



Leicester
City Council

**Performance & Value For Money
Select Committee
Cabinet**

**17th June 2009
22nd June 2009**

REVENUE OUTTURN 2008/09

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 £261.2m, and the HRA against a gross budget of £69m.
- 1.3 Previous reports have been presented to the Cabinet and the Select Committee in October, January and March, which outlined budgetary issues that had emerged during the year.

2. REPORT SUMMARY

- 2.1 This report shows that all service departments have spent within their resources, which is a pleasing result as most departments have reported pressures 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 once again very pleasing to be able to present this overall picture.
- 2.3 Savings of £3.9m have materialised on corporate elements of the budget, 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 some good borrowing decisions. In the current economic climate it is very unlikely that similar savings will be achieved in the future.

- 2.4 During the course of the year we have been able to reduce the level of provision held within the accounts for possible claw back of housing benefits grant subsidy. This has benefited the general reserve by £2.1m, most of which was anticipated when the budget for 2009/10 was set.
- 2.5 The outturn position on the Housing Revenue Account (HRA) resulted in a favourable variance of £0.1m. The HRA balance as at 31st March 2009 stands at £4.5m.
- 2.6 Overall schools have, in effect, spent around £2.7m more than their budgets on the delivery of services. However, 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 £20.6m and further details on these balances is provided in Section 10 of this report. After many years in which schools' balances increased, the trend is now downwards.
- 2.7 If the recommendations within this report are approved, the Council's uncommitted general reserves position at the end of the 2008/09 financial year is forecast to be £6.5m. This is higher than the minimum recommended level of £5m reserves, but below the £7m level we have been aiming to achieve. At just 2.5% of the budget, our reserves are comparatively low. Further details relating to the level of general reserves is provided in Section 9 of this report.
- 2.8 Looking further ahead to 2009/10 and beyond, it is already becoming apparent that a number of budgetary challenges exist both corporately and within service divisions. In addition to which, as a consequence of changes to the senior management structure, we are embarking on a new approach to budget management. It will be crucial that the budget management disciplines that have served us so well in recent years are maintained as we move to the new arrangements.

3. RECOMMENDATIONS

- 3.1 Cabinet is recommended to note:
- a) The final outturn for 2008/09 for each department and the Council as a whole;
 - b) The reasons for the variances between the 2008/09 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;
 - f) The progress made towards achieving the efficiency target.

- 3.2 Cabinet is recommended to approve:
- a) The virements detailed in section 5.3 of the report;
 - b) The creation of new reserves set out in paragraph 11.21;
 - c) The earmarking of £0.5m of LABGI monies to facilitate economic regeneration as outlined in paragraph 8.4; and
 - d) The use of general fund reserves to support the Capital Programme in 2009/10, as set out in paragraph 9.1; and as set out 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 During 2008/09 each Corporate Director was 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. For 2009/10, revised procedure rules have been put in place to reflect the new organisation structure. This means that the carry forward amounts relating to 2008/09 will be allocated to individual divisions, rather than departments – as set out in Appendix 2.

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 2008/09**

5.1 The General Fund budget for 2008/09 was originally set at **£261m**. After adding the approved carry-forward amounts from 2007/08 (of **£0.2m**) the budget for the year has been revised to **£261.2m**.

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 2008/09 budget for the authority. Allocations of Area Based Grant reflect funding allocations agreed by the Leicester Partnership earlier in the year.

Table 1	Original Budget for 2008/09	Approved Carry forwards	Other Virements / Transfers	Area Based Grant Allocation	Revised Budget for 2008/09
<u>Department</u>	£'000	£'000	£'000	£'000	£'000
Chief Executive's Office	2,735.3	-	2,031.7	1,292.7	6,059.7
Children & Young People	56,286.3	-	1,327.7	11,669.1	69,283.1
Regeneration & Culture	58,456.6	8.6	1,585.5	2,481.8	61,532.5
Adults and Housing	83,962.0	156.6	78.1	6,466.1	90,662.8
Resources	26,501.3	-	1,494.9	45.0	28,041.2
Total Departments	227,941.5	165.2	6,517.9	21,954.7	256,579.3
<u>Corporate Elements</u>					
Miscellaneous	15,056.4	-	(6,502.7)	(21,954.7)	(13,401.0)
Housing Benefits	527.6	-	-	-	527.6
Capital Financing	19,806.0	-	(0.2)	-	19,805.8
Net Recharges	(2,324.6)	-	(15.0)	-	(2,339.6)
Total Corporate Budgets	33,065.4	-	(6,517.9)	(21,954.7)	4,592.8
TOTAL GENERAL FUND	261,006.9	165.2	-	-	261,172.1

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 divisions.

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. However, costs associated with the Delivering Excellence programme are contained within the Chief Executive's portfolio and this has been dealt with in more detail at Section 17 of this report.

