



Leicester
City Council

CABINET

30 JULY 2001

GENERAL FUND REVENUE OUTTURN 2000/2001

SUPPORTING INFORMATION

1. INTRODUCTION AND SUMMARY

- 1.1 The purpose of this report is to summarise the Authority's final outturn position for all departments and the corporate budgets.
- 1.2 Departments (excluding schools) have underspent their budgets by a net figure of £0.9m. (0.5% of the budget). However, this consists of an underspend of £1.3m by 4 Departments and an overspend of £0.4m by 2 Departments.
- 1.3 The two departments reporting an overspend are the Social Services department, which has had a particularly difficult year, with a reported overspend in excess of £0.4m, and the Arts & Leisure department with a slight overspend of £60k. The Council has a policy of not permitting departments to overspend, and it is therefore of concern that this has happened. The policy is a vital one and steps will be taken to prevent a recurrence in future years. Nonetheless, overspendings are small at 0.25% of the Arts and Leisure budget and 0.7% of the Social Services budget, and the Social Services budget needs to be seen in the context of considerable overspends in other Authorities. A recent sample of several similar sized authorities indicated that all those questioned expected to overspend their budgets by between 0.5% and 3%.
- 1.4 As previously forecast, Corporate budgets have underspent by £0.5m, including a £0.8m saving on Capital Financing costs. Paragraph 8 provides further details of the underspend.
- 1.5 Individual schools have (in total) underspent by £1.8m. Under Government legislation such underspendings are retained by the schools themselves and total schools balances now amount to £6.3m. Many schools are planning to use their balances to increase the monies available for specific capital projects or more general capital improvements.
- 1.6 In total, underspending on the Council's general fund, after allowing for balances to be retained by schools, is £1.5m, which represents 0.5% of the budget. This is clearly a very tight position reflecting the continuing squeeze placed on budgets over a number of years and the resulting need for careful budget management.

- 1.7 The Council's general reserves slightly exceed £6m which is £1m more than the recommended minimum working balance, and £1m more than was anticipated. The key reason for this is an underspending on payments to Housing benefit recipients which had not been forecast.
- 1.8 The Council's budgetary control process has, by and large, operated effectively in 2000/2001 and Directors have been able to respond to anticipated problems in a number of departments. Such action has been successful in dealing with projected overspendings in several areas. The Social Services department overspend has, by effective management action, been reduced from a forecast £1.6m last November to £0.4m at year end.
- 1.9 Under financial regulations underspending departments are allowed to carry forward their underspends. The net amount which will be carried forward is £1.3m of which £0.4m has already been committed as part of the 2001/2002 budget. Much of the remainder will be used to meet budgetary pressures which have arisen in 2001/2002.
- 1.10 The HRA has produced a surplus of £1.3m for the year, and the level of the HRA balances at the year end stand at £2.5m.

2. RECOMMENDATIONS MADE TO CABINET

- a) note the final Council expenditure for 2000/01;
- b) note the reasons why final expenditure differed from the budget;
- c) note the final position on the Council's uncommitted general reserves;
- d) note the position in respect of various significant earmarked reserves;
- e) approve the virement detailed in paragraph 6.3 below

3. FINANCIAL IMPLICATIONS

- 3.1 This report is solely concerned with financial issues.

4. BACKGROUND

- 4.1 The general fund records the cost of spending on most City Council services, with the exception of the provision of rented housing. It is divided into two components:

- (a) departments' service budgets, which are controlled by service directors and monitored by Scrutiny Committees;
- (b) corporate budgets which are managed centrally rather than being controlled by a service director.

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

- 4.2 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. In approving the current Financial Regulations, members have accepted that, given the obligation on directors not to overspend, a certain level of underspending would be a recurrent feature of the Council's budget management.

4.3 Underspendings against a department's budget are carried forward by the department which generated the underspending. Some service directors are also responsible for trading organisations. These "sell" services to other departments. Financial regulations permit them to retain a proportion of any surplus made, the balance being returned to the uncommitted general reserve.

