The additional funding was intended to be spent over three years.

➤ **Dedicated Schools Grant** – As reported earlier, the Schools Block is funded from ring fenced DSG grant monies and an under spend of **£2.4m** arose in 2006/07. These funds are ring fenced to the Schools Block and have to be carried forward for use in future years - they cannot be used to fund general fund services.

Regeneration and Culture

➤ **Planning Delivery Grant** – to earmark unspent grant funding of **£0.1m** for use in 2007/08.

Adults and Housing

➤ **Departmental Strategic Reserve** –. The former Education Departments' strategic reserve has been split between the Children and Young People's Department and the Adults and Housing Department. An element of the reserve has been used to fund the transitional costs of the adult learning reconfiguration. The balance relating to the Adult and Housing Department (**£0.2m**) has been transferred to a newly established strategic reserve which will be held as a contingency against pressures in the forthcoming year.

11. HOUSING REVENUE ACCOUNT

11.1 The Housing Revenue Account generated a deficit for the year of £0.5m against a planned deficit of £1.7m, resulting in a **favourable variance of £1.2m**. This has resulted in HRA balances of £2.9m against budgeted balances of £2.3m. There are a number of variations within this outturn position with the most significant outlined below:

- (a) Reduced management costs of £0.3m mainly arising through lower employee costs following a review of organisational structures;
- (b) Reduced capital financing costs of £1.3m. This is due to reduced prudential borrowing and lower interest rates, which have been partially offset by debt rescheduling costs. This saving has been offset to a degree by an increase (£0.9m) in negative subsidy payable to the government;
- (c) A reduction in the bad debt provision of £0.3m due to collection rates remaining high and the level of write-offs on uncollectable rents has been low in 2006/07; and finally
- (d) A small increase of £0.2m or 0.4% in rental and other income.

11.3 Members are reminded that Cabinet have set minimum HRA balances at £1.5m to meet any unforeseen expenditure or a shortfall in income. Balances at 31st March 2007 of £2.9m are therefore £1.4m above the minimum. HRA Balances are ring-fenced and will be required to:

- Support the HRA Capital Programme and help meet the Government's Decent Homes Standard by 2010;
- To meet the cost of introducing the Council's new job evaluation scheme for staff employed in the HRA and Housing Trading Services;
- To allow for future restriction on rental income due to the operation of the Government's rent restructuring and subsidy systems; and also to
- Possibly fund the replacement of analogue with digital television services and introduce a global positioning system for the Housing Repairs Trading Service.

12. HOUSING REPAIRS TRADING SERVICE

12.1 The trading outturn position is a **surplus of £159k** against a budgeted surplus of £200k giving a variance of £41k or 0.25% on a turnover of £20.5m. This surplus has been transferred to the DSO Reserve and is available to meet future capital expenditure works.

13. SPECIFIC PROGRAMMES

13.1 Neighbourhood Renewal Fund

13.1.1 The outturn for 2006/07 is £7.4m and shows an under-spend of £0.4m or 4.6% of its £7.8m allocation. This under-spend is within the 8% allowed to be carried forward to 2007/08.

13.1.2 A number of actions had to be taken during 2006/07, including the need to undertake a floor target action planning process to determine programme priorities, and a change from grant aid funding to commissioning through a tender process. This resulted in many services not commencing delivery until September 2006 or later. It was therefore anticipated that there would be a need to carry forward up to the maximum allowable, and whilst some areas experienced difficulties in delivery, this was balanced by other areas achieving full spend.

13.2 Single Regeneration Budget (SRB)

13.2.1 The outturn for 2006/07 is £1.9m, this is an overspend of £0.1m or 4.6% of the £1.8m allocation. This overspend relates to the capital element of the budget, and an additional payment made during the year towards the capital costs of the Emerald Centre. This was over and above the original allocation for the year, but within its lifetime allocation, and will therefore be carried forward into next year. The revenue element achieved a small under spend.

13.3 Local Area Agreement (LAA)

13.3.1 From April 2006, the Council became a partner to and the accountable body for the Local Area Agreement (LAA). This is a formal agreement between many partner organisations to work together towards achieving a wide range of objectives. These objectives are grouped into four main themes; Children and Young People; Safer and Stronger Communities; Healthier Communities and Older People; Economic Development and Enterprise. The delivery of each of these themes is overseen by the Leicester Partnership. There are a number of funding streams that have been “pooled” within the LAA. This is a new approach which channels certain grant funding through the LAA rather than passing them directly to a specific partner organisation.

13.3.2 The outturn for 2006/07 is £4.2m or 97.8% against a grant allocation of £4.3m. This is within the amount allowable to be carried forward to 2007/08.

14.1 OTHER ISSUES

14.1 The Council is presently negotiating with trade unions to settle liabilities the Council might have in respect of ‘equal pay’. Large numbers of authorities have faced substantial claims from predominantly female groups of staff that they have been underpaid compared with comparable groups of predominantly male staff. The Council is currently seeking to settle such claims without admission of liability.

15. INVOICE PAYMENTS

15.1 The Council has set a target to pay 92% of all undisputed invoices on time (2005/06 target: 91%). A payment is deemed to be “on time” if it is paid within 38 days of the invoice date. Performance against target varies between departments and, if the target is achieved, it is important that any deficiencies in Departments’ arrangements are identified and rectified promptly. The performance for the month of March was 95.6%, and the cumulative position for the year is 92.7%, which means we have successfully achieved our target level of performance. The performance of each department is shown in the table found at Appendix 3.