7.2 **Children and Young People**

- 7.2.1 The department has managed its budget carefully throughout the year resulting in an underspend on General Fund Services of £0.2m. The Schools Budget, which is financed from the Dedicated Schools Grant, underspent by £1m. Significant variations against the budget are outlined in more detail in the paragraphs below.
- 7.2.2 The department faced a number of budgetary pressures during 2008/09 that were managed through the achievement of one off savings in other areas, and a review of the use of some funding streams. The pressures included Transforming the Learning Environment (including BSF), Transforming Leicester's Learning (TLL), reduced allocations of ABG, vacancies in Senior Management Posts that are being covered by external staff, the number of looked after children and Safeguarding costs, and the departmental traded service project.
- 7.2.3 The 2009/10 budget strategy has addressed to a large extent the on-going pressures. However, the continued growth in Looked After Children (LAC) numbers and safeguarding costs, together with the renewed national focus on safeguarding, puts the Social Care and Safeguarding Division under significant budgetary pressure from the outset in 2009/10. The Directors plan to discuss the budget across all Divisions with the new Strategic Director at an early date; it is inevitable that measures will be needed in respect of Social Care and Safeguarding.
- 7.2.4 Variances on **General Fund Services** are largely in line with those reported during the course of the year. The most significant of which are outlined below:

a) Access, Inclusion and Participation: £0.6m underspend from reprioritisation of funding streams.

b) Children's Resources: £0.5m overspend on Looked After Children. New demands on this budget arose in-year from the increase in numbers and the need to provide specialised placements (including secure placements and placements for a number of sibling groups). Placements of these types are expensive, but unavoidable, with a resultant budgetary impact.

c) Learning Services: £0.4m underspend. This division has a number of vacancies covered by external staff at a higher than budgeted cost. These posts are providing essential support to the Transforming Leicester's Learning Programme. Reprioritisation of funding streams has enabled the Division to meet the resultant budgetary pressure in 2008/09 and the Division is now undertaking an Organisational Review which will result in a new structure with permanent realignment of services and funding streams. There is also reduced income at the Vocational Education Support Agency (VESA) service.

d) Premature Retirement Costs: £0.2m underspend. This underspend is the expected reduction following the introduction of DSG, new cases are met by the Schools Block.

Services Funded from the Dedicated Schools Grant (DSG)

7.2.5 As indicated above, expenditure against our 2008/09 DSG allocation (£189m) has resulted in unspent DSG of £1m. This has arisen due to unused contingencies, as follows:

- additional monies set aside for maintaining statemented hours for pupils with Special Educational Needs has not been needed; and
- The Schools Block contingency (£0.6m) was only needed to meet a £0.1m net overspend against DSG funded budgets resulting in an underspend of £0.5m.

The underspend will be added to the DSG Carry Forward Reserve – as set out in paragraph 11.3.

7.2.6 Key variances against DSG funded budgets are set out below:

a) Nursery Education Grant – An overspend of £0.6m is predominantly due to the need to fund an additional two weeks of nursery provision following the early Easter 2008 holiday. The residual overspend is from improved take-up of provision. A contingency had been set aside to meet this cost, but for a lower number of places and weeks.

b) Placements at Independent Schools - £0.1m underspend. The number of children supported by this budget had increased significantly in prior years, leading to increased funding being approved to the level of overspend in 2007/08. The growth in pupil numbers has now slowed, and combined with additional grant this has resulted in an underspend.

c) Mainstream Statementing - £0.2m underspend. As with Independent Schools the budget was increased in-year to reflect anticipated additional costs. The underspend is largely attributable to additional Learning and Skills Council grant, which is not expected to continue.

7.3 Regeneration and Culture

7.3.1 The Department has controlled its net £60m budget to within a small underspend of £14k. 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 Income Generation

One of the department's main areas of risk is the heavy reliance upon external income generation - total budgeted externally generated income is £27m. There has been a significant impact on those income levels as a result of the economic downturn in the construction industry (impacting on, for example, planning and building control fee income), and in the level of consumers' discretionary spend in Sports centres.

Concessionary Fares Scheme

7.3.3 The Government introduced a new national concessionary fares scheme from the 1st April 2008. This new scheme means that local authorities are no longer responsible for paying for journeys undertaken by its citizens and instead are responsible for those journeys made that start within their own boundary. Costs have increased significantly which is in part due to increased take up and increased number of journeys, but also as a result of fare increases significantly higher than inflation and a change in the method by which bus operators are reimbursed.

7.3.4 It was intended that the Government would fund the additional costs of the scheme. In spite of this however, the extra grant provided by the Government specifically for Leicester has been insufficient to cover the additional costs. As a result of the issues highlighted above, the cost to the Council in 2008/9 has exceeded the budget of £6.7m by £0.4m. Current estimates are that there will be a further cost increase of £1m from 2009/10, which has been reflected in the budget for that year.

