



Leicester
City Council

**CABINET
PERFORMANCE & VALUE FOR MONEY
SELECT COMMITTEE**

23rd June 2008

3 July 2008

REVENUE OUTTURN 2007/08

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 £240.5m, and the HRA against a gross budget of £65.7m.
- 1.3 Previous reports have been presented to the Cabinet and the Select Committee in October, January and February, which outlined budgetary issues that had emerged during the year.

2. REPORT SUMMARY

- 2.1 This report shows that service departments have underspent by £1m, which represents just 0.5% of their net budgets. All departments have spent within their resources, which is a pleasing result as most departments have reported difficulties during the year. In particular the Resources Department, together with Adults and Housing, have experienced significant budgetary pressures. During the course of the year departments have tightly controlled their expenditure and management have taken action in order to achieve an outturn within budget.
- 2.2 Given 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 £3.3m has materialised on corporate budgets largely as a result of savings made in capital financing costs, which had been anticipated. This is mainly due to continued growth in the level of underlying cash balances, slippage in the capital programme, and also some good borrowing decisions. Offset against it is a provision for possible grant claw back of £2.2m, discussed further in paragraph 8.3.

- 2.4 During the course of the year the Council has received retrospective Local Authority Business Growth Incentive (LABGI) grant income (£0.5m) in respect of 2006/07. We have also been granted a provisional allocation for 2007/08 of £1.3m. This is slightly less than was assumed in the financial strategy. A proposal to use £0.3m of this sum is outlined at paragraph 8.5
- 2.5 The Housing Revenue Account (HRA) has generated a surplus of £1.7m against the planned surplus of £0.5m. There were a number of reasons for this favourable variance (£1.2m) and these are detailed in Section 12 of this report. The HRA balance as at 31st March 2008 stands at £4.6m.
- 2.6 Schools have spent £3.8m less than their budgets, representing 2.5% of schools' aggregate budgets (£155m). 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 £19.3m and further details on these balances is provided in Section 9 of this report.
- 2.7 If the recommendations within this report are approved, the Council's general reserves position at the end of the 2007/08 financial year is forecast to be £7.4m, representing just 3% of the budget. This is slightly higher than the £6.9m estimated in the Council's financial strategy. However, after deducting the approved contribution to the 2008/09 budget (£1.9m) this leaves uncommitted balances of £5.4m. This is slightly higher than the minimum balance (£5m) approved as part of the financial strategy, and moves us towards the balance of £7m the financial strategy aims to reach. Further details relating to the level of general reserves is provided in Section 10 of this report.
- 2.8 Looking further ahead to 2008/09 and beyond, it is already becoming apparent that a number of budgetary challenges exist both corporately and within departments. These are explored in more detail within the departmental outturn narratives at Section 7.

3. RECOMMENDATIONS

- 3.1 Cabinet is recommended to note:
- a) The final outturn for 2007/08 for each department and the Council as a whole;
 - b) The reasons for the variances between the 2007/08 budget and the final outturn;
 - b) The position of the Council's General Fund and HRA balances;
 - d) The position in respect of significant earmarked reserves;
 - e) The proposals for the use of under spends.

3.2 Cabinet is recommended to approve:

- a) The virements detailed in section 5.3 of the report;
- b) The following changes to earmarked reserves:-
 - redesignation of Resources Department reserves (para. 7.5.3);
 - creation of new reserves (paragraph. 11.19);
- c) The following reserve transfers which are required to fund the programme to Transform Leicester's Learning:-
 - The use of the Children and Young People's departmental underspend in 2007/08 (paragraph 7.2.1);
 - Redirection of funding for equal pay settlements in schools, to enable the correct technical treatment of a planned use of schools block reserves (paragraph 16.4);
- d) The earmarking of sums toward the management and administration costs of equal pay and job evaluation as outlined in paragraph 8.4 of the report;
- e) The earmarking of £0.3m from LABGI monies to facilitate economic regeneration as outlined in paragraph 8.5.

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

4. BACKGROUND

4.1 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;
- (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.

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.

- 4.3 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 the trading surplus (over and above any budgeted surplus), the balance being returned to the general reserve.
- 4.4 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).
- 4.5 Under spends/overspends on corporate budgets are transferred to or from the general reserve.

5. **BUDGET 2007/08**

- 5.1 The General Fund budget for 2007/08 was originally set at **£240.1m**. After adding the approved carry-forward amounts from 2006/07 (of **£0.4m**) the budget for the year has been revised to **£240.5m**.
- 5.2 Financial control is maintained by monitoring actual expenditure against approved budgets at regular intervals throughout the year.
- 5.3 The table below details the revised 2007/08 budget for the authority:-

Table 1	Original Budget for 2007/08	Approved Carry forwards	Virements / Transfers	Revised Budget for 2007/08
<u>Department</u>	£000	£000	£000	£000
Chief Executive's Office	981.4	-	144.2	1,125.6
Children & Young People	52,876.9	-	1,615.2	54,492.1
Regeneration & Culture	60,030.1	39.6	1,333.1	61,402.8
Adults and Housing	73,625.8	353.5	707.2	74,686.5
Housing Benefits	507.3	-	-	507.3
Resources	27,044.3	-	172.3	27,216.6
Total Departments	215,065.8	393.1	3,972.0	219,430.9
<u>Corporate Budgets</u>				
Miscellaneous	8,758.7	-	(4,472.0)	4,286.7
Capital Financing	19,266.1	-	-	19,266.1
General Fund (excl. net recharges)	243,090.6	393.1	(500.0)	242,983.7
Net Recharges	(3,024.6)	-	500.0	(2,524.6)
TOTAL GENERAL FUND	240,066.0	393.1	-	240,459.1

6. SUMMARY OUTTURN

- 6.1 Appendix 1 sets out the final outturn position for the Council's General Fund.
- 6.2 Section 7 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.