16. FINANCIAL INDICATORS

- 16.1 As part of the 2006/07 budget report, Cabinet and Council approved various financial indicators taken from the Council's Balance Sheet and Cashflow statements. These are monitored and reported as part of the regular cycle of budget monitoring reports.
- 16.2 The indicators are attached at Appendix 4 to this report and include the positions as at 1st April 2006 together the outturn for the year ended 31st March 2007.

17. OTHER IMPLICATIONS

Other implications	Yes/No	Paragraph referred
Equal Opportunities	No	-
Sustainable & Environmental	No	-
Crime & Disorder	No	-
Human Rights Act	No	-
Elderly/People on low income	No	-

18. CONSULTATION

- 18.1 All Departments have been consulted in the preparation of this report.

19. BACKGROUND PAPERS

- 19.1 2006/07 outturn working papers held in the Accountancy section.

Report Author: Lisa Turner
Date: 31st May 2007

MARK NOBLE
CHIEF FINANCE OFFICER

Outturn 2006-07

APPENDIX 1

Departments	Adjusted Budget £'000	Actual Spend £'000	Contrib. To / (from) Reserves £'000	Outturn £'000	Variance (under) / overspend £'000	(Under)/ Overspend %	C/fwd Permitted £'000
Chief Executive's Office	1,344.3	1,346.9	(3.1)	1,343.8	(0.5)	(0.0)%	-
Children and Young People's Regeneration & Culture	(87,410.8)	(88,290.4)	487.2	(87,803.2)	(392.4)*	0.4%	-
Housing Department	60,626.7	59,947.9	639.2	60,587.1	(39.6)	(0.1)%	(39.6)
Adult and Community Services	6,459.6	5,849.4	331.5	6,180.9	(278.7)	(4.3)%	(278.7)
Resources	69,321.1	69,298.4	(52.1)	69,246.3	(74.8)	(0.1)%	(74.8)
	19,678.1	18,464.2	1,448.5	19,912.7	234.6	1.2%	-
Departmental Total	70,019.0	66,616.4	2,851.2	69,467.6	(551.4)	(0.8)%	(393.1)
Housing Benefit Payments	487.8	542.7	0.0	542.7	54.9	11.3%	-
Schools (ISB)	142,331.3	138,931.1	3,400.2	142,331.3	-	-	-
Corporate Budgets #	19,881.4	12,259.9	4,026.1	16,286.0	(3,595.4)	(18.1)%	-
TOTAL	232,719.5	218,350.1	10,277.5	228,627.6	(4,091.9)	(1.8)%	(393.1)

* The Children and Young People's Department under spend of £392k has been transferred to their departmental reserve as outlined in paragraph 6.2.3.

Subject to Cabinet approval, the element of the Corporate Budgets under spend that relates to slippage in the Capital programme (£2.671m) has been transferred to the Capital Fund. This leaves a net transfer to the General Reserve for Corporate Budgets under spend of £924.4k as shown in Table 3, paragraph 9.1.

APPENDIX 2

Service Department's Underspending, 2006/07 Proposed use of Carry Forwards

	£000
<u>Adults</u>	
1. Youth Offending Service – to meet obligations to partner contributors to the service and in recognition of the forthcoming inspection.	74.8
<u>Regeneration & Culture</u>	
2. To meet budgetary pressures in 2007/08	39.6
<u>Housing</u>	
3. To meet the one-off costs associated with the merger of the Adults and Housing departments and in recognition that in 2007/08 there will be a time lag before efficiency savings included in the revenue budget strategy take effect.	278.7
TOTAL	<hr/> 393.1 <hr/>

**INVOICE PAYMENT STATISTICS
APRIL 2006 TO MARCH 2007 (12 MONTHS / OUTTURN)**

	INVOICES PAID "ON TIME"	
	No.	£
EDUCATION	36,542	82,209,265
% of totals	91.7%	96.6%
HOUSING	35,317	47,517,213
% of totals	93.0%	90.4%
REGENERATION & CULTURE	46,073	92,258,289
% of totals	90.5%	93.8%
RESOURCES	31,894	61,610,017
% of totals	94.1%	95.0%
SOCIAL CARE & HEALTH	33,883	29,053,787
% of totals	95.4%	93.8%
TOTAL	183,709	312,648,572
% of totals	92.7%	94.2%

FINANCIAL INDICATORS
Forecast Balance Sheet and Cashflow Items
OUTTURN: 2006/07

Financial Indicator	Actual as at 1st April 2006 £'000	Balance as at 31st March 2007 £'000
Balance Sheet Items		
Reserves & Balances:		
Earmarked Revenue Reserves (excludes provision element of Insurance fund)	38,921	49,365
Earmarked Capital Reserves	14,421	6,326
Housing Revenue Account	3,371	2,911
Debtors (excl. Bad Debts Provision)	68,520	TBC
Creditors	74,771	TBC
Long-Term Borrowing	326,206*	327,570*
<u>Cashflow Movements</u>		
Increase/(Decrease) in all borrowing	73,560	6,216

* This increase mainly arises from changes in technical accounting treatment of LOBO Loans. The 05/06 comparator figure has been restated.