7.3.5 De Montfort Hall has been under financial pressure in 2008/09. In particular it has had difficulties in maintaining a broad programme mix which is sufficiently profitable to be financially sustainable. Overall the subsidy provided to the Hall exceeded the budget by £0.8m, which was offset by a one-off VAT rebate of £0.7m received earlier in the year. The budget for 2009/10 includes some growth. However there will be continued pressure on the hall to maintain a popular and financially sustainable programme of events.

7.3.6 Overall, the departments' four traded services (Fleet Transport, Operational Transport, City Highways and Catering) achieved an outturn at budget. City Catering made a small surplus of £10k, despite significant pressures from food cost inflation of approximately 7%. The additional cost has not been passed on to the pupils who pay for school meals, but instead has been offset by using targeted school meals grant. Fleet Management and Operational Transport broke even and City Highways had a small shortfall against a planned £0.2m surplus.

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 £0.1m on a gross budget of £140m.

7.4.2 Concerted efforts by the directorate management team have brought the Departments' spending to within budget. The following actions were taken early in the year in order to achieve this outcome:

- Recruitment was held back and many services operated with vacancies;
- Maintenance work was restricted;
- Grant spend was reviewed; and
- Contributions to the Learning Disability pooled budget have been re-negotiated with the Leicester City Primary Care Trust

7.4.3 The most significant issues with regard to the three main service areas of the Department are outlined below:

a) Adult Social Care underspent against budget by £0.2m. To a large degree this underspend was achieved by the actions outlined above. In addition a number of contracts were renewed or re-negotiated leading to savings, together with £0.2m received from 'deferred income' where money is not collected until service users have sold their properties.

b) The Safer and Stronger Communities Division overspent by £0.2m; mainly due to the position in Adult Skills and Learning. There are several contributory factors including:

- A reduction in the amount of income collected through fees and charges, which is likely to be due to the down-turn in the economy. Overall numbers attending courses have increased but a greater proportion are entitled to free courses. This has contributed £0.1m to the overspend.

- Essential but unbudgeted data cabling work amounting to £0.1m had to be carried out to make the college on Wellington Street compatible with the City Council's network.

The Adult Skills and Learning Services faces a challenging year in 2009/10 but is expecting to receive increased grant money from the Learning Skills Council.

c) The Housing General Fund outturn was a net underspend of £0.1m, the main variances in 2008/09 were:

- Housing Benefits and Council Tax Administration overspent by £0.2m due to a number of reasons including: audit fees were higher than expected, new software, there were additional costs associated with IT links for homeworkers (this will be more than offset in the future by releasing office space) and finally a review of the staffing levels took longer than originally anticipated. Many of these costs will not re-occur in 2009/10 and the service expects to operate within budget.
- The Private Sector Development Section overspent by £0.1m. Much of this was the result of a much greater than expected reduction in the capital programme (due to the fall in Right to Buy receipts). This has resulted in a loss of fee income to the section and is being addressed through a review.
- There was an underspend of £0.2m in housing options mainly as a result of a reduction in demand for temporary accommodation. This is a volatile area which is hard to predict.

Housing Benefits

7.4.4 The housing benefit budget is classified as demand-led and therefore any underspend 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).

7.4.5 For 2008/09 the housing benefit budget overspent by £0.2m. However, included within the outturn, as a contingency, is a provision against possible claw back of grant subsidy for 2008/09, amounting to 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. Previous year's experience has been that grant claw back is to be anticipated as the DWP uses changes made on audit to effectively penalise authorities who misclassify payments. Our record is, however, improving.

7.4.6 As reported in earlier months, following lengthy negotiations with the DWP, the 2005/06 claim has been finalised. This has resulted in a favourable variance of £0.6m, against a provision that had previously been made within the accounts.

7.4.7 The 2006/07 and the 2007/08 subsidy claims have been qualified by the auditors and are therefore subject to potential grant claw back. As such the Council had already made a suitable provision within the accounts. However, following the receipt of audit evidence we have been able to reduce this provision. This has resulted in a favourable variance of £1.5m, which as indicated above, also transfers to the general reserve.

7.5 Resources Department

7.5.1 The department has managed to achieve an outturn within its overall available resources, although this has required the use of one-off monies available to the department, some of which were unanticipated at the start of the year.

7.5.2 From early in the financial year the department recognised that achieving a balanced outturn would be challenging. The 2008/09 budget included a part-year saving of £0.5m (rising to £1m in 09/10) to be achieved through a departmental review. Events overtook the ability of the department to undertake this review due to the "One Leicester" initiative and subsequent senior management restructuring exercise and the Delivering Excellence Programme.

