

Leicester
City Council

**Cabinet
Resources & Corporate Issues Scrutiny Committee
Scrutiny Committees**

**26th June 2006
22nd June 2006
August 2006**

REVENUE OUTTURN 2005/06

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 third and final report in the annual cycle of budget monitoring and shows the outturn position for the General Fund against the revised budget of £381.5m, and the HRA against a gross budget of £60m.
- 1.3 Previous reports have been presented to the Cabinet and Scrutiny Committees in September and January, which outlined budgetary issues that had emerged during the year.
- 1.4 Each Scrutiny Committee will receive this covering report, and appendices, which relate to its portfolio. The Cabinet, and the Resources and Corporate Issues Scrutiny Committee, will receive a summary report considering the overall position for the whole Council.
- 1.5 Members of the Cabinet or the Resources and Corporate Issues Scrutiny Committee wishing to see the appendices relating to any portfolio not appended to the report should contact the report author.
- 1.6 The report shows a year-end position of a £1.3m under-spend against a revised budget of £381.5m, which is largely as expected and anticipated. The element that relates to service departments (excluding schools) shows that they have underspent their budgets by £0.2m, which represents 0.1% of their budgets.

2. RECOMMENDATIONS

2.1 Cabinet is recommended to:

- a) note the final outturn for 2005/06 for each department and the Council as a whole;
- b) note the reasons for the variances between the 2005/06 budget and the final outturn;
- c) note the position of the Council's general reserve;
- d) note the position in respect of significant earmarked reserves;
- e) note the proposals for the use of underspends;
- f) approve the Social Care and Health Department's contribution to the capital programme of £84k as outlined in paragraph 6.6.4;
- g) approve the establishment of new earmarked reserves (proposed in section 10.18 of the supporting report); and
- g) approve virements as detailed in section 4.2 of the supporting report;
- h) delegate authority to the Corporate Director of Children and Young People's Services to consult the Schools Forum and decide upon appropriate action in relation to potential clawback for each school.

2.2 Scrutiny Committees are asked to consider issues affecting their portfolio and make any observations to the Cabinet as they see fit.

2.3 The Resources and Corporate Issues Scrutiny Committee is asked to consider the overall position for the whole Council and make any observations and recommendations to Cabinet that it sees fit.

3. FINANCIAL & LEGAL IMPLICATIONS

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

4. OTHER IMPLICATIONS

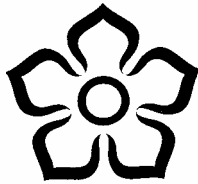
4.1 There are no equal opportunity, policy, sustainable and environmental, crime and disorder or human rights, elderly /people on low income implications.

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MARK NOBLE
CHIEF FINANCE OFFICER

DECISION STATUS

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



Leicester
City Council

**CABINET
SCRUTINY COMMITTEES**

**26th June 2006
August 2006**

REVENUE OUTTURN 2005/06

SUPPORTING INFORMATION

REPORT OF THE CHIEF FINANCE OFFICER

1. PURPOSE OF THE REPORT

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

2. REPORT

- 2.1 Most departments have experienced difficulties during the year. Early forecasts predicted an overspend position in many departments. During the course of the year these departments tightly controlled their expenditure and management have taken action in order to achieve a balanced outturn.
- 2.2 The resulting outturn figures show that most departments have managed to achieve an outturn of at or below budget with one department showing a very small overspend. This is a pleasing result, and departments have done well to manage their budgets and achieve a balanced outturn.
- 2.3 An under-spend of £2m has materialised on corporate budgets largely as a result of savings made in capital financing costs. The Cabinet has approved the use of £0.9m of these savings for the Business Improvement Programme, leaving a net under-spend of £1.1m. This saving in the capital financing budget is primarily due to large net inflows of cash into the authority, i.e. cash receipts in excess of cash expenditure. This has led to higher levels of interest being received. A substantial increase on previous years was anticipated when the budget for 2005/06 was set, although this has still been exceeded. This under-spending was predicted and taken into account when the budget for 2006/07 was set.

- 2.4 The Housing Revenue Account (HRA) has achieved an overall deficit of £1.1m, against a planned deficit of £0.5m. The main reason for the increased deficit of £0.6m is due to an additional £2.5m contribution to the capital programme (as approved by Cabinet) offset by additional rental and other income of £1.8m. Further details are provided in section 11 of this report.
- 2.5 Schools have again spent £1.1m less than their budgets, representing 0.8% of schools' aggregate budgets. This is made up of a combination of some schools underspending and adding to their balances, and some schools drawing on balances accumulated in earlier years. Schools' revenue balances now stand at £12m and further details on these schools balances is provided in section 8 of this report.
- 2.6 The Council's general reserves position at the end of the 2005/06 financial year is forecast to be £7.9m of which £6.3m is uncommitted. This is slightly higher than the forecast of £5.9m when the budget for 2006/07 was set. Further details relating to the level of general reserves is provided in section 9 of this report.