4.4 The budget of the Education department includes £103.8m delegated to schools under the LMS scheme. Under or overspendings by individual schools are retained by the schools in question, and added to (or deducted from) schools balances. Schools can of course plan to "overspend" if they have balances

4.5 Corporate budgets include:

(a) capital financing charges - 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) levies to other bodies, including the fire authority, magistrates courts, probation service and flood defence;

(c) Miscellaneous budgets, such as bank charges, former Citybus employees pension payments, District Audit fees and Best Value inspection costs;

(d) 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 Direct Service Organisations) as a consequence of providing central support to these functions;

4.6 Corporate budgets include some of the most volatile areas of the Council's spending, and any underspendings are returned to corporate reserves.

5. BUDGET 2000/01

5.1 The General Fund budget for 2000/2001 was originally set at ,295.7m. This included a controllable budget of £293.2m.

5.2 This has subsequently changed for three reasons:

(a) in accordance with the approval of the Policy & Resources Finance sub-committee in August 2000, underspendings achieved by service committees in 1999/00 were added to the departments' budgets for 2000/2001,

(b) the budget has been reduced for payments made to recipients of housing

benefit and council tax benefit. This budget is particularly volatile. It is unique in the Council, is and is treated as "demand-led". This means that the budget is adjusted to match actual expenditure at the end of the year, and the Housing department (which holds the budget) does not therefore gain from any underspending or have to compensate for any overspending. It is treated in this way because the scheme of payments is a national one, and the Council has no control over the level of spending (we simply have to make the prescribed payments to eligible recipients).

- (c) additional budget was made available when the grant conditions of Social Services' partnership grants were eventually received.

5.3 The final General Fund budget for 2000/01 is therefore:

| | £000s |
|--|----------------|
| Original Budget | 295,651 |
| Add: 1999/00 underspends carried forward | 1,223 |
| Less: Housing Benefit underspend | (1,142) |
| Add: Additional partnership grants adjustment | 200 |
| Final Budget | 295,932 |

6. SUMMARY OF OUTTURN

6.1

| Service Departments | Budget £m | Expenditure £m | Variance £m |
|----------------------------------|----------------------|---------------------------|------------------------|
| Departmental Expenditure | 178.1 | 177.1 | (1.0) |
| Trading Organisation | (1.1) | (1.0) | (0.1) |
| Sub-Total Service Departments | 177.0 | 176.1 | (0.9) |
| Corporate Budgets | 15.1 | 14.5 | (0.6) |
| Total (excluding schools) | 192.1 | 190.6 | (1.5) |
| Schools' budgets | 103.8 | 102.0 | (1.8) |
| Total General Fund | 295.9 | 292.6 | (3.3) |

- 6.2 A more detailed analysis of the above table is provided at Appendix 1 to this report.
- 6.3 During the course of the year, budgets are vired between Departments which, in accordance with financial regulations, require Cabinet approval if in excess of £30,000 or imply a change in Policy. There is one virement requiring approval as follows:
To transfer budget provision of £44,000 in respect of the development of the Neighbourhood Renewal initiative from Environment & Development to Housing
- 6.4 Reasons for variations between departments' expenditure and budgets will be given in detail to the August/September meetings of the Scrutiny Committees. The most significant ones are summarised in section 7 of this report. Overall, service departments have spent 99.5% of their budgets. Section 7 also contains comments on budgets delegated to schools.
- 6.5 Underspendings on corporate budgets are explained further in section 8 below.

7. EXPLANATION OF VARIANCES - SERVICE DEPARTMENTS

- 7.1 This section of the report describes the main reasons why service departments' spending differs from the budget. Further detail to individual scrutiny committees.

7.2 Arts & Leisure Department (overspend of £60k)

The department experienced significant budgetary pressures in some areas but has managed to limit the overspend by identifying savings in other areas.

The main issues resulting in the overspends includes the late implementation of budget strategy cuts in Community Development Services, a substantial underachievement on income targets for Cemeteries and Crematoria, and additional expenditure incurred due to storm damage during the winter.