7.5.3 The departmental management team recognised the need to find corresponding savings elsewhere in the department to ensure a balanced outturn and planned early in the year to achieve this. Further pressures were also identified during the year including a forecast significant shortfall of land charges income due to the decline in the housing market.

7.5.4 The department will cease to exist as a consequence of the Council's transformation programme, but has been able to use its remaining one-off balances to supplement sums previously earmarked for one-off purposes. This ensures the departments key projects continue to be funded, and will prevent divisional directors from starting 2009/10 with immediate budget pressures from these sources. The balance of sums held at year-end towards these projects is set out below:

- Elections – the reserve used to fund the local government elections is built up over four years as resources permit (£0.1m);
- I.T – for future I.T developments, and in particular for future server replacement (£0.6m);
- My View – to provide for the continuing cost of completing the project which automates update of HR data (£0.2m);

- RMS – to provide continuing project funding for the introduction of the new Resources Management System allowing for the implementation of further modules and dealing with issues such as the integration/replacement of PAMIS (£0.6m).

8. CORPORATE BUDGETS

- 8.1 Corporate budgets (£26m) represent areas of expenditure which are not the responsibility of any service department. Capital Financing (£19.8m) is by far the largest element of this budget. Corporate budgets overall have under spent by £3.9m.
- 8.2 The capital financing outturn shows a saving of £3.8m. The reasons for the underlying savings, which had largely been anticipated when setting 2009/10 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 in earlier years.
- 8.3 Also included within corporate budgets, as approved by Council in January 2009, is the increased cost of energy (£1.5m) due to the global price increases.
- 8.4 During the final few months of the year, we have received additional retrospective Local Authority Business Growth Incentive (LABGI) grant income for 2007/08 amounting to £0.5m. Whilst LABGI funds are not ringfenced, members are asked to approve the setting aside of this £0.5m towards strategic economic regeneration activity.
- 8.5 The Leicester Asian Youth Association (LAYA) faced funding difficulties in 2008/09 and have been supported by Sports Services. Members are asked to approve funding of £30,000 from the corporate underspend to facilitate the support, and to consider the ongoing funding required to support LAYA as part of next year's budget deliberations.

9. GENERAL RESERVES

9.1 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 2008	7.383
<u>Increases in 2008/09</u>	
Interest on VAT rebates (i)	1.382
Corporate Budgets Underspend (ii)	3.866
Housing Benefit - reduced provision for clawback (iii)	2.151
Trading Surpluses (iv)	0.072
<u>Sums used in 2008/09</u>	
Contribution to the 2008/09 budget	(1.908)
Equal Pay Settlements (v)	(2.000)
<u>Sums to be earmarked for 2009/10</u>	
Support to the Capital Programme (vi)	(2.000)
Special Olympics (vii)	(1.000)
Closing Balance at 31st March 2009	7.946
Less Commitments - Contribution to the 09/10 Budget	(1.472)
Uncommitted Balance at 31st March 2009	6.474

Notes:

- (i) Interest on VAT Rebates arise from settlements made by Revenue and Customs in respect of a claim made by the Council.
- (ii) Corporate Budget underspends have arisen primarily from capital financing savings, which were largely anticipated and taken into account when setting the 2009/10 budget.
- (iii) Housing Benefits – the reduced provision for clawback arises from reduced expectation of subsidy penalties to be imposed by the Department for Works and Pensions, following representations from the Council.
- (iv) Resources 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.
- (v) Equal Pay - This is the contribution from the general reserves towards the cost of equal pay settlements, and is additional to a previous sum approved for this purpose, as agreed as part of the 2009/10 budget – February 2009.

- (vi) Support for the Capital Programme - The current economic climate is having an adverse impact on the Council's programme of capital works. Market conditions have severely affected our ability to raise receipts from the sale of surplus assets, which are used to support the financing of new capital expenditure. Members are therefore recommended to approve a contribution from the Council's general reserves of £2m to support the Capital Programme in 2009/10 and later years.
- (vii) Special Olympics - This reflects a contribution to support the Special Olympics that are taking place in Leicester during 2009. The details of this proposal were set out, and consequently approved, in a separate report to Cabinet on 1st June 2009.

9.2 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 Council's financial strategy provides for a minimum working balance of £5m to be held, aiming to increase this to £7m by 2011/12.

9.3 Members are also reminded that corporate budgets are amongst the most volatile in the Council. Recent economic events mean that the savings achieved in 2008/09 are very unlikely to be achieved in 2009/10, and therefore a prudent approach to the use of reserves continues to be recommended.

10. SCHOOLS BALANCES

10.1 Each school receives a delegated budget, and spending decisions are made by schools to best meet the needs of their pupils. Any underspend or overspend at the end of the year is carried forward to the following year, subject to certain controls by the department to address significant surpluses or deficits.