3. BACKGROUND

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

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

- 3.2 The budget for the Housing Revenue Account, which records the costs and income of the council's rented housing portfolio, is ring-fenced and separate for the general fund. This budget is controlled by the Corporate Director of Housing.
- 3.3 Each Director is responsible for ensuring that the cost of service provision is contained within their department's budget, and for taking action (or recommending action to Cabinet) where it appears that a budget may overspend.
- 3.4 Under Finance Procedure Rules, underspendings against a department's budget are carried forward by the department which generated the underspending. Some departments also have trading organisations, which "sell" services to other departments. Finance Procedure Rules allow

departments to retain 50% of their trading surplus, the balance being returned to the general reserve.

3.5 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) levies to other bodies, including the magistrates courts and flood defence;
- (c) Miscellaneous budgets, such as bank charges & District Audit fees; and
- (d) the net recharges budget, which represents income earned by the General Fund from other parts of the Council (such as the Housing Revenue Account and trading units).

3.6 Underspends/overspends on corporate budgets are transferred to or from the general reserve.

4. BUDGET 2005/06

4.1 The General Fund budget for 2005/06 was originally set at £381.8m. The budget has been adjusted to include the approved carry-forwards from 2004/05 (of £0.3m), virements between departments during the course of the year and to reflect the Housing Benefits outturn position. (Housing Benefits is the only budget of the Council which is treated as demand led, and for which the budget is set to equal expenditure at the year-end).

4.2 The following table shows the original and revised budget for 2005/06:

Table 1	Original Budget for 2005/06	Approved Carry forwards	Virements/ HB Adjust	Revised Budget for 2005/06
<u>Department</u>	£000	£000	£000	£000
Chief Executive's Office	2,431.0	120.5	(0.6)	2,550.9
Education & Lifelong Learning	192,524.8	-	(13.5)	192,511.3
Regeneration & Culture	53,322.6	-	9.3	53,331.9
Housing	6,611.3	-	(20.4)	6,590.9
Housing Benefits	469.0	-	(614.4)	(145.4)
Social Care & Health	88,086.9	211.6	1.3	88,299.8
Resources	18,708.4	-	123.9	18,832.3
Total Departments	362,154.0	332.1	(514.4)	361,971.7
Corporate Budgets				
Levies	73.8	-	-	73.8
Miscellaneous	8,543.0	-	(100.0)	8,443.0
Capital Financing	14,600.0	-	-	14,600.0
Net Recharges	(3,597.0)	-	-	(3,597.0)

Total Corporate Budgets	19,619.8	-	(100.0)	19,519.8
TOTAL GENERAL FUND	381,773.8	332.1	(614.4)	381,491.5

5. SUMMARY OUTTURN

- 5.1 Appendix 1 sets out the final outturn position for the Council's General Fund.
- 5.2 Reasons for variations between departments' budgets and actual expenditure will be set out in detail in the individual reports to scrutiny committees in the August/September cycle of meetings.
- 5.3 Section 6 of this report sets out the main issues arising from individual departmental outturns and Appendix 2 identifies proposals for uses of underspends carried forward by departments.

6. EXPLANATION OF VARIANCES – SERVICE DEPARTMENTS

6.1 Chief Executive's Office

- 6.1.1 The Chief Executives office achieved outturn at budget. This has been achieved whilst managing an ongoing under achievement of income on Link (the council newspaper) advertising. Operational changes regarding Link have been implemented to address this issue in 2006/07 but this will need continued scrutiny.

6.2 Education and Lifelong Learning.

- 6.2.1 The department has broken even after the use of contingency budgets, and £0.6m from one-off reserves (as approved in the lifelong learning recovery plan). The amount of reserves drawn down is less than previous forecasts had predicted, largely due to higher than anticipated savings in lifelong learning as outlined in paragraph 6.2.4 below. Other significant variances within the department are described in the following paragraphs.
- 6.2.2 The schools block has overspent by £590k. As predicted this is mostly due to an increase in fees at non-maintained schools (£559k). This was caused by a large increase in the number of pupils with special educational needs whose educational needs cannot be met elsewhere. For 2005/06, this overspend has been funded largely through the use of the education support contingency (£417k), which has been approved by the Schools Forum; and through the schools block reserve (£173k).
- 6.2.3 As previously predicted, home to school transport services have overspent by £433k. Pressures on transport costs have featured in the reported outturn position of both Education and Social Care and Health departments. This overspend has been funded through under-spends in other areas of the

department, such as the Policy and Resources Division, which has under-spent by £384k, due to measures put in place earlier in the year to minimise expenditure in order to mitigate the impact of overspends elsewhere in the department.