However, pending a departmental restructuring, there have been substantial savings on staffing costs, grant-aided projects, and lower than expected support service recharges.

7.3 Chief Executive's Office (underspend of £425k including the Trading Services)

The department underwent a substantial review early in the year and this has resulted in a substantial underspend on employee costs. There was also a large underspend in the Communications Unit primarily on the project to improve the

distribution of LINK, which will be subject to a carry forward bid. Savings have also been achieved against the budget on Legal Services recharges, and these will be carried forward and redirected to Corporate Initiatives. Much of the underspending was anticipated when the Chief Executive Office's budget strategy was reported to the Scrutiny Committee in December 2000, and a total of £237k over two years was committed to support the budget.

The Occupational Health unit which operates on a Trading basis experienced a slight under-recovery due to the impact of the Human Rights Act and the requirement that staff who work with care of the vulnerable no longer require a compulsory medical.

7.4 **Commercial Services Department**

The outturn reflects the position of the department comprising the Markets function and the internal Trading Services. Some very significant swings in values have occurred between period 12 and outturn and point to a continuing problem in achieving accurate outturn projections, something that is being addressed as part of the internal review of budgetary control.

The Department operates a development fund and expects individual trading services which make a deficit to "borrow" the amount from the fund and repay it in later years.

The Markets operation achieved a significant underspend at the year-end although this has been wholly used to repay part of an internal loan it received for previous years' overspending.

Trading Services

Creativity Works has achieved a small in-year surplus, despite a difficult trading position reported earlier in the year. The surplus was, however, insufficient to cover the trading loss made in 1999/2000, and £116k remains to be repaid from any future surpluses. Catering is reporting a large deficit for the year and lessons need to be learnt for the new year in anticipating year end wage cost escalation. The service also needs to review its costs in the light of reducing meal numbers. City Highways, City Cleansing, City Transport and Construction Services are all reporting surpluses for the year.

In the final analysis two trading units have made in-year deficits totalling £103k, with the rest achieving surpluses. All surpluses are apportioned between General Reserves and the departmental Development Fund according to ratios set out in Financial Regulations.

7.5 **Education Department (underspending of £409k excluding schools)**

The Department has experienced considerable volatility in its budgets during 2000/2001 and has managed to offset the areas of overspend by others which have underspent. The Centrally Managed budgets have overspent, mainly as a result of the demand-led nature of the statementing process for pupils with special educational needs (£293k), and also because of the uncertainty over movements of pupils between the City and the County in respect of Special Schools (£198k) and Independent Schools (£286k). The

Department's Service Unit budgets have underspent, mainly as a result of specialist staffing vacancies and recruitment difficulties, in part due to wider service reviews.

The Department has addressed some of the underlying problems, and additional budget provision of £120k has been included in the 2001/2002 budget for Special Schools recruitment. The Special Educational Needs budget has been delegated to schools in 2001/2002 as part of a wider SEN inclusion strategy.

7.6 **Environment & Development (underspending of £239k)**

The Environment and Development Department has underspent by £239k of which £192k was saved by Property Services.

The department, excluding Property, has experienced budget pressures in some service areas, which have been offset by savings elsewhere. An overspend of £410k resulted from the increased tonnage of Waste disposal and increased costs in recycling due to changes in the paper market. Highways maintenance overspent by £220k due to increased costs relating to storms and flood damage and also increased energy costs on Street Lighting. Further overspends resulted from the delay in implementation of budget proposals in Welfare and Employment Rights and Into Business and a net overspend of £100k by the Energy team was caused by higher costs and the inability to achieve the income target.

Due to budget pressures, action was taken within the Department to manage this which included a controlled release of vacancies; this resulted in savings of £300k. Of these vacancies some posts were deleted as part of 2001/02 budget strategy and some have now been filled due to service needs. There were further savings in Physical Regeneration costs due to the transition period in moving towards supporting the Leicester Regeneration Company (£120k), and an underspend of £120k in Development Control due to increased planning application income and due to savings in running costs from the recovery from third parties of legal costs incurred in previous years. There were also savings in grants to the Voluntary sector of £120k partly due to projects closing and again part of this was included in the budget strategy.