10.2 In 2008/09 schools' balances increased overall by £1.3m rising from £19.3m to £20.6m. However, these balances are artificially high, due to a change in the way the schools must account for monies set aside towards Job Evaluation. The Council's decision in 2008 not to implement the previously agreed scheme means that amounts schools were expecting to incur in increased pay cannot be set aside from their revenue budgets. This is because the outcome of Job Evaluation is now uncertain. In the order of £4m that would have been charged against school budgets at the end of 2008/09 for JE has therefore instead moved into Schools Balances. Assuming that these headline balances include around £4m for Job Evaluation, then **Schools Balances have reduced, in real terms, by some £2.7m.**

- 10.3 Schools will be requested to supply further details regarding the make up of the balances, that will include items such as unspent Standards Funds earmarked for the Summer term 2009, areas of development and the actual details of the funds set aside for Job Evaluation; this information will be available later on in the year.
- 10.4 The scheme for controlling surplus school balances is currently being reviewed.

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 £24.9m during 2008/09 from £58.1m to £83m, although after deducting sums earmarked by law, the insurance fund and ring-fenced BSF resources, the reserves amount to £33.8m. Most of this increase represents sums we have no choice but to set aside, and also includes sums for job evaluation, which we cannot charge to budgets.
- 11.2 **Schools Balances (revenue)** – As noted earlier in this report, the amount of money held in this reserve has increased from £19.3m to **£20.6m** following this year's outturn. This money is, by law, ring fenced to individual schools.
- 11.3 **Dedicated Schools Grant Balances** – This represents grant received by the Council, which has not been delegated to schools. The balance currently stands at **£4.6m**, and is ring fenced by law and is therefore not available for general spending. The Schools Forum has supported some initiatives to be funded from this reserve; the 2009/10 budget assumes a contribution from the reserve to meet specific additional costs; and further proposals are to be put forward for discussion with representatives from the Forum.
- 11.4 **Children and Young People's Departmental Reserve** – This reserve was set-up in 2003/04 to deal with budget and other pressures. During the course of the year £0.2m has been transferred towards the Raising Attainment Plan. After the transfer of the departmental under-spend (£0.2m), the balance has remained at **£2m**. The 2009/10 budget strategy assumes extensive use of this reserve towards one-off investments and projects.
- 11.5 **Raising Attainment Reserve (formerly TLL)** – This reserve was created from a number of funding streams, to meet the costs of the TLL action plan. Substantial sums have been expended in 2008/09 in accordance with the Raising Attainment Plan (RAP). The balance stands at **£1.8m** and it will be used to fund the RAP (which is a time limited programme) during 2009/10.

- 11.6 **Transforming the Learning Environment (TLE)** – This reserve (**£1.5m**) was established, as part of the 2009/10 budget strategy, by re-designating the former Secondary Review Reserve. Together with other funds it will be used to finance the clientside support for the TLE Division. In particular, it is intended to promote a more effective partnership with schools in BSF and to offer them better support.
- 11.7 **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 **£14.6m**.
- 11.8 **Insurance Fund** – The Councils' self-insured insurance fund stands at **£11.9m**, 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. Another actuarial review of the fund balance has been commissioned for September 2009, but the insurance fund remains healthy, reflecting a continuation of good performance on our management of risk and consequently our ability to defend claims and a reduction in external premiums following the re-tendering of our portfolio in September 2008 together with an increase in the cover provided. 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 four years as a result of this performance. The fund balance will be reviewed again in light of the actuary's report.
- 11.9 **Corporate IT Development Fund** – The corporate IT fund stands at **£0.6m**. 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.
- 11.10 **Resource Management System (RMS)** – The Agresso Resource Management System went live with phase 1 from April 2009, but there is still development work that needs to be carried out in order to ensure that the maximum benefits are derived from this new technology. This reserve was established in 2007/08 to ensure that this project has sufficient funding to achieve its outcomes. The balance at year end stands at **£0.6m**.
- 11.11 **Ward Community Meetings** – contains monies (**£0.6m**) to fund the budgets for ward committees in 2009/10 and 2010/11.