7. EXPLANATION OF VARIANCES – SERVICE DEPARTMENTS

7.1 Chief Executive's Office

- 7.1.1 The Chief Executive's office achieved an overall outturn at budget and there are no significant variations from the budget to report.

7.2 Children and Young People

- 7.2.1 Following a departmental approach to focus resources towards activities associated with the Transforming Leicester's Learning Plan (TLL), and after the application of contingencies and approved transfers to and from reserves, the Department has recorded an underspend of £0.8m. Members are asked to approve the transfer of this sum to a new reserve (as outlined below) to be used towards the funding of the TLL programme in 2008/09 and 2009/10.
- 7.2.2 The Department dealt with several significant budgetary pressures during 2007/08; these key service pressures are on-going as the Department continues to engage in major service improvement initiatives such as Building Schools for the Future, raising school attainment levels and the Inclusion Strategy. The most significant variances paid for by the Council's General Fund are outlined below. These are in line with those reported earlier in the year.
- 7.2.3 Building Schools for the Future - Financial Close on Phase I took longer than anticipated to reach. Longer term planning is also underway, with a particular focus on developing future phases as part of the Strategy for Change. The costs of development and clientside to date have been funded from the revenue budget or by capitalisation to be paid back over the lifetime of BSF, as appropriate. In 2007/08 the cost to the General Fund was £1.455m, of which £0.4m was met by the department, £0.45m from approved corporate funding, and £0.6m from the residual one-off funding of £2m made available in 2005/06.
- 7.2.4 Learning Services – including the Standards Unit – The Standards Unit faced a number of significant budget pressures, particularly on School Improvement Partners and external specialist professional staff cover for vacant Tier 3 posts. However, maximisation of all external funding opportunities across all services enabled the Division to record an aggregate underspend of £0.2m.

- 7.2.5 Access, Inclusion and Participation – A number of Services underspent for a variety of reasons including slippage in planned activities, vacancies and grant maximisation. At Service level these underspends are not significant, with the exception of the Early Prevention Service where balancing the need to maximise expenditure of Sure Start Grant and achieve efficiencies in the base budget resulted in an overall underspend of £0.4m. The current spend profile of the Sure Start Grant is being reviewed to ensure that we achieve maximum efficiency whilst delivering on the new government requirements.
- 7.2.6 Transforming Leicester's Learning (TLL) – The Plan commenced in December 2007 and is a major initiative to improve educational attainment levels across the City. The 2007/08 costs of £0.5m have been met from reallocated grant funding (£0.3m) and the departments' General Fund budget (£0.2m). Additionally, a TLL earmarked reserve has been established for funding that was intended for the TLL but where the related costs have slipped to 2008/09. Section 12 of this report sets out in more detail the funding arrangements for this programme.
- 7.2.7 Departmentally held budgets – Underspends of over £0.4m were achieved as expected on budgets for Premature Retirements in schools approved before April 2006 and the transport element of the Secondary Review budget. These budgets have both been reduced in the 2008/09 budget.
- 7.2.8 Within the Schools' Block which is funded by Dedicated Schools Grant (DSG), an underspend of £3.2m occurred on Central Expenditure Budgets. A number of significant items (mainly provisions and contingencies) were not fully called upon, and the main areas are outlined below.

Headroom – When the Schools' Block budget is set, an amount of unallocated budget or "headroom" may be left. Unless called upon during the year, this becomes part of the underspend to be rolled forward to the following year. A provision is also made for a reduction in DSG. In 2007/08, taken together these amounted to £0.4m.

Special Education Needs Reconfiguration Provision - £1.2m was set aside in 2007/08, but no plans for its use were developed with the Schools Forum. Discussions on the Inclusion Strategy will continue into 2008/09 and may result in developments to SEN and Inclusion provision in the City that requires one-off or pump-prime funding.

Traded Services - £0.7m was set aside for schools to be able to pay higher charges, but only £0.2m was actually delegated to schools as charges for the Department's services did not increase as anticipated, resulting in a £0.6m underspend.

Schools' Block Contingency – Within the Schools' Block budget, a contingency of £0.6m is set aside to offset variances on other budgets, subject to Schools Forum approval, the net position on the Centrally Retained DSG expenditure used £0.2m of the provision.

Special Education – The budget for independent school placements for pupils with special educational needs overspent by £0.2m, due to a further increase in 2007/08 in the number of pupils assessed as requiring such places. The budget to reimburse mainstream schools in the City for the cost of support to statemented pupils overspent by £0.1m, with a further £0.1m overspend on support for Early Years pupils. Special Education as a whole is difficult to forecast, as costs can be significantly affected by a relatively small change in the number of pupils requiring support. An Inclusion Strategy is being developed and discussions are taking place with a range of stakeholders, which will in part seek to address the factors behind the continuing upward cost trend and identify the budget changes required for the future.