6.2.4 Lifelong Learning Division

As Members will be aware, the Lifelong Learning Division overspent in 2004/05, and action had to be taken to correct an underlying budget problem. The Lifelong Learning Recovery Plan set out a strategy for balancing the budget in 2005/06 and future years. This was approved by Cabinet in July 2005 and incorporated an agreed list of savings and additional one-off spending of £1.3m in 05/06. To meet this one-off cost, it was agreed to use departmental reserves and to set-aside £1m originally held for primary school capital to bridge the savings needed. The division has broken even this year after using only £0.6m of one-off monies. Overall, when compared with the position envisaged last summer this outturn is better than predicted with reduced usage of one-off monies to balance the outturn.

6.2.5 The departmental investment reserve now has a year-end balance of £3m. This balance represents 1% of the total gross budget of the department and is held as a contingency against possible future costs arising from service reconfigurations as outlined in more detail at paragraph 10.4.

6.3 Regeneration and Culture

6.3.1 The Department delivered a small under spend (£7k) for the year against its budget of £53.3m. The department managed its specific one-off cost pressures by using departmental reserves. Other overspends were contained within individual divisions by the careful management of expenditure, the use of trading surpluses and close control of employee costs, as outlined below.

6.3.2 The departmental reserves of £507k arising from a rebate of VAT from De Montfort Hall were used in the year to address one off cost pressures totalling £456k. These included £347k in the Culture Division to fund redundancies, refurbishment of the car park at De Montfort Hall and a contribution towards the refurbishment of the New Walk Museum.

6.3.3 In order to ensure that continuing cost pressures were managed across the whole department throughout the year, the Corporate Director put in place controls to manage replacement and additional posts.

6.3.4 The following divisional over-spends were addressed within those divisions:

- a) Highways and Transport Division were carrying £258k of cost pressures related to accommodation and shortfalls in advertising income. These have been addressed in the 2006/07 budget. However, in 2005/06 these costs were managed by offsetting known trading surpluses in City Highways, additional capital work programmes and additional income from transport systems.

- b) As a result of a reduction in work from the Housing Department, and increased transport, machinery and employment costs, the Parks Service in Cultural Services over-spent by approximately £160k. They managed the overspend by a series of one off savings across the division without adverse impact on service delivery.

6.4 Housing Department

- 6.4.1 The department marginally overspent by a net £32k. There have been a number of significant variances and these are described in the following paragraph. The department has no remaining non-ringfenced reserves to draw upon and therefore, in accordance with finance procedure rules, this overspend will be carried forward into 2006/07.
- 6.4.2 The department has had to meet the costs (£156k) associated with an overspend at the Leicester Anti-Social Behaviour Unit. This is due to a number of high profile court cases that have incurred unexpectedly high legal fees. The Hostels and Community Care Service has overspent by £93k mainly as a result of less Supporting People funding being received than anticipated when the budget was set. This overspend has been off-set by the Housing Benefits administration service successfully obtaining several one-off grants.
- 6.4.3 The housing benefit budget is classified as demand-led and therefore any underspend or overspend accrues to the general reserve. For 2005/06 the housing benefit budget underspent by £0.6m. This is only 0.6% of a £105m gross budget, which is not unreasonable given the size and nature of this highly volatile budget. However, the finalising of the 2004/05 and 2005/06 grant claims remain outstanding and subject to audit qualification, any resulting adjustments made by the government will affect this budget in future years. As such, a provision of £1.9m has been established in the final accounts representing 1% of the value of the outstanding claims in order to minimise the impact of any reduction in grant.