- 11.12 **Other Resources Reserves** – Service Divisions within the former Resources Department hold a number of smaller reserves totalling **£0.7m**. These include: £0.1 towards the cost of elections, £0.2m towards the My View project, £0.1m towards the cost of paying for VAT consultancy advice, and £0.2m relating to the Central Maintenance Fund.
- 11.13 **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. The departmental investment reserve has been fully utilised during the year.
- 11.14 **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 **£1.8m**.
- 11.15 **Regeneration and Culture Reserves** – The department holds reserves totalling **£1.7m**. This includes £0.4m on-street parking monies held in accordance with the Road Traffic Regulation Act 1984, £0.2m towards economic regeneration, plus subject to approval, a further £0.5m of LABGI monies received in 2008/09 towards economic regeneration and a number of other small reserves.
- 11.16 **Housing Maintenance Traded Service (Housing)** – the balance on the reserve is currently **£1.1m**, which is available to fund future capital programme works.
- 11.17 **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 £10.9m have been made from 2004/05 to 2008/09, from which costs associated with the development of the scheme have been charged. After contributions from other reserves including one-off funding towards pay protection, the balance will stand at **£10m**. This balance has increased significantly in 2008/09 arising from an enforced change in accounting policy.
- 11.18 **Equal Pay** – Cabinet, in July 2007 approved £12m of funding towards the cost of equal pay settlements and a further £2m was approved in February 2009. As outlined in Section 16 of this report, settlements totalling £12.2m have been made. The balance of this reserve (**£1.8m**) represents the residual funding towards the cost of any remaining settlements.
- 11.19 **Area Based Grant (ABG) carry forward** - The establishment of this reserve was approved by Cabinet in March 2009, and is in accordance with the principles agreed by the Leicester Partnership Executive. The balance on this reserve at year-end stands at **£5.9m** with a further **£0.6m** relating to unspent Disadvantaged Area Fund (DAF) monies. Further details relating to ABG are outlined in Section 15 of this report.

11.20 There are various other individual reserves established in accordance with Finance Procedure Rules. The figure stands at **£6.3m** including those described below.

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

Corporate

- a) **Delivering Excellence (£1.4m)** - This reserve has been established to carry forward monies that have been set aside towards the Delivering Excellence programme, together with savings that have arisen from wave one of the programme. More details relating to DE are set out in Section 17 of this report.
- b) **Capital Financing Reserve (£0.6m)** – To act as a contingency and to manage fluctuations between the future costs, potential liabilities and income payable in respect of a government supported capital project.

Adults and Housing

- c) **Charnwood Joint Service Centre (PFI)** – This is a Private Finance Initiative (PFI) for the provision of a Joint Health Service Centre. The scheme is structured in such a way that the Council receives PFI credits in advance of need. This reserve has been established to carry forward these credits until they are needed. The balance at year end is very small but this will increase in future years.

Resources

- d) **Corporate PC Replacement Fund (£0.3m)** – During 2008/09 three departments (Resources, Adults and Housing and Children & Young People's Services) agreed to a programme that would replace all their PCs which were 5 years old (or older). This was to be funded by means of a transfer to a central budget, managed by IT services. As at March 31st, there has been some slippage in the programme and this reserve holds the unspent funds so that the PCs can be replaced during 2009/10.

Regeneration and Culture

- e) **Catering Job Evaluation (£0.5m)** – These monies have been provided by schools to City Catering towards the cost of Job Evaluation back pay. The funds have been set-aside until such a time as they are needed. In the event that the monies are not required for this purpose, they are ring-fenced under DSG rules to Schools.
- f) **City Gallery** – The department is anticipating receiving a second VAT rebate of **£1m**, which it is proposed to earmark to support the costs of the new City Gallery Scheme.

- g) **Special Olympics (£1m)** – To hold funds set aside from the general reserve to support the Special Olympics, as set out in Paragraph 9.1.

12. HOUSING REVENUE ACCOUNT

12.1 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.

12.2 The HRA generated a small deficit for the year of £0.1m against a planned deficit of £0.2m. This has resulted in HRA balances of £4.5m, which is in line with expectations when the 2009/10 budget was set. There are a number of variations within this outturn position with the most significant outlined below:

- (a) There was a significant increase in the cost of gas, reflecting the trend of increasing gas prices;
- (b) A significant reduction in capital financing costs due to lower than anticipated interest rates, although some of the savings are offset by an increase in negative subsidy;
- (c) A revenue account contribution to capital of £1.4m has enabled the HRA capital programme to be financed without the use of any prudential borrowing.
- (d) Dwelling rental income exceeded the budget by £0.5m. Due to the economic conditions there have been fewer right to buy sales than was anticipated when the budget was set.

12.3 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 2009 of £4.5m are therefore £3m 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; and
- Contribute towards the 2009/10 budget (£1.8m).

13. HOUSING REPAIRS TRADING SERVICE

13.1 The trading outturn position is a **surplus of £0.2m** against a budgeted surplus of £0.2m. This surplus has been transferred to the DSO Reserve and is available to meet future capital expenditure works.