7.3 Regeneration and Culture

- 7.3.1 The Department has controlled its net £61m budget to within a small underspend of £9k. There were a number of key financial issues which faced the Department during the course of the year, and these are explored in more detail below.
- 7.3.2 DeMontfort Hall had lower attendance in 2007/08 compared with the previous year (17%) and this reduced income from ticket sales by £0.75m. The general downturn in attendance reduced the returns generated from indoor shows and this was exacerbated by the reduced income from the lower attendance at the outdoor festivals as a result of the poor summer weather. A project is ongoing to address the financial performance of De Montfort Hall in 2008/09.
- 7.3.3 There has been uncertainty over the level of concessionary fares reimbursement required which has now been resolved following a decision by the Department for Transport adjudicator. The final settlement of costs has been included in the 2007/08 accounts.
- 7.3.4 There are ongoing issues with additional landfill tax on waste streams and this is likely to be resolved in 2008/09.
- 7.3.5 The Market has been affected by reduced footfall in the year. The overall deficit compared to the budget was £170k on a turnover of £1.7m. The reduced activity in the market is an ongoing issue for 2008/09 and will need to be managed by the Department. The end of the public realm works in September 08 and the opening of the Highcross shopping centre may also have an impact in future years.
- 7.3.6 The level of agency savings allocated to the department as a result of the PPS contract have not been achieved. Further details of this are provided at paragraph 16.3.

7.3.7 Overall, the departments' four traded services (Fleet Transport, Operational Transport, City Highways and Catering) achieved an outturn at budget. City Catering had a planned surplus of £10k, which with hindsight was unrealistic following the impact of reduced take-up of the new healthy menus and the increased costs associated with these meals. An additional budget of £180k was provided by Schools to remove the subsidy which was being given to the free school meal element of the service. The outturn position, an overspend of £41k, is as a result of a combination of slightly lower take-up together with the additional food cost inflation. City Highways and Operational transport broke even and Fleet generated a small surplus as a result of the deferral of maintenance expenditure.

7.4 Adults & Housing Department

7.4.1 Despite significant budgetary pressures reported during the course of the year the Department has been able to report a small underspend of £0.2m on a gross budget of £138.3m. However, the underlying position is far less favourable with an inherent overspend in the region of £2.6m. This overspend was avoided due to some very substantial one-off contributions, including PCT payments, being included in the outturn. These have been critical in enabling the Department to avoid the large overspend predicted in earlier monitoring reports. The Department has also deferred expenditure in several areas including building works and personal computers. Although benefiting the 2007/08 financial position there will be a corresponding adverse impact on 2008/09.

7.4.2 From the above, it can be seen that the Department has faced very significant budget pressures during 2007/08. In particular demographic growth has proved considerably greater than allowed for in the budget. The main cost increases have been in:

- People with Learning Disabilities where the cost is estimated to have risen by £0.9m, primarily due to a small number of very expensive transfers of young people (including very complex cases costing more than £100k per annum each).
- People with Physical Disabilities where the cost is estimated to have risen by £0.7m. Again the significant increase is due to a comparatively small number of cases. Those with significant brain injury cost around £50k per annum each.
- Older People with Mental Health Problems. This is the consequence of an ageing population and includes increases in dementia cases. This is estimated to be costing an additional £0.7m.

7.4.3 The Department has been aware of its budget pressures from the start of the financial year and has taken a number of actions to reduce expenditure and increase income, including:-

- A programme of savings was implemented
- Recruitment has been held back and many services have been operated with vacancies
- A series of measures have been taken around the provision of services to service users; including the consistent application of eligibility criteria
- Building maintenance expenditure has been deferred
- Expenditure on personal computers has been held back
- Grant spend has been reviewed.

7.4.4 In addition to the above, funding received from the Leicester City Primary Care Trust (PCT) has significantly improved the Department's financial position. In particular the PCT agreed to contribute towards the increased costs of placements for hospital discharges which resulted from the reduced capacity of health-provided rehabilitation beds. This also had an impact on the departments performance, as highlighted in earlier performance monitoring reports. However, the PCT and UHL improved the supply of rehabilitation beds and performance improved during the later part of the year. The PCT has also greatly increased its payments into the Learning Disability Pooled Budget.

7.4.5 Looking further ahead to 2008/09, the Department will have to work hard to stay within its budget, although included within the 2008/09 budget is additional money for demographic growth/increasing need. One off funding has also been provided for Community Centres and the Adult Skills and Learning Service. However, the department is also required to make efficiency savings including £0.4m built into the 2008/09 Departmental budget Strategy and a further £0.2m saving coming into effect from an earlier year.

Housing Benefits

7.4.6 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 by the Council 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).

7.4.7 For 2007/08 the housing benefit budget overspent by £0.8m. However, because the DWP has been taking a much harder line in relation to housing benefit grant, included within the outturn is a provision against possible claw back of grant subsidy for 2007/08, amounting to slightly more than 1% of the total claim. This is the only reason for the overspend, and if there is no claw back the provision will not be required.

- 7.4.8 As reported in earlier months, the DWP have finalised the 2005/06 subsidy claim, resulting in a decision to claw back £2.6m of overpaid subsidies. This decision is being challenged by the authority, but a provision has been made within the accounts (most of which was charged in previous years).
- 7.4.9 The auditors have recently finished their work on the 2006/07 grant claim resulting in audit qualification. Provision, amounting to 2% of the total claim, has been included within the accounts for possible claw back in respect of this claim. Half of this provision was also charged to the accounts in earlier years.
- 7.4.10 Performance reporting this year has shown an overall improvement in the performance of the housing benefit service, partly reflecting additional investment made earlier in the year. It is hoped that the audit issues highlighted above will be less significant in 2007/08 and eventually become fully resolved.

7.5 Resources Department

- 7.5.1 The department has previously reported some significant budget pressures but, whilst most of these have continued through to the outturn, the department has managed their overall budget to deliver an outturn within budget. Members are asked to approve the transfer of £355k to a new earmarked reserve to meet costs associated with the HR Improvement Plan, including a contribution to the self service project. (This expenditure has slipped from 2007/08). This transfer will result in a small overspend which the department can meet from its investment reserve.
- 7.5.2 The most significant variations from budget are outlined below:

The Coroner's services: £480k

This overspend was slightly higher than had been previously forecast, but the pattern of high spending by the coroner – who is not a City Council employee, and not accountable to the City Council – has been a feature for many years. The 2008/09 budget for Resources addresses this problem by increasing the recurrent budget by £400k.