The final out-turn for E&D property shows an underspend of £192k after taking into account the £300k contribution to the capital programme agreed by Cabinet in March to part-fund the cost of relocating the Abbey Meadows depot. The main areas of savings are vacancies of £242k due to difficulties in recruitment (which have now largely been addressed) and in running costs including Consultancy fees, of £40k and £40k lower insurance charges. There was also increased rental income, due to lower voids, of £60k.

7.7 **Housing General Fund**

The Housing department has achieved a net underspend of £218k on the general fund services which has been used by the department to repay the

outstanding loan on the Document Image Processing system issued to the Housing Committee in 1996. Together with the Housing Maintenance surplus, the department has repaid £500k on the outstanding balance of the DIP loan.

Key factors in the net underspending are:-

- a) The Hostels & Homelessness service has also underspent primarily as a result of increased charges and a high occupancy rate.
- b) Housing Benefits Administration has struggled to maintain costs within budget due to the transitional process from paper records to electronic documents and the radical changes to working procedures and retraining of staff, all of which has increased staffing costs and reduced performance levels.

The Housing Department has significantly underspent its budget for payments to housing benefit recipients by £1.1m which was not anticipated earlier in the year. Key reasons are reduced caseload, increased recovery of overpayments made to claimants, and a favourable adjustment to the final grant claim for 1999/2000. This budget, as discussed above, is demand-led and the budget is adjusted to match the actual year-end expenditure. Hence the saving benefits general reserves. The Housing Department is reviewing its procedures for monitoring this very volatile class of expenditure during 2001/2002.

7.8 Social Services (overspend of £313k including the Youth Offending Team)

The current reported position for the Social Services Department is an overspend of £413k.

The budget was managed against the backdrop of inherent budget difficulties of £1.5m (as identified in the 2001/02 Departmental Revenue Budget Strategy). During the year additional needs led demand arose, and the costs of transport and legal services continued previous years' trends of significantly exceeding historical budget levels. These factors (and others) led to increased costs for community care and looked after children, reflecting the national picture and the trend towards considerably larger overspends in a number of comparable authorities. Care in the community services (including additional externally provided home care) were consequently overspent by £1,2m, looked after children by £872k, and Adult Resources by £328k.

To keep the overall budget in line, vacancies were actively managed, expenditure on management and support was restricted to essential items and posts only, and the use of external grants and funding was maximised. These factors led to a lower than planned level of in-house home care provision resulting in a £522k saving, a saving of £364k within the Adult Fieldwork Team, and planned savings of £812k on Management and Support and £212k within Planning and Commissioning.

The Department also accounts for the Council's contribution to the Youth Offending Team. This was £100k below the budget, which will be carried forward to meet anticipated 2001/02 costs.

7.9 Town Clerks & Corporate Resources Department (underspending of £263k)

The Department has delivered an underspend of £263k. However, after taking account of trading surpluses which are shared under financial regulations with general reserves, the department is only permitted to carry forward £199k. In the final quarter, the Department instigated strict housekeeping arrangements to avoid a projected overspend. There was a slight over compensation, which will contribute towards much needed investment in premises and ICT systems. The main divisional issues were:

Corporate Services – An underspend of £85k masks several volatile budgets within this area. Additional income was obtained from the registration service, but the Coroners’ service continues to overspend, as pressure on the service continues to build. This service, together with Community Languages will be reviewed in 2001/2002

Legal Services – Income from Land charges was £115k less than budgeted following a dip in the Housing market. Business has improved recently, and the trends will be analysed as part of the budget preparation for 2002/2003.

Financial Services - Within a net underspend of £57k there are some significant variances; Local Taxation has underspent, as the service is being reviewed with a view to improving comparative unit costs and improving service to customers. Ongoing reductions have been achieved in Local Taxation in a number of recent years budgets amounting to £0.6m, and a further £0.1m reduction is included in the 01 / 02 budget. The Payroll service has overspent as the one-off costs of fundamental improvements in service delivery are finalised.