14. EFFICIENCY SAVINGS

- 14.1 From April 2008 all Councils are required to report the value of cash-releasing value for money gains that they have achieved as one of the 198 indicators in the new national indicator set. The original expectation was that local government should achieve at least 3% per annum cash releasing value for money gains over the spending review period 2008/09 to 2010/11 (CSR 07). However, a recent budget announcement by the Government indicated that from 2010/11 this target will increase to 4%.
- 14.2 Although the expectation to deliver 3% cashable savings each year is a national target, as part of Leicester's local area agreement, a local efficiency target has been negotiated with government as one of the targets within the LAA. Leicester City's estimated share of the target is detailed below, together with the forecast savings for 2008/09. The forecast saving includes a significant carry forward from 2007/08.

Table 3: Efficiency Savings

Year	2008/09	2009/10	2010/11
Target (% of 2007/08 baseline)	3%	6%	9.4%
Leicester's cumulative expected gains (£m)*	10.906	21.812	33.808
Leicester's forecast savings (£m) #	11.097		

*The targets have been adjusted from those reported earlier in the year to reflect the latest government guidelines. The figure for 2010/11 does not yet reflect the latest budget announcement.

The table above demonstrates that the 2008/09 target has been achieved. However, the figures are not due to be submitted to the Government until July.

- 14.3 The Council's arrangements to deliver these expected gains are as follows:
- Each departmental revenue budget strategy contains an efficiency plan;
 - The efficiency plan for 2009/10 has been prepared as part of the Delivering Excellence programme and was approved in April 09;
 - DE needs to deliver the required savings from 2009/10 onwards (whether or not these have been included in the 09/10 budget); and
 - Savings carried forward from 2007/08 count towards the 2008/09 target – 08/09 is being regarded as a transition year.

15. MAJOR PARTNERSHIPS

Area Based Grant

- 15.1 The Area Based Grant (ABG) is being used to support achievement of service outcomes in the local area agreement, which has been negotiated between Leicester Partnership and the Government. In 2008/09 the City Council has received £26.5m (plus an additional allocation £0.8m from the Disadvantaged Area Fund), which was allocated across four principal themes: Children and Young People - £11m, Safer and Stronger Communities - £1.2m, Health and Wellbeing - £5.8m, and Economic and Environmental (principally the working neighbourhoods fund - WNF) – £7.1m plus a cross cutting allocation of £0.2m. On 1st December 2008, the Leicester Partnership agreed to commit £1.3m for the costs of administration and support on an interim basis in 2008/09.
- 15.2 The table below shows expenditure against the grant allocation. All delivery groups have successfully contained spending within their total allocations. In accordance with the principles agreed by the Leicester Partnership Executive under-spends can automatically be carried forward at delivery group level (although these will be taken into account when setting the allocations for the following year). Accordingly, the £5.8m in year ABG under-spend, together a £0.6m under-spend on the Disadvantaged Area Fund, as outlined in the table below, has been transferred to the earmarked reserve established earlier in the year for this purpose.

Table 4 : ABG Outturn	Annual Allocation £'000	Actual Outturn £'000	Carry Forward Amount £'000
Children and Young People's	10,992	10,992	0
Safer Leicester	725	583	(142)
Stronger Communities	588	475	(112)
Leicester Health and Wellbeing	5,767	5,660	(107)
Economic Development (WNF)	7,132	1,876	(5,256)
Environment	23	23	0
Admin and Support	1,307	1,058	(249)
Total - ABG 2008/09	26,533	20,666	(5,867)
Carry forward from 2007/08	-	-	(57)
Disadvantaged Area Fund (DAF)*	1,918	1,289	(629)
Total - Carry forward to 2009/10	28,451	21,955	(6,553)

* the annual DAF allocation includes £1.1m carried forward from 2007/08

- 15.3 The most significant element of this carry forward (£5.2m) relates to the Working Neighbourhoods Fund programme, which is being developed over three years. A significant carry forward was anticipated on this programme early in the year and was approved by the Partnership Executive in January 2009.

Learning Disabilities Pooled Budget

- 15.4 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 2008/09 amounted to £29.5m, of which £12.3m was the City Council's budgeted contribution. Spending at outturn was in excess of budget at £31m, although this was forecast and agreed earlier in the year. This has increased the City Council's contribution to £13.2m.

16. JOB EVALUATION & EQUAL PAY SETTLEMENTS

- 16.1 Cabinet, at its meeting on the 1st October 2008 agreed that the proposed Single Status Framework agreement would not be taken forward for implementation. It was also agreed that the project would be re-constituted with the objective of re-designing and implementing a new framework agreement. For the time being monies that had been earmarked to meet the one off costs of the scheme will continue to be set aside. These sums (estimated at £3.8m) will be taken into account when a new scheme is devised. Further sums which had been intended to be spent on implementation (i.e. on increased pay costs) will continue to be set aside. The budget for 09/10 includes a further £2.4m for project management costs.
- 16.2 Equal Pay Compensation – Cabinet initially gave authority for settlements of up to £12m to be made. The budget report for 2009/10 increased the original £12m provision for equal pay by a further £2m. To date payments totalling £12.2m have been paid, with the majority of this sum (£11.3m) having been made during 2007/08. There are a small number of issues and queries regarding entitlement that are still in the course of being resolved. There also remains a risk associated with a relatively small number of cases that are being pursued through tribunals, although these cases could be disproportionately expensive.