Land charges: £138k

This overspend has occurred despite a recovery plan in previous budget strategies which sought to remedy the problem. Changes to legislation and a slump in the housing market have resulted in a continuing decline in income for this service and this, too, is an item tackled in the 2008/09 budget by the injection of £100k p.a. At present levels of activity it is likely that this will be insufficient to cover the reduction in the income levels now being seen.

City Council elections and electoral registration: £145k

The requirement to strengthen the security around the arrangements for postal ballots entailed the purchase of some quite expensive hand writing recognition software. The earmarked reserve built up over the previous 4 years was sufficient to cover the standard costs, but not these additional ones.

Members Services: £146k

This arises from a historical shortfall in funding together with some unbudgeted costs of setting up new arrangements within the members' services function. This has been rectified in the 2008/09 budget.

- 7.5.3 The overspending areas highlighted above have been offset by underspends, the most significant of which are outlined below. It should be noted that many of these have arisen as a result of specific action taken to ensure that the budget pressures referred to above did not result in the department delivering a net overspend, which is prohibited under finance procedure rules.

Financial Services: (£183k)

Staff vacancies through deferred recruitment throughout the division, which was put in place to deal with the department's budget pressures, are the reason for most of this underspend.

Business Improvement: (£249k)

After allowing for the transfer to HR Improvement Plan reserves (as outlined above), there is still an underspend within the division. This is largely as a result of a longer elapsed time than expected to get recruitment under way in the newly created HR service.

Information Services: (£384k)

Some recruitment was delayed while the IT review was concluded, and some staff vacancies have been maintained in order to help to balance the department's budget.

Property Services: (259k)

This is the net position across the division, including the Investment property area, which achieved a surplus of £335k. In accordance with the budget strategy, 50% of any surplus on this budget is transferred to Corporate reserves.

- 7.5.4 In order to facilitate improved budget management, Members are asked to approved the reallocation of monies between the departments earmarked reserves, as follows:

- Local Elections. It has been the practice for many years to build up a reserve to meet the cost of local elections, every 4 years. In the past this has been possible by assigning some departmental underspend to a specific earmarked reserve created for this purpose. The reserve was fully utilised to fund the 2007 elections, and there is no free departmental underspend in

2007/08 to start to re-build it. The proposal is, therefore, to begin to build this reserve towards the estimated £300k that will be required to fund the next local elections in May 2011. This is to be done by reallocating £75k from the Department's investment reserve.

- Resource Management Strategy (RMS). The new financial and resource management system, Agresso, is due to go live with "phase 1" in April 2009. There will still be a lot of work to be done to implement the system fully and to ensure that the maximum benefits are derived from this new technology. The department currently has set aside an IT reserve for the financial services division, but it is now considered more appropriate to dedicate this to the RMS project to help to ensure that the project has sufficient funding to achieve its outcomes.

8. CORPORATE BUDGETS

- 8.1 Corporate budgets (£21m) represent areas of expenditure which are not the responsibility of any service department. Capital Financing (£19.3m) is by far the largest element of this budget. Corporate budgets overall have under spent by £3.3m.
- 8.2 The Capital financing outturn shows a saving of £5.3m. The reasons for the underlying savings, which had largely been anticipated when setting 2008/09 budget are:-
- a) Continued growth in the underlying level of cash held by the authority – this has been a trend every year (at this and other authorities) and has continued this year;
 - b) Slippage in capital expenditure;
 - c) Good borrowing decisions – substantial sums were borrowed in advance of capital expenditure when borrowing rates were lower than they are now subsequently, we are now benefiting from increased interest rates on sums which have not yet been spent.
- 8.3 Given the harder line being taken by the Department of Work and Pensions in relation to housing benefit grant, an additional provision has been set aside from corporate budgets of £2.2m against claw back of grant for 2005/06 and 2006/07. These additional sums were reported as part of the budget strategy for 2008/09 – 2010/11 approved by Members in February.
- 8.4 Members are asked to approve the earmarking from the corporate underspend of £1m towards the project management costs of the Job Evaluation Scheme, and a further £0.3m towards the administrative costs associated with the Equal Pay Settlements. This is dealt with further in Section 16 of this report.

- 8.5 As reported earlier in the year, we have also received additional retrospective Local Authority Business Growth Incentive (LABGI) grant income amounting to £0.5m. The Government has also released provisional allocations of LABGI in this (2007/08), the third and final year of the current scheme. The City Council's allocation (including further adjustments relating to previous years) amounts to £1.3m, which is slightly less than the £1.5m assumed within the financial strategy. Whilst LABGI funds are not ringfenced, it is appropriate to use some of these monies to facilitate economic regeneration. Accordingly, Members are asked to approve the setting aside of £0.3m of these monies to assist in developing a new framework for taking forward strategic economic regeneration activity contributing to the 25 Year Vision.