8. CORPORATE BUDGETS

- 8.1 Corporate Budgets represent areas of expenditure which are not the responsibility of any service departments. The outturn position indicates an underspend of £543k., which is very close to the figure forecast in February.
- 8.2 The final position on the Capital Financing budget has not yet been completed. However it is unlikely to differ substantially from the current forecast which shows an underspend of £805k. This is the result of higher than budgeted return on funds invested by the Council’s Fund manager, reflecting decisions to invest which were made at the right time (before rates started to fall) and higher than average cash balances.
- 8.3 The Outturn position has been affected by the decision to write-off old balances from the Local Government Review (£198k) and higher than budgeted bank charges and District Audit fees.

9. USE OF UNDERSPENDINGS BY SERVICE DEPARTMENTS

- 9.1 The Councils Financial Regulations provide for underspendings achieved by service departments to be transferred to Acarry forward reserves≅ and retained by those departments, subject to the approval of Cabinet to proposals for their use.

9.2 The rationale for this policy is:

- (a) it prevents any rush to spend up budgets at the year end - in effect, it enables service directors to manage their spending programmes as though the 31st March had no significance;
- (b) it is an aid to long-term planning, and allows service departments to retain small amounts of money (in proportion to their overall budgets) to deal with problems which they know are going to arise in later years and to implement budget reductions more efficiently;
- (c) it is a necessary feature of a system of control which prohibits overspending. It is very important that the Council does not overspend its budget, and a regime which permits underspending therefore enables directors to manage their budgets within an acceptable margin of error.

9.3 Whilst our budgetary control regime prohibits overspending, any departments which do overspend are required to carry them forward and meet them the following year.

9.4 The available balance of underspendings to be carried forward this year is very small. Of the total underspends of £1.3m:

- a) £237k was forecast by the Chief Executive's Department in the 2001/2002 budget, and has already been committed.
- b) £100k was anticipated by the Director of Social Services as required to meet budget pressures in the Youth Offending Team
- c) £100k was anticipated by Environment & Development in the preparation of the Property budget for 2001/2002

9.5 Full details of departments' proposals are attached at Appendix 2.

10. GENERAL RESERVES

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

| | Amount £m |
|--|------------------|
| Opening balance at 1.4.00 | 7.938 |
| <u>Less:</u> | |
| Contribution to support the 2000/01 budget | (0.578) |
| Contribution to Capital Programme | (1.900) |
| Contribution to Depot Relocation Costs | (1.000) |
| <u>Add:</u> | |
| Underspend on Corporate Budgets | 0.544 |
| Contribution from former DSO's/Trading Account surpluses | 0.211 |
| Housing Benefits underspend | 1.142 |
| Closing Balance at 31.3.01 | 6.357 |

- 10.2 The items in the above table need further explanation:
- (a) the opening balance reflects the final audited position for 2000/01;
 - (b) the 2000/2001 budget process anticipated the balance of reserves on 1/4/00 and significant sums were committed to support the capital programmes, the Social Services SSIS system replacement, and a one-off sum of £0.5m to match fund partnership grants in Social Services. Following budget monitoring exercise in February it was clear that additional reserves would be available this year and £1m was allocated in March to support the relocation of Abbey Meadows depot.
 - (c) DSO surpluses are shared with the general fund on a 50/50 basis, and the table shows 50% of this year's surplus. Surpluses of other trading organisations are subject to different criteria which were approved by Cabinet in August 2000;
 - (c) Corporate Budgets reflect the total underspend described in paragraph 8 of this report.
- 10.3 It is essential that the Council holds some funds in reserve, in order to meet unexpected events and the corporate budget strategy recommends a minimum of £5m. It had been anticipated that reserves would have been £5m or thereabouts at the end of 2000/2001: the reason they are now higher is the saving achieved on Housing benefit payments