6.5 Resources Department

- 6.5.1 The department has achieved a balanced outturn following the successful implementation of cost reduction measures introduced earlier in the year. There remain some recurrent budget pressures which will continue to require close monitoring in the new year, such as the Coroner's Service and the Land Charges Service. There are also other areas where there has been considerable volatility during the year and which will need to be carefully monitored in 2006/07. These areas include Property Services (trading and non-trading services), Financial Services (Temporary Staffing Agency trading services), Legal Services (trading service), Democratic Services (Creativity Works, trading service).
- 6.5.2 The Property division is responsible for managing the authority's investment property portfolio, which contributes a net budgeted surplus to the general fund. The portfolio performed particularly well in 2005/06 and produced a surplus of £0.4m. Finance Procedure Rules allow for 50% of this surplus to be retained by the department, with the balance being transferred to the general reserve.

6.5.3 The department also manages 10 trading units that “trade” predominantly within the Council, although some external income is also generated. The majority of trading units achieved a surplus at year-end, although the Payroll Service and Architects/Surveyors made deficits of £295k and £420k respectively. (The position of the Payroll Service is transitional, and relates to the implementation of new systems). These were offset by large surpluses made by Legal Services (£265k), Customer Accounts (£178k) and Creativity Works (£198k), which when aggregated meant the departments’ traders made an overall surplus of £8k. Finance Procedure Rules determine that the department may retain 50%, with the balance transferred to the general reserve.

6.5.4 The outturn position outlined above includes the following contributions to earmarked reserves:

- £350k to a new earmarked reserve for Area Committee Grants. There is money set-aside in the 05/06 budget for this purpose, and Cabinet approval is needed to carry it forward.
- Contributions to existing reserves in accordance with their objectives as previously approved by Cabinet - £126k to the elections reserve and £50k to the VAT and taxation reserve to support the engagement of external taxation specialists for cases that cannot be dealt with solely by the in-house team. The elections reserve now contains sufficient funds to pay for the forthcoming local elections.

6.6 Social Care & Health

6.6.1 The Social Care and Health Department under-spent by a total of £210k including an £113k under-spend on the Youth Offending Service. This was in line with earlier forecasts, in which the Department had reported pressures and the steps being taken to achieve a balanced position by the year-end.

6.6.2 The Adults and Older People Division overspent by £406k due to significant pressures on residential and home care for adults and older people, services for adults with mental health issues and service user transport. These were partially off-set by under-spends on staffing, contracts with the voluntary sector and external funding. The Children’s and Families Service under-spent by £275k despite pressures on agency placements; this was achieved due to one-off and time-limited external funding. The Resources Division, Directorate and departmentally held budgets under-spent by £228k due to staffing vacancies and some IT Projects being delayed until 2006/07.

6.6.3 Looking ahead to 2006/07, the pressures within Adults and Older People will continue although the growth in the 2006/07 budget has, to a certain extent, addressed these pressures. However there are on-going increases in demand and costs such that this will continue to be a challenging area to manage. The Children’s Service under-spend is not expected to be repeated in 2006/07, as external funding has reduced significantly, although the 2006/07 budget has also reflected this to a certain extent, through the inclusion of growth to mainstream the highest priority projects. Service user transport will continue to be a significant budget pressure for both new departments in 2006/07.

6.6.4 Included in the above outturn position is a revenue contribution to the capital programme of £84k for which Cabinet approval is sought. This contribution is to meet the design and other costs associated with the redevelopment of Butterwick House into an Intermediate Care Centre for Adults and Older People.

7. CORPORATE BUDGETS

7.1 Corporate budgets (£19.5m) represent areas of expenditure which are not the responsibility of any service Department. Capital Financing (£14.6m) is by far the largest element of this budget.

7.2 The capital financing outturn shows a **saving of £2m** (as previously forecast) although the Cabinet, at its meeting on 24th October 2005, agreed to earmark £0.9m of this under-spend to meet costs associated with the Business Improvement Project. This leaves a net under-spend position of £1.1m. This saving, in general, reflects large net inflows of cash into the authority, i.e. cash receipts in excess of cash expenditure. This has led to higher levels of interest being received. The budget for this interest was set at higher levels than previous years but has still been exceeded. In addition savings have resulted from new loans being well timed, and raised at interest rates lower than assumed when the budget was set.

8. SCHOOLS BALANCES

8.1 In 2005/06 schools, generally, predicted that they were planning to draw on their balances. The actual position is that 68 schools (62%) have increased their balances, and the result is that schools' balances have increased overall by £1.1m during 2005/06. The total balances held by schools now stand at £12m.