9. SCHOOLS BALANCES

- 9.1 In 2007/08 schools' balances increased overall by £3.8m rising from £15.5m to £19.3m. Overall Primary and Special Schools balances have remained substantially the same but Secondary School balances have risen by £3.7m.
- 9.2 It should be noted that, in the case of the Secondary Schools, £3.4m funding has been passed out in 2005/06 to 2007/08 which schools have been advised to set aside as reserves for BSF, and which are included in the balances figure. In addition a new Secondary School opened in September 2007. These balances will also include unspent Standards Funds Grants which, under DCSF guidance, cannot be accrued for although they can be spent up until August 2008. 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.
- 9.3 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.
- 9.4 Following discussion with the Schools' Forum it was determined that schools would also be asked to evidence how they planned to spend the remaining surplus in a way which would have a positive impact on their school. This remains the position and recent discussions with Schools Forum in connection with the funding of Transforming Leicester's Learning action plan have re-affirmed this position.
- 9.5 Four schools, all Primaries, ended 2007/08 with a deficit budget ranging from £6.5k to £68k as opposed to six schools at the end of 2006/07; further work will be required to ensure these schools reach a balanced position. Of the six schools in deficit at the end of 2006/07 four are now in a surplus position, one school has closed, which leaves one still in a deficit budget.

10. GENERAL RESERVES

10.1 The table below shows the effect of the outturn and proposals within this report on the Council's general reserves: -

Table 2 - General Fund Reserve	Amount £m
Opening Balance at 1st April 2007	7.719
<u>Increases in 2007/08</u>	
Investment Property Surplus (i)	0.168
Corporate Budgets Underspend	3.305
Business Growth Incentives (LABGI) (ii)	1.775
<u>Sums used in 2007/08</u>	
Cabinet Decisions and Policy Developments (iii)	(0.724)
Housing Benefit Overspend (para. 7.4.7)	(0.760)
Equal Pay (iv)	(2.500)
Job Evaluation Project Management (v)	(1.000)
Equal Pay Administration (v)	(0.300)
LABGI Earmarking - Economic Regeneration (vi)	(0.300)
Closing Balance at 31st March 2008	7.383
Less Commitments - Contribution to the 08/09 Budget	(1.908)
Uncommitted Balance	5.475

Notes:

- (i) Investment Property Trading Surplus – In accordance with finance procedure rules, 50% of the surplus generated is transferred to the general reserve and 50% retained by the Resources Department;
- (ii) LABGI – is the Local Authority Business Growth Incentive Scheme, which rewards local authorities whose rateable value has increased. We have retrospectively received (£0.5m) in respect of 2006/07, and have been granted a provisional allocation for 2007/08 of £1.3m;
- (iii) Cabinet and New Policy Decisions are spending decisions principally taken by the new administration since May 2007;
- (iv) Equal Pay - This is the contribution from the general reserves towards the cost of equal pay settlements as agreed by Cabinet in July 2007;
- (v) Job Evaluation / Equal Pay Administration – Proposed earmarking for further project management and administration costs.
- (vi) LABGI Earmarking – Proposed earmarking to facilitate economic regeneration – as outlined at paragraph 8.5.

- 10.2 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. The approved financial strategy is that the Council should hold a minimum of £5m reserves, increasing to £7m by 2010/11.
- 10.3 Members are also reminded that corporate budgets are amongst the most volatile in the Council. Savings achieved in 2007/08 are very unlikely to be achieved in 2008/09, and therefore a prudent approach to the use of reserves continues to be recommended.

11. **OTHER SIGNIFICANT EARMARKED RESERVES**

- 11.1 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 £8m during 2007/08 from £56.6m to £64.6 m, although after deducting sums earmarked by law, the insurance fund and ring-fenced BSF resources, the reserves amount to £16.2m.
- 11.2 **Schools Balances (revenue)** – As noted earlier in this report, the amount of money held in this reserve has increased from £15.5m to **£19.3m** following this year's outturn. This money is, by law, ring fenced to individual schools.
- 11.3 **Other Ring-fenced Schools Block Reserves** – These reserves incorporate the, carried forward Dedicated Schools Grant, the secondary review fund and Standards Fund Match Funding which is the unallocated match funding for 2007/08 Standards Fund grant, which can be expended up to 31st August 2008. The balance currently stands at **£5.9m**, none of which is available for general spending.
- 11.4 **Children and Young People's Departmental Reserve** – This reserve was set-up in 2003/04 to deal with budget and other pressures. The balance has increased slightly during the course of the year as a result of prior period income, which together with other adjustments, means the balance currently stands at **£2m**. This sum will be used towards the costs of TLL (see section 12 below), and to meet other departmental budgetary pressures arising from, for example, BSF, and the review of Learning Services.
- 11.5 **Childrens Social Services Reserve** – This was originally created following the withdrawal from the arrangement with Northamptonshire County Council for the provision of secure accommodation. Members approved that the balance (**£0.3m**) together with **£0.1m** savings within Social Care and Safeguarding be set-aside and redirected towards the development of Barnes Health House for services to disabled children and their families.

- 11.6 **Building Schools for the Future (Capital Financing)** – This reserve was set up in January 2007 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 DCSF. As this was provided in advance of need, it needs to be set aside, together with the interest earned on its investment, until required. The balance at year-end stands at **£8.7m**.
- 11.7 **Insurance Fund** – The Councils’ self-insured insurance fund stands at **£10.6m**, which is set-aside to pay insurance claims. An actuarial review conducted in September 2007 indicated that the fund was adequate and stable at that time at a level of £10m. The insurance fund is healthy, reflecting a continuation of good 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). Nevertheless we have been able to freeze charges to departments at 2005/6 levels for the past three years as a result of this performance.
- 11.8 **Corporate IT Fund (Resources Department)** - The Resources department holds an IT fund which stands at **£0.9m**. 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, together with sums set aside towards the cost of the new Resource Management System (as outlined at Para.7.5.3).
- 11.9 **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 **£0.6m**.
- 11.10 **Other Resources Department Reserves** – separate reserves are held for the cost of local elections, unspent area committee grants, and a departmental investment reserve. The balance on these reserves totals **£1.3m**. A further reserve for schools buy back (**£0.5m**) consists entirely of ringfenced DSG money.
- 11.11 **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. In addition to which the department hold **£0.1m** in an investment reserve to meet future budgetary pressures including costs associated with the 2006/07 Adult Skills Learning review.
- 11.12 **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 **£2.5m**, and cannot be used to support general spending.