11. OTHER SIGNIFICANT RESERVES

- 11.1 This section of the report provides an overview of other significant sums of revenue money, which are held in reserves after taking account of transfers during the year. These reserves are 'earmarked' for specific purposes, and are separate from the Council's "uncommitted" reserves.
- 11.2 **Schools Balances** - The amount of money held in this reserve has increased from ,4.6m to £6.3m as a consequence of the 2000/2001 outturn. By law, such balances are retained by individual schools, and cannot be used for general purposes. 57% of schools have balances of more than 5% of their budgets, 40% have balances of less than 5% of their budget and 3% are in deficit.
- 11.3 **The Education Department** holds other reserves excluding schools' balances. These are:

LMS Contingency Fund - The fund exists because the budgets allocated to individual schools are based on pupil counts in January prior to the beginning of the year, which is later than the date on which the Department's budget is set. If pupil numbers are less than the budget estimate, surplus resource can be added to the fund, if more, money is taken from the fund. The balance on the fund was £0.1m at the end of 2000/01.

Premature Retirement Costs - The fund was created to provide for costs

associated with premature retirements. This reserve now stands at £80k and enables the department to take account of peaks and troughs in expenditure and to support strategic reviews.

Behaviour Support Plans – This fund was created to support the initial set up costs associated with the implementation of a behaviour support plan in the wider context of an inclusion policy. It stands at £80k

Strategic Reviews – This is a one off fund to provide for the implementation of the post OfSTED identified strategic reviews. It stands at £629k.

- 11.4 **Central Maintenance Fund (Town Clerks & Corporate Resources)** - 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. Expenditure from the fund is planned on a programmed, rather than an annual basis, and consequently there is always a balance on this fund. The balance on this fund as at 31 March 2001 is £431k.
- 11.5 **Insurance Fund (Town Clerks & Corporate Resources)** - The Council maintains this fund to support an internal self-insurance scheme. In common with most Local Authorities, the Council no longer takes out external insurance for many risks, as the costs are prohibitively expensive. The insurance fund is used to pay insurance claims made by departments or members of the public, and is funded by premium charges made to departments. The balance on the fund at the end of 2000/2001 is £4.4m. The balance is required to pay claims which have been made but not yet settled.
- 11.6 **Other TCCR Reserves** - In addition to the CMF, separate reserves are held by the Town Clerk for the relocation of the Registration office, improvements to meeting rooms at New Walk Centre, the replacement of various Departmental IT systems, and corporate IT developments. The combined balance on these funds is £1.1m.
- 11.7 **Development Fund (Commercial Services)** – This fund was set up in 1999/2000 to amalgamate all the reserves held by the trading organisations within the Commercial Services department. During 2000/2001 the fund has been split in two to create a separate reserve for Asset Replacement. The combined balance on these reserves at the end of March 2001 is £805k.
- 11.8 **Other Earmarked Reserves** - These include individual departments' reserves established in accordance with Financial Regulations. These include the On-Street Parking Reserve, Leicester Night Shelter and the Payback Fund. The closing balance on such funds stands at £1.2m.

12 HOUSING REVENUE ACCOUNT

- 12.1 the Housing Revenue Account achieved a surplus for the year of £1.3m, which has resulted in a balance on HRA reserves of £2.492m compared to a forecast of £1.79m in February. The main change has arisen following the completion of the audit of the 1999/2000 subsidy claim. Changes agreed with the District Auditor have resulted in savings of £0.7m.

12.2 A report elsewhere on the agenda shows the position on The Housing Revenue Account in more detail.

13. **EQUAL OPPORTUNITIES IMPLICATIONS, LEGAL IMPLICATIONS, SUSTAINABILITY AND ENVIRONMENTAL IMPLICATIONS, CRIME AND DISORDER IMPLICATIONS**

13.1 None arise directly from this report.

14. **CONSULTATION**

14.1 All departments have been consulted in the preparation of this report.

15. **BACKGROUND PAPERS**

15.1 2000/01 outturn working papers held in the Accountancy section.

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Date: 16th July 2001