8.2 It should be noted that these balances will include unspent Standards Funds Grant as, under DfES guidance, these can be spent up until August. This does mean that the balances are artificially enhanced and also means that there may be more schools who are in deficit against their underlying budget allocations. In addition the balances will include other items such as outstanding commitments not yet paid for, expected retrospective budget adjustments, sums earmarked for items in the school development plan and general contingencies. The following table shows the overall position compared with the 2004/05 position:

Table 2 – Schools Carry Forward Percentage	No of Schools	
	2005/06	2004/05
Schools in deficit	8	5
Schools with reserves < 5% of their annual budget	26	28
Schools with reserves between 5% and 10% of their annual budget	29	33

Schools with reserves > 10% of their annual budget	46	46
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- 8.3 On the raw figures for 2005/06 there are 8 schools in deficit, 4 of which are below £25k (1 is £110 in deficit). The largest deficit is £132k (this balance is net of unspent Standards Funds and the underlying deficit is £170k); the school (City of Leicester) is now working with a managed budget plan in order to recover the deficit. Officers are working with these 8 schools to assist them to achieve a balanced budget in due course. Of the 5 schools that were in deficit in 2004/05, 2 are now in a surplus position whilst 2 others are working with a managed budget plan and are reducing their deficits. The fifth school will be amalgamating with another school in September 2007 and this is seen as the solution for the financial problems at this school.
- 8.4 The Scheme for Financing Schools contains the power for the LEA to clawback excess schools balances; this is defined as over 8% for Primary and Special schools and 5% for Secondary schools. However schools are also 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. Therefore the amount of balances held by schools needs to be adjusted before an assessment of whether or not the 8% or 5% limits have been exceeded.
- 8.5 To date, 76 out of 109 schools have provided further details of their balances. The position for these 76 schools, from the unverified data, can be summarised as follows:

	£'m	£'m
Total school balances held		8.0
Less total permitted items:		
Unspent standards fund	1.8	
* Prior year commitments	0.8	
* School development plan	0.8	
Maintenance	0.5	
* Retrospective adjustments	0.2	
* External income	<u>0.7</u>	
		<u>4.8</u>
Surplus balance after permitted items		3.2
Less amounts schools are permitted to retain of these balances		<u>3.17</u>
Amount available for clawback (under the approved scheme)		<u>0.03</u>

- 8.6 Therefore so far, a total of £33,874 is available for clawback under the current scheme. This relates to six schools, of which three are less than £1,000.

Given the relatively small amounts involved it is recommended that Cabinet delegate authority to the Corporate Director of Children and Young People's Services to consult the Schools Forum and decide upon appropriate action in relation to potential clawback for each school.

- 8.7 In relation to New College, which has had budget problems in the past, the College's accounts now show a significant surplus for 2005/06. However this figure needs to be treated with caution since it is possible that it is artificially inflated by substantial unspent Standards Funds. Moreover the school is facing retrospective reductions to its budget for 2006/07 which relate to the falling pupil numbers in 2005/06. The College remains in difficult circumstances and officers will continue to work closely with the school.

9. GENERAL RESERVES

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

Table 3 – General Reserve	Amount £m
Opening balance at 1st April 2005	7.625
<u>Add:</u>	
Resources Trading Surpluses Contribution	0.214
Regeneration & Culture Trading Surpluses Contribution	0.079
Corporate Budgets under-spend	2.005
Housing Benefit under-spend	0.614
<u>Less:</u>	
Business Improvement Programme (Cabinet -24/10/05)	(0.894)
Budget Contribution 2005/06 (Council February 2005)	(1.759)
Closing balance at 31 st March 2006	7.884
<u>Less Commitments:</u>	
Approved Budget Contribution for 2006/07	(1.285)
Approved Budget Contribution for 2007/08	(0.346)
Uncommitted Balance as at 31st March 2006	<u>6.253</u>

- 9.2 Three items in the above table need further explanation:
- At the Cabinet meeting on 24th October a contribution of £894k was approved towards the cost of the Business Improvement Programme. This was to be met from the predicted under-spend arising from the capital financing budget (also identified above).
 - The housing benefit budget is defined as demand-led. Therefore any under or overspend accrues directly to the general reserve.
 - Surpluses arising from the favourable outcome of the Council's general fund traded services accrue to the general reserve of £0.3m.

- 9.3 It is essential that the Council holds some funds in reserve in order to meet unexpected events such as an unforeseen overspend, a contractual claim or uninsured losses. The corporate budget strategy aims to increase its reserve holdings to £7m by the end of the 3 year strategy (2008/09), from the previously recommended levels of £5m, and the uncommitted reserves of £6.3m (shown in the above table) are consistent with that strategy.
- 9.4 Members are also reminded that corporate budgets are amongst the most volatile in the Council. There is no guarantee that any of the windfall savings achieved in 2005/06 will continue and therefore a prudent approach to the use of reserves must remain.