- 11.13 **Regeneration and Culture Reserves** – The department holds reserves totalling **£1.3m**. This includes £0.8m on-street parking monies held in accordance with the Road Traffic Regulation Act 1984, and other reserves including unspent planning delivery grant (£0.1m).
- 11.14 **Housing Maintenance Traded Service (Housing)** – the balance on the reserve is currently **£0.8m**, which is available to fund future capital programme works.
- 11.15 **Job Evaluation** – This 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 £6.6m have been made from 2004/05 to 2007/08, from which costs associated with the development of the scheme have been charged, together with the estimated cost of back pay in 2007/08. If the proposals within this report are approved, the balance, including one-off funding towards pay protection, will stand at **£2.7m**.
- 11.16 **Equal Pay** – Cabinet, in July 2007 approved £12m of funding towards the cost of equal pay settlements. As outlined in Section 16 of this report, during the course of the year settlements totalling £11.3m have been made. The balance of this reserve (**£1m**) represents the residual funding towards the cost of any remaining settlements (£0.7m), plus the proposed contribution (£0.3m) towards the cost of equal pay administration (as outlined at paragraph 8.4).
- 11.17 **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. The balance stands at **£0.4m** and is available to meet ongoing costs associated with the project.
- 11.18 There are various other individual reserves established in accordance with Finance Procedure Rules. The figure stands at **£5.7m** including those described below.
- 11.19 The following earmarked reserves have been set up during the year and require approval from Cabinet:

Children and Young People

- **Transforming Leicester's Learning (TLL) Plan** – As outlined in Section 7.2, this reserve has been established to earmark sums identified to meet the costs associated with the plan. If the proposals within this report are approved the balance at year-end will stand at **£3.8m**. Further details on TLL are provided in Section 12 below.

Resources

- **HR Improvement Plan** – As outlined in Section 7.5, the Resources Department plans to set aside **£0.355m** to meet costs associated with the HR Improvement Plan, which have slipped from 2007/08, including a £0.1m contribution towards the self service project.

Regeneration & Culture

- **Economic Regeneration** – As outlined at paragraph 8.5, this reserve has been established to earmark **£0.3m** of LABGI resources to facilitate economic regeneration.

12. TRANSFORMING LEICESTER'S LEARNING (TLL)

- 12.1 As outlined in paragraph 7.2.6, the plan to Transform Leicester's Learning commenced in December 2007 and is a major initiative to improve educational attainment levels across the City. This programme is the key priority for the Children and Young People's Department and will require significant levels of resources in 2008/09 and 2009/10, part of which will come through focusing the department's current resources on TLL related activities and ensuring that wherever possible funds made available from one-off opportunities are used for the benefit of this programme.
- 12.2 The Department is currently undertaking work to ensure funding for the plan is in place and appropriately earmarked. (Proposals within this report allow for the earmarking of £3.8m towards this programme). The Corporate Director will be taking a separate paper to Cabinet on the 14th July, which will include a summary of the funding arrangements.
- 12.3 Performance reporting this year has highlighted this as an area for improvement. It is hoped that this initiative, which as outlined above, encompasses a significant re-focusing of resources, will lead to improved performance in future years.

13. HOUSING REVENUE ACCOUNT

- 13.1 The Housing Revenue Account (HRA) is a ring-fenced income and expenditure account relating to the management and maintenance of the council's housing stock.
- 13.2 The HRA generated a surplus for the year of £1.7m against a planned surplus of £0.5m, resulting in a **favourable variance of £1.2m**. This has resulted in HRA balances of £4.6m against budgeted balances of £3.4m. There are a number of variations within this outturn position with the most significant outlined below:

- (a) There were savings in district heating costs due to substantial reductions being achieved in negotiating new prices for energy;
- (b) During the course of this year, the 2003/04 subsidy claim has been settled and a provision of £0.8m has not been required. As a result of this, the revenue contribution to the HRA capital programme was increased by £0.8m (as agreed by Cabinet and Council in January 2008). In closing the accounts, this contribution has been further increased by £1.4m to utilise available revenue funding, and reduce the use of prudential borrowing and the Major Repairs Allocation, thereby producing revenue savings and increasing capital financing options in future years;
- (c) Improved rent collection performance for both current and former tenants arrears has meant that it has been possible to make a small reduction to the bad debt provision, rather than making a contribution (£0.4m), as allowed for in the budget; and finally
- (d) An increase of £0.3m of additional interest being received arising from a combination of increased HRA balances and higher interest rates than allowed for in the budget..

13.3 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 2008 of £4.6m are therefore £3.1m above the minimum. HRA Balances are ring-fenced by law 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.
- Contribute towards the 2008/09 budget.

14. HOUSING REPAIRS TRADING SERVICE

14.1 The trading outturn position is a **surplus of £0.26m** against a budgeted surplus of £0.2m giving a variance of £56k or 0.27% on a turnover of £20.8m. This surplus has been transferred to the DSO Reserve and is available to meet future capital expenditure works.