17. DELIVERING EXCELLENCE

- 17.1 The Council's Delivering Excellence programme has significant financial implications, both continuing and short-term. It is expected that this programme will continue to identify areas where the Council is short of capacity, or where new expenditure can deliver goals. It is also expected that the programme will deliver substantial efficiency savings.
- 17.2 The budget for 2008/09 included a provision of £2m for service transformation, and Cabinet on the 1st October approved a further £1m (together with further sums in 2009/10 onwards). In practice, Delivering Excellence resources are being managed as a programme rather than on an annualised basis, and £1.3m of unspent monies will be carried forward into later years.

17.3 Members are asked to approve the transfer of this sum to a new reserve to be used towards ongoing work on the Delivering Excellence programme (as set out in paragraph 11.21).

18. INVOICE PAYMENTS

18.1 The Council monitors its performance in relation to the payment of invoices, and an informal **target to pay 94%** has been set for 2008/09. 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 93.1%, and the **cumulative position for the year is 93.7%**. The performance of each department is shown in the table found at Appendix 3.

19. FINANCIAL INDICATORS

19.1 As part of the 2008/09 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 2008 together with the outturn for the year ended 31st March 2009.

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 2008/09 outturn working papers held in the Accountancy Section.

Report Author: Lisa Turner
Date: 1st June 2009

**MARK NOBLE
CHIEF FINANCE OFFICER**

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

Outturn 2008-09

<u>Departments</u>	Revised Budget £'000	Outturn £'000	Variance (under) / overspend £'000	(Under)/ Overspend %
Chief Executive's Office	6,059.7	6,059.7	-	-
Children and Young People's *	69,283.1	69,111.2	(171.9)	(0.2%)
Regeneration & Culture	62,532.5	62,518.2	(14.3)	-
Adults & Housing	90,662.8	90,557.9	(104.9)	(0.1%)
Resources	28,041.2	28,041.2	-	-
Departmental Total	256,579.3	256,288.2	(291.1)	(0.1%)
<u>Corporate Elements</u>				
Housing Benefit Payments	527.6	733.6	206.0	
Capital Financing	19,805.8	15,973.6	(3,832.2)	
Other Miscellaneous	(15,740.6)	(15,980.0)	(239.4)	
Total Corporate Elements	4,592.8	727.2	(3,865.6)	
TOTAL	261,172.1	257,015.4	(4,156.7)	

* The Children and Young People's under-spend of £0.2m has been transferred to their departmental reserve.

APPENDIX 2

Service Department's Underspending- 2008/09 Proposed Carry Forwards to 2009/10

£'000

Adults & Housing

To meet budgetary pressures in 2009/10. To be allocated under the new organisation structure arrangements as follows:

- | | |
|-------------------------------------|---------|
| 1. Older Persons and Community Care | 247.6 |
| 2. Safer and Stronger Communities | (207.7) |
| 3. Housing Strategy and Options | 65.0 |

Regeneration & Culture

- | | |
|---|------|
| 4. To meet budgetary pressures in 2009/10 | 14.3 |
|---|------|

TOTAL

119.2

APPENDIX 3

INVOICE PAYMENT STATISTICS APRIL 2008 TO MARCH 2009 (12 MONTHS / OUTTURN)

	INVOICES PAID "ON TIME"	
	March %	Full Year %
ADULTS & HOUSING	94.5	94.5
CYPS	94.0	92.1
REGENERATION & CULTURE	90.4	94.1
RESOURCES	93.4	93.1
TOTAL	93.1	93.7

TARGET : 94%

FINANCIAL INDICATORS
Forecast Balance Sheet and Cashflow Items
OUTTURN: 2008/09

Financial Indicator	Actual as at 1 st April 2008 £'000	Actual at 31 st March 2009 £'000
Balance Sheet Items		
Reserves & Balances:		
Uncommitted General Balance	5,475	6,474
Earmarked Revenue Reserves (i)	58,138	83,036
Earmarked Capital Reserves	5,576	TBC
Housing Revenue Account	4,574	4,502
Debtors (excl. Bad Debts Provision)	84,941	TBC
Creditors	(90,397)	TBC
Long-Term Borrowing	(285,090)	TBC
<u>Cashflow Movements</u>		
Increase/(Decrease) in all borrowing	(48,752)	TBC

Notes

(i) The revenue earmarked reserves exclude the 'provision' element of the insurance fund (£6.1m at 31.3.09). This relates to the estimated cost of claims already received.