10. OTHER SIGNIFICANT EARMARKED RESERVES

- 10.1 This section of the report provides an overview of other significant sums of revenue money, which are held in reserves. These reserves are "earmarked" for specific purposes, and are separate from the Council's "uncommitted" balances. In general these reserves have increased by £9.7m during 2005/06 from £36.7 to £46.4m, although after deducting sums earmarked by law, and the insurance fund, the reserves amount to £12.7m.
- 10.2 **Schools Balances (revenue)** – As noted earlier in this report, the amount of money held in this reserve has increased from £11m to **£12.1m** following this year's outturn. This money is, by law, ring fenced to individual schools. Schools have been asked to supply information, by the 26th May 2006, so that the composition of these balances can be understood and these returns will be analysed. It is anticipated that part of their reserves will be for unspent Standards Fund money, which can be spent up until August 2006, outstanding commitments not yet paid for, expected retrospective budget adjustments, sums earmarked for items in the school development plan and general contingencies. Officers will be in discussion with individual schools where the level of contingency appears high and will be monitoring schools' use of carry-forwards to be satisfied that these are spent as reported and in a timely manner.
- 10.3 **Ring-fenced schools block reserves** – These reserves incorporate the LMS contingency fund holding funds allocated for in-year changes to schools formula funding resulting from the revised September pupil count - any unspent allocation is ring-fenced for spending in schools, the secondary review fund and the behaviour support plan fund. The balance currently stands at **£6.1m**, none of which is available for general spending.
- 10.4 **Education Departmental Reserve** – This reserve was set-up in 2003/04 to deal with budget and other pressures. The balance currently stands at **£3m after adding the** additional support agreed as part of the lifelong learning recovery plan (less sums actually used). It is recommended that this balance be retained by the department as contingency against significant future costs arising from the restructuring of the Adult Learning Service, associated project risks in relation to Building Schools for the Future and service reconfigurations in the Youth and Early Years Services.
- 10.5 **Building Schools For the Future Reserve (BSF)** - This reserve has a year end balance of **£0.6m** representing a one-off budget allocation towards the

client side costs. It is the balance of the £2m set aside in 05/06 to provide for the BSF project team costs until contracts are signed.

- 10.6 **Standards Fund Match Funding** – The reserve balance of **£0.9m** is the unallocated match funding for 2005/06 Standards Fund grant, which can be expended up to 31st August 2006.
- 10.7 **Insurance Fund** – The Councils' self-insured insurance fund stands at **£11.8m**, which is set-aside to pay insurance claims. An actuarial review conducted in September 2005 indicated that the fund was adequate and stable at that time. It is believed that the insurance fund is now healthier than it has been for some considerable time, reflecting improved performance on our management of risk and consequently our ability to defend claims. However, there is always an element of uncertainty about the right size of the fund, particularly given the growth in the "claims culture" in recent years and the length of time it takes for claims to be negotiated (and, sometimes, received). Charges to departments for 2006/07 have been frozen at 2005/06 levels and will only change in respect of increased cover.
- 10.8 **IT Fund (Resources Department)** - The Resources department holds an IT fund which 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 corporate ICT infrastructure developments including AS400 costs (rationalising recharges over the remaining life of the machine), improvements to the intranet and improvements to PC procurement arrangements, leading to a better, more responsive service to customers.
- 10.9 **Central Maintenance Fund (Resources Department)** – The fund is maintained to hold monies earmarked for repairs and maintenance of operational buildings. It is 'topped-up' with additional funds each year by means of a contribution from the budget. This reflects the fact that work is undertaken on a programmed basis. The fund was significantly overdrawn at the end of 2002/03, and an action plan was put in place to restore its' equilibrium over 2 years. The fund currently has a relatively small balance of **£0.2m**.
- 10.10 **Other Resources Department Reserves** – separate reserves are held for the future cost of local elections, the rationalisation of property occupation, financial services IT requirements and other departmental developments. The balance on these reserves totals **£1.5m**.
- 10.11 **Social Care & Health Reserves** – The Milford Fund (**£0.1m**) and the Intermediate Care Reserve (**£0.3m**) are being held to contribute towards the cost of redeveloping Butterwick House into an Intermediate Care Centre for Adults and Older People. It is expected that work will start during 2006/07 and the balance of funding will come from the NHS. The Children's Services Reserve (**£0.3m**) is being held to meet future costs of Children's Services, and in particular the potential cost of withdrawing from the joint arrangement with Northamptonshire County Council to operate the Tiffield Secure Unit.
- 10.12 **Supporting People Grant (Housing)** – This reserve was established to carry forward any unspent grant monies for use in future years. The balance at year-end stands at **£2.1m** and is not available for general purposes.