15. MAJOR PARTNERSHIPS & SPECIFIC PROGRAMMES

Single Regeneration Budget (SRB)

15.1 This was the final year of the SRB Programme. The programme has many achievements over the last decade, and since 1996 over £41m has been spent on numerous projects. This year's allocation of £1.8m (including £0.7m of capital) has been fully expended.

Local Area Agreement (LAA)

- 15.2 In 2007/08 the City Council has received £20.1m as part of the LAA. This is allocated across two principal themes: Children and Young People - £9.5m and Safer and Stronger Communities - £1.8m, plus an allocation of Neighbourhood Renewal Fund (NRF) money totalling £7.7m and a ringfenced component, the "Disadvantaged Area Fund"(DAF), amounting to £1.1m. The allocation of the grant is agreed in consultation with the Leicester Partnership, a group representing a wide range of stakeholders from across the city.
- 15.3 The outturn for 2007/08 is £19m or 99.8%, of which £7.7m was spent on NRF projects. A further £0.3m was spent on DAF. This is within the amount allowable to be carried forward to 2008/09.

SNEN (Single Non-Emergency Number) / 101 Project

- 15.4 The call centre was closed with effect from December 7th and, although the project will be fully funded up to that date, there is a cap on the funding for the costs of closure. The interim claim for the costs of closing the project has now been submitted and the grant has been received. The claim anticipates that the full allocation of £437k will be spent, inclusive of the sum of £76k on maintaining the community safety bureaux.

Learning Disabilities Pooled Budget

- 15.5 This arrangement, under Section 31 of the Health Act 1999, is for the joint commission of various services and is in partnership with Leicester City Primary Care Trust. The city council acts as the host and has lead responsibility for its operation. The total budget for the pool in 2007/08 amounted to £24.7m, of which £11.6m was the city council's budgeted contribution and £13.1m the PCT's. Spending at outturn was slightly in excess of budget at £25.3m increasing the City Council's contribution to £11.8m.

Supply of Community Equipment – Pooled Budget

- 15.6 This arrangement, also under Section 31 of the Health Act 1999, is for the supply of community equipment in partnership with Leicestershire County Council, Rutland County Council and six other primary care trusts. Leicester City Primary Care Trust acts as the host. The city council's contribution in 2007/08 was as budgeted (£0.4m). The PCT have provided assurance that the pool has broken even.

16. JOB EVALUATION & EQUAL PAY SETTLEMENTS

- 16.1 Cabinet, at its meeting on the 23rd July 2007, delegated authority to the Chief Finance Officer to action the necessary budget adjustments following implementation of the Single Status Framework Agreement. Reports earlier in the year highlighted that the annual provision of £3m was under pressure, although this would not impact on 2007/08. As a result of this, and in line with the decision of Cabinet (7th January 2008), further one-off costs of £1.1m have been added to the budget for 2008/09.

- 16.2 Work to calculate the necessary budget adjustments is largely complete and the principles for calculating the adjustments have been agreed by Corporate Directors Board on 18th March. For 2007/08 the adjustments cover the effect of backdating the new agreement to 1st July 2007, and (given delays in implementing the scheme) have been estimated in the accounts.
- 16.3 In respect of equal pay settlements, £11.3m (including pension and tax liabilities) has been incurred to date. Work is ongoing to resolve queries and to produce a final cost for the settlements. The original budget for settlements was £12m.
- 16.4 Of the £11.3m in settlements incurred, £7m relates to schools. The funding arrangements agreed by Cabinet in July 2007 included a general fund contribution (£3m) towards the cost of schools related settlements. The Department is now proposing to fund the cost of schools' settlements from schools block reserves and members are asked to approve the redirection of the general fund contribution (£3m) towards the costs of Transforming Leicester's Learning Plan. This is a technical mechanism to enable resources to be utilised for the TLL programme.

17. **BUSINESS IMPROVEMENT PROGRAMME**

Budgeted savings

- 17.1 In the 2007/08 to 2008/09 budget strategy the Business Improvement Programme was required to generate £2.6m of savings in 2007/08. This was split between sums which were to be deducted from departmental budgets, sums which will generate savings in corporate budgets. The breakdown is as follows:

Table 3: Business Improvement Programme - Planned Savings	2007/08 £'000
Deductions from Departmental Budgets	
<u>Support Services Review</u>	
HR Improvement plan	400
ICT improvement plan	600
<u>Procurement</u>	
Agency Contract	1,000
Property Maintenance	300
Corporate Savings	
Disposal of Corporate Operational Properties	270
Total	2,570

Achievement of savings

- 17.2 **ICT & HR improvement plans** – The savings targets in respect of these improvement plans were both realised, and there was also some additional underspend against the reduced budgets, mainly due to delays in recruiting to the new staffing establishment created by the reviews. For IT services £320k of the saving was achieved by means of the required staffing reductions and by top slicing departmental budgets in respect of reduced PC procurement costs. The remaining £280k was achieved through various one-off savings in

2007/08 but will be saved on a permanent basis during 2008/09 through further centralisation and rationalisation (eg telephony). For HR the sum of £400k was a part-year figure with the full year figure of £1,040k applying to 2008-09 onwards. Achieving the full year figure in 2008-09 will be challenging.

- 17.3 **Procurement - agency contract** – The new contract commenced operation on 30th April, four weeks later than planned due to technical software problems. Against a target saving of £1m, the Council has saved £1.1m this year, although this may be slightly less given that some savings will fall outside the general fund. The table below sets out the savings achieved against budget by department.

Table 4: Agency Savings	Budgeted Savings £'000	Actual Savings £'000	Gain / (Loss) £'000
Adults & Housing	395	486	91
Children & Young People	50	280	230
Regeneration & Culture	269	218	(51)
Resources	203	179	(24)
Corporate (1 month delay)	83	0	(83)
Total	1,000	1,163	163

- 17.4 **Procurement – property maintenance** – The £300k savings target has been allocated to the Central Maintenance Fund. However, for future years, Property Services are working towards the implementation of framework contracts in order to bring contracts together and reduce the supplier base to achieve greater value for money.
- 17.5 **Disposal of surplus properties** – This saving relates to the additional interest earned from capital receipts generated following the disposal of surplus properties. Due to the nature of releasing properties on to the market, the time frame has had to be revised, this means there has been a shortfall of £0.2m in relation to the 2007/08 savings target. However, it is anticipated that, after the identification of additional properties to be released to the market, the forecast shortfall in 2007/08 will be made up in future years, and the overall savings target achieved.

18. INVOICE PAYMENTS

- 18.1 The Council has set a target to pay 93% of all undisputed invoices on time (2006/07 target: 92%). A payment is deemed to be “on time” if it is paid with 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 94.4%, and the cumulative position for the year is **94.7%**, 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.

19. FINANCIAL INDICATORS

- 19.1 As part of the 2007/08 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.
- 19.2 The indicators are attached at Appendix 4 to this report and include the positions as at 1st April 2007 together the outturn for the year ended 31st March 2008.

20. FINANCIAL AND LEGAL IMPLICATIONS

Financial Implications

- 20.1 This report is solely concerned with financial issues.

Legal Implications

- 20.2 There are no direct legal implications in this report. Peter Nicholls, Head of Legal Services has been consulted on the preparation of this report.

21. 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	-

22. CONSULTATION

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

23. BACKGROUND PAPERS

- 23.1 2007/08 outturn working papers held in the Accountancy Section.

Report Author: Lisa Turner
Date: 3rd June 2008

MARK NOBLE
CHIEF FINANCE OFFICER

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

Departments	Revised Budget £'000	Actual Spend £'000	Contrib. To / (from) Reserves £'000	Outturn £'000	Variance (under) / overspend £'000	(Under)/ Overspend %
Chief Executive's Office	1,125.6	1,125.6	-	1,125.6	0.0	0.0%
Children and Young People's (i)	54,492.1	50,356.5	3,319.8	53,676.3	(815.8)	(1.5)%
Regeneration & Culture	61,402.8	61,485.7	(91.5)	61,394.2	(8.6)	0.0%
Adult & Housing	74,686.5	74,258.8	271.1	74,529.9	(156.6)	(0.2)%
Resources (ii)	27,216.6	25,745.4	1,475.4	27,220.8	4.2	0.0%
Departmental Total	218,923.6	212,972.0	4,974.8	217,946.8	(976.8)	(0.5)%
Housing Benefit Payments	507.3	1,267.7	-	1,267.7	760.4	
Corporate Budgets (iii)	21,028.2	17,217.5	505.7	17,723.2	(3,305.0)	
LABGI Grant Income (iv)	0.0	(1,775.5)	-	(1,775.5)	(1,775.5)	
TOTAL	240,459.1	229,681.7	5,480.5	235,162.2	(5,296.9)	

(i) The Children and Young People's Department under spend of £815.8k will, subject to Cabinet approval, be transferred to the Transforming Leicester's Learning reserve as outlined in paragraph 7.2.1. The transfer of £3.3m to reserves includes the £3.5m Schools underspend added to their balances.

(ii) The Resources Department, subject to approval, have transferred £355k to a new earmarked reserve to meet costs associated with the HR Improvement Plan, resulting in a small overspend of £4k. This has been met from the department's investment reserve, as outlined in Paragraph 7.5.1.

(iii) Subject to Cabinet approval, an element of the Corporate Budget underspend has been earmarked towards the cost of Job Evaluation and Equal Pay administration and management costs, as described in para. 8.4.

(iv) Subject to Cabinet approval, £0.3m of this income has been earmarked towards economic regeneration, as described in paragraph 8.5.

Service Department's Underspending- 2007/08
Proposed Carry Forwards to 2008/09

£'000

Adults

- | | | |
|----|--|-------|
| 1. | To meet budgetary pressures in 2008/09 | 156.6 |
|----|--|-------|

Regeneration & Culture

- | | | |
|----|--|-----|
| 2. | To meet budgetary pressures in 2008/09 | 8.6 |
|----|--|-----|

TOTAL

165.2

**INVOICE PAYMENT STATISTICS
APRIL 2007 TO MARCH 2008 (12 MONTHS / OUTTURN)**

	INVOICES PAID "ON TIME"	
	March %	Full Year %
ADULTS & HOUSING	95.3	94.6
CYPS	94.0	91.0
REGENERATION & CULTURE	96.4	96.4
RESOURCES	91.0	94.0
TOTAL	94.4	94.7

TARGET : 93%

FINANCIAL INDICATORS
Forecast Balance Sheet and Cashflow Items
OUTTURN: 2007/08

Financial Indicator	Actual as at 1 st April 2007 £'000	Actual at 31 st March 2008 £'000
Balance Sheet Items		
Reserves & Balances:		
Earmarked Revenue Reserves (i)	49,365	58,138
Earmarked Capital Reserves	6,326	5,576
Housing Revenue Account	2,911	4,573
Debtors (excl. Bad Debts Provision)	70,586	TBC
Creditors	87,807	TBC
Long-Term Borrowing	327,570	TBC
<u>Cashflow Movements</u>		
Increase/(Decrease) in all borrowing	6,217	TBC

Notes

(i) The revenue earmarked reserves exclude the 'provision' element of the insurance fund (£6.4m at 31.3.08). This relates to the estimated cost of claims already received.