- 10.13 **Tenancy Support Building Reserve (Housing)** – the cost of providing offices for providers of Supporting People is being funded through grant from the Supporting People Fund. The reserve will be used to pay for such accommodation, and currently stands at **£0.3m**.
- 10.14 **Housing Maintenance Traded Service (Housing)** – the balance on the reserve is currently **£0.2m**, which is available to fund future capital programme works.
- 10.15 **Job Evaluation (Corporate)** – An earmarked reserve was established during 2004/05 to build a suitable provision to manage the expected costs of the implementation of a revised job evaluation scheme and the costs of salary protection once a scheme is implemented. A budgeted contribution of £1m has been made in both 2004/05 and 2005/06, from which costs associated with the development of the scheme have been charged, as agreed, leaving a year end balance of **£1.3m**.
- 10.16 **Business Improvement Project** – An earmarked reserve was established in 2004/05 to meet the costs associated with this project, this is designed to improve the Council's strategic capacity to deliver services, improve customer focus and reduce costs. During the course of the year the Cabinet approved an additional contribution of £0.9m from the anticipated capital financing saving, leaving a year-end balance of **£1m**.
- 10.17 There are various other individual departments' reserves established in accordance with Finance Procedure Rules. The figure stands at **£4m** including those described below.
- 10.18 The following earmarked reserves have been set up during the year and require approval from Cabinet:

Education

- **Key Stage 2** – to earmark **£1.1m** of one-off budget growth in 2005/06 relating to key stage 2 support for underachieving pupils. Progress on spending this funding has been slow in 2005/06 due to a number of reasons including the need for consultation and a freeze on spending during the early part of the year pending the outcome of the Lifelong Learning Review. This funding was approved to be expended over two years and it is anticipated that by the end of 2006/07 the balance will have been spent.
- **Leicester Adult Education College** – Dating back to pre-unitary status, it has been the practice for the college to carry forward their cash reserves in a separate bank account. This year, for the first time the college's unspent balances (**£0.1m**) have been incorporated in the City Council's accounts. This practice will be subject to review as part of the Adult Learning Review.

All Departments

- **Local Public Service Agreement (LPSA) Rewards** – to earmark unspent non-ringfenced rewards of **£0.2m** for use in 2006/07.

Resources

- **Area Committee Grants** – To earmark **£0.3m** unspent growth items approved in the 2005/06 budget, to be used to provide grants by Committees. These Committees have taken time to develop and not all have been fully functioning during the 2005/06, so approval is sought to earmark this allocation and ring-fence it for the Area Committees in 2006/07.

Regeneration & Culture

- **Landfill Allowances Trading Scheme** – This is a new government initiative introduced in 2005/06 which allocates waste disposal authorities landfill allowances which they are able to 'trade' with each other. The accounting entries that we are required to make mean that a 'surplus' (the difference between the value of allowances and the value of estimated landfill) of **£0.3m** has been generated for 2005/06. This scheme is still very much in its infancy and the prudent approach is to transfer this sum into a new earmarked reserve to meet any future costs/deficits.

11. HOUSING REVENUE ACCOUNT

- 11.1 The Housing Revenue Account generated a deficit for the year of £1.1m against a planned deficit of £0.5m. This has resulted in HRA balances of £3.4m against budgeted balances of £2.1m. There are a number of variations within this outturn position with the most significant outlined below:
- (a) Additional rental and other income (£1.8m) due to a reduction in right-to-buy sales and extremely low levels of void (empty) properties; and
 - (b) An increased contribution to the capital programme of £2.5m and a contribution of £0.5m towards future prudential borrowing costs as agreed by Cabinet in January 2006.
- 11.2 Other variances include an overspend on management costs of £0.5m, an under-spend on capital financing costs of £0.3m, and a reduced bad debt provision (underspend) of £0.6m due to improved performance in collecting rents.
- 11.3 Members are reminded that Cabinet have set minimum HRA balances at £1.5m to meet any unforeseen expenditure or a shortfall in income. Balances at 31st March 2006 of £3.4m are therefore £1.9m above the minimum. The HRA is ring-fenced and the reserves will be required to finance the budgeted HRA deficit of £1.7m in 2006/07.

12. HOUSING REPAIRS TRADING SERVICE

12.1 The trading outturn position is a **surplus of £161k** against a budgeted surplus of £214k giving a variance of £53k or 0.25% on a turnover of £20.4m. This surplus has been used to finance HRA capital expenditure.

13. SPECIFIC PROGRAMMES

13.1 Neighbourhood Renewal Fund

13.1.1 The outturn for 2005/06 is £9.074m and shows an under-spend of £47k or 0.6% of its £9.13m allocation. This under-spend is within the 5% allowed to be carried forward to 2006/07 and mainly relates to the slippage of the capital element of the construction waste project.

13.2 Single Regeneration Budget (SRB)

13.2.1 The outturn for 2005/06 is £1.63m and shows an under-spend of £3k or 0.2% of the £1.633m allocation. The under-spend mainly relates to legal fees associated with the acquisition of the Layton Road premises in the Greater Humberstone programme. The East Midlands Development Agency (EMDA) has yet to decide whether this under-spend can be carried forward into 2006/07.

13.2.2 The programme has many achievements. Some of these are listed below:

- 9 Capital Projects including 2 large projects to achieve jobs and training outputs at a local level;
- 46 revenue projects;
- 34 jobs created;
- 335 people trained and obtained qualifications;
- 28 young people benefiting;
- 106 business supported;
- 145 homes benefiting from energy improvements; and
- 6 new projects delivering job search & support set-up to deliver in 2006/07

14. 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	-

15. CONSULTATION

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

16. BACKGROUND PAPERS

16.1 2005/06 outturn working papers held in the Accountancy section.

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Date: 26th May 2006

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Outturn 2005-06

APPENDIX 1

Departments	Adjusted Budget £'000	Actual Spend £'000	Contrib. To / (from) Reserves £'000	Outturn £'000	Variance (under) / overspend £'000	(Under)/ Overspend %	C/fwd Permitted £'000
Chief Executive's Office	2,550.9	2,560.8	(9.9)	2,550.9	0.0	0.0%	-
Education & Lifelong Learning (Excl Schools)	52,130.7	46,528.4	5,602.3	52,130.7	0.0	0.0%	-
Regeneration & Culture	53,331.9	53,770.2	(445.2)	53,325.0	(6.9)	0.0%	(6.9)
Housing Department	6,590.9	7,094.6	(471.3)	6,623.3	32.4	0.5%	32.4
Housing Benefit Payments	(145.4)	(145.4)	0.0	(145.4)	0.0	0.0%	-
Social Care & Health Resources	88,299.8	88,089.7	0.0	88,089.7	(210.1)	(0.2%)	(210.1)
	18,832.3	17,309.7	1,522.6	18,832.3	0.0	0.0%	-
Departmental Total	221,591.1	215,208.0	6,198.5	221,406.5	(184.6)	(0.1%)	(184.6)
Schools (ISB)	140,380.6	139,307.6	1,073.0	140,380.6	0.0	0.0%	-
Total	361,971.7	354,515.6	7,271.5	361,787.1	(184.6)	(0.1%)	(184.6)
Corporate Budgets							
Levies	73.8	86.6	0.0	86.6	12.8	17.3%	-
Miscellaneous	8,443.0	6,990.7	1,396.1	8,386.8	(56.2)	(0.7%)	-
Capital Financing	14,600.0	12,570.0	894.2	13,464.2	(1,135.8)	(7.8%)	-
Net Recharges	(3,597.0)	(3,526.5)	0.0	(3,526.5)	70.5	(2.0%)	-
Corporate Budgets Total	19,519.8	16,120.8	2,290.3	18,411.1	(1,108.7)	(5.7%)	(184.6)
TOTAL	381,491.5	370,636.4	9,561.8	380,198.2	(1,293.3)	(0.3%)	(184.6)

Note -The Capital Financing outturn is shown after transferring £0.9m of the underspend to finance the Business Improvement Programme as explained in paragraph 7.2.

APPENDIX 2

Service Department's Underspending, 2005/2006 Proposed use of Carry Forwards

	£000
<u>Social Care & Health</u>	
1. To be used towards the one-off costs of establishing the two new departments	97.4
2. Youth Offending Service – To be used to manage the effects of time-limited external funding coming to an end in the short term, to offset a shortfall in the shared element of the budget where funding increases agreed by partners have not kept pace with cost increases, and possibly to develop business support capacity.	112.7
<u>Regeneration & Culture</u>	
3. To meet any efficiency savings not achieved	6.9
<u>Housing</u>	
4. Overspend carried forward into 2006/07 in accordance with financial procedure rules.	(32.4)
TOTAL